HARD TIMES IN POOR PLACES:

TRADE CRISES AND STATE DEVELOPMENT IN THE PERIPHERY

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ABSTRACT:

Under what conditions do state institutions that promote economic and social development emerge? When an international economic crisis struck the tropical island of Hispaniola in 1929, both Haiti and the Dominican Republic were poor agrarian societies governed by patrimonial authoritarian regimes. Haitian rulers adjusted to the crisis by raising taxes on its peasant producers, reinforcing existing patterns of state predation and economic stagnation. Why did Dominican rulers invest in developmentalist policies of agrarian reform and state-led industrialization when adjusting to the same crisis—policies that transformed the economic purpose of its political institutions and contributed to the fastest economic growth rates in Latin America between 1950 and 2000? I find that the relative size of the middle class affected institutional development by shaping how rulers adjust to protracted trade crises. I also find that prior trade integration during the 19th century reshaped class structure on Hispaniola. Together, these findings challenge existing theories of institutional development that emphasize geography or colonial path dependency.

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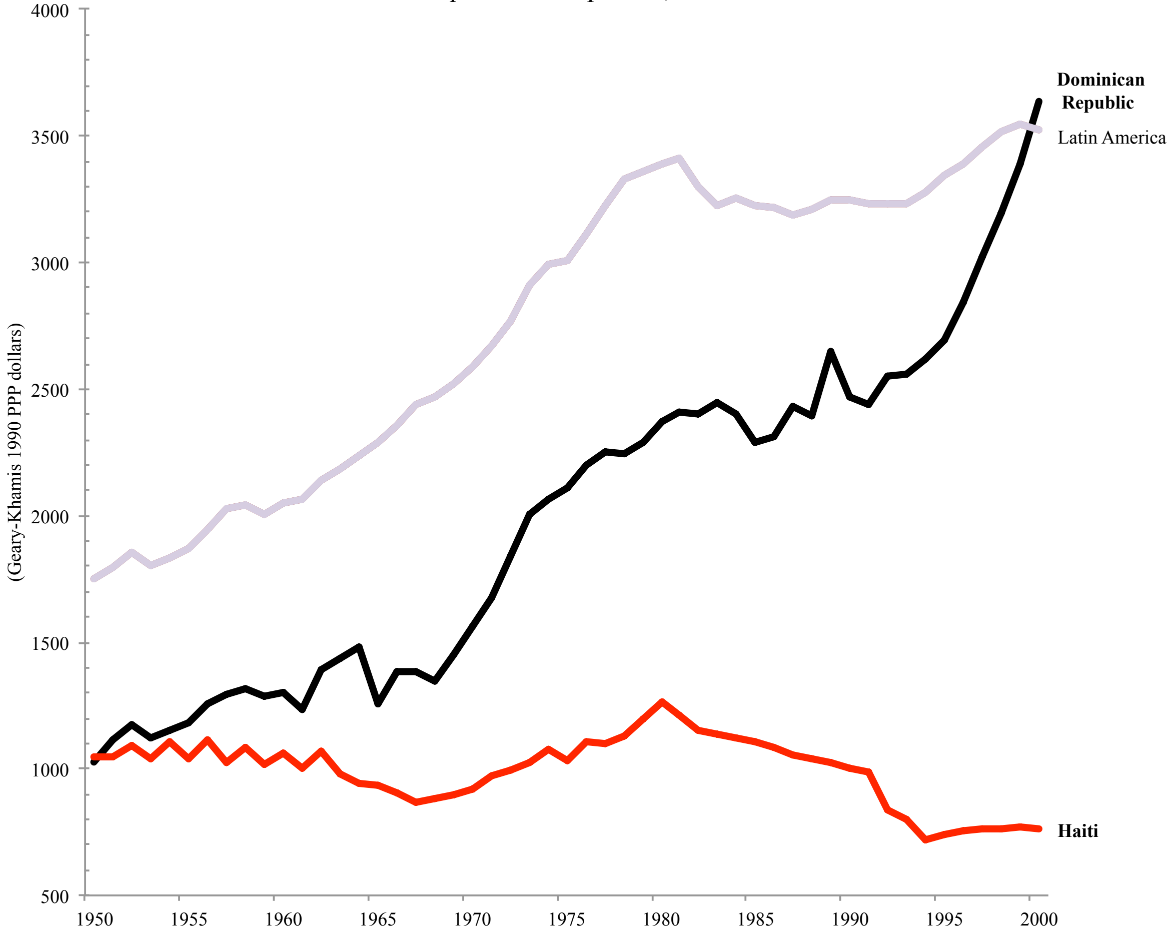
Institutions make markets. Their rules govern both economic markets of exchange and investment as well as political markets where the rules themselves are upheld or overturned. Why have some societies been more successful than others in developing institutions compatible with modern economic and political life?

At the beginning of the twentieth century, both Haiti and the Dominican Republic (DR) were poor agrarian societies that had been governed by weak and highly patrimonial state institutions since decolonization in the early 1800s. The only *raison d'être* of the Haitian and Dominican states was to increase the private fortunes of their rulers through taxing agricultural commodity exports and mortgaging future customs revenue by using it as collateral for foreign borrowing. In both cases political competition over control of these revenues led to state collapse around the time of the First World War, prompting the United States to stage twin militarily interventions on both sides of the island so as to return these flailing states to fiscal solvency and enforce the repayment of their sovereign debts. As recently as 1950 these two countries were virtually tied for the dubious honor of having the poorest economy in the Americas.[1] Nevertheless, as Figure 1 illustrates, the disparity between Haiti's geographic proximity to the DR and the degree of its economic underdevelopment is matched only by extreme cases like North and South Korea.[2]

[FIGURE 1 ABOUT HERE]

[1] By the narrowest of margins the Dominican Republic eclipsed Haiti as the poorest country in the region, with a per capita income of $1,027 in constant 1990 international dollars at purchasing power parity (PPP) (Maddison 2003).
[2] Acemoglu 2003, 630–2. In the same 1990 dollars, South Korea ended the century with a per capita GDP of $12,152, whereas the figure for North Korea was $1,183. By comparison, income per capita in Haiti was even lower, an abysmal $762.

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



Source: Maddison (2003)

Not only did the DR economy out-perform Haiti's in terms of growth and industrialization over the second half of the twentieth century; the DR had the fastest growing economy in Latin America during this period, weathering political instability and a region-wide debt crisis while still maintaining an average annual growth rate of 2.7 percent.[3] By the end of the century its diversifying economy had grown nearly five times as large as Haiti's in relative terms, 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, its economy contracting by an

[3] Maddison 2003.

average annual growth rate of -0.4 percent.[4] Haiti exited the century as it had entered it, with collapsing state institutions and abysmally low levels of literacy and life expectancy. Even today the welfare of the Haitian population continues to be undermined by a weak state and an undiversified agrarian economy that has been unable to provide basic material wellbeing for the majority of the population. Why did one side of Hispaniola achieve comparatively impressive gains in economic growth and development by the end of the twentieth century while the other side did not?

The answer lies in the domestic implications of international trade for poor countries. I claim that international trade affects the development trajectories of nations by reshaping both the distribution of power within a society as well as the preferences of the powerful over the relationship between state institutions and markets. At the time of their independence in the early nineteenth century the social structures of both Haiti and the DR consisted of large rural peasantry and a narrow oligarchy. Yet differences in how both countries were integrated into international markets during the 1800s, a period when the world economy was rapidly globalizing, left Haiti with a relatively weaker agro-export sector and a correspondingly smaller middle class than had emerged on the Dominican side of the island. When a subsequent international trade crisis struck the island in the 1930s it devastated the livelihood of the middle classes on both sides. During this critical juncture, the relative strength of the middle classes determined whether or not economic adjustment led to the emergence of new institutions—states willing to coordinate investment in the production of domestic substitutes for those manufactured goods that the society could no longer afford to import. On the Dominican side of the island, the investments in infrastructure, physical and human capital required by import substitution better positioned it for a measure of economic diversification and growth over the second half of the

[4] Ibid.

twentieth century. In Haiti, conversely, the traditional oligarchy doubled down on extraction and agro-export dependency. The continued failure of the Haitian state to invest in a more diversified economy undermines the nation's economic and social development to this day.

This paper makes several contributions to our understanding of the origins of poverty and prosperity. First, it challenges existing assumptions about postcolonial development through a paired historical comparison of two diverging countries that share both tropical geography and a legacy of extractive colonial institutions. The gaps in institutional development and economic opportunity that separate high-income countries like the United States or South Korea from middle-income countries like those of Latin America are often seized upon to illustrate the disadvantages of tropical geography and/or colonization by an extractive metropole.[5] The imperfect but enduring institutions that arise from these unfortunate beginnings have been shown to undermine economic development as politics becomes reduced to an arena for rent seeking.[6] However valuable these accounts are, they obscure meaningful variation in institutional performance and social welfare outcomes among poorer countries. Moreover, by taking an exogenous perspective on the origin of institutions, existing theories also obscure the endogenous political dynamics that drive institutional change. Engaging historical institutionalism with the literature on the domestic politics of international trade, I identify a causal sequence that connects the interests and preferences of domestic coalitions embedded within international markets to institutional choices and economic outcomes.

I develop this argument in three parts. Part one examines the existing literature on historical institutions and post-colonial development. In part two I engage historical institutionalism with the literature on trade and development to offer a new theory for variation

[5] Engerman and Sokoloff 1997; Sokoloff and Engerman 2000; Acemoglu, Johnson, and Robinson 2001; Mahoney 2010; Kohli 2004.
[6] Acemoglu and Robinson 2012; Sachs 1985; Krueger 1974.

in development outcomes across Latin America. In part three I present the empirical evidence from the Hispaniola cases from which this inductive theory was developed. Finally, I conclude with some remarks concerning the implications of these findings for our theories of historical institutions, trade and development.

Structural Determinism in Existing Development Theory

The historical legacies of colonialism left Latin American societies with a great deal to be desired when it comes to institutional inheritance. In part this inheritance is a byproduct of the labor-intensive economic geography of the region.[7] In the mineral-rich highlands of the Andes, the difficult and dangerous nature of early mineral extraction encouraged the brutal exploitation of indigenous peoples. In the tropical lowlands of Central America and the Caribbean, the soils and climates were conducive to the cultivation of equally labor-intensive plantation crops like sugar that incentivized the coercion of indigenous populations and the importation of slave labor from Africa. Even after decolonization in the early part of the nineteenth century, this economic structure translated into social structures dominated by a narrow oligarchy that sought to use the institutions of these newly independent states to reinforce existing modes of production and distributional outcomes.

Recent theories of post-colonial development have highlighted the inauspicious and path dependent nature of these initial structural conditions. The institutionalization of extractive and highly unequal political economies has been shown to correlate with lower levels of economic growth as market transaction costs remain high,[8] and the uneven provision of property rights

[7] Engerman and Sokoloff 1997; Sokoloff and Engerman 2000.
[8] North 1990.

retards productive investment and innovation.[9] With the partial exceptions of Costa Rica and the Southern Cone countries of Argentina, Chile and Uruguay, which were spared the worst of Spain's extractive colonial behavior due to the absence of large indigenous populations to exploit,[10] the picture that is painted is a decidedly static one that emphasizes the mechanisms that allow for the reproduction of socially inefficient colonial institutions in the post-colonial world.[11] The works of William Easterly et al. extend this logic beyond the Western Hemisphere, identifying significant and robust correlations across the global south between the initial endowments of land and labor, the class structure that emerges, and the outcomes of institutional quality and economic development.[12]

The Hispaniola puzzle raises important questions for these theories. If differences in institutional quality and economic outcomes are determined primarily by geographic endowments and the colonial structures that mapped onto them, why do Haiti and the Dominican Republic look so different today? The differences in terrain and precipitation that distinguish the eastern and western portions of the island do not make for a satisfactory explanation.[13] A more plausible explanation could be that important differences in the nature of French colonial rule over Haiti until the conclusion of the slave revolution in 1804 left behind a qualitatively different set of institutions than existed in the DR until the termination of Spanish rule in 1821. There are at least two problems with that hypothesis, however. First, whatever remnants of the French colony survived the revolution were virtually eliminated in the early decades following independence. Much to the chagrin of the French mulattos that assumed rule following the expulsion of the whites, state coercion was unable to force the black peasants to return to the

[9] Acemoglu, Johnson, and Robinson 2001.
[10] Mahoney 2010.
[11] Kohli 2004.
[12] Easterly, Ritzen, and Woolcock 2006; Easterly 2001; Easterly 2007.
[13] Jaramillo and Sancak 2009, 326–7.

plantation economy.[14] What emerged following the collapse of the sugar plantations was a new mode of accumulation for the emerging oligarchy, one that represents a distinct breaking point from previous institutions. This story does not map onto standard theories of institutional path dependency. Second, if differences in colonial institutions were responsible for the differences in economic development that separate Haiti and the Dominican Republic today, why does the divergence in income per capita not take place until 1950?

Within the static and overly deterministic picture of institutional path dependency that constitutes leading explanations of post-colonial development, however, there are signposts that point towards a more dynamic theory of institutional continuity and change. In his rigorous treatment of post-colonial development across Spanish America, Mahoney forwards a theory of institutions that locates their origins and modes of reproduction within a self-reinforcing landscape of social power and distributional preferences.[15] Building on the earlier work of Jack Knight, and Riker before him, he argues that institutions reflect the congealed preferences of the powerful; if they remain stable over time it is because the underlying terrain of power and distributional preferences within a given society has also remained stable.[16] While Kohli's framework for unpacking differences in state-market relations shares Mahoney's view that colonial institutions and their social moorings have tended to gel and endure, he notes "…the emergence of new class forces within these countries, especially the growing power of capitalists, has the greatest potential to alter power configurations of these states."[17]

In this paper I do not take issue with existing theories that view institutions as congealed preferences over distributional outcomes. Rather, I challenge the empirical claim that class

[14] Gonzalez 2012.
[15] Mahoney 2010, 16–17.
[16] Knight 1992; Riker 1980.
[17] Kohli 2004, 409.

structure and institutional equilibria, especially in Latin America, can be characterized as relatively stable since decolonization. Instead, I offer both a causal narrative that illustrates the dynamic behavior that institutional development in Latin America has exhibited since decolonization as well as a theory that accounts for that dynamism. For a theory of institutional change to be satisfactory, it must provide answers to the following questions: Under what conditions do new political coalitions emerge, and when do these coalitions acquire the power to alter the institutions that govern them?

THEORY OF TRADE AND INSTITUTIONAL DEVELOPMENT

The theory of trade and development offered here argues that exogenous changes within the international economy can trigger endogenous processes of institutional change at the domestic level.[18] Among non-industrialized countries, I find that the economic costs of a prolonged terms of trade 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 show how differences in international trade integration during the antecedent period explain why the Dominican Republic developed a politically viable middle class prior to the 1930s economic crisis while Haiti did not. By, highlighting the importance of

[18] Sokoloff and Engerman 2000; Engerman and Sokoloff 1997; Mahoney 2010.

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 builds upon the so-called "second image reversed" literature on the domestic politics of international trade, which has demonstrated that exposure to trade presents countries with new axes of opportunity and threat along which domestic coalitions array themselves and press for their material interests. Starting from the workhorse factor endowment models of Heckscher-Ohlin, Stolper-Samuelson, and Leamer,[19] and later turning to Ricardo-Viner's sector-specific approach to trade theory, scholarship in this vein identifies conditions under which exogenous changes in relative prices on world markets cause political cleavages to form up based on the distribution of gains and losses within the society.[20]

Yet material interests and distributional preferences do not translate automatically into changes in policies and institutions. Coalitions with shared distributional preferences face internal collective action problems as well as external competition with other distributional coalitions vying for their material interests. In the short run, the institutional environment mediates the interaction between societal actors and thus co-determines state policies related to questions of distribution and economic adjustment. In the medium run, policies that result in changes in the relationship between state and markets can themselves become institutionalized over time.[21]

Over longer time horizons changing exposure to international trade has been shown to reshape the balance of power among social classes. Recent scholarship has documented how access to Atlantic trade between 1500 and 1850 contributed not only to the economic divergence

[19] Heckscher and Ohlin 1991; Stolper and Samuelson 1941; Leamer 1984.
[20] Frieden and Rogowski 1996; Rogowski 1989; Midford 1993; Keohane and Milner 1996.
[21] Garrett and Lange 1996.

between Western Europe and its neighbors to the east, but also to institutional divergence as a powerful new commercial class pressed for expanded property rights and the curtailment of monarchical power.[22] Just as trade reshaped class structure and institutional development in Europe through the early Modern period, changing exposure to international trade on Hispaniola and across Latin America during the Modern era has systematically transformed both the class structure of its societies as well as the institutions they are governed by. As scholars of international and comparative political economy seek progressively more precise models of the interaction between global trade and domestic politics,[23] identifying the mechanisms that led to variation in development outcomes within Latin America during the rise and fall of an earlier period of globalization promises valuable history lessons.

19TH CENTURY TRADE INTEGRATION AND CLASS FORMATION IN THE PERIPHERY

Within the framework presented here, prior trade integration operates as a critical historical antecedent,[24] a kind of "cause of causes" that determines the value of a successive variable, in this case the size of the middle class income distribution, that in turn conditions the value of the outcome of interest-institutional development. The expansion of international trade during the nineteenth century was driven by industrialization. Product differentiation increased the prospective gains that trade afforded global consumers as machines began to expand the range 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

[22] Acemoglu, Johnson, and Robinson 2005. Other scholarship on the Rise of the West travels even further back in European history. Greif (2006) identifies the late medieval period (1050-1350), and the private institutions governing international trade that emerged during this period to enforce business contracts in the absence of the state, as the point and vehicle of departure.
[23] Chaudoin, Milner, and Pang 2015.
[24] Slater and Simmons 2010.

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. Her economic elites gradually began to favor liberal trade over existing policies of 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 to secure shipping lanes, as well as the establishment of gold as a standard of international currency exchange to reduce the transaction costs associated with international trade.[25]

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 commercial agro-export sector. Between 1870 and 1920, political conflict between the merchant class and the established order of *latifundia* and communal landholders inherited from

[25] Frieden 2006.

the colonial period culminated in a region-wide swing towards liberal economic reforms. During the so-called Liberal Reform period feudalistic institutions of landholding and subsistence agriculture were gradually displaced through land reform. The nature of the economic reforms varied from country to country based on the extent and the speed at which they were implemented, as well as the impact they had on landholding patterns.[26] In Guatemala or El Salvador, commercial agriculture took the form of plantations—a decidedly unequal distribution of land that displaced smallholders. In Costa Rica reform was more gradual and the landholding patterns that resulted were more egalitarian.

In all cases, however, those Latin American societies that achieved higher levels of trade integration during the Liberal Reform period experienced a constant and positive change in the size of their middle classes. Demand for new occupations in the tertiary service sector provided the material basis for an improvement in the distribution of income and educational opportunities. This transformation in the occupational landscape occurred through economic activity directly tied to the import/export houses, including and the provision of complimentary services such as accounting, domestic shipping, legal services, and banking. It also occurred indirectly through demand spillover effects in the areas of consumer goods retailing, cottage (artisan) manufacturing, and medical services. The deeper a Latin American economy integrated into the world economy, and the more equally the gains from trade liberalization were distributed across the society, the larger and more powerful were the middle classes going into the twentieth century.[27]

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[26] Mahoney 2001, 13.

[27] It should be clear to the reader that a thriving agro-export sector at the turn of the twentieth century is but one of many sources of variation in the class structure of agrarian societies. In other contexts, historical differences in social organization that emerge from colonial rule Mahoney 2010., such as the dynamics of ethno-linguistic fractionalization that dominate indigenous politics in Mesoamerica and the Andes, might also be expected to shape income distribution and class structure Easterly 2001.. The point that I develop conceptually in the next section and explore empirically below is that, whatever the determinants of the size of the middle class income distribution for a

POLITICS OF TRADE CRISES AND INSTITUTIONAL DEVELOPMENT

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

Second, in agrarian societies the adjustment costs of such crises are born disproportionally by the middle classes. In these societies the middle classes depend heavily on the economic activity and demand spillover generated by trade, both for its income-generating feature as well as the for the supply of imported goods it enables. Where 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 firms face coordination problems when deciding whether or not to invest capital in the production of manufactured

given society, the politics of economic adjustment during a trade crisis will generate different outcomes depending upon the relative power of these classes.

goods.[28] 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 investment in raw inputs and forward linkages of intermediate transformation, as well as the provision of public goods likes infrastructure and healthy, skilled labor. For individual firms, coordination problems associated with the uncertainty of simultaneous investment up and down the manufacturing supply chain can be prohibitive; their perceived probability that all necessary capital investments by other firms would take place simultaneously is often too low to stir investment. Absent well-developed domestic or foreign capital markets that might otherwise be capable of resolving these coordination problems, import substitution requires state intervention to reduce uncertainty by credibly committing to direct investment towards the necessary forward and backward linkages.

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. Under conditions where neither foreign lending nor aid are forthcoming, the only choice available to an agrarian state is either to muddle through with the agro-export model and accept a contraction of domestic consumption, or to offset such a contraction through a policy of state-led import substitution.

[28] Gerschenkron 1962; Rostow 1960; Wydick 2008, 34.

During such a crisis, the political survival of rulers is contingent on choosing an adjustment policy that best provides for the material wellbeing of a winning political coalition.[29] Thus, where the middle classes are proportionally larger and more powerful, the regime faces greater incentives to choose policies of import substitution as a means of adapting to the crisis. By pursuing such a strategy, rulers not only consolidate their hold on political power by improving their economic legitimacy; they also increase the size of the national economic pie that they can tax. This insight helps explain why state investment is paradoxically compatible with the kleptocratic nature of patrimonial authoritarian regimes. What follows from a strategy of import substitution is transformation of the economic purpose of state institutions, as well as an increase in state capacity as rulers set about investing resources and coordinating the production of domestic manufactures.

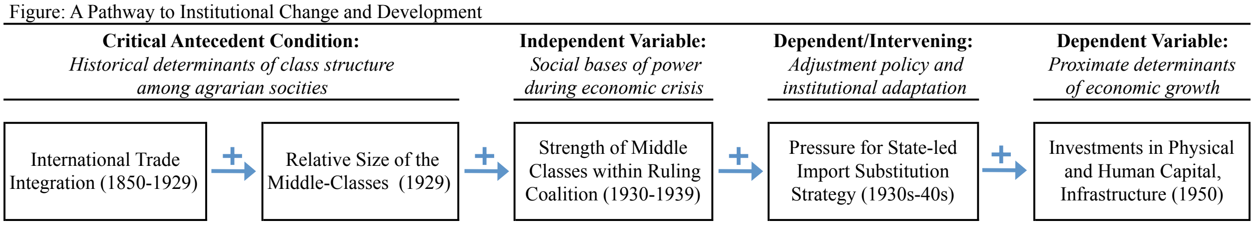
If the expansion of international trade during the late 1800s altered the relative size and power of the middle class vis-à-vis other classes, the collapse of the international system of trade and payments during the 1930s altered the institutional preferences of this emerging political class. Prior to the economic crisis, even where the middle classes were comparatively large their power laid dormant because the material interests and policy preferences of the middle classes and the merchant oligarchy were in rough alignment. When the agro-export model was functioning within acceptable bounds, domestic markets faced few coordination problems that demanded state action. When the international terms of trade for commodities began its downward spiral in 1929, however, it undercut the livelihood of the middle classes, generating both widespread unemployment in the urban areas and scarcity of the imported goods that they had grown accustomed to consuming. Thus, where societies were comprised of a relatively

[29] Bueno de Mesquita et al. 2003. Examining the choice faced by the ruler through the lens of selectorate theory, import substitution emerges as a kind of public good under conditions of import scarcity.

larger middle class, a protracted terms of trade crisis like that of the 1930s translated into political pressure for radical economic adjustment away from export dependency and towards a strategy of import substitution. The relative strength or weakness of middle class political coalitions, then, determined whether or not they were successful in changing the economic purpose of their state institutions from one of extraction to one of investment. This theory of trade, class structure, and institutional development is summarized in Figure 2.

[FIGURE 2 ABOUT HERE]

Figure: A Pathway to Institutional Change and Development



Empirical Evidence from the Hispaniola Puzzle

Despite having near-identical levels of per capita national wealth in 1950 (Figure 1, further above), modest but 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.[30] Already by 1950 the Dominican Republic was ahead of Haiti in terms of most predictors of productivity and 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. (Table 1)

[30] In its most reduced form, economic growth is the product of factor inputs such as land or labor multiplied by capital, which determines the rate of output per unit of factor input (also known as productivity). Holding factor inputs constant, growth is achieved through productivity-enhancing investments in infrastructure, physical and human capital. Over the long run, different models expect that growth takes place through changes in technology and innovation that are either taken as exogenous (Solow 1956.) or endogenous to the choices that market actors make about whether to invest in innovation (Romer 1986.) For the class of states discussed here, technological change is mostly exogenous.

[TABLE 1 ABOUT HERE]

Table: Determinants of Economic Growth in Haiti and the Dominican Republic, 1950

	Haiti	Dominican Republic
Infrastructure and Physical Capital		
Electrification (GwH per capita)	3.0	35.3
Gross Fixed Capital Formation (% of GDP), 1963	7.3	13.8
Manufacturing (% of GDP)	8.2	12.5
Human Capital		
Urbanization (%)	12.2	23.9
Life Expectancy, 1960 (years)[1]	42.2	51.8
Hospital beds, 1960 (per 1,000 persons)[1]	0.6	2.3
Primary School Enrollment (per 1,000 persons)	35.1	102.7
Literacy (% of total adult population)[2]	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]World Bank, World Development Indicators
[2]Vanhanen 1997 (data are for 1948)

The availability and quality of labor across the island, according to estimates of urbanization, health, and education, exhibited differences of a similar magnitude.

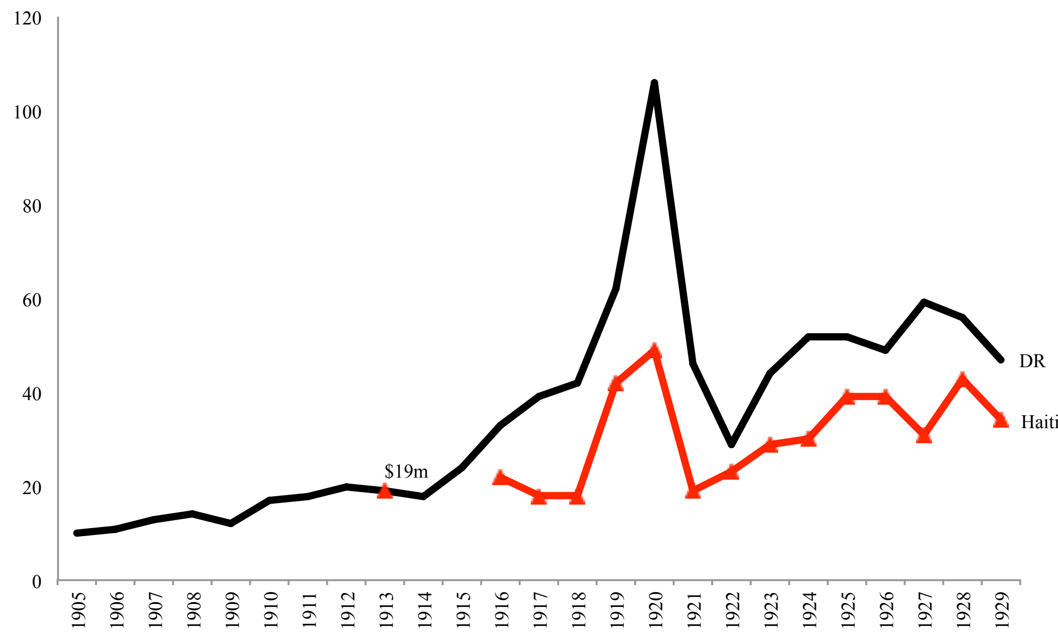
The different levels of productive investment we observe across the island of Hispaniola by mid-century were caused by the politics of adjustment to the economic crisis of the 1930s and the consequences of those adjustments for the relationship between state and markets. During this critical juncture 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 by increasing the rate of taxation on agro-export revenues. Why did one authoritarian state respond to the economic crisis of the 1930s with policies of investment while another responded with policies of greater extraction?

19TH CENTURY TRADE INTEGRATION IN THE PERIPHERY

Prior to the onset of World War I the *absolute* value of Dominican and Haitian trade volumes was nearly identical, approximately $19 million USD in current 1913 prices (Figure 3).

[FIGURE 3 ABOUT HERE]

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

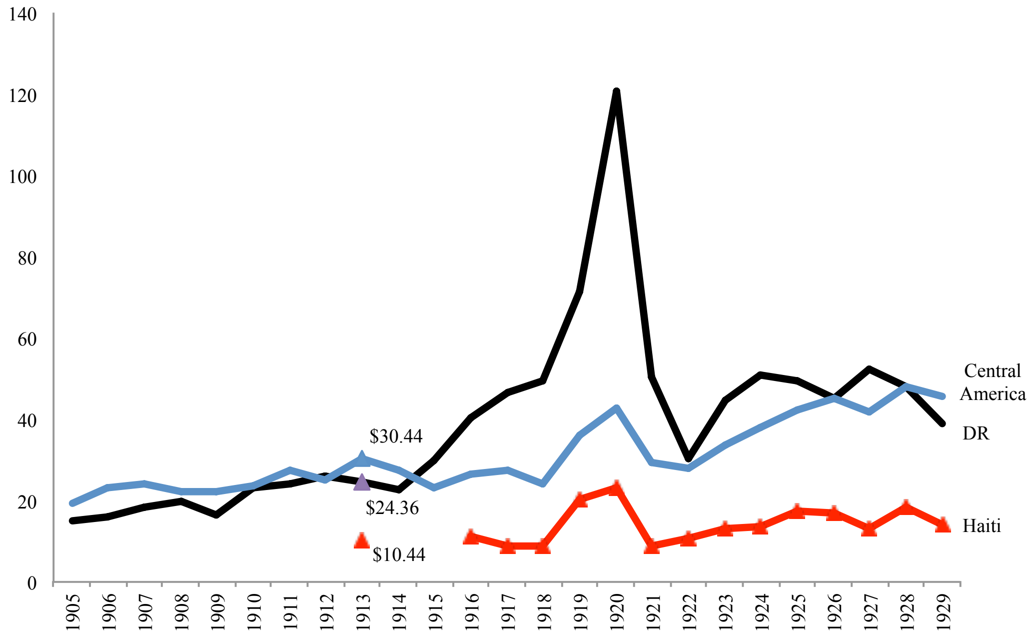


Source: Montevideo - Oxford Latin American Economic History Database (MOxLAD 2011).

On a *relative*, or per capital basis, however, the export sector of the Dominican economy surpassed Haiti's during the final decade of the 1800s, attaining a level of commercialization equal to that of the average Central American state (Figure 4 below). In Haiti, by contrast, the larger population meant that the relative level of integration with international markets in 1913 was a fraction of that exhibited by the DR—$10.44 in per capita trade in Haiti versus $24.36 in the DR.

[FIGURE 4 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.

At the time of its national independence in 1822, however, the Dominican Republic was probably as disconnected from the international economy as Haiti or more so. A small, semi-feudal system based primarily on pastoral ranching and a small logging export sector, Dominican peasants were largely engaged in hunting and gathering and marginal subsistence agriculture, operating under a pre-enclosure land system that, lacking an effective system of land titling, was not conducive to the formation of a commercial agriculture sector.[31] The Dominican Republic's integration into international markets began during the 1840s, stimulated by the arrival of

[31] Turits 2003.

German tobacco merchants in the north of the country. These foreign merchants developed an elaborate and decentralized network of indigenous intermediaries who coordinated the cultivation and transport of tobacco from smallholder peasants in the Cibao valley to the coastal city of Puerto Plata, where it was shipped on to the ports of Hamburg and Bremen.[32]

This new mode of accumulation via arbitrage touched off a political conflict during the 1860s and 70s between the pre-capitalist feudal *caciques* of the south, the *Partido Rojo,* and liberal merchants of the northern Cibao, the *Partido Azul.* The *Azules were* an emerging bourgeoisie class who acquired economic and political resources through their involvement in the export of coffee, cacao, tobacco, mahogany, and, increasingly, their involvement in import arbitrage.[33] By the late 1870s the southern economy and social structure—a holdover from the colonial period characterized by a subsistence peasantry and a narrow class of landed gentry—was in crisis due to competition with the Azules and resource depletion. In 1879 the political power of the *Rojos* had finally been eclipsed. The *Azules* held power until 1899, during which time they promoted international trade as a path to national development.

Ruled during this period by the dictatorship of Ulises "Lilis" Heureaux (1883-1899), the *Azules* actively sought foreign investment in agricultural production and borrowed comparatively large sums of money from various European creditors for the financing of railways and telegraph wires to support national development through the expansion of the agro-export sector. The Dominican state attempted to implement a variety of anti-vagrancy and enclosure laws intended to extend state control into rural areas for the purpose of encouraging peasants to produce an agricultural surplus. The lack of state capacity made many of these ventures ineffectual,

[32] Baud 1987.
[33] Moya Pons 1992, 403.

however. Rather “attempts at commercialization remained relatively toothless throughout the late 1800s and early 1900s until the arrival of Trujillo [in 1930].”[34]

By the end of the 19th century there were two distinct Dominican economies trading in world markets. The northern Cibao was characterized by a system of smallholder peasant agriculture specializing in cacao and coffee export crops in the rural areas and Dominican import/export bourgeoisie in the urban areas; the southeast, in turn, was dominated by foreign-owned sugar enclaves exploiting cheaper immigrant labor. In both the north and the south, the revenues generated from agro-exports created an increasingly powerful import bourgeoisie in the port cities. International economic crisis in the late 1890s touched off a period of internal conflict among the *Azules* that led to the assassination of Heureaux in 1899. This marked the beginning of a period of political instability that culminated in state collapse. This instability compromised the ability of the DR to service its debts, triggering foreign intervention by the United States.[35]

If the development profile of the Dominican Republic broadly conforms to Latin America’s general pattern of liberal economic reform during the late 1800s, the failure to intensify agro-export production in Haiti during this period represents a puzzling regional outlier. At the same time that neighboring DR, Cuba, and Puerto Rico were transforming their modes of accumulation from semi-feudal systems based on subsistence agriculture on rented or communal land to an agro-export model featuring greater privatization and commercialization, the means of accumulation for the Haitian peasant remained one of subsistence agriculture complemented by only marginal coffee cash-cropping on informally titled squatter land. Why didn’t Haiti undergo liberal reforms and integrate itself into global markets during the late nineteenth and early twentieth centuries to the same degree as neighboring countries?

[34] Turits 2003, 52–3.
[35] Atkins and Wilson 1998.

The Haitian peasant, which during this time period constituted 95 percent of Haitian society by one estimate,[36] provided the basic means of accumulation for a narrow oligarchy of foreign export merchants as well as those Haitian mulattos whose livelihood depended on the customs tax revenues and resulting state patronage that Haiti's modest export sector allowed for. Before the onset of the revolution, Haitian peasant slaves were producing nearly half of Europe's coffee and sugar.[37] Yet within the first half-century following independence sugar production had all but collapsed as the flames of the French revolution spread to Saint Domingue, The discourse of liberation is credited by some as provoking the uprising by the slaves against their colonial masters in 1791, one that forced the French Republic's legislature to reluctantly pass the first general decree of emancipation in Haiti, and indeed in the Americas, in 1793.[38]

The promise of liberation under the French emancipation decree was short-lived, however. The slave system was quickly replaced by other forms of coercive labor enforced by Haiti's increasingly powerful and privileged *affranchis*—a class comprised of those Haitians who were predominantly mulatto offspring of mixed African and French descent. Replacing the construct of the slave was the *cultivateur,* a peasant who was nominally free but bound to a particular plantation and without rights to move around.[39] 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 became Haiti's most important export commodity following the collapse of sugar,

[36] Castor 1988.
[37] Buck-Morss 2000, 833.
[38] Gonzalez 2012.
[39] Ibid., 30–1.

providing more than 80% of all customs export revenue in 1908.[40] However even this level of production was a fraction of what it was before Haitian independence.[41] 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.[42] Why didn't Haiti's agrarian economy respond to the trade opportunities afforded by the rapidly globalizing world economy of the late 1800s by re-establishing itself as a platform for agro-exports?

Domestically, there are two reasons rooted in the decolonization experience that explain why Haitian elites were unable to turn to the system of agro-export liberalism as a viable means of accumulation. First, the structure of production for Haiti's dominant export crop—sugar—was incompatible with the ideas underpinning the revolution. Whereas in the DR Cuban estates and plantations had taken root with the diffusion of sugar cultivation in the Caribbean in the 1870s, in Haiti large-scale plantations were gradually eliminated during the early years of independence, leaving behind a productive structure, *marronage,* based on smallholder agriculture.[43]

Scholars have attributed the collapse of the sugar planation model to the ideological salience of the slave rebellion, which emphasized liberation from coercive forms of labor relations.[44] At the time of the revolution, Haitian society was divided starkly between a narrow group of mulatto elite who had acquired some measure of wealth and privilege under the French and the black masses, the majority of whom were slaves up until the revolution. The mulatto elite, as well as a small subset of blacks who had distinguished themselves through military service or otherwise attained rank during the revolution, attempted to restart the plantation

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[40] Gaillard-Pourchet 1990, 118.
[41] Houzel 1935, 52.
[42] Gonzalez 2012.
[43] Lundahl and Nalin 1992a; Lundahl and Nalin 1992b.
[44] Dupuy 1989.

system as a means of accumulating wealth.[45] 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*.[46] This attempt at legal coercion failed as well, sending more peasants fleeing to the mountains to escape forced labor and coercive taxation.

As a consequence, the volume of Haitian sugar exports plummeted from 2.5 million pounds in 1820 to six thousand pounds in 1842, leaving only the cultivation of export crops that did not require plantation-scale production such as coffee, cacao, cotton, and timber (Nicholls 1996, 69).[47] The result was a largely informal economy, a system dominated by a smallholder peasantry who grew enough food to subsist, occasionally boosting their consumption by selling a small surplus or a meager volume of cash crop like coffee at the nearby market.

[45] Castor 1988; Gonzalez 2012.
[46] Nicholls 1996, 68.
[47] Ibid., 69.

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,"[48] foreign direct investment remained prohibited by Haitian law until the US military occupation overturned it in 1918.[49] Fear of future incursion by European powers was coupled with a nationalistic ideology of self-determination that stemmed from Haiti's proud revolutionary history. This generated a domestic political culture that was strongly averse to foreign ownership. Thus, the same entry of Cuban sugar plantation capital and technical capacity that the Dominican Republic experienced during the 1870s was not possible in Haiti.

These domestic factors, the elimination of coffee and sugar plantations and low penetration by foreign investors, partially explain why Haitian exports fall off during the 19th century. Yet while the unavailability of plantation labor following the revolution precluded Haitian elites from maintaining the level of sugar production that existed under the French, coffee can be cultivated profitably at either plantation or smallholder scale. Why didn't Haiti's smallholder farmers respond to global demand with intensified coffee production as effectively as did the *minifundista* peasant producers in the Cibao valley of the Dominican Republic?

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48 Ibid., 103.
49 Ibid., 52. Despite such an overturning, it is notable that virtually every attempt by the US occupation to enact liberal land reform and pave the way for foreign investment was resisted not only by the peasants, who were suspicious of the white occupation and angered by earlier attempts by the occupation to construct national roads through a system of forced labor (the *Corvée*), but also by Haitian elites who were successful in tying up land ownership questions in the still-independent courts (Schmidt 1971).

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.[50] Though foreign merchants were prohibited by every Haitian constitution since independence from acquiring real estate or conducting business anywhere but in those ports designated as open for foreign trade, European merchants frequently circumvented these laws by marrying into local Haitian (typically mulatto) families.[51] Intermarriage between these expatriate merchants and mulattos allowed foreigners to own property under the name of their spouse while simultaneously reinforcing the economic privilege of the mulatto class.

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

[50] Girault 1981, 159.
[51] Ibid., 160.

economies of Haiti and the Dominican Republic evolved differently in respect to the taxation of agro-exports, we must look at the international environment Haiti was inserted into during the 19th century.

Along the international dimension, two factors conspired to reinforce the predatory dynamic of state-society relations that emerged following the revolution: trade embargos on Haiti during the first decades following independence, and the size of the indemnity Haiti was forced to pay France for diplomatic recognition. Shortly after independence Haiti found itself under embargo from its two natural trading partners—the United States and France. Only five hundred miles from Hispaniola, the US was Haiti's most important trading partner for the first two years of its independence. This lasted only until domestic concerns related to slave relations in the American south, as well as pressure from France—Haiti's traditional export market—led the US government to impose a trade embargo on Haiti in 1806.[52] 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[53] for the seizing of the 'property' of French citizens during the revolution that Haiti achieved a measure of international recognition.[54] The Haitian state serviced its debts by raising export duties and using the army to extract tribute from Haitian farmers. Besides servicing an international debt that

[52] 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).
[53] 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..
[54] The US did not recognize Haitian statehood until 1862.

yielded no apparent utility for those who were being taxed, this tribute also lined the pockets of many levels of state officials—what one Haitian scholar refers to as the "parasitic sectors."[55] By dramatically increasing the Haitian state's need for tax revenue and depriving the economy of financial resources that might have been invested elsewhere, the trade concessions and the French indemnity only further undermined the fiscal contract between Haiti's peasant producers and the state.

TRADE AND CLASS FORMATION

For Latin American 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.[56] Meanwhile, in agrarian states like Haiti where the export sector remained relatively small, social structure remained sharply divided between the peasant masses and a narrow, highly extractive, and patrimonial oligarchy.

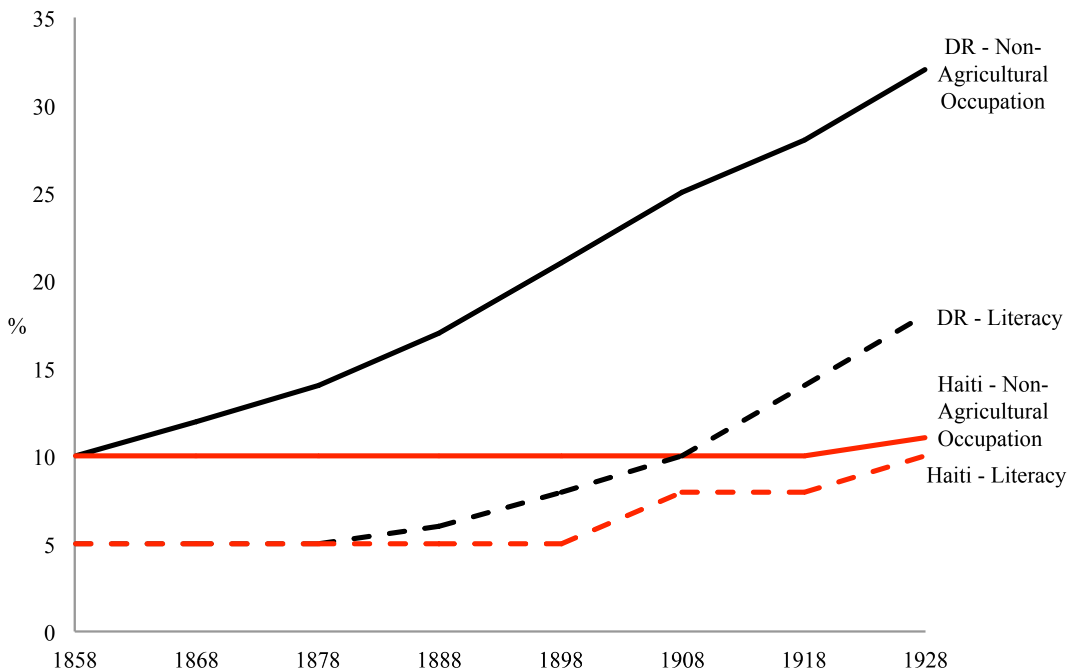
While income distribution data for Haiti and the Dominican Republic are not available for this period, alternative measures can be used to approximate the relative size of the middle classes on either side of the island. Following Boix,[57] I rely upon comparative demographic data from Vanhanen in order to estimate the size of the middle class income distribution in these countries.[58] I argue that these measures of occupational diversification and literacy serve as

55 Castor 1988.
56 Baer 1972, 96–7.
57 Boix 2003.
58 Vanhanen 1997.

proxies that I expect to correlate strongly with the unobserved size of the middle classes.[59] Figure 5 shows that in 1858, just prior to the onset of the liberal reform period, the social structures of Haiti and the Dominican Republic were comparable by the percentage of the population employed in non-agricultural occupations and the percentage of the adult population who were literate.

[FIGURE 5 ABOUT HERE]

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



Source: Vanhanen (1997)

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

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

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

The proportion of export revenues captured by Dominican intermediaries only increased during the late 1800s when the collapse of the tobacco market drove the Germans out and created an opportunity for well-positioned Dominican entrepreneurs to emerge as import-export merchants in the port cities. When tobacco prices plummeted in the 1870s, this new class of Dominican merchants instrumentally coordinated a transition from the cultivation of tobacco to more profitable export crops like cacao and coffee. This process of integration into world markets accelerated as smallholder agricultural production in the north was supplemented with the arrival of foreign sugar plantation agriculture in the south and east of the country during the 1870s and 1880s. This eventuality dramatically increased the importance of Santo Domingo and San Pedro de Macorís as additional commercial hubs for the country. National business directories from the turn of the twentieth century show that, across the country, these commercial hubs attracted and cultivated a rising middle class of professionals, service providers, merchants and tradesmen.[60] Comparable business directories evidence the emergence of middle class occupations in Haiti as well during this period,[61] however as the figure above illustrates the comparatively lower level of integration within the global economy corresponded to a proportionally smaller middle class than emerged in the DR.

CLASS STRUCTURE, CRISIS, AND THE POLITICS OF ECONOMIC ADJUSTMENT IN THE PERIPHERY

England's eighteenth century industrial revolution beget a consumer revolution that brought items like scented soap, refined cooking oils, and cotton undergarments—goods previously accessible to only the wealthiest aristocrat—within reach of the working classes.[62] "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".[63] A century later the first wave of globalization had begun to deliver a share of these industrial fruits to the agrarian world, providing commodity-exporting countries with the foreign exchange currency required to import an expanding array of manufactured goods. In exchange for the exportation of primary commodities demanded by the industrialized core, middle and upper class consumers of the agrarian periphery were now able to purchase new medicines, hygiene products, foods, spices, beverages, and textiles, as well as a rapidly expanding array of machines capable of alleviating the strains of quotidian life.

Import scarcities caused by economic volatility and war during the first half of the twentieth century disrupted the flow of manufactured goods to the agrarian periphery. The

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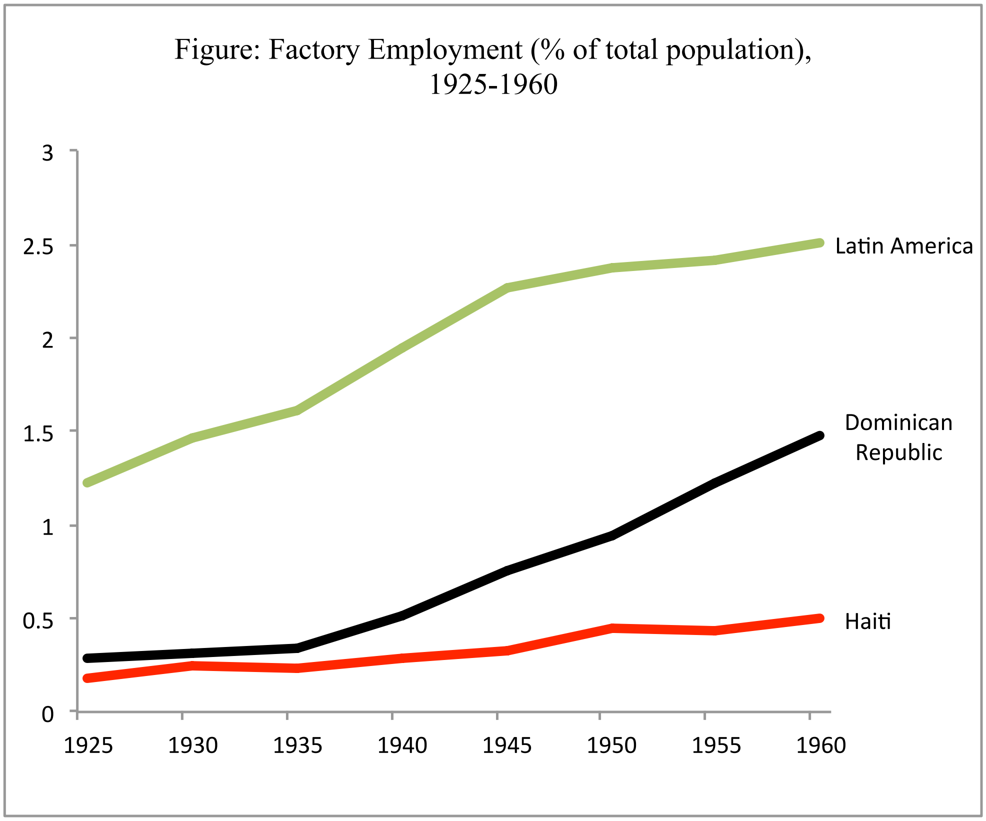
[60] Deschamps 1907.
[61] *Livre Bleu d'Haäti* 1920.
[62] Müller 1995.
[63] Ibid., 33.

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

Variation in the degree to which Latin American countries industrialized during this period, however, suggests that these economies faced various constraints on their ability to exploit structural conditions that were otherwise favorable to strategies of import substitution. Beginning in the mid-1930s the Dominican economy produced sustained growth in its manufacturing sector, averaging an 11.2 percent annual increase in manufacturing employment over this period, meanwhile the Haitian economy remained decidedly agrarian.

[FIGURE 6 ABOUT HERE]

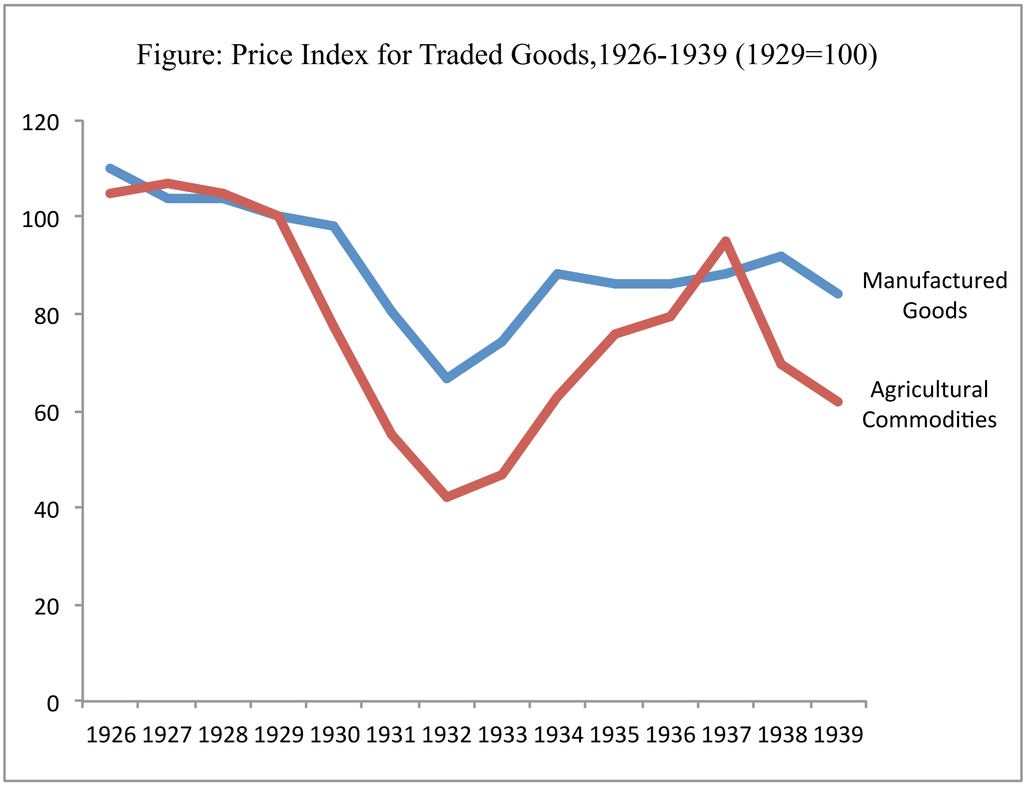


Sources: Factory employment data from the Economic Commission on Latin America 1966, 17. Population data from Astorga, Bergés, and Fitzgerald 2003.
Note: I use figures for total population instead of economically active population because these data were not available for all of the country-years between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

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

The economic losses brought about by global financial crisis and the depression that ensued were not distributed evenly across states. Growth rates and domestic consumption declined further in the agrarian periphery than it did in the industrialized core during the 1930s, owing primarily to the deteriorating terms of trade for agricultural commodities vis-à-vis manufactured goods (Figure 7).

[FIGURE 7 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.

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.[64]

However by no means did this crisis bring about the end of the agro-export sector. In Latin America, commodity export quantums actually *increased* as producers flooded international markets in an attempt to replace the income lost to declining prices by increasing volumes. Against the usual narrative of diminished exports and thus providing the impetus for import-substitution, Thorp finds that export sectors in the larger Latin American economies recovered rather quickly from the contractions of the early 1930s. By 1933-1934 their economies were growing again, and by 1937 the size of their real GDPs had each returned to pre-crisis levels (184).[65] This was achieved through a combination of ongoing commodity exports and growing industrial output. In the temperate climates of Latin America's Southern Cone where commodities like wheat and cattle were produced, the purchasing power of exports were restored by the mid-to-late 1930s.[66] 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.[67] Similarly, the price of coffee—Haiti's signature export crop—dropped by nearly 48 percent. The price of sugar did not fully recover its 1929 level until 1941, and coffee did not recover until 5 years after that.[68]

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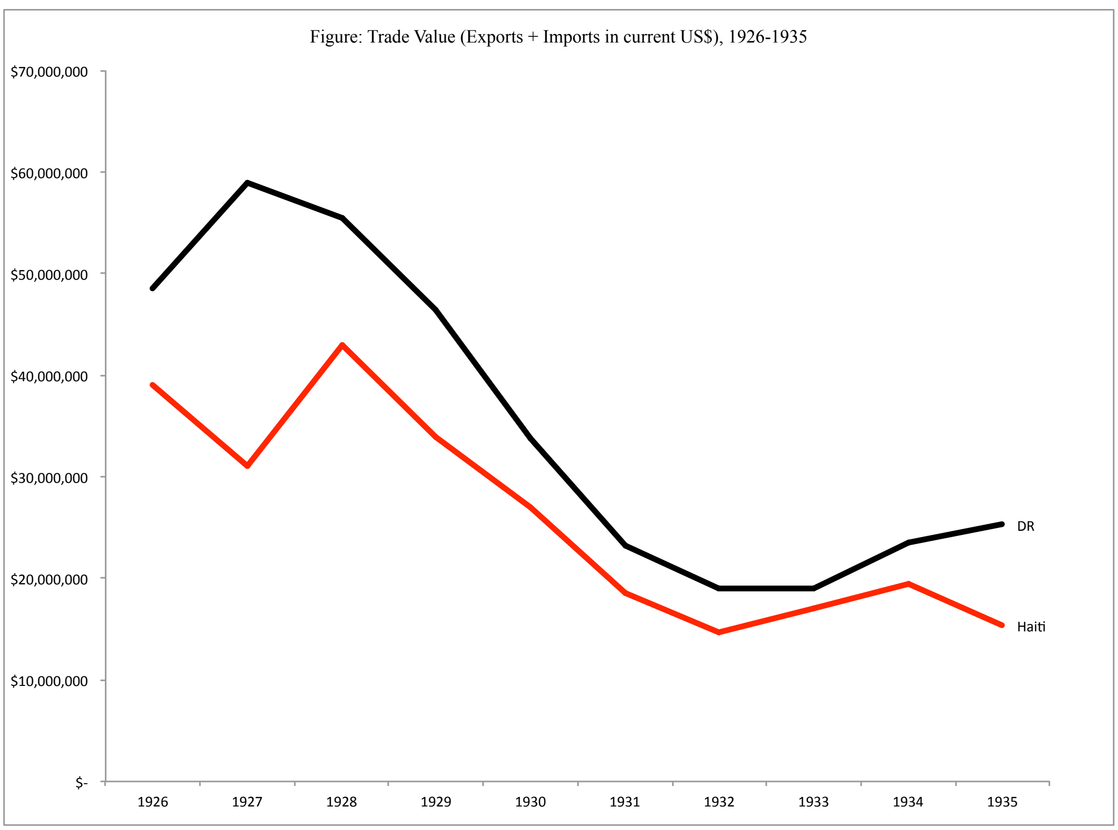
[64] Thorp 1992, 184.
[65] Ibid.
[66] Thorp 1998, 114–5.
[67] Ibid., 1998.
[68] Ocampo and Parra 2003.

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."[69] Exacerbating this crisis, the balance of payments shortfalls caused by this disruption in trade in the non-industrialized world could not be offset by international borrowing due to the financial dimension of the crisis—namely the shortage of foreign capital owing to U.S. monetary retrenchment. For Haiti and the Dominican Republic the net value of imports and exports were cut in half between 1926 and 1935 (Figure 8).

[FIGURE 8 ABOUT HERE]



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

[69] Hirschman 1968, 4.

For both countries, foreign exchange losses attributed primarily to the export crisis forced a curtailment in the consumption of foreign and manufactured goods by reducing the net value of imports by 69 and 61 percent, respectively.[70]

The collapse of the international trade regime during the 1930s not only affected national incomes and patterns of consumption in these two agrarian societies; it also decimated their principal source of public finance. Despite the efforts of the U.S. military occupations on either side of the island to generate alternative sources of revenue through the collection of internal taxes, approximately 80-90 percent of all government receipts still depended on trade customs collected by the U.S. receiverships. As the value of exports and imports declined, customs revenues eroded quickly as well.[71]

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

Hard times and the distributional conflicts that ensued generated significant political upheaval throughout the region. Latin America witnessed fourteen revolts against incumbent rulers between 1930 and 1934.[72] In many South American countries the political crisis fed into a regional wave of economic populism political inclusion.[73] For the tropical agro-export economies

[70] Annual Report of the Haitian and Dominican Customs Receiverships, various years.
[71] Ibid.
[72] Wiarda 1998, 38.
[73] Collier and Collier 1991; Rueschemeyer, Stephens, and Stephens 1992.

of Central America, where the greatest losses of export purchasing power were concentrated,[74] the nature and extent of the liberal reforms during the antecedent period determined the resiliency of incumbent political regimes during the 1930s and 1940s.[75] 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.[76] Having turned to wage labor on the plantations for their livelihoods, the collapse of international commodity prices during the early 1930s left these land-poor peasants with neither the wages nor the land for by which they might have maintained their livelihoods. In this way, the radical nature of liberal reforms in El Salvador created the preconditions for the peasant revolution of 1932.

On the island of Hispaniola, by contrast, predominantly smallholder Haitian and Dominican 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 import/export merchants—were exposed to the crisis, members of this class had sufficient assets to weather the economic storm without compromising their basic standard of material living. Having amassed extensive savings during normal economic times, elites were able to offset

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[74] 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.

[75] Mahoney 2001.
[76] Paige 1997, 107.

rapidly declining income from the withering trade sector by economizing and drawing down their savings.

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

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

DIFFERENT COALITIONS, DIFFERENT ADJUSTMENT POLICIES

Neither the class composition of the nationalist coalitions that seized power in Haiti and the Dominican Republic in 1930, nor the adjustment policies they pursued, were comparable. In the DR, initial moves towards austerity and import substitution during the global depression positioned the state to help the national economy industrialize during the period of ongoing import scarcity caused by war in the 1940s. Initial efforts to develop import substitutes were not focused on manufactured goods like textiles and machinery, however. The strategy adopted by the regime to adjust to the terms of trade crisis of the 1930s was to free up foreign exchange for the continued importation of manufactured goods from the industrialized world. Initially, this was achieved by bringing the subsistence peasantry into the fold of commercial agriculture. Pursuing the strategy that Bulmer-Thomas describes as import substitution agriculture (ISA),[77] the DR moved away from agro-export monoculture and its associated dependency on international trade for national food security. The ministry of agriculture promoted the development of domestic substitutes for commodities like rice and beans, as well as processed goods like butter, cheese, soap, and beer, that had previously been imported but whose production challenges were relatively modest compared to the manufacture of more complex goods.

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

[77] Bulmer-Thomas 2003, 202.

adjudication. The process of determining property rights had hardly begun outside the sugar zones."[78]

In 1993 middle class reformist Rafael César Tolentino, Trujillo's agricultural minister, began arguing for the granting of 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, Carretero began an ad-hoc campaign to distribute thousands of hectares of land to an equal number of residents in that part of the country. Wherever necessary, he resolved disputes by invalidating the property claims of *latifundista* owners of untilled land, redistributing such lands to local farmers.[79] Middle class allies in the ideological movement to expand smallholder agriculture in the Republic, Carretero and Tolentino successfully petitioned Trujillo in 1934 to begin a nationwide policy of land reform that built upon Carretero's campaign. Between 1934 and 1936, 107,202 hectares of land were distributed to nearly 54,494 households—an average of approximately 2 hectares (5 acres) per household.[80] By 1955 these numbers doubled, the Trujillo regime having distributed some 222,016 hectares to 104,707 households.[81] The rate of land distribution peaked between 1935 and 1940, during which time the total area of national cropland increased by 47 percent.[82]

In order to ensure that these land reforms translated into increased agricultural productivity, the regime made complimentary investments in infrastructure and social development across the country. The national transportation network installed by the U.S. occupation between 1916 and 1924 to connect the capital of Santo Domingo to other major cities and ports was expanded under Trujillo to link up hundreds of smaller rural communities with the

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78 Turits 2003, 78.
79 Ibid., 90–91.
80 Ibid., 96.
81 Note that these figures are in addition to the land rights granted to existing squatters by the regime.
82 Turits 2003, 96–7.

internal market.[83] Between 1930 and 1960 road infrastructure grew from 171km to over 5,000 km.[84] Whole stretches of irrigated land were created and distributed via Trujillo's program of public aqueducts. Basic health and hygiene improved dramatically in rural areas as the government laid out requirements for the use of footwear and latrines, as well as expanding the number of hospitals in the DR from 8 in 1930 to 51 by 1958.[85] In terms of education and literacy, primary school attendance rose from 13 percent in the early 1930s to 43 percent by 1954—aided by growth in the number of public schools from 526 to 2,570 over the same period.

By liberating peasants from various forms of uncertain or usurious land/labor relations and improving their material wellbeing, the regime consolidated popular support in both rural and urban areas. Under the condition of import scarcity, these land reforms were intended to restore the consumptive capacity of urban dwellers by compelling peasants to trade the practice of subsistence farming under the condition of uncertainty for commercial agriculture and the economic security of titled land.[86]

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

[83] Moya Pons 1987, 12.
[84] Turits 2003, 215.
[85] Ibid., 225.
[86] Turits 2003.

$7,099 in 1935, respectively.[87] Additionally, the Dominican state actively promoted the production of commodities like pasta, rice, and beans—staples of the Dominican diet that had previously been imported. The gradual build-up of a state-directed processed food sector during the late 1930s and 1940s helped make the economy largely food self-sufficient by the 1950s.

The industrial stage of the Dominican Republic's import substitution strategy did not begin until the 1940s, particularly after the Second World War when capital machinery from the industrialized world once again became available for importation. Among the earliest policies in support of industrialization was the adoption of the "Law of Industrial Franchises" (ley No. 672) of April, 1934, which was intended to further alleviate the foreign exchange crisis through a set of tax incentives that the Dominican state hoped encourage the formation of domestic industries.[88] The effect of this law was minimal, however, as fears of expropriation by the dictator effectively reduced the incentives for business establishments to register themselves for the tax breaks. Furthermore, throughout the 1930s industrialization remained adversely affected by the tariff regime installed by the U.S. occupation in 1919—one that raised the costs of both raw inputs as well as capital stock for would-be industrialists.

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

[87] Monteagudo 1936.
[88] Moya Pons 1987, 24. Up until the conclusion of the Trujillo-Hull treaty in 1940, the Dominican Republic could not set its own tariff rates and thus could only attempt to protect domestic industry through manipulation of internal taxes. Cassá 1982.

manufactured goods.[89] Second, at the same time that commodity prices were increasing, war mobilization and rationing in the industrialized world effectively prolonged the import crisis of the 1930s, decreasing the availability of manufacturing goods on world markets. As a consequence, foreign exchange reserves began to accumulate quickly in agro-export economies.

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

The first contract under this article was a textile mill to be operated by the Armenteros family, who had owned commercial houses in San Pedro de Macorís since the turn of the century and held a dominant position in the Dominican import sector up until the global depression. Textiles represented a substantial portion of Dominican imports during this period, comprising nearly one-fifth of all imports by the onset of WWII in 1939.[91] The cooperative venture between the Dominican state and the Textilera Dominicana, C. por A. was inked with the passage of

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[89] Moya Pons 1987.
[90] Moya Pons 1998, 41.
[91] Dominican Customs Receivership 1940.

Resolution No. 762, a contract whereby the Armenteros family would begin the construction of a textile mill comprised of a minimum of 100 automatic looms, as well as the promotion of cotton cultivation in the countryside.[92] In exchange for simultaneously providing employment and developing the backward and forward linkages of input production and product transformation required to launch a domestic textiles sector, the Dominican state agreed to furnish the Textilera Dominicana with a series of tax exemptions related to their domestic business operation and the importation of necessary inputs.[93]

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

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

[92] Moya Pons 1998, 46.
[93] Moya Pons 1987, 45–6.

shortages that were frequent during the war.[94] In order to establish this new productive sector, the Dominican state was required to directly coordinate investment in infrastructure and backward linkages.

> To this end, the State committed itself "[t]o deliver each year to the company for a period of twenty years beginning as soon as the plant begins its operations, a sufficient quantity of molasses for the distillation of approximately two million five hundred thousand gallons of industrial anhydrous alcohol, and to pay for this distillation in monthly payments a sum representing a net profit of no less than ten cents per gallon which will be liquidated in monthly payments."
>
> The State also agreed to construct the water and sewage system, streets and other infrastructure needed for the operation of the factory and, of course, to exonerate it from the payment of import duties on machinery, replacement parts, equipment and construction materials destined to the building of the plant or to future expansions and repairs, all this "in accordance with the provisions contained in Article 90 of the Constitution of the Republic."[95]

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.[96] Similar provisions for the production of other light industrial goods like cement, chocolate, and vegetable oil under Article 90 illustrate the degree to which the Trujillo regime transformed the Dominican state into a developmentalist institution capable of coordinating economic investment and promoting industrialization. All told, investment in the Dominican industrial sector increased by nearly 200 percent between 1945 and 1955.[97]

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

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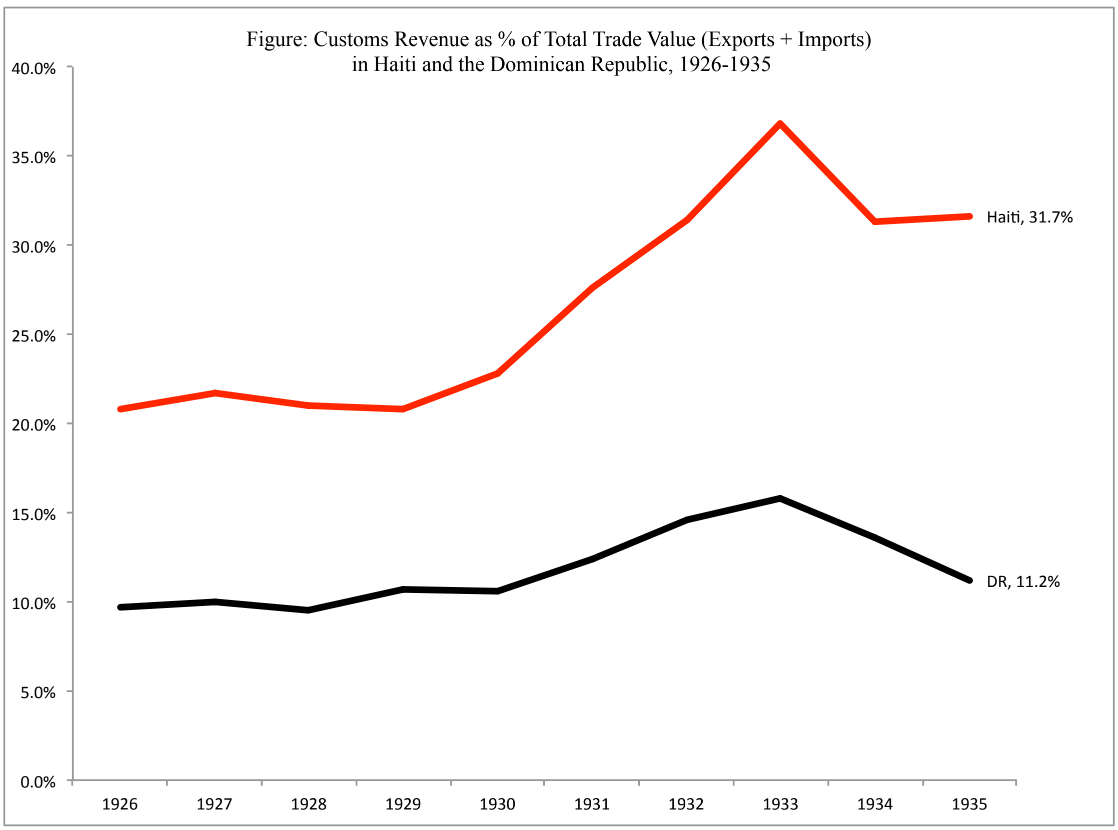
[94] Ibid., 51.
[95] Ibid., 52.
[96] Moya Pons (1987, 53) notes that, while the economic viability of gasohol ultimately collapsed with the increasing availability of fuel from the Dutch Antilles, the plant was eventually sold at only modest losses to a joint venture that would develop the trademark Dominican rum, Brugal.
[97] Franco 2008, 291.

the political class of Mulatto elites that depended on it, export duties increased from 19 to 28 percent of total value during the course of the U.S. occupation; import tariffs—primarily on basic goods consumed by the masses—doubled from 23 to 46 percent over the same period.[98]

Prior to the global depression, overall taxes on imports and exports comprised over 20 percent of Haiti's total trade value. This figure represented more than twice the rate of extraction on Dominican trade. The Haitian state responded to declining trade revenue during the early 1930s by increasing the proportion of trade value that it extracted through customs taxes (Figure 9).[99]

[FIGURE 9 ABOUT HERE]



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

[98] Trouillot 1990, 103.
[99] Haitian and Dominican Customs Receiverships (various years).

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

Export duties on coffee continued to increase until the termination of Brazil's coffee valorization policy in 1937 triggered the collapse of international coffee prices. This forced the Haitian government to accept a 50 percent reduction in the rate of coffee export duties. Rather than follow a path of austerity, the Vincent regime increased taxes on imports in order to compensate for the declining value of its exports. It was only with the near total collapse of coffee prices in 1937 that the tariff structure was reconsidered.[100] After the termination of Brazilian valorization eroded the remaining value of Haiti's principal export, the only recourse of the Haitian government was to increase the proportion of total government revenue derived from imports and internal revenue. In practice it did just that. While all external, trade-based revenue declined between 1926 and 1940, the proportion of government receipts made up of import tariffs grew from 58 percent to 68 percent over this period. Conversely, the share of receipts comprised of exports declined from 28 percent to 11 percent.[101]

Before the export-dependent foundations of the Haitian economy and its government finance were shattered completely, the descent of Haitian coffee prices on international markets was arrested. Between 1941 and 1952 the price of Haitian coffee recovered dramatically, rising by 422 percent.[102] Prices for Dominican sugar also rebounded during the 1940s and early 1950s as war and reconstruction in Europe were followed by the onset of the Korean War (1950-1953).

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[100] Between 1937 and 1941 the price of Haitian coffee fell by 39 percent Benoit 1953, 29..
[101] Haitian Customs Receivership 1940, 99.
[102] Benoit 1953, 29.

Overall terms of trade for agricultural commodities and manufactured goods converged during the second half of the 1940s once consumption levels in European markets began to recover.[103]

For countries like the Dominican Republic who adjusted to the trade shock of the 1930s through policies of investment in import substitution, World War II and the Korean War reinforced these policies. By simultaneously sheltering domestic manufacturers from international competition and allowing for the accumulation of foreign exchange reserves, the DR was able to repay its foreign debts and import additional capital stock in order to accelerate the process of import substitution industrialization.[104]

And just as ongoing import scarcity during the 1940s reinforced the Dominican state's strategy of import substitution, the decision of Haitian rulers to continue with the existing agro-export model through the 1930s was equally reinforced by the second wave of trade shocks during the 1940s. Having responded to the global depression with intensified predation on the already diminished surplus value of export crops,[105] 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.[106] Rather than providing an impetus for investment in industrialization, using foreign exchange to import capital stock as occurred in the DR, the high prices agricultural commodities commanded in world markets throughout the 1940s enabled Haitian elites to replenish their savings and continue importing manufactured goods.

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

[103] Ocampo and Parra 2003.
[104] Moya Pons 1987.
[105] Trouillot 1990, 102–3.
[106] Smith 2009, 118.

class were less adversely affected during this period. Indeed, the timing of the street protests by the emerging class of black professionals in Port-au-Prince in 1929 is consistent with the theory that the material interests of the middle classes were disproportionally affected by the collapse of the international system of trade and payments. The token gestures of middle class political inclusion by President Vincent did not translate into a new ideology of nationalist developmentalism, as happened in the DR, but merely the inclusion of a narrow segment of the black middle classes into the ruling coalition mulatto elites.

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

The same political forces that reproduced the Haitian government's dependence on customs taxes from 1804 independence until the 1930s continue to operate in the present day. No fiscal contract ever emerged between the Haitian state, who might have invested tax revenues in public goods, and the peasant-producers who pay for that state. "The peasants have been severely taxed without receiving any corresponding benefits from government actions. The Haitian tax system continues to rely very heavily on export and import taxes. On the export side, coffee has most often borne the brunt of taxation. Concerning imports, necessities consumed by the masses rather than luxury goods have been taxed."[107]

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

CONCLUSION

Political institutions have been shown to play a key role in determining economic outcomes. Where do these institutions come from, and how do they change over time? Examining the puzzle of institutional divergence on the island of Hispaniola, this paper has identified conditions under which international economic crises lead to the emergence of a developmental state. Haiti adjusted to the global economic crisis of the 1930s through rent-seeking policies that reinforced

[107] Lundahl and Nalin 1992a, 39.

existing patterns of state predation and economic decay. Why, despite many similarities with Haiti including geography, regime type, and agro-export dependency, did the Dominican Republic pursue developmentalist policies of import substitution when adjusting to the same crisis—policies that transformed the economic purpose of state institutions and culminated in the fastest growing economy in Latin America over the second half of the twentieth century?

Among non-industrialized countries I find that the costs of a prolonged terms of trade crisis and the import scarcities that ensue are borne disproportionately by the middle classes. I also find that the ability of markets in non-industrialized countries to replace foreign imports with domestically produced substitutes is constrained by investment coordination problems. Thus, where income distribution favors a proportionally larger middle class, the political coalitions that emerge out of shared economic hardship exert adaptive pressures on state institutions to resolve coordination problems associated with import substitution. In countries where income distribution favors a proportionally smaller middle class, conversely, these political coalitions falter and attempts at import substitution succumb to market coordination failure. Highlighting the importance of global trade integration beginning in the 1850s for reshaping class structure across Latin America, these findings challenge recent explanations of post-colonial development that emphasize geographic or colonial path dependency.

My findings also make a contribution to the literature on trade and development. A superficial read of the causal narrative offered here would appear to suggest that trade leads to the expansion of the middle classes and all good development outcomes stem from that. A closer examination of the conditions under which trade openness led to economic growth and development on Hispaniola reveals dynamics that challenge the theoretical propositions of trade integrationists and skeptical institutionalists alike. Contrary to the received wisdom about import substitution industrialization, my research demonstrates that a mixed strategy featuring both inward-oriented development and ongoing agro-exports produced higher rates of investment and growth over the long run than reliance on agro-exports alone.[108] Furthermore, the presence of a middle class was not a sufficient condition for sending the Dominican Republic down the path of economic diversification and institutional development. The counterfactual case for the DR would be a timeline without a trade crisis. Under such a timeline, it is plausible that the interests of the middle classes and the merchant oligarchy would have remained aligned, thus failing to produce the adaptive pressure required for institutional transformation. Nevertheless, I also find that prior trade integration created the very middle class coalitions that later became a decisive political force for the emergence of protectionist ISI policies and the developmentalist state institutions that implemented them.

Together, these findings suggest the need for more careful, conditional claims about the relationship between trade and economic growth. As Bhattacharyya, et al. conclude, "the key challenge is to move beyond broad cross-country comparisons to detailed workings of institutions and trade policy within each country in order to understand more fully how they interact and impact on economic development."[109] 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

[108] 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, the successful implementation policies for economic takeoff appears to be a generational affair.
[109] Bhattacharyya, Dowrick, and Golley 2009, 328.

growth in agrarian societies is conditional on whether the gains from trade are distributed in such a way as to create opportunities for the expansion of the middle classes. Future research should seek to refine further the scope conditions of this theory. Whereas the smallholder agricultural models in Haiti and the DR were both permissive of the rise of a middle class, in agrarian economies where the income from trade is concentrated in the hands of a narrow few—as is often the case in plantation economies like those of El Salvador—the effects of trade integration on the expansion of the middle classes may be more modest.

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

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