

Distinguished Guest Lecture

The Persistence and Change of Institutions in the Americas

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Though many empirical and theoretical approaches to comparative development assume that institutions persist for long periods of time, specific institutions vary a lot over periods as long as a century. Therefore, a convincing theory of institutional persistence must explain how persistence of institutional equilibria and accompanying incentive environment is consistent with changes in specific institutions. In this paper, we propose a simple explanation of how economic institutions may persist even when political institutions change and illustrate it with the economic history of the U.S. South and some examples from Latin American history.

JEL Classification: H2, N10, N40, P16

Plus ça change plus c'est la même chose.—French Proverb

1. Introduction

There is now a general consensus that differences in economic institutions are the primary cause of differences in income per capita across countries (e.g., North 1990; Engerman and Sokoloff 1997; Acemoglu, Johnson, and Robinson 2001, 2002). Institutions matter because they determine the incentive environment, which conditions decisions to save, invest in human and physical capital, and innovate and adopt better technologies. The countries of sub-Saharan Africa are poor not because they are geographically disadvantaged, have malaria, or because they have a culture that is inimical to capitalism. Rather, they are poor because they have economic institutions that do not create the right incentives—property and human rights are insecure, and barriers to entry and the efficient allocation of resources are rife.

To understand the world distribution of income, we must therefore understand why different countries' institutions are so different. Why is it that property rights in African countries are insecure while those in the United States are not? To formulate an answer to this

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question, it is necessary to recognize that economic institutions are collective choices and are therefore, the outcome of a political process. As North and Weingast (1989) pointed out, the emergence of secure property rights in Britain after 1688 occurred as the result of a political revolution that led both to the rise of Parliament, which meant that the state represented very different interests, and to the creation of political institutions, which placed much greater checks and balances on the exercise of executive power.

Differential economic development, therefore, is a consequence of differential political development. Explaining comparative development entails an account of why some parts of the world developed political and institutional equilibria, which empowered those who were interested in socially desirable economic institutions (such as the British Parliament) and placed constraints on those who were not (like the Stuart monarchy).

There are of course many sources of variation in institutions and many factors which have moulded the political and institutional equilibria of societies. Scholars who have focused on the emergence of capitalist institutions in Western Europe have focused on such systematic factors as the gradual rise of the mercantile economy (Pirenne 1937), the differential response of institutions to the population collapse of the Black Death (Postan 1944), different patterns of social conflict (Brenner 1976), the great shock of 1492 and the expansion of European powers into the world (Williams 1944; Pomeranz 2000; Acemoglu, Johnson, and Robinson 2005a), or the French Revolution (Acemoglu et al. 2008). Institutions may also evolve in ways which depend on technology, as emphasized by White (1962), or even because of religious conversion (Pirenne 1939).

Leaving aside the factors that led to the rise of efficient institutions in Western Europe and instead reflecting on the distribution of institutions amongst developing countries today, the role of European colonialism becomes compelling. As emphasized by Acemoglu, Johnson, and Robinson (2001) and a large literature outside of economics in history, political science, and sociology, European expansion after 1492 had profound impacts on the organization of many societies throughout the world and plausibly plays a large role in explaining institutional differences between, say, North and South America.

Engerman and Sokoloff (1997) and Acemoglu, Johnson, and Robinson (2001) argue that institutional variation between European colonies was caused primarily by differences in initial conditions at the time of colonization. In particular, in places with large indigenous populations and natural resources, such as gold or silver, and where plantation crops such as sugarcane or cotton could be grown and where the disease environment was adverse for Europeans, hierarchical societies developed where a small elite of European extraction lived from the exploitation of indigenous people, slaves, and natural resources. In contradistinction, in places without these conditions, it was not feasible to create such a society, and an alternative had to be found. As the Virginia Company quickly found at Jamestown, if there was no option of exploiting Amerindians or natural resources, the economy had to be based on British labor. But British labor would only come to Virginia and work when it got there if it was incentivized, and in consequence much better institutions developed, which gave access to land and by 1619 the right to vote, at least for adult white males, in a legislative assembly.

All of these accounts of the historical evolution of institutions make heavy use of the assumption that institutions, once created, have a strong tendency to persist over time. For instance, the arguments of Engerman and Sokoloff (1997) and Acemoglu, Johnson, and Robinson (2001) imply that to understand the current levels of comparative development of the United States and Peru, one must go back 400–500 years and study why these two societies got organized in such different ways. But for this to matter, this initial divergence must create institutional differences which persist over time.

That institutions persist is consistent with the robust correlations that exist between historical variables which may have shaped institutions and institutions today, such as the density of indigenous population and the mortality environment faced by Europeans. Yet such correlations do not tell us the mechanisms of institutional persistence. That we need to understand this much better is clear once we recognize that many specific institutions show substantial change over periods much shorter than a century. Many less-developed countries, especially those in Latin America and Africa, have changed their political institutions all too often over the past 100 years, with frequent switches between democracy and dictatorship (see, e.g., Acemoglu and Robinson 2006) and multiple changes in constitutions.¹

The same pattern also emerges when we turn to economic institutions. For example, while many historians and economists trace the economic problems of Latin America to colonial labor practices such as the *encomienda* or the *mita*, and those of the Caribbean to slavery and to the plantation complex, all of these economic institutions vanished long ago.² Beneath this pattern of change, however, economic systems often show surprising continuity. The form of agricultural labor relations in many of the Latin American and Caribbean countries changed little after colonialism, and perhaps relatedly, these societies continued to suffer various economic problems, slow growth, and economic and political instability throughout the 20th century. Another interesting example comes from the U.S. South. Even though slavery was abolished at the end of the Civil War, the U.S. South maintained a remarkably similar agricultural system, based on large plantations and low-wage uneducated labor, and remained relatively poor until the middle of the 20th century.

Therefore, when one talks about the persistence of institutions, one cannot be talking about the persistence of specific institutions, since these change a lot. Thus existing theories of institutional persistence, which are motivated precisely by the desire to explain why specific institutions persist for long periods, are not very applicable. This is true both of the political science literature (e.g., Steinmo, Thelen, and Longstreth 1992; Thelen 2004) and the famous study of the typewriter keyboard by David (1985). Institutional persistence of the form we are talking about obviously cannot be explained by making an analogy to QWERTY.

Rather what is required is a much more explicit theory of the path dependence of institutional and political equilibria. The fact that the initial conditions in Jamestown and Cajamarca differed so radically led to different specific institutions initially. Over time these specific institutions changed for various reasons, but the underlying distribution of political power that led to those institutions did not change and neither did the basic incentive environment which influenced the performance of the economy.³

¹ For instance, Colombia had eight constitutions in the 19th century (Gibson 1948), while Bolivia had 11 (Trigo 1958) and Peru nine (Palacios and Guillergua 2003).

² In Latin America, the last form of official forced labor, *pongueaje*, was abolished in Bolivia in 1952 (Klein 1992, ch. 8). Unpaid labor services lasted in Guatemala until 1945 (McCreery 1994). Slaves were gradually freed, for example, in 1850 in Colombia. In the British Caribbean, slavery was abolished after 1834, though it lasted until in 1886 in Cuba and 1888 in Brazil.

³ It was for precisely this reason that Acemoglu, Johnson, and Robinson (2001) refer to the continuity of a *cluster of institutions*; for example, the extent of enforcement of property rights for a broad cross-section of society. Lack of property rights enforcement may have its roots in quite different specific economic institutions; for example, risk of expropriation by the government or elites; extreme corruption; economic systems such as serfdom or slavery preventing large segments of the population from selling their labor freely or from investing in most economic activities; legal rules making it impossible for those without political connections to have their contracts enforced; or entry barriers creating a non-level playing field.

In Acemoglu and Robinson (2008) we advanced one possible explanation for the coexistence of frequent changes in political institutions with the persistence in certain (important) aspects of economic institutions. In this paper, we briefly re-cap this explanation but the main contribution is to illustrate it with a detailed discussion of the evolution of institutions in the U.S. South over the past 150 years along with some related Latin American evidence.

The underlying idea of our explanation is that equilibrium economic institutions emerge from the interaction between political institutions, which allocate *de jure political power*, and the distribution of *de facto political power* across social groups (see Acemoglu and Robinson 2006, and Acemoglu, Johnson, and Robinson 2005b). *De facto* power is power that is not allocated by institutions (such as elections), but rather is possessed by groups as a result of their wealth, weapons, or ability to solve the collective action problem.

The interaction between *de jure* and *de facto* power can create a simple explanation for the coexistence of changes in political institutions and the persistence of economic institutions. This is because a change in political institutions that modifies the distribution of *de jure* power need not lead to a change in economic institutions if it is associated with an offsetting change in the distribution of *de facto* political power (e.g., in the form of bribery, capture of the political parties, or use of paramilitaries). In fact, Acemoglu and Robinson (2008) show that there is a natural reason to expect changes in the distribution of *de facto* political power to partially or entirely offset changes in *de jure* power brought about by reforms in specific political institutions as long as these reforms do not radically alter the political structure of society, the identity of the elites, or the source of economic rents for the elites.

The key observation is that the political elite, by virtue of their smaller numbers and their established position, have a comparative advantage in solving the collective action problem (Mosca 1939). This implies that the amount of *de facto* political power of the elite is an equilibrium outcome and responds to incentives. Imagine, for instance, a change in political institutions which moves *de jure* power away from the elite—a democratization, for example. In democracy, *de jure* political power is allocated to the majority, so the balance of power is tilted towards the citizens (see Acemoglu and Robinson 2006). In addition, freedom of political organization and the existence of political parties may help the citizens in solving their collective action problem more effectively, thus facilitating their exercise of *de facto* political power.

Nevertheless, this does not mean that the citizens will get their own way easily in a democracy. This is because the elite can intensify their investments in *de facto* power. As Acemoglu and Robinson (2008) show, this effect can be so strong that the distribution of equilibrium economic institutions is identical in democracy and nondemocracy.⁴ This pattern shows that it could be a mistake to infer from frequent changes in certain dimensions of political institutions that there is little institutional persistence. The result also starkly illustrates how changes in some specific dimensions of political institutions can be undone by the greater exercise of *de facto* political power by the elite.

While there are clearly large inertial patterns in the world income distribution, we also know that societies sometimes change their institutional and economic trajectories. Therefore, a theory that can explain persistence ought also be able to give us insights into when institutional equilibria change. The model in Acemoglu and Robinson (2008) also sheds some light on how

⁴ To be precise, there *are* changes in economic institutions, but the *equilibrium distribution* of economic institutions is *invariant* to political institutions.

institutional persistence can be diminished or broken. It suggests that an effective democracy requires both reforms in specific political institutions (such as voting rules or electoral procedures) and a method to curb the *de facto* political power of the elite, which can be achieved directly by reducing their ability to capture the political system, for example, or indirectly, by reforming the economic structure so that with reduced land rents, they have less incentive to thwart democracy.

These insights enable us to interpret the experience of many less developed countries in a different light. For example, in the Americas, labor repression was of central importance during the colonial era and was achieved by various means including the *encomienda*, the *mita*, and slavery. Yet repression did not end when the *mita* and slavery were abolished. It continued with domination of politics by local landed elites, with the creation of labor market monopsonies (Solberg 1969; McGreevey 1971; Coatsworth 1974; McCreery 1986) and the systematic threat of violence against peasants in rural areas. Similarly, in the sugar plantations of the British Caribbean, Natal, or Mauritius, slavery was replaced by the use of cheap indentured laborers from the Indian subcontinent (Tinker 1974; Northrup 1995).

We now investigate the implications of our hypothesis by an examination of the economic and institutional history of the U.S. South. We shall see there also that slavery was replaced by monopsonistic arrangements, policies designed to impede labor mobility, political disenfranchisement, intimidation, violence, and lynching.

2. Persistence of Power and Elites in U.S. South

De landlord is landlord, de politician is landlord, de judge is landlord, de shurf is landlord, ever'body is landlord, en we ain' got nothin. (Testimony of a Mississippi sharecropper to an official of the Agricultural Adjustment Administration in 1936; Schulman 1994, p. 16)

An important example that illustrates our thesis in the continuation of the economic system based on labor repression, plantation and low-wage uneducated labor in the U.S. South before and after the significant changes in political institutions brought about by the Civil War.⁵

The Antebellum South

Before the Civil War, the South was significantly poorer than the U.S. average income at about 70% of the Gross Domestic Product per capita (e.g., Barro and Sala-i-Martin 1992; Easterlin 1960).⁶ The South lacked industry (Bateman and Weiss 1981; Wright 1986, table 2.4,

⁵ Although many features of the Southern economic system, such as the plantation system and the reliance on low-wage labor, persisted, as Wright (1986) emphasizes, there were also important discontinuities, for example, the fact that the planter class transformed itself from "laborlords," mostly relying on their slave property, to "landlords," more reminiscent to the large-scale plantation owners of South America.

⁶ The relative poverty of the South has been hotly debated by scholars. Although Fogel and Engerman (1974) pointed out that if the South had been an independent country in 1860 it would have been amongst the 10 richest in the world, the consensus view is that the South was relatively backward with poor institutions in 1860 (a view which in its modern form goes back at least to Genovese 1965). To the extent that it was relatively prosperous compared to other parts of the world at the time, this was because it had recently benefited from a huge boom in cotton prices (Wright 1978) and also because it was embedded in a society whose institutions were formed in the 17th century, before the development of the plantation economy.

p. 27), and in 1860 the total manufacturing output of the South was less than that of either Pennsylvania, New York, or Massachusetts (Cobb 1984, p. 6). The South had very low rates of urbanization (around 9% as opposed to 35% in the Northeast) and relatively little investment in infrastructure. For example, the density of railroads (miles of track divided by land area) was three times higher in the North than in Southern states. The situation with respect to canal mileage was similar (Wright 1986, table 2.1, p. 21). Perhaps more importantly, especially in the context of the potential for future economic growth and industrialization, the South was not even innovative for the sectors in which it specialized.⁷

Although there is no consensus about why the South was backward, all scholars relate this in various ways to the plantation economy and slavery. Wright (1986) argues that because slaves were a mobile asset, there was no incentive for planter interests to support investment in public goods such as infrastructure, and so manufacturing could not develop. Bateman and Weiss (1981) show that Southern planters did not invest in industry, even though the rate of return was superior to that in agriculture. A plausible explanation for the lack of innovation is that slavery limited the possibilities for productive investment. Slaves were forbidden to own property or to become educated in most Southern states, presumably because this made them easier to control. But this pattern of labor repression also condemned plantations to low-skilled labor forces and possibly removed the incentives of planters to innovate. It is also possible that the lack of urbanization and industry was a consequence of concerns about the control of slaves and collective action, though Goldin (1976) disputes this.

Consequences of the Civil War

In the aftermath of the Civil War, the income per capita of the South fell to about 50% of the U.S. average. If the organization of the slave economy had been the reason the South was relatively backward in 1865, one might have imagined that the abolition of slavery in 1865 would have removed this blockage to Southern prosperity.

The evidence and historical interpretations show that the abolition of slavery had a surprisingly small effect on the Southern economy.⁸ Though planters initially tried and failed to reintroduce the gang labor system with the freed slaves, out of the ashes of the Civil War emerged a low-wage, labor-intensive economy based on labor repression. Cut off from the rest of the United States, income per capita remained at about half the average until the 1940s when it finally began slowly to converge.⁹ Just as before the Civil War, there was systematic underinvestment in education (Margo 1990), and Kousser (1974, p. 17) records a post-bellum adage: "To educate a 'nigger' is to spoil a good field hand."

The main incentive for this seems to have been to impede migration (see Wright 1986, p. 79). In 1900, all but two of the non-Southern states had enacted compulsory schooling laws, while none had such laws in the South except Kentucky (Woodward 1951, p. 399). Though industrial development did begin more systematically after 1865, Cobb (1984, p. 17) notes:

⁷ For example, during the period 1837 to 1859, while the average numbers of patents issued per year relating to corn and to wheat were respectively 12 and 10, it was just one for cotton (see Schmookler 1972).

⁸ Despite this consensus, there is a debate on the related matter of why Southern incomes fell after the Civil War. The interpretation by Fogel and Engerman (1974) is based on the idea that the slavery system was relatively efficient, though this has been challenged; see, for example, Ransom and Sutch (2001).

⁹ Wright (1986, p. 70) notes "the isolation of the southern unskilled labor market was a basic background condition for virtually the whole epoch between the Civil War and World War II."

The industries that grew most rapidly in the post-Reconstruction decades were typical of an underdeveloped economy in that they utilized both cheap labor and abundant raw materials ... such industries hardly promised to elevate the region to economic parity with the rest of the nation.

So why did the economic system of the South change so little following the Civil War, especially given the significant changes in political institutions? At first, this persistence of economic institutions appears at odds with the significant changes in the distribution of *de jure* power that took place after the Civil War, for example, with the enfranchisement of the freed slaves, and the repeal of the Missouri compromise, which had previously cemented the political power of the South in the federal government.

Persistence of the Southern Elite and Its Impact

We believe the answer is related to the forces emphasized in the introduction, in particular, to the exercise of *de facto* political power by the Southern landed elites to compensate for the loss of their *de jure* political power. Another possibility would be that the continuation of large plantation agriculture was because of its relative economic efficiency. Yet this seems inconsistent with the available evidence. For example, Wright (1986, p. 84) argues:

The plantations survived the Civil War, and their survival had little to do with their efficiency as producing units ... cotton and tobacco could be grown just as efficiently on family-sized farms. No, the key to the survival of the plantation was the ability of the former slave owners to hold on to their land in the midst of intense legal and political struggles after 1865. In national politics, the planters successfully blocked proposals for land confiscation and redistribution to the freedmen.

Consistent with our approach, there was considerable persistence in the identity and power of the political elites. For example, Wiener (1978) studied the persistence of the planter elite in five counties of the black belt of western Alabama. Tracking families from the U.S. census and considering those with at least \$10,000 of real estate, he found that (1978, p. 9) “of the 236 members of the planter elite in 1850, 101 remained in the elite in 1870.” Interestingly, this rate of persistence was very similar to that experienced in the antebellum period; “of the 236 wealthiest planters families of 1850, only 110 remained in the elite a decade later” (p. 9). Nevertheless, “of the 25 planters with the largest landholdings in 1870, 18 (72%) had been in the elite families in 1860; 16 had been in the 1850 elite group” (Wiener 1978, p. 9).¹⁰ Table 1 reproduces these data from Wiener (1978) and shows the high degree of persistence in the identity of Southern landed elites.¹¹

After the end of the Civil War, more or less the same group of planter elites controlled the land and used various instruments to re-exert their control over the labor force. Though the specific economic institution of slavery did not persist, the evidence shows a clear line of persistence in the economic system of the South based on plantation-type agriculture with cheap labor. This economic system was maintained through a variety of channels, including

¹⁰ Death during the Civil War appears to have had little impact on the persistence of the planter elites because the law exempted one slaveholder from military service for every 20 slaves held (Wiener 1978, p. 18).

¹¹ Other studies find similar persistence in other parts of the South. See, for example, Ransom and Sutch (2001, pp. 78–80) on landownership in Dallas County Alabama, Huffman (1974) on Clarke County, Georgia, and Billings (1979) on North Carolina. This research to some extent contradicted earlier studies which had seen far more change in the identity of Southern elites after the Civil War (e.g., Woodward 1951).

Table 1. The Persistence of the Landed Elite in Three “Black Belt” Counties of Alabama

Name	County	Real Estate Holdings ^a		
		1870 (\$)	1860 (\$)	1850 (\$)
Minge, G.	Marengo	85,000		30,000
Lyon, F.	Marengo	75,000	115,000	35,000
Paulling, William	Marengo	72,000	150,000	29,000
Hatch, Alfred	Hale	70,000	120,000	40,000
Alexander, J.	Marengo	69,000	38,000	10,000 ^b
Whitfield, B.	Marengo	65,000	200,000 ^b	100,000
Terrill, J.	Marengo	62,000	93,000	
Taylor, E.	Marengo	61,000		
Robertson, R.	Marengo	60,000		
Dew, Duncan	Greene	52,000	200,000 ^b	41,000
Walton, John	Marengo	50,000	250,000	25,000
Collins, Charles	Hale	50,000	201,000 ^b	30,000
Hays, Charles	Greene	50,000	113,000	
Brown, John	Sumter	50,000	69,000	13,000
Pickering, Richard	Marengo	50,000	42,000	15,000
Withers, Mary	Hale	50,000	40,000	75,000 ^b
Jones, Madison	Hale	50,000	36,000 ^b	27,000
Nelson, A.	Hale	48,000		10,000 ^b
Taylor, J.	Hale	48,000		
Pickens, Wm.	Hale	45,000	210,000 ^b	51,000
Reese, Henry	Marengo	45,000	52,000	24,000
Walker, R.	Hale	42,000	55,000	
Smaw, W.	Greene	42,000	32,000	
Blanks, E.	Marengo	41,000		
Walker, Morns	Marengo	41,000		
Number of planters		25	18	16
Percent present in 1870			72%	64%

Source: Wiener (1978, table 2, p. 12).

^a Rounded off to the nearest thousand; as reported in the U.S. Census of Population, manuscript schedules. To convert to constant gold prices, see p. 14, note 13.

^b Wealth of father or husband.

both control of local politics and exercise of potentially violent *de facto* power. As a consequence, in the words of W.E.B. Du Bois (1903, p. 88), the South became “simply an armed camp for intimidating black folk.”

The planter elite successfully staffed or co-opted the members of the Freedmen’s Bureau, whose remit was to supervise the freed slaves. In 1865, the state legislature of Alabama passed the Black Code, an important landmark towards the repression of black labor. Wiener (1978, p. 58) describes this as follows: “The Black Code of Alabama included two key laws intended to assure the planters a reliable supply of labor—a vagrancy law and a law against the ‘enticement’ of laborers.” These laws were designed to impede labor mobility and reduce competition in the labor market.¹²

¹² The extent to which southern planters were able to exert classical monopsony power is controversial; see Alston and Kauffman (2001). Nevertheless, economic historians do agree on the use of coercion, intimidation, violence, and segregationist legislation to repress and control free black labor.

In addition to moulding the legal system in their favor, “Planters used Klan terror to keep blacks from leaving the plantation regions, to get them to work, and keep them at work, in the cotton field” (Wiener 1978, p. 62).¹³ In his seminal study of the politics of the South after World War II, Key (1949, p. 9) sums up the pattern of persistence of the institutions of the South both before and after the Civil War as the “extraordinary achievement of a relatively small minority—the whites of the areas of heavy Negro population.”

A key to the persistence of the antebellum system after the Civil War was the continued control over land. For example, in the debate over the redistribution of 40 acres of land to the freedmen (vetoed by President Andrew Johnson in 1865), Congressman George Washington Julian argued (quoted in Wiener, 1978, p. 6):

Of what avail would be an act of congress totally abolishing slavery ... if the old agricultural basis of aristocratic power shall remain?

A third strategy, again consistent with the emphasis on the *de facto* political power of the elite, was control of the local political system. Following the Civil War, the period called ‘Reconstruction’ lasted until 1877 (see Stamp 1965, and Foner 1989). In this period Republican politicians contested power in the South, and, with the help of the Union Army, engineered some social changes. Nevertheless, this induced a systematic backlash in the guise of support for the Democratic Party and the so-called ‘Redeemers.’ In 1877, in the context of a log-roll between President Rutherford Hayes and Southern national politicians, Union soldiers were withdrawn from the South, and the region was left to its own devices. The period after 1877 then marked the real recrudescence of the antebellum elite. The ‘redemption’ of the South involved the systematic disenfranchisement of the black (and poor white) population through the use of poll taxes and literacy tests (Key 1949; Kousser 1974) and the creation of the one-party Democratic regime.¹⁴

Key (1949, pp. 309–10), in his analysis of the primary elections of the Democratic party, noted the hegemony of southern society’s “upper brackets” and the political marginalization of its “lower brackets.” He discusses in detail the control of North Carolina’s economic oligarchy over politics, noting that (1949, p. 211): “The effectiveness of the oligarchy’s control has been achieved through the elevation to office of persons fundamentally in harmony with its viewpoint.”

This picture is also confirmed by the analysis of Wright (1986, p. 78), who writes: “Even in the 1930s, southern representatives in Washington did not use their powerful positions to push for new federal projects, hospitals, public works and so on. They didn’t, that is, as long as the foundations of the low-wage regional economy persisted.”

In addition to disenfranchisement, a whole gamut of segregationist legislation—the so-called Jim Crow laws—was enacted (Woodward 1955, for the classic analysis). These laws turned the post-bellum South into an effective “apartheid” society where blacks and whites

¹³ Relatedly, Alston and Ferrie (1999) show how planters controlled their labor force by offering them “security” from violence and lynching.

¹⁴ Key (1949, pp. 8–9), for example, notes: “Two-party competition would have been fatal to the status of black-belt whites. It would have meant in the ‘nineties an appeal to the Negro vote and it would have meant ... Negro rule in some black-belt counties. From another standpoint, two-party competition would have meant the destruction of southern solidarity in national politics ... Unity on the national scene was essential in order that the largest possible bloc could be mobilized to resist any national move towards interference with southern authority to deal with the race question as was locally desired.”

lived different lives. As in South Africa, these laws were aimed at controlling the black population and its labor supply.

Consequently, the South entered the 20th century as a primarily rural society. “It remained an agrarian society with a backward technology that still employed hand labor and mule power virtually unassisted by mechanical implements” (Ransom and Sutch 2001, pp. 175–176).¹⁵ In 1900, the South’s urbanization rate was 13.5%, as compared to 60% in the Northeast (Cobb 1984, p. 25).

Ransom and Sutch’s (2001, p. 186) assessment of the implications of this economic and political system in the South for economic progress is representative of the consensus view: “Southerners erected an economic system that failed to reward individual initiative on the part of blacks and was therefore ill-suited to their economic advancement. As a result, the inequities originally inherited from slavery persisted. But there was a by-product of this effort at racial repression, the system tended to cripple all economic growth”:

When whites used threats of violence to keep blacks from gaining an education, practicing a trade, or purchasing land, they systematically prevented blacks from following the three routes most commonly travelled by other Americans in their quest for self-advancement. With over half the population held in ignorance and forced to work as agricultural laborers, it is no wonder that the South was poor, underdeveloped, and without signs of economic progress. (Ransom and Sutch 2001, p. 177)

All in all, the Southern equilibrium, based on the exercise of *de facto* power by the landed elite, plantation agriculture, and low-wage, uneducated labor, persisted well into the 20th century, and only started to crumble after World War II. Interestingly, it was only after the demise of this Southern equilibrium, that the South started its process of rapid convergence to the North.

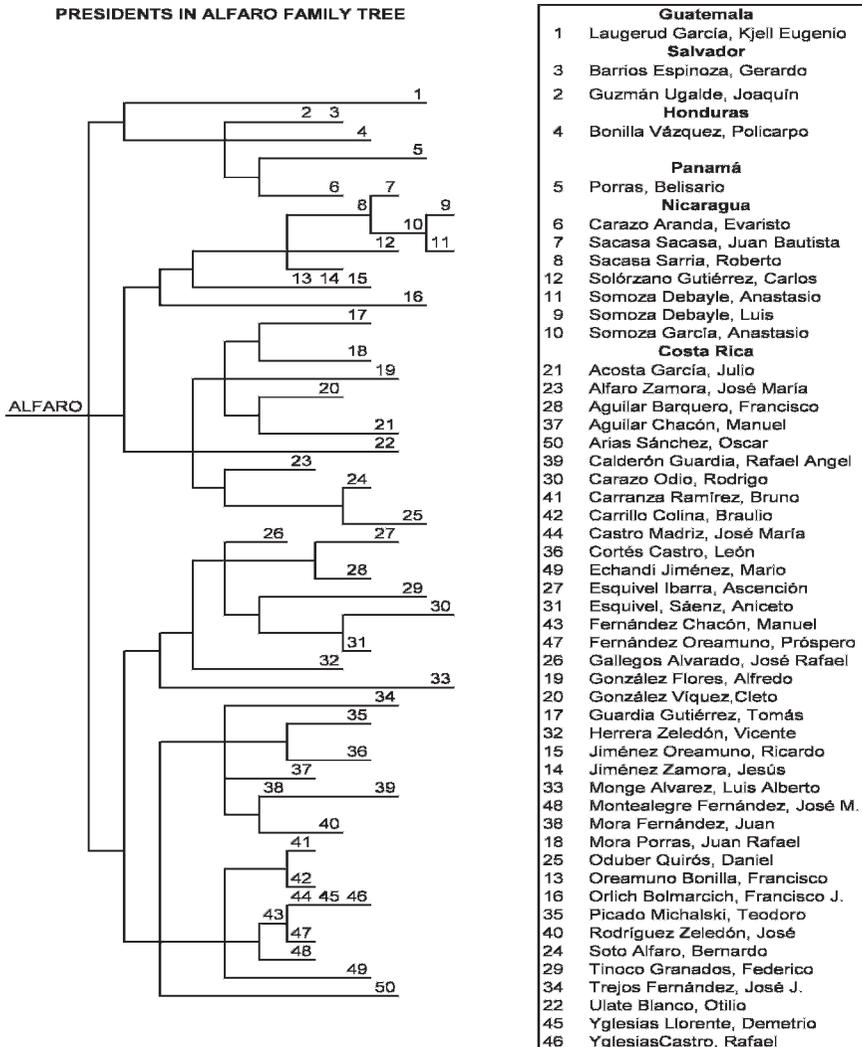
The End of the Southern Equilibrium

What caused the collapse of the Southern equilibrium? Consistent with the ideas we discussed in the introduction, it seems that this collapse was brought about by the juxtaposition of a variety of factors. Initially, the depth of the Great Depression weakened the resolve of Southern politicians to block federal policies that might integrate the Southern economy into the rest of the nation (Schulman 1994). Other important factors include the great outmigration and the impact of the simultaneous mechanization of cotton picking on the labor requirements of agriculture. As blacks became harder to trap in the South, they also became less necessary to generate rents.¹⁶

Wright’s (1999, table 1, p. 281) data on net migration from the South shows the large increase in black outmigration starting in the 1940s, and Heinicke (1994, table 1, p. 506) shows the concurrent rapid spread of mechanized cotton picking. First introduced in 1949, by the end of the 1950s mechanical cotton picking was the rule rather than the exception in the South; half of the crop in the key cotton states was being picked mechanically.

¹⁵ See Whatley (1985) for a hypothesis explaining the lack of innovation in the post-bellum South in terms of the poor incentives created by sharecropping contracts.

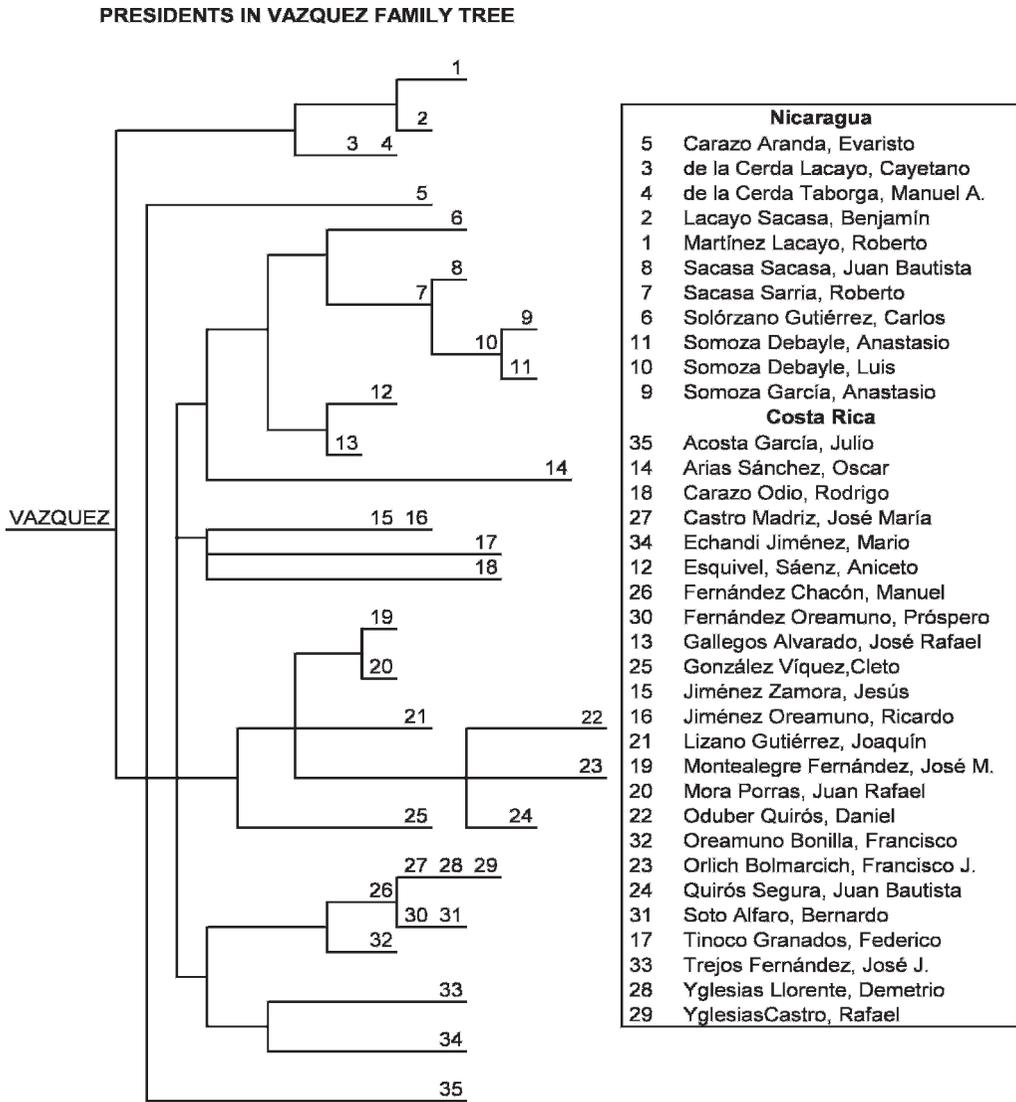
¹⁶ An interesting question, which is not central to our interpretation, is whether mechanization of cotton reduced the cost of black migration to the Southern landed elite, who then tolerated such outmigration, or whether the changes in the supply of cheap labor caused by black outmigration encouraged mechanization.



Source: Stone (1990, Appendix 1, p. 153)

Figure 1. Central American Presidents Related to the Conquistador Cristóbal de Alfaro

In addition to these changes, the Southern equilibrium was disrupted by the collective action of the Civil Rights movement and a sequence of Supreme Court and government decisions, such as *Brown vs. Board of Education* in 1954, the Civil Rights Act of 1964, and the Voting Rights Act of 1965. These significant events can be interpreted as a decline in the ability of the landed elite to exercise *de facto* political power in democracy. McAdam's (1983, figures 1 and 2, p. 739) data on the number of civil rights collective actions (bus boycotts and sit-ins) shows a sharp increase starting in 1960 (see also Chong 1991), while Wright (1999, figure 2, p. 273) records the dramatic increase in the registration of black voters in Southern states over this period. It thus became increasingly more difficult for the Southern landed elites to control the political process (see also the detailed analysis of the impact of the Voting Rights Act on economic growth in the South in Besley, Persson, and Sturm 2005).



Source: Stone (1990, Appendix 2, p. 168)

Figure 2. Central American Presidents Related to the Conquistador Juan Vázquez de Coronado

3. Persistence of Elites and Economic Institutions in Latin America

The types of incentives and mechanisms that the last section discussed in the U.S. South have if anything been far more pronounced in Latin America. Despite the significant changes in political institutions that have taken place since the colonial era, the capture of political and economic institutions by elites is an enduring theme of much of the historical literature on the sub-continent. There are numerous studies documenting both the capture of democratic politics by traditional elites and the resulting continuation of labor repressive policies in agriculture in many Central and Latin American countries. Some notable examples include Zeitlin (1984) and

Zeitlin and Ratcliff (1988) on Chile; Smith (1979) on Mexico; and Paige (1997) on Central America. A central question for understanding the economic development (or lack thereof) in Central and Latin America is therefore how and why the economic system based on labor repression and cheap labor in agriculture failed to change following the political reforms that have gradually brought more democratic means of collective decision-making in these societies.

As in the U.S. South, the answer is related to the exercise of *de facto* political power by traditional elites in the context of democratic politics. The capture of democratic politics in Colombia, for example, took many different forms, depending on the specific conditions and the options open to the traditional elites, with the most common forms being the actual domination of political parties by the elites, electoral fraud, blocking of entry of new parties, and use of violence.

The most obvious form of political capture is the actual running of political parties and offices by members of the landed elite. This has been particularly the case in much of Central America and has been carefully documented by Stone (1990). His genealogical research shows the extraordinary extent to which elites have persisted in Costa Rica and other Central American countries from the colonial times.

Figures 1 and 2 (from Stone 1990) show the striking number of presidents since independence in various Central American countries that are related to two conquistadors, Cristóbal de Alfaro and Juan Vázquez de Coronado who both arrived in Central America in the 16th century. Figure 1 shows that no less than 48 presidents were direct descendents of Alfaro, 25 of them in Costa Rica. Alfaro's descendents also include the Somoza dynasty, which ruled Nicaragua for most of the 20th century until the Sandinista Revolution in 1979. Figure 2 shows the 29 presidents descended from Vázquez, including again the Somoza clan and many of the same presidents of Costa Rica related to Alfaro.

As a case study, we now examine Colombia in more detail. Colombia became independent from Spain in 1819, and the Liberal and Conservative parties first competed in the election of 1850.¹⁷ These two parties have maintained their hold on political power ever since. As early as 1856, the Liberals introduced universal male suffrage, and as many as 40% of adult males voted (Bushnell 1971). After the 1863 Constitution, voting rights were determined at the state level, but several of them maintained universal suffrage (see Delpar 1981). In the 19th century, the parties contested elections, but they also fought for power. Although the fighting sometimes took the form of civil wars, the parties also frequently reached collusive agreements to make sure that other political parties, especially those representing peasants and workers, were unable to enter the political system. For example, after the civil war from 1899 to 1902, the two parties introduced a power-sharing agreement, which divided all the seats in the legislature between the two parties by means of the 'incomplete vote' (Mazzuca and Robinson 2008). This system lasted until 1929. After a civil war in the 1950s (a period known as *La Violencia*), the parties resurrected this collusive agreement in 1958, splitting the legislature 50-50 and also agreeing to take turns at the presidency for 16 years. In practice, this power-sharing agreement endured until the middle of the 1980s.

The Liberals and Conservatives managed to successfully block entry of other parties to the political system through a variety of strategies. Even after the reintroduction of universal

¹⁷ The best studies of the origins of the parties are Colmenares (1968), Safford (1972), and Delpar (1981). Some trace the alignments to factions that formed in the late 1820s over whether or not Simón Bolívar should be made Emperor, though there have also typically been significant policy differences between these two parties.

suffrage in 1936, fraud, violence, and engineering the electoral rules to create barriers to entry were widespread.¹⁸ Electoral fraud is, in fact, a recurrent theme in Colombian politics and took many forms (see, for example, Bushnell 1993, and Chaves, Fergusson, and Robinson 2006). Fraud was also used by the traditional parties to directly derail populist challenges, such as during the attempt by Rojas Pinilla to win the 1970 presidential election.¹⁹

Violence has also been endemic in Colombian politics. The potential “Perón” of Colombia, Jorge Eliécer Gaitán, who was likely to pursue populist and redistributive policies, was murdered in 1948 just after he became the leader of the Liberal party. Luis Carlos Galán was murdered in 1990 just as he was emerging as the leader of the Liberal party.²⁰ In the 1980s, the first alternative political party to seriously emerge since the beginning of the National Front in 1958 was the Unión Patriótica. This party was effectively obliterated in the 1980s by the systematic murder of its candidates (see, for example, Kline 1999).²¹

Finally, as in Central America, the political parties in Colombia have featured strong family ties. The Conservative Ospina family has provided three Presidents, Mariano Ospina Rodríguez (1857–1861), Pedro Nel Ospina (1922–1926) and Mariano Ospina Pérez (1946–1950). The Liberal López family provided not just Alfonso between 1934 and 1938, and again between 1942 and 1945, but also Alfonso López Michelsen between 1974 and 1978. The Liberal Lleras family provided presidents in 1945–1946 and 1958–1962 (Alberto Lleras Camargo) and again in 1966–1970 (Carlos Lleras Restrepo). The Conservative Pastrana family provided Misael Pastrana between 1970 and 1974 and Andrés Pastrana between 1998 and 2002. The son of Conservative President Laureano Gómez (1950–1953), Álvaro was the Conservative challenger in the late 1980s and early 1990s, and the father of Liberal President Julio Turbay (1978–1982) had previously been the most powerful figure in the Liberal party.

Overall, through a variety of means, including elite domination of politics, electoral fraud, blocking of the creation of new parties, and violence, traditional elites seem to have been able to have a disproportionate effect in the democratic politics of Central America and Colombia. We conjecture that this pattern of elite dominance has been an important element in the

¹⁸ This is related to the absence of a socialist party in Colombia. Some scholars have suggested that the relatively egalitarian frontier expansion that took place in the second half of the 19th century has contributed to the creation of a middle class of property owners, which checked radicalism in Colombian politics. This thesis does not appear to be very convincing in view of the fact that Colombia has one of the most unequal distributions of land ownership and income in the world (on this Antioqueño expansion see Christie 1978).

¹⁹ Another factor that appears to have contributed to the continuation of the two-party system is the way the electoral system created incentives for dissidents to stay within the traditional parties. For example, the electoral system ensured that candidates could be elected with far fewer votes than the electoral quotient, thus potentially guaranteeing that elite factions would get representation. At the same time, the traditional parties allowed “dissident lists” to run, providing a platform to potential dissidents. In line with these ideas, Dix (1967, p. 250) notes “proportional representation may have helped to a degree to reinforce the two-party system by allowing dissident factions to gain representation according to their strength in the electorate while still not forcing them from the party. Retaining the party label, or some version of it, they have usually been reabsorbed into the officialist ranks after one or two elections.”

²⁰ Political entrepreneurs, like Gaitán and subsequently Alfonso López Michelsen and Galán, considered forming a third party but then always returned to the fold because the electoral system made success by third parties difficult. Indeed, it is quite likely that the assassination of Gaitán was precisely because he had finally emerged as the leader of the Liberal party, not because political rivals anticipated the creation of a third party.

²¹ In the 1986 elections, Unión Patriótica obtained five seats in the Senate and nine in the Chamber of Representatives at the national level, and 14 deputies, 351 councilmen and 23 municipal mayors at the local level. By 1988, the party was wiped out, however. The Amnesty International reported that more than 500 of its members, including its previous presidential candidate, Jaime Pardo Leal, and four congressmen, had been assassinated, most likely with the involvement of members of the Colombian military and government.

continuation of the economic system based on cheap labor and quasi-labor repression in the countryside of many of these countries.

4. Conclusions

Almost all theoretical and empirical research in the literature on comparative institutions and economic development starts with the presumption that institutions, once in place, persist and shape the political-economic interactions of different groups and agents. Nevertheless, many societies experience frequent changes in their political institutions, such as the end of the colonial era and the creation of republics throughout the 19th and 20th centuries, or multiple switches between dictatorship and democracy during the 20th century. Certain economic institutions also change, with slavery, forced labor, and the *encomienda* coming to an end in Latin America and waves of nationalization and privatization of industry in many less developed countries. In this paper, we have emphasized that a convincing theory of institutional persistence must come to terms with these facts.

In this paper we argued, building on Acemoglu and Robinson (2008), that such a theory must be based on the recognition that broad economic institutions, which are essential for economic outcomes, can persist even when specific political and economic institutions change. In line with this perspective, we discussed a simple explanation of the coexistence of change and persistence in institutions. The basic idea is that economic institutions are decided by groups or individuals that possess more political power. Political power, in turn, consists of *de jure* power regulated by formal political institutions and *de facto* political power, which comes from the ability of various social groups to solve their collective action problems, lobby or bribe politicians, capture and control political parties, or use paramilitaries or other means of repression. Changes in specific political institutions, for example, a change from nondemocracy to democracy, affects the distribution of *de jure* political power. This, however, may induce cohesive (and small) groups, such as elites, to increase their investments in *de facto* political power to offset their loss of *de jure* political power.

We used this theory to interpret the historical evolution of the economy of the U.S. South and Latin America. Throughout the Americas, there are many examples of how traditional elites are able to control democratic politics and maintain their favorite economic institutions. In all the cases we discussed, changes in some important dimensions of political institutions, which may have been potentially quite costly for the elites, were neutralized by the exercise of their *de facto* power; for example, control of the party system or key offices, or local violence. These examples suggest that the mechanism we advanced may be important in understanding how frequent changes in specific political institutions go hand-in-hand with the persistence of economic systems, with their broad distributional and efficiency characteristics unchanged.

The mechanism proposed in this paper, where the identity of the elites as well as the economic systems persist, is only one facet of institutional persistence. Another pattern, which appears salient in practice, for example, in cases such as Bolivia, Zimbabwe, Kenya, and Ghana, is one in which the identity of the elites changes, but new elites adopt policies in line with the worst practices of their predecessors. This is reminiscent of Michels' (1911) Iron Law of Oligarchy, as well as of the emphasis by sociologists such as Mills (1956), Mosca (1939), and

Pareto (1968) on the persistence and creation of elites. Returning to Colombia provides another fascinating example of this. The traditional political parties, while managing politics in Colombia for well over a century, have during the last decade proved incapable of dealing with the intensified threat of left-wing guerrillas, particularly the Fuerzas Armadas Revolucionarias de Colombia (FARC—The Revolutionary Armed Forces of Colombia). In response to this, many elite groups in Colombia decided to take the law into their own hands and create paramilitary forces. Beginning in 2002, this phenomenon led to the election of Álvaro Uribe as president, running as an independent and heavily supported by new political parties. As Acemoglu, Robinson, and Santos (2008) show, these parties received huge vote shares in the areas dominated by paramilitary groups. In Colombia now there is a new elite, one just as adept at manipulating elections and power as the old one.

This pattern seems like a challenging but important area of study. Most ambitiously, future research may strive towards a unified model that can explain the composition of elites, when existing elites persist, when elites change but institutions persist, and when institutions truly change.

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