

Trapped by Inequality: Narratives of Progress and The Politics of Redistribution in Latin America

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Abstract

My book explores long-term trajectories of economic inequality in Latin America and identifies the causes of persistent levels of economic inequality in Latin America and explains how and why some countries manage to escape such traps and embark on paths of diminishing inequality. I argue that differences in state-elite equilibriums shape redistributive institutions (e.g. tax and agrarian reform legislation) and, thereby, long-run economic inequality. State-elite equilibriums are a function of state capacity and the political cohesiveness of the Economic Elite at key moments of institutional change.

Unlike most research on this topic, I use a small-n design to theorize on the patterns of economic inequality over the course of the twentieth century, an approach that unveils moments of divergence that are lost in cross-country statistical analyses. To test my theory, I integrate different methodological approaches including in-depth comparisons between Uruguay, Chile, Colombia, and Perú. The comparison zooms in into three definitory moments for state-elite equilibriums and inequality as a result: state formation, and two time periods characterized by mounting pressures toward redistribution and reforms to the main redistributive institutions: 1920-1940 and 1960-1970. Over the course of 18 months of fieldwork, I collected data from transcripts of congressional debates as well as official communications (e.g. government reports, discourses, correspondence) related to tax and agrarian reform legislation in these time periods. I use process-tracing and critical event analysis to analyze and uncover the processes through which state-elite equilibriums shape the politics of redistribution in the making of tax and agrarian reform legislation within each case. Finally, I test observable implications of my argument using a large-N data-set of all countries for the period between 1960 and 2018.

THIS IS A DRAFT prepared for the Conference "Origins of Inequality in Latin America" at the World Bank. The document contains key elements of my book manuscript, please do not share or circulate it

1. Introduction

1.1 Puzzle and Research Questions

This book aims to contribute to our understanding of why Latin America remains one of the most unequal regions in the world. In Figure 1, Panel (a) shows the Average Gini coefficient of income by region of the world. Panel (b) shows the average proportion of income held by the richest 10%, relative to the income held by the poorest 10%. Per both indicators, Latin America stands out for its high levels of economic inequality. The graph shows that the richest 10% hold around 20 times as much income as the poorest 10%. Despite some changes over time, Latin America has remained the most unequal region in the world.

Regarding wealth, concentration is more alarming, with 10 percent of the richest population holding approximately 71 percent of the wealth (circa 2016) (UN-ECLAC, 2016). The region is home to about 5 percent of the world's billionaires, while about one-third of the population lives under the poverty line (United Nations: Economic Commission for Latin America and the Caribbean, 2021). The quality of life and range of opportunities for wealthy individuals are very similar to those born in "advanced" industrialized economies. Less fortunate individuals face extremely harsh conditions characterized by high poverty levels and low quality of public goods provision (Otero-Bahamón, 2020); their living conditions resemble those of citizens living in the world's poorest countries. Citizens on the losing end of inequality have struggled for decades with the consequences of astoundingly and highly disparate economic conditions, while those privileged

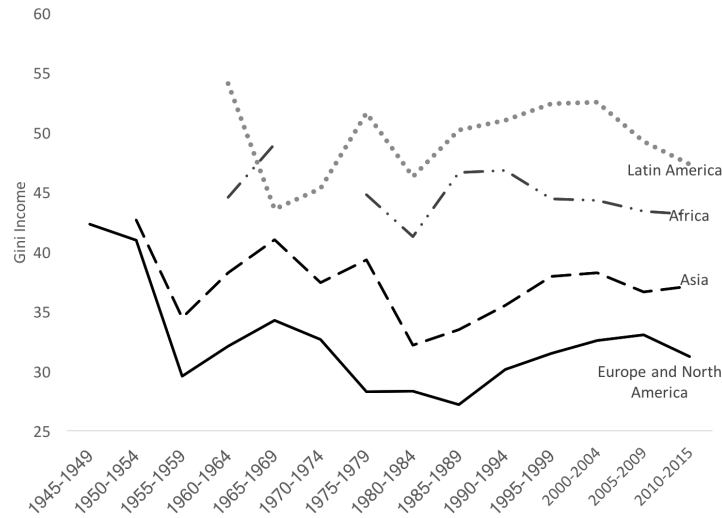
citizens on the winning side benefit immensely. Economic inequality is worsened by low levels of social mobility and by the strong correlations between material inequality and race, ethnicity, and gender inequality.

Scholarly work on the puzzle of inequality in Latin America is divided among work that attempts to understand its high levels compared to other regions, and those interested in the recent trend of declining inequality levels since the early 2000s. Important contributions of the first group of scholars include the relevance of colonialism and its institutional legacies on maintaining inequality via weak property rights and exploitative labor relations (Acemoglu et al., 2001; Engerman and Sokoloff, 1997), infrastructurally weak states (Soifer, 2015; Centeno, 2008), and strong ties between economic elites and political power (Coatsworth, 2008). While crucial to understand persistent and high levels of inequality, this body of work cannot explain changes to inequality trajectories since they give the most causal weight to forces in the past. Furthermore, by using econometric techniques for cross-country comparisons, these studies provide limited understanding of particularities of certain cases and within regional variation.

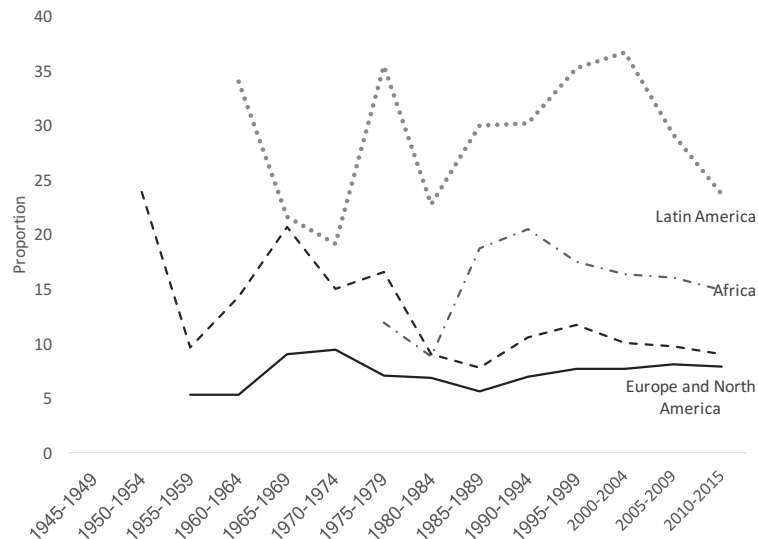
More recently, economic historians have made important contributions and qualifications to understand inequality over the long-run and shown that Latin America has “not always been unequal” (Frankema, 2009). Instead, and even though the dependency of the region to the world economy is an important legacy of colonialism (Bertola et al., 2009), processes of globalization and de-globalization have translated into time increases and declines in the trends of inequality in the region (??). What Frankema refers to as the secular trend of economic inequality consists on an “s” shape of inequality which went upwards with the first commodity boom, downwards since the period of labor incorporation, ISI and de-globalization, and upwards again with the market reforms swiping the region since the 1970s. Contributions of economic historians interested have highlighted important historical periods that have led to changes in the trajectories. However, little theorization remains as to what explains that some countries follow the regional trends much closer than others while others deviate from said co-movement at the regional level.

Figure 1.1: *Comparing Inequality by Regions of the World of Income by Region*

a. Average Gini of Income by Region



b. Proportion of Income: Richest 10% / Poorest 10%



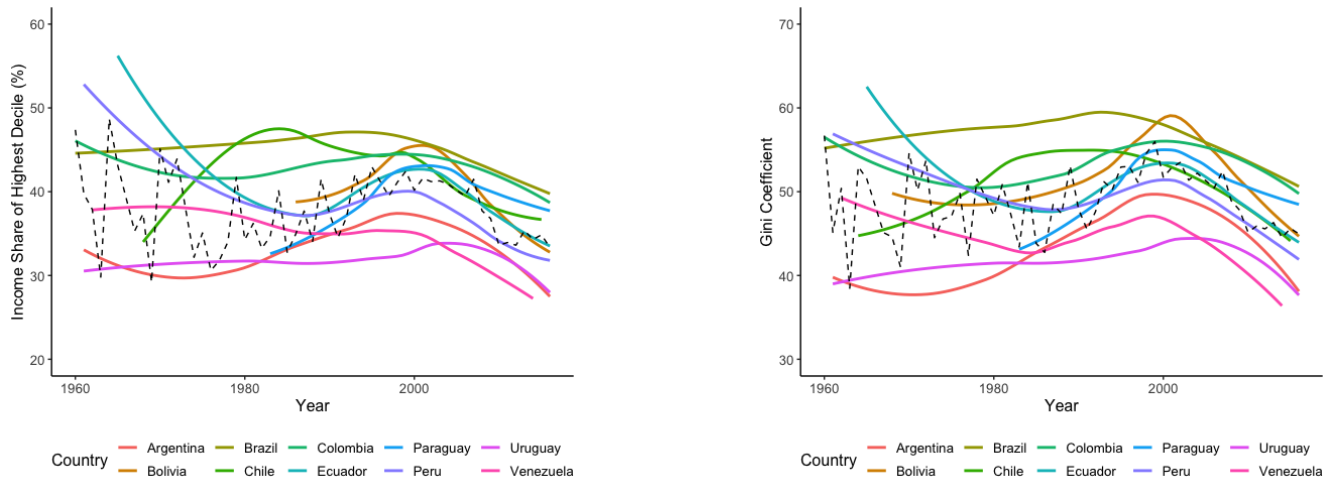
Source: Authors calculations using data from United Nations University - WIDER. Notes: I calculated average indicators by region in the following way: available data points (sometimes more than one observation per year-country with different sources) were averaged by country-year. I calculated the simple average of the region using country-year averages. I ignored the data points reported as being low quality or not known quality data. Finally, I calculated an average for every 5-year period to make the trends more visible and the graph more interpretable.

Scholars interested in understanding the drivers of the region's recent decline in inequality

levels since the turn of the century have emphasized the importance of the left turn and targeted poverty alleviation measures (Huber and Stephens, 2012; Garay, 2016). Methodologically, this work uses panel-data techniques and focuses on short-term inequality variations since the early 2000s. While pointing more clearly to the relationship between politics and economic inequality, these studies cannot distinguish between changes followed by a reversion to the mean (short-term) from long-term changes that reveal a transformation towards a new equilibrium of inequality levels. The limitations of theorizing about short-term declines are made more evident with the stagnation of inequality declines in the region since around 2012 (UNDP, 2021).

Building on this body of work, this book aims to explain why some countries are ranked consistently above or below the regional mean and contributing to our understanding of the conditions under which some countries manage to escape inequality traps. Figure 2 shows two important patterns of inequality in Latin America: First, that there seems to be stability on the relative levels of economic inequality. That is some countries are positioned consistently above, while others are consistently located below the mean. For example, Uruguay and Venezuela have consistently ranked below the mean while Brazil and Colombia have consistently ranked above the mean. In contrast, Chile seems to move around the mean. Second, that despite relative stability in the rankings, there are some exceptions, and a few countries manage to change their relative positions like Peru and Paraguay. These two patterns lead to the two research questions that motivate and structure this book project: First, what accounts for the persistence of the relative positions of economic inequality levels in Latin America? Second, why do some countries break their “ranking” - escaping inequality traps- while others do not?

To answer these questions, this book zooms in into four countries that exemplify the relevant variation: Colombia, Chile, Uruguay, Peru. To my knowledge, it is among the first books to conduct in-depth historical comparisons across countries to explain within regional variation of inequality by acknowledging temporary changes. By doing so, this book is aligned with a recent turn in the literature aiming to open the “black box” of politics in shaping economic inequality

Figure 1.2: *Income Inequality in South American Countries*

(??).

Source: Own calculations combining data from multiple sources including, WDI, Worldbank, SEDLAC. Notes: Available data points (sometimes more than one observation per year-country with different sources) were averaged by country year.

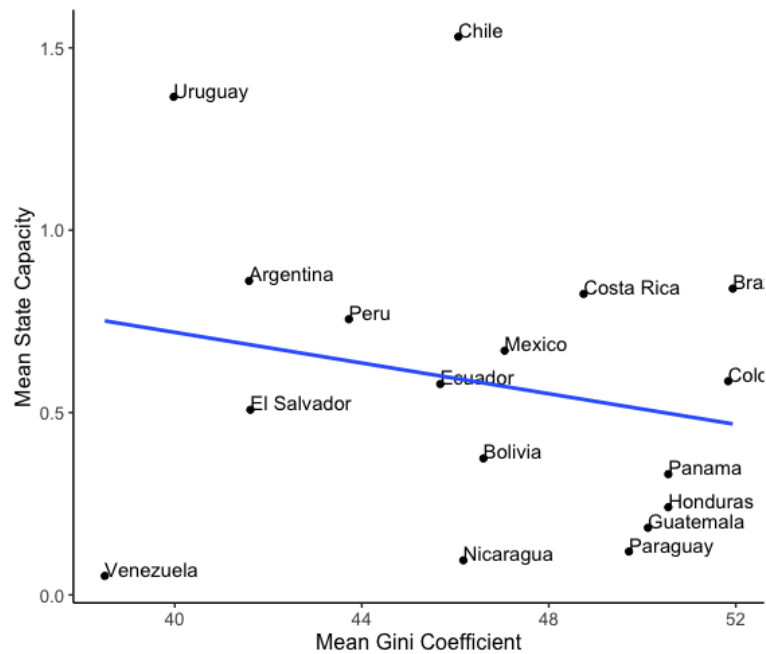
1.2 Towards an Explanation of Economic Inequality Patterns in Latin America (Summary)

Existing research suggests that state weakness is a significant factor contributing to persistently high levels of inequality (De Ferranti and Perry, 2003; Soifer, 2013; UN-ECLAC, 2016) in the region. The complex administrative capacities and bureaucratic apparatuses required to provide public goods and enact progressive tax schemes explain why relatively weaker states are on average more unequal (Bahamonde and Trasberg, 2021; Ziblatt, 2008).

State capacity is conceptualized here following Michael Mann's infrastructural power. State infrastructural power reflects "the capacity of the State to actually penetrate civil society and to implement logistically, political decisions through its territory. [...] that determines how far its bureaucratic apparatus can reach to exert control and regulate social relations" (Mann, 1984). A State with high capacity, or a strong state¹, is one that can maintain political order, protect citizens, guarantee property rights, tax, and redistribute resources (Soifer, 2015;

¹I use state strength and state capacity interchangeable

Figure 1.3: *Variation on inequality and state capacity*



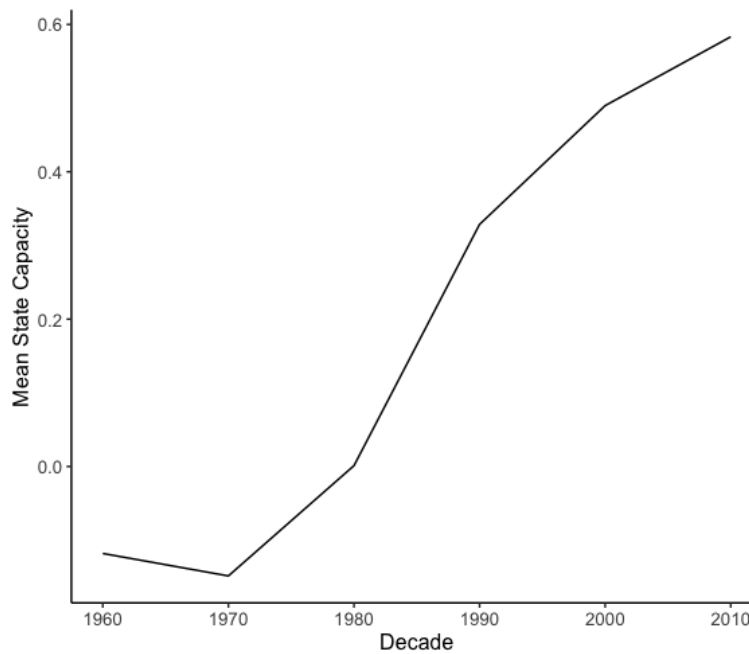
Note: The figure shows the Mean Gini coefficient and State Capacity for countries using available data points between 2010 and 2020 and the blue line represents the linear correlation. Source: Hanson and Sigman (2021)

Mann, 1984). Other things being equal, as a state gets stronger, it is plausible to expect that it acquires a higher capacity to collect taxes, to enforce property rights, to repress threats to the status quo, and to put in place redistribution schemes. All of these functions, traditionally associated with a modern state, are important determinants of economic inequality and economic development.

However, an examination of differences in state capacity and inequality within Latin America reveals that state capacity alone cannot account for variation on inequality. Countries such as Chile and Uruguay, which have high levels of state capacity, should, in theory, have relatively similar and low levels of inequality. Similarly, per their levels of state capacity, Colombia should have lower levels of inequality when compared to Ecuador or Peru. This variation suggests that while necessary, state capacity is not a sufficient explanatory factor of inequality (Soifer, 2013). Figure 3 shows that the two variables are positively (but weakly) associated, there are many cases that tell a different story.

The incompleteness of state capacity as an explanatory variable becomes even more evident when one looks at the historical trajectories of state capacity. States in Latin America have become much more capable and have put in place modern and complex institutions to deliver public goods and tax their populations. However, inequality trends do not seem to reflect said increases.

Figure 1.4: *State Capacity Over Time in Latin America*



Note: The figure displays the average level of state capacity using the state capacity index (latent variable from 0 to 1). Source: Hanson and Sigman (2021)

The missing piece in this puzzle is that governments are not always willing to use the administrative capacities of the state to redistribute economic resources. This could happen for several reasons. In this book, I emphasize two: first, economic elites, who are most interested in limiting redistribution, might have significant political power to shape the content and implementation of redistributive measures (Fairfield, 2015; Schneider, 2012; Piketty, 2014). That is, governments may not be willing to implement redistribution even if they have the capability to do so because they are not autonomous from economic elites. This resonates with existing work on the links between economic and political power showing that the wealthy have been at the center of policy debates and have various ways to shape the content, pace, and implementation of public policies. Second, those holding positions of power in government might be themselves members of the economic elite or have strong ideological commitments that make their policy preferences be aligned with the preferences of the economic elites. Ultimately leading to policies that maintain the status quo distribution of wealth. The difference between the first and the second scenario, is that in the first elite's actively push to shape policy while in the second there is alignment between governments and elites.

Importantly, I argue that autonomy of governments from economic elites is not fully endogenous to state capacity. That is, it is possible to have two countries with similar levels of state capacity, whose governments can

vary in their autonomy from economic elites. In his seminal work on state's role on fostering development, autonomy is a key dimension across which states vary. In this work, autonomy is one of the key variables explaining the extent to which state interventions successfully foster economic transformation. Only states that are both embedded within the society and autonomous from it can successfully promote economic policies (Evans, 1995).

Variation of autonomy is not a function of state capacity but a function of the level of cohesiveness of economic elites. In this sense, the concept is related to Migdal's idea that states vary in their capacity to transform society. According to Migdal, the transformative capacity of the State is a function of societal strength. However, unlike Migdal work that assumes that societal strength is an attribute of society, I focus on elite strength which is a function of cohesion. Both Migdal and Evans point to the importance of the role of the State in influencing economic outcomes. However, both show that absolute state capacity is only part of the story. Its strength vis-à-vis social groups is equally important (Migdal, 1988). Therefore, the notion of the relative power of the State is aligned with a view of the State for which autonomy is not a definitional aspect but something that might vary across states.

The cohesiveness of the economic elite has been at the center of important theories explaining social change and political transitions. For example, Barrington Moore's explanation for regime type is centered on the role of the bourgeoisie in abolishing the domination of the landed elite and bringing capitalist democracy to England, the United States, and France (Moore, 1993). Similarly, in *Demanding Democracy: Reform and Reaction in Costa Rica and Guatemala, the 1870s-1950s*, Yashar finds that the differences in terms of consolidating democracy between Guatemala and Costa Rica are in part a consequence of different levels of expressed political cohesion among the elites (Yashar, 1997). In *Ordering Power*, Slater emphasizes the capacity of the elite to solve the collective action problem to respond to contentious politics, as an important explanatory factor of regime durability and state capacity in South East Asia (See (Slater, 2010, p. 45) O'Donnell and Schmitter in their theory of democratization emphasize on elite pacts as an important component of transitions to democracy in Latin America (O'Donnell et al., 2013).

One could potentially measure whether members of the economic elite are in agreement or disagreement in a variety of topics. For example, one might wonder whether different subtypes of the economic elite disagree about who to vote in the presidential race. Or they might have disagreements on what is the best policy to achieve certain goal. Because the range of topics and policies in which economic elites might disagree is so broad, I narrow the conceptualization of political cohesion around state's policy orientation in the role of the state in the economy and how governments should respond to redistributive pressures. As such, my work is aligned with Fairfield's work on tax reforms, where she explains how business elites with high levels of structural or instrumental power, can

Table 1.1: *Typology of state-elite relations*

	High Capacity	Low Capacity
Economic Elite Cohesive	Mutualism Medium Inequality	Parasitism High Inequality
Economic Elite Divided	Commensalism Low Inequality	Unstable Equilibrium

prevent revenue-enhancing direct tax reforms from being enacted or even formulated at the agenda-setting stage. On the one hand, they rely on their instrumental power (partisan linkages, institutionalized consultation, informal ties, election to public office, cohesion, lobbying). On the other hand, their structural power allows them to create a credible fear of capital flight that makes them important veto players. Cohesiveness enhances both powers (Fairfield, 2015).

I argue that cohesion among different sectors of the economic elite is a necessary condition for the capacity of the economic elite to defend their interests and influence state policies. As a cohesive front, the control over the economic production of the economic elite makes this group of individuals extremely powerful vis-à-vis the State. On the contrary, when the economic elite is divided (or non-cohesive), its capacity to influence state policy is significantly reduced. Instead, governments can exploit elite's division to increase their autonomy vis-à-vis at least one segment of the economic elite. This autonomy is often enough for states to shift policy towards redistributive measures and more equitable equilibriums. Ideas about the role of the state in the economy is at the center of elite cohesion and legitimize elite's behavior.

The interplay between state capacity and the cohesion of economic elites shapes relative levels inequality. Governments in countries where states have high administrative capabilities and can govern autonomously from at least a segment of the economic elites, can implement redistributive schemes and channel incoming resources in more equitable ways. This equilibrium is characterized by relatively low levels of economic inequality and is self-reinforcing: high administrative capacities autonomy from elites that allow states to foster more equitable distributions and use resources to heightened capacities. Equilibriums characterized by low administrative capabilities of states and governments that are not autonomous from economic elites will be characterized by high levels of economic inequality. This equilibrium is also self-reinforcing since economic elites will become more powerful with the inflow of resources and will face a weak state without the capacity to foster a more equitable equilibrium. Finally, countries characterized by high administrative capabilities but that are not autonomous from economic elites are somewhere in between. While states can implement some redistributive measures, the policies will not completely counteract the fact that inflowing resources will be concentrated in the hands of a cohesive elite. The lack of autonomy means that the preferences of economic elites will be reproduced through policy decisions.

Equilibriums, however, do not mean that the status quo is uncontested and cannot be broken. In fact, inequality is permanently being contested by the losers of inequality. Under what conditions can inequality equilibriums change? I argue that while social mobilization for redistribution is an important catalyzer of political change towards new inequality equilibriums, it does not guarantee transitions unless it threatens the cohesion of economic elites. While redistributive pressures can destabilize the equilibrium, the lack of autonomy from economic elites in some governments means that responses to redistributive pressures will prioritize protecting the interests of the economic elite.

1.2.1 When do cohesion and capacity matter the most?

My argument assumes that states and elites are constantly challenged by forces coming from disempowered majorities challenging the status quo distribution and demanding more equality. Historically, the extreme concentration of property and income has attracted a range of threats which can take different forms from directly challenging property rights to indirect demands via social mobilization or in the electoral arena. Examples of the first type include land invasions carried out in the early period of State Formation in Uruguay Barran and Nahum (1968), the peasant movement of La Convención in Perú in the late 1950's, and Land Invasions carried out by Indigenous and Campesino mobilizations in 1970s Colombia. Overall, the idea of redistributive pressure captures the 'sustained challenge to the capitalist system by the non-owning classes' (Domhoff, 1998, p. 12), which, according to Marxist theory, is inevitable. And result from what Bloomey's refers to as property "held against others" and relational (Blomley, 2003).

Two theories link high levels of economic inequality to pressures for redistribution. The first approach relies on the psychological mechanisms triggered by inequality. Inequality is associated with a sense of relative deprivation that leads to frustration among the poorer sectors of society (Runciman, 1972), 10). Higher levels of inequality increase the levels of frustration and legitimize claims for social justice (Gurr, 1971) and redistribution. The second approach emphasizes social identification as a cause of social mobilization. In this view, collective action is facilitated by a collective consciousness, the identification of a collectivity with common values, interests, goals, and sentiments that results in the sense of mutuality and solidarity (Gurr, 1971). The socioeconomic class can be a source of common identity that facilitates collective action and, in turn, can be associated with organized pressures from below.

Redistributive pressures challenge state legitimacy through its threat to order and the monopoly of violence. However, when coupled with renewed ideas about the role of the state in society and the economy, episodes become

threatening to an additional source of legitimacy of modern states: their capacity to provide welfare and guide the economy towards progress (Evans, 1995). This matters because if the threats were only to order, repression of those mobilizing might be a legitimate response. In contrast, where shifts in paradigms around the role of the states legitimize movements, repression might further legitimize those ideas and delegitimize states and governments. As such, these episodes of redistributive pressures accompanied - and fueled- by a change of paradigms are extremely threatening for both governments that are forced to respond and to the cohesiveness of economic elites. In turn, in responding to redistributive pressures, governments need select a combination of coercion and reform in the hopes of taming redistributive pressures. On their part, economic elites need to also strategize how to shape governments responses to defend their wealth.

In Latin America, episodes of social mobilization accompanied by the rise of new ideas on social justice have been followed by episodes of intense institutional reform. For example, in the 1920s and 1930s in Latin America, rising pressures to redistribute came from the left-wing social mobilizations around the labor question (Collier and Collier, 2002), and the changes associated with industrialization and urbanization. In addition, following the great depression, ideas around the role of the State in the economy imposed important redistributive pressures on the system. Another classic example of these challenges is the rural Marxist-Leninist guerrilla insurgencies that emerged in the 1960s across Latin America. These groups challenged the territorial reach of the state and its monopoly of violence. Besides, the presence of a redistributive discourse was extremely threatening to the landed economic elites. These examples demonstrate the pressures constantly being put on the existing distribution of material wealth and the importance of thinking about the state and the economic elite in responding to those pressures.

1.2.2 Redistributive Reforms:

Importantly, I argue that while market/economic forces can explain some of the inequality changes in country trajectories as per Frankema's "s" curve, redistributive institutional reforms are required for countries to change their position relative to other countries and the regional mean.

There are multiple institutions at the national level with the potential to shape the distribution of economic resources. However, there are two groups of institutions that are theoretically important and that have been historically important in shaping the distribution of economic resources: direct and progressive taxation and land reform. Direct and progressive taxation is perhaps the most salient and significant means by which wealth is redistributed. Via progressive schemes of taxation, states can decrease the level of economic inequality in a given

society. Low levels of personal income taxes have been attributed by the literature as a key explanatory factor behind high levels of inequality in Latin America (UN-ECLAC, 2016). In Latin America, and in post-colonial world, because of the historical and political importance of concentration of land ownership, land reforms have been extremely important too (Albertus, 2015; Saffon Sanin, 2015; Vergara, 2018).

Episodes of intense institutional change offer a good lens to understand the interplay between social mobilization, governments, and economic elites and how they jointly maintain or break equilibriums of inequality. Because of their potential to change the status quo distribution, an analysis of institutional changes leading to redistributive reforms reflect the opposing forces sustaining a given equilibrium of inequality. In Latin America, citizens have demanded land reforms and redistribution and they have also been the focus of wealth-defense strategies of the economic elites (Soifer, 2013; Boix, 2003).

Institutions play a crucial role in coordinating different powerful actors, and they have significant distributional consequences. I define institutions following Mahoney as "rules or generalized procedures that provide a guide for behavior and that promote predictable patterns of interaction (whether consensual or conflictual)" (Mahoney, 2010). In this book, I align with a view of institutions as primarily distributional instruments that not only reflect but reproduce power imbalances in societies. Without downplaying the coordinating effects of institutions, I emphasize on the discriminatory benefits of institutions, they give disproportionate advantages for some segments of the population and in turn are inherently associated with conflict (Knight, 1992; Mahoney and Thelen, 2015; Moe, 2005; Pierson, 2004).

Under what conditions will governments choose – and be able to implement- redistributive reforms to respond to redistributive pressures?

Elite cohesion is a necessary condition for economic elite's capacity to defend their interests and influence state policies. When economic elites are cohesive in their opposition, it becomes challenging for governments to implement reforms that contradict their interests. In fact, there is a rich literature showing how cohesive elites have managed to change the course of redistributive reforms in the legislative process (Fairfield, 2015) and on the ground via sabotaging their implementation (Saffon Sanin, 2015).

However, elite cohesion is not a given and can be broken. When the economic elite becomes politically divided (or non-cohesive), it's capacity to influence state policy is significantly reduced. Episodes of redistributive pressures coupled with changing ideas about the role of the state in society are threatening to elite cohesion as well. This is the case because oftentimes, the pressures are not equally threatening for all sub-types of the economic elites. For example, the pressures from workers in urban settings put pressures over industrial elites but not necessarily

over landed elites. Similarly, claims to land rights made to land-owners might not be threatening for industrial or commercial elites in the city. In the bargaining process, the cohesiveness of the economic elite is threatened because governments can offer differential concessions. If under these pressures, the economic elite stops being politically cohesive, governments can implement selective redistributive policies in alliance with only one faction of the economic elite with important impacts on inequality trajectories.

1.3 Research Design:

The research design integrates methods from qualitative and quantitative traditions in three main components to obtain inferential advantages (Seawright, 2016) in contexts where assessing causal impact is challenging. Through comparative historical analysis, I study four cases exhibiting distinct trajectories, (Chile, Colombia, Uruguay, and Peru) and focus on three periods marked by institutional reforms: state formation, labor incorporation, and cold war. The selection of these periods reflects both methodological and theoretical reasoning.

First, I demonstrate how decisions during the period of state formation explain persisting rankings of economic inequality via its enduring effects on state-elite relations. This period is particularly significant as it witnessed the crystallization of the distribution of political and economic power in Latin America, along with the formulation and crystallization of ideas regarding the role of the state in the economy and society.² The other two periods were marked by intense social mobilization around redistribution. During the 1930s, institutional change followed redistribution pressures and renewed ideas about the role of the state, largely due to the Great Depression and Keynesianism (Collier and Collier, 2002; Drinot, 2011). The period also saw significant labor reforms and the incorporation of previously excluded segments of the population into the democratic fold. The 1960s marked a significant turning point with institutional change in Latin America, as renewed ideas about modernization of institutions to solve land inequality were pivotal in the way governments approached policy questions (Hirschman, 1963) amid intense redistributive pressures and emergence of leftist insurgencies in various countries. In the quantitative component, I use tools from panel-data econometrics to test some of the observable implications of the theory for countries between 1960 and 2018.

²This is the chapter for this con

Table 1.2: *Constitutional Histories of Case Studies*

Country	1800										1900										2000		Independence
	10	20	30	40	50	60	70	80	90	0	10	20	30	40	50	60	70	80	90	0	10	20	
Chile	11	12	14	18	28	33								25				80				Independence	
Uruguay															18	34	42	52	67			Constitution (weakly enforced)	
Colombia																						Constitution followed by instability	
Honduras																						Constitution (followed by stability)	
																						Not Studied in this chapter	
																						Constitutional Assembly	

1.3.1 State Formation:

Economic historians have shown that the period of state formation is critical to understanding the long-term trajectories of economic inequality (Abad, 2013; Williamson, 2015; Bertola et al., 2009). First, because inequality levels were relatively low after independence and until the first commodity boom (Frankema 2014, Székely and Hilgert 2002, Székely and Montes 2006, Bértola et al. 2008: p. 22, Milanovic, Lindert and Williamson, 2008). In fact, both states and economic elites were left very debilitated from the wars of independence and a deep economic crisis (Mahoney, 2010).

Second, because it was a period of instability and intense institutional drafting, creole elites were impatiently drafting the rules of the game in ways that aligned with their views of the role of the state and that protected their political and economic power. In this context, ideas about the role of the state in society mattered deeply to explain state building decisions which were both shaped by patterns of political and geographical powers (Soifer, 2015). Conflict centered around two ideal types of state's role in society: laissez-faire and statist ideas which was vert consequential for inequality trajectories (Soifer, 2015).

Third, because it led enduring legacies on the levels of state capacity and in fact scholars aiming to understand variation in state capacity point to this period (Soifer, 2015; Kurtz, 2013; Mazzuca, 2021) as fundamental in sending countries into stable trajectories. In this context, the constitutional assemblies and constitutions offer a lens towards the most crucial and consequential processes of decision making. As such, the first empirical chapters of this book zooms in into the first constitutions. The texts and the discussions leading to them ground the empirical analysis and serve as the basis for comparison. The analysis is informed by seminal literature on historical institutionalism to understand these episodes of intense institutional change.

To conduct an in-depth and encompassing comparison of the texts, three aspects are crucial: analyzing the circumstances in which they were written, an explicit comparison of the text, and an analysis of their distributional effects and posterior legacies. First, in terms of the context in which these constitutional texts emerge, one could trace and compare the relevant actors, the power resources, and intentions of such actors, as well as the existing

institutional arrangements and how they combine with these new institutions. Here, it is crucial to understand that institutions are not created in a vacuum. Instead, they are the result of a power struggle. I show the importance of power and power distribution in analyzing institutions and the way they change over time. It is an attempt to think rigorously about power as a fundamental component of institutional making and of the role of the intentionality of actors in shaping the resulting institutions and its distributional effects. In turn, I emphasize the role of resources empowering actors and their distribution as determining actors' actions and motivations.

Second, a comparison of the text allows us to see explicit differences and connect them with the preexisting distribution of power and the motivations behind the formation of institution. Again, since these texts are never created in a vacuum, a textual comparison will explicitly show how the contextual differences get crystallized into the resulting constitutions and differences across countries.

Third, we can analyze these institutions in terms of the path-dependency and the mode of institutional change that followed. In this paper I intend to show that the distributional effects of the constitutions marked: i) the modes of path-dependency: positive feedback or reactive sequence (Mahoney, 2000), and ii) the modes of institutional change: gradual vs. abrupt (Streeck and Thelen, 2005).

1.3.2 Episodes of Intense Redistributive Pressures and Changing Ideas about the role of the State in Society:

As explained above, the twentieth century in Latin America, saw two intense episodes of social mobilization accompanied by the rise of new ideas on social justice have been followed by episodes of intense institutional reform. The first came in the 1920s and 1930s with the pressures imposed by social mobilization around labor rights (Collier and Collier, 2002) which coincided with renewed ideas and a paradigm change about the role of the state in society coming from Keynesianism. The second came in the context of the Cold War which brought with it renewed ideas of social justice in circa 1960s. While mobilization was in many cases not armed, redistributive pressures came together a wave of urban guerrillas and rural Marxist-Leninist guerrilla insurgencies that emerged across Latin America. These groups challenged the territorial reach of the state and its monopoly of violence. Besides, the presence of a redistributive discourse was extremely threatening to the landed economic elites since the goal of many of these groups was to achieve land reform.

2. State Formation, State-Elite Equilibriums, and Inequality

In this chapter, I present a comparative historical analysis of the period of state formation through the first institutions in three countries: Chile, Uruguay, and Colombia¹ to investigate long-term differences in inequality trajectories. Since, constitutions are “probably the most all-encompassing form of institution found at the national level” (Knight, 1992) a comparative analysis of these institutions is a valuable exercise if one aims to understand the legacies for both state capacity and inequality of the period of state formation.

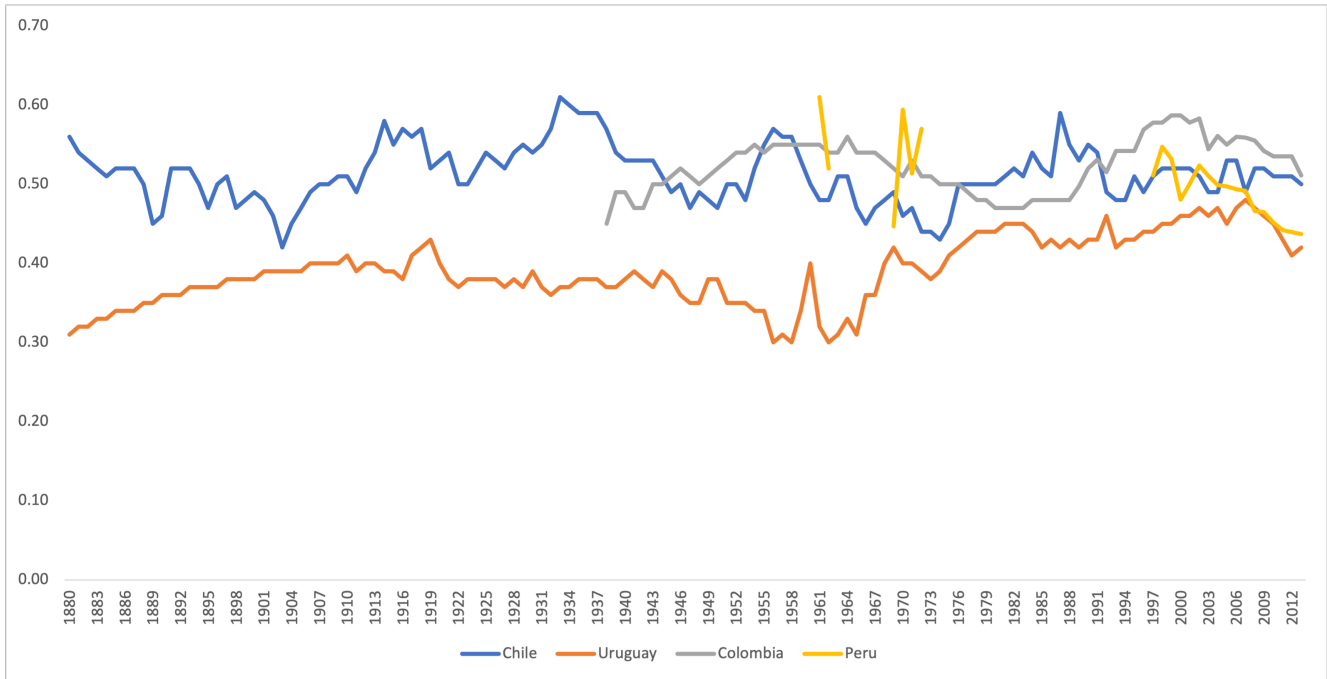
As the figure below shows, the cases show different patterns of inequality trajectories. What accounts for these differences?

Figure 2.1 shows available data of economic inequality measured with the Gini coefficient and displays the series of historical levels of economic inequality calculated by Weber (2015) using social tables to estimate earlier values. Unfortunately, a longer time series is not available for Peru.

By conducting an in-depth analysis centered around state-elite relations, I show that inequality equilibriums can be explained in part by decisions made by creole elites during the period of state formation. The analysis combines secondary sources, archival documents, and (30) interviews with country experts made during fieldwork. Importantly, I ground the analysis empirically by zooming in into the first Constitutions in each case.

Following independence, governing institutions and economic elites were left extremely weakened. The colonial state and many of its rules and bureaucratic apparatuses were either gone or weakened because of the crisis of the Spanish Empire. Short term effects of the wars of independence included the deepening of fiscal deficits and

¹I am still processing evidence from Peru

Figure 2.1: *Estimates of Gini Coefficient*

Source: Notes: Chile, Uruguay from Rodriguez Weber (2017), Colombia 1938 – 1988 Rodriguez Weber, 1990 – 2015 Milanovic (2019). Peru: WID

negative economic growth (Prados de la Escosura, 2003, 2004) and a legitimacy crisis of creole elites (McFarlane, 1998). Besides, relative to the colonial period, elites had lost much of their economic power. During Spanish colonialism, minerals had been at the center of the economic activities. However, independence coincided with the collapse of the mining industry (?). As a result, the merchant and mining segments of the economic elite were extremely weakened too.

Despite the weakness of both the states and the economic elites, countries started to move quickly into more stable equilibriums of state capacity. The period of state formation was one of instability and political conflict within elites and was characterized by intense institutional crafting. Within this context, space opened up for agents to decide upon how their newly independent countries would look. The intentionality with which the processes of state formation were carried out suggests that independence did leave some room to decision making (Centeno, 2002; Lopez-Alves, 2000). The decision-making process resulted in contingent decisions that had long-lasting consequences for inequality, and more generally, for patterns of the state-society relationships. The initial unstable equilibrium can be characterized by a weak economic elite and a weak state. High instability meant that countries started to move rapidly into more stable equilibrium.

During the period of state formation, Chile's economic elite acted as a cohesive unit that fundamentally agreed

on the importance of building a strong central state with the capacity to protect property rights. This cohesion resulted in mutualism, a stable equilibrium that resulted in the alignment of the interests of the state with those of the economic elite. In Colombia, in 1863, members of the economic and political elites reached a consensus on creating a federalist organization of government characterized by a weak central state. These decisions resulted in the formation of a weak central state and cohesive economic elites: parasitism. In Uruguay, after a long period of elite conflict, the foundation for a strong central state was built during the Battle's government. Political divisions within the economic elite eventually resulted in commensalism and, in turn, lower economic inequality levels.

In the following section, I analyze the period of state formation and how it shaped inequality trajectories. I begin by discussing important antecedent conditions and then proceed to the period of state formation and how different institutional configurations consolidated a particular type of relationship between the state and the economic elite.

2.1 Antecedent Conditions

Even though the material base of economic elites was deeply harmed in the years leading to independence, colonialism left strong institutions of social domination. These structures empowered the creole elites, and this had two consequences. On the one hand, they were the ones with decision making powers during independence and in its aftermath. On the other hand, they had an incentive to put a set of rules that would guarantee their dominant position in society and give them legitimacy to govern. Overall, the point of departure for these new nations was a strong link between political and economic powers. The unequal distribution of social and political power carried over to the initial stages of state formation.

A comparison of these cases allows us to identify what seem to be important antecedent conditions influencing decisions made during the period of state formation. The first important factor is identified by Soifer (2015) in his theory explaining variation in state capacity across Latin American countries. According to this Soifer, the distribution of political and economic power shaped the configurations of the states and their capacities in the long-run. In some cases, a single urban center concentrated economic and political power which aided to higher levels of state capacity. While in others, at least two regions shared both power resources (political and economic).

The second factor has to do with the distribution of economic activities among the economic elites. For parsimony, I will group economic resources in two: those traditionally associated with extractive economic activities (land-based, agriculture, mining, cattle breeding) and those traditionally associated with commercial activities. In

most countries, the Hacienda institution (a key legacy of colonialism) was decisive in unifying the economic interests of the economic elites. Where *hacendados* were involved in other non-extractive economic activities, land ownership acted as a unifying characteristic that allowed economic elites to be politically cohesive.

In Colombia, political and economic power was dispersed in multiple centers, and for decades the country lacked a single predominant center (Soifer, 2015; Lopez-Alves, 2000). These centers, where most of the population was concentrated, were isolated from one another because each of these centers produced and consumed the goods it produced. The lack of trade among the regions meant that there was no particular interest in building a central state capable of facilitating commercial activities, strengthening of a national army, or improving the infrastructure. In fact, at the regional level, economic elites benefited from the weakness of the central state (Safford and Palacios, 2002).

The economic elite's geographical divisions did not materialize into the absence of political cohesiveness on the part of the economic elite. Writing in the late nineteenth century, Alejandro Lopez noted that there was not a single member of the industrial, commercial, or political elite that was not at the same time a land-owner. In Colombia, land ownership was something that unified members of distinct factions of the economic elite. The power of land-owners and the colonial legacies of Hacienda were determinant in unifying these interests even despite regional differences. The political cohesiveness of the economic elites manifested itself later regarding their positions on the role of the central state and the disproportionate power held by Congressional Representatives. This cohesiveness meant that, even though factions of the ruling elite were divided across religion and political views, these divisions were orthogonal to preferences on policy orientation regarding economic matters. Guillén notes the absence of evident conflict between the landed elites and the commercial elites in Colombia in the nineteenth century (Guillén Martínez (1979), 304).

In sharp contrast, in Chile, the political salience of regionalism was limited, Santiago concentrated both political and economic power. As Soifer (2015) shows, this was critical for initiating a stable trajectory of high state capacity. Another important aspect of how power was distributed in Chile was that economic elites were not divided across commercial (urban) and extractive (rural) activities. In Chile, around 1830, the nation's most valuable economic sector was mining, and most powerful economic elites drew their money from the extraction and export of minerals. However, their resources did not stop there. In fact, in order to extract minerals, Chilean elites needed to secure large extensions of land. In turn, the most prominent land-owners were not dependent on their agricultural production; land served other purposes. It was a means to control access to mineral deposits and key resources for its extraction process such as water and forests (Valenzuela (2001)). And as Valenzuela emphasizes, there was not a distinct class of land-owners at the top of the social pyramid at any point in the IXX century. In fact, between 1830 and 1860,

the value of mining exports was about three times larger than the value of agriculture. The wealthier and most powerful class had its capital in mining, banking, and commercial activities, but they were also the largest land-owners. In turn, the extractive-commercial (rural-urban) split was tenuous and did not result in major conflicts within the economic elite. The Chilean economic elite's unified interests were primarily concerned with protecting their property rights, strengthening the State apparatus to do so, and maintaining their export-driven activities.

The structure of the labor force in rural areas was one that contributed to low levels of conflict. Kurtz (2013) attributes the absence of conflict in Chile to a system of labor tenancy called *Inquilinaje*. This system was one of un-coerced labor that emerged from a situation in which Chilean Elites were extremely land-rich but also cash-poor given the low competitiveness of their products (Loveman, 1976). In combination with the fact that labor was not particularly scarce, this generated a low land conflict situation. The consequence of this situation was that landlords did not require local control over the coercive apparatus. Furthermore, this also meant that the development of agriculture was not counterproductive to urban areas. In turn, elite cooperation between urban and rural factions was facilitated in the Chilean case via *Inquilinaje* - an institution that prevailed commanding the labor force and the relationships with land-owners. *Inquilinos* were at the top of the dependent rural population hierarchy; they were responsible for maintaining the land, but they could hire a third party to do so while producing goods of their own. Importantly, land-owners were not dependent on agricultural production. Therefore, they were not demanding productivity from the *inquilinos* since agriculture was a secondary use of the land. As Valenzuela notes, the reason behind the survival of this institution was not one of efficiency. Instead, the institution's distributional effects, benefitting both the land-owners and *Inquilinos*, favored the maintenance of the status quo.

In sum, the political cohesiveness of economic elites facilitated a concerted state-building project in Chile. An example of such cohesiveness can be identified in 1861-1891 with the liberal-conservative fusion government (Scully, 1992; Bauer, 1975). As I will show later in this chapter, the ideological basis of such cohesiveness was the primacy of private property and the role of the state in guaranteeing order and property rights protection.

In Uruguay too, political power was concentrated in Montevideo. But unlike what occurred in Chile, there was a division in economic power along the rural-urban divide. At the beginning of the XIX century, the main economic activities were organized around cattle breeding; "It was a predominantly pastoral economy characterized by the concentration of land ownership and backwardness in exploitation" (Hanson, 1938). These large estates devoted to extensive exploitation were particularly harmful to profitable employment opportunities. First, slavery was legal in Uruguay until 1842. Even after abolishing slavery, the rural worker in Uruguay was unprotected by labor codes, lacked limits on the hours of work and was wholly dependent on the will of the land-owner (Hanson, 1938). Besides, rural unrest was a permanent threat for the landed elites in Uruguay, and it fueled the civil war that affected

Uruguay throughout the XIX century. This meant that rural elites were highly dependent on land ownership of extensive property, and their main interest was to defend their lands. Rural unrest shaped the main interests of the rural faction of the economic elite for whom the state needed to respond to this threat.

In addition to the importance of rural activities, by 1830, a very large portion of the Uruguayan population was composed of European immigrants living mainly in urban areas. This migration coincided with the increasing importance of commercial activities controlled by urban elites in Montevideo. The fact that immigrants mostly controlled commercial activities resulted in the division of the economic elite along sectoral lines. Furthermore, this division was one that mapped into the political and urban-rural division that fueled conflict in Uruguay for most of the XIX century. Unlike what occurred in Chile, in Uruguay, there was a clear tension between the urban and the rural segments of the economic elites (Kurtz, 2013; Lopez-Alves, 2000; Soifer, 2015).

2.2 State Formation: A critical event for Inequality

The period of state formation was marked by peaks on institutional crafting in these countries. In this section, I describe key institutions that were designed during this period. These institutions can be understood as the main formal rules of the State's bureaucratic apparatus. I define institutions as the "rules or generalized procedures that provide a guide for behavior and that promote predictable patterns of interaction (whether consensual or conflictual)" (Mahoney, 2010). In this chapter, I emphasize on a view of institutions as primarily distributional instruments. Without downplaying the coordinating effects of institutions, I argue that the main difference between these constitutions is their distributional implications.

The role of the antecedents described in the previous section can be found in each of the cases of institutional design that I explain in this section. The emphasis here is on the distributional effects of the first Constitutions ruling the country. The Colombian Constitution of 1863 debilitated the central State and granted autonomy to regional economic elites. The Chilean constitution responded to the interests of an elite empowered by multiple economic resources and ties between urban and rural sectors. This meant that there was a general interest in protecting property rights and strengthening the central State's capacity to do so. On the contrary, in the case of Uruguay, the officers in charge of territorial units were more autonomous and their goal was primarily to promote agriculture and pastoral activities; this supports a view of the Constitution as representing the interests of the Landed upper class in opposition to those of the urban elites. The distributional effects resulted in very different paths that can be associated with the trajectories of economic inequality. The following sections develops these ideas in more detail.

2.2.1 El Olimpo Radical in Colombia:

In Colombia, between 1861 and 1862 the country witnessed a civil war. This time, the warring sides were composed by a radical faction of the Liberal party and the Conservative Government. The winner was the radical faction of the Liberal Party. After rising to power, it installed a Constitutional Assembly to rewrite the constitution and reorganize the country towards federalism. This period of liberal reforms is known as El Olimpo Radical. I find that whereas there was a faction participating in this conflict with centralism and a unitary system of government as their flag, economic interests were shared by both parties. According to Roll, a constant in the history of political parties in the country, economic interests prevailed over partisan ideals persistently (Roll, 2001). This reality is expressed in 1859 by Madiedo, who in a satirical way shows ideological incongruences in both parties that he attributes to the fact that leaders of the parties were [literal translation of a fragment] “nothing more than sons of the same parents, with the same teachings, with the same ideals [...]” (Madiedo, 1978).

The starting point of the United States of Colombia, as the country was named then, is 1863 with a new Constitution that marked a period characterized by a series of reforms towards a radical break with the colonial past. During this time, economic elites saw the strengthening of the central State as an obstacle to progress (Soifer, 2015, 47). Three main areas were targets of such reforms. First, federalism was instituted as the system of government accompanied by a small central state. Second, laissez fair was the dominant economic policy. The reformists aim to promote exports and imports of goods to modernize the economy and insert the United States of Colombia into the world economy. Thirdly, some reforms aimed to elevate the freedom of citizens. In particular, there was a shift towards a secular education and religious freedom which meant that the power of the Catholic Church was separated from the power of the State.

The idea behind these institutional reforms was that economic development would be achieved by dismantling the State and minimizing its interference. I claim that the result of these liberal reforms was the institutionalization, and further deepening, of an imbalance between the power of the central State and the power of local economic elites. I argue that these reforms generated a long-term legacy of power asymmetry that favors the interests of the economic elite. As such, the ‘Olimpo Radical’ as potentially a critical event that shaped the relative power of the Colombian state vis-à-vis the local economic elites.

During this juncture, institutional innovations included autonomy for each province to control its army, which necessarily hindered the monopoly of force in the hands of the national State. In fact, in 1867 a constitutional ruling determined that the national government had to stay neutral in the event of a conflict within a state (Soifer, 2015, 53). *Milicias Hacendatarias* (militias of Haciendas) were in charge of security provision and had the coercive

control in their regions. Each province could decide to the organizational and institutional basis of the bureaucratic apparatus autonomously. Besides, provinces were in charge of designing and implementing its own commercial and fiscal regimes. The high level of autonomy given to local elites meant that land-owners and commercial elites assumed control of most bureaucratic positions. According to Roll, the repartition of bureaucratic positions strengthened the links between traditional party brokers (*gamonales*) and economic elites at the regional level. He attributes this period as crucial for the establishment of *gamonalismo*, identified as an important aspect of politics in the country. Scholars have also signaled how *gamonalismo* has served as an instrument of domination against societal pressures for change and as a defense mechanism favoring local economic elites against modernization efforts (Roll, 2001).

The Jesuits, an important faction of the Catholic Church and one of the biggest land-owners in the country, were expelled from Colombia during this period. Besides, the constitutions abolished the status of portions of land declared as indigenous safeguards. The result was that even larger portions of land were available for being transferred by the state to particulars (See Bethell (1984)). Unsurprisingly, adjudication of land was also dependent on local governments province. The nature of adjudications continued a pattern that preceded 1863, the state had been adjudicating land to foreign and national companies in exchange of infrastructural projects and land served as a resource for the State to pay its debts (cite).

Land adjudication intensified during this juncture and large portions of adjudications became important political transactions. The result was the heightened importance of land and land concentration which also meant the power of the Hacienda and landowners was decisive in each of these provinces. It also meant that land-owners saw in the period of liberal reforms an opportunity to enlarge their properties (Kalmanovitz, 2003, 124).² While it is important to recognize that some of the initial efforts of land distribution were not particularly skewed in nature, in 1860 a law was passed that required recipients of land a minimal rent. A few years later, a fiscal regulation approved in 1873 and a law in 1874 prevented land distribution as part of the social policy (*Código Fiscal, Ley 106 de 1873, Ley 61 del 24 de junio de 1874*).

In sum, the 1863 Constitution and subsequent laws, further debilitated a weak central state and empowered local economic elites by granting autonomy to the provinces and strengthening the ties between political and economic power. The local governments set the terms of the commercial and judicial regimes, formed, and managed their

²According to Kalmanoviz, the federal and central governments distributed a vast amount of land usually to very few individuals. For example, only 0.05% of the land was distributed to colonos. In contrast, one individual and member of the economic elite Juan Uribe in Antioquia received 102,717 hectares as a public debt payment. Similarly, Francisco José Saravia received 25,000 hectares in Cundinamarca and 26,474 in Meta. Lorenzo Gallón received 60,000 in Cauca and Juan Manuel Arrubla 30,000 in Antioquia. Most of these were paid by the government for public debt.

armies and oversaw adjudicating land ownership. During this period, the deepening of state weakness made the distribution of land the means to mitigate financial pressures and the way of financing infrastructural projects, an increasingly important part of state activities. As this advanced, the finances of both the national and local governments depended increasingly on economic decisions of the private sector and of landowners in particular.

2.2.2 Elite Conflict in Uruguay:

The year 1814 marks the independence from Spain in the territory occupied today by Uruguay. In 1815 Artigas, one of the leaders of independence, initiated a campaign in favor of land redistribution, a principle of equality was present in the motto of this reform “... los más infelices serán los más privilegiados...” which translates into *those who are the most unhappy will be the ones that benefit the most*. The egalitarian effort of Artiguismo was interrupted in 1815 with the Portuguese Invasion of the territory. The path towards independence was not achieved until 1828, when independence of the Estado Oriental del Uruguay was established. The Convention that gave origin to this nation also established a Congress in charge of writing the first Constitution in 1830.

A period of conflict and instability followed Independence in Uruguay. Marked by the tensions between the urban and the rural divisions, known respectively as Blancos and Colorados, conflict characterized the XIX century in the new country (Barran and Nahum, 1968; Hanson, 1938; Lopez-Alves, 2000). Taken at face value, the constitution of 1830 had a very restrictive notion of electoral representation. Representation was contingent on a minimum rent or income. Historians interpret this restriction as a reaction to Artigas’s views of land redistribution and as a means to alleviate rural unrest (Abdala, 1982).

Aligned with this view, Real de Azúa (1988) claims that state makers had two objectives: demobilize the rural masses and make the military establishment a political outcast. However, at the time, state makers noticed that trying to accomplish both led to a contradictory policy intervention. They had two alternatives: control the rural poor by drafting them into the army (strengthening the army) or to empower land-owners to control their labor force and repress banditry. Among these alternatives, land-owners’ empowerment was selected, which resulted in the creation of Junta Económico-Administrativa - an institution governed by the following rules; i) only property owners could be chosen, ii) there was liberty to reform or adjust the rules dictated by the Executive branch and iii) there was autonomy from the central government. The main goal of this was to promote agriculture and cattle breeding through the empowerment of rural elites. The conflict within these two parties, representing the economic elite’s distinct factions, meant that this constitution was hardly implemented. As we will discuss later in this chapter, the constitution further fueled existing tensions by privileging landed elites over urban and commercial

elites.

2.2.3 Rapid Strengthening of Central State in Chile:

The years following the independence of Chile were ones of intense institutional crafting. Constitutions were written in 1818, 1822, 1823, 1826, 1828, and 1833. The importance of the capital meant that most of these were centralist constitutions. However, there was a brief period after 1826 in which Federalism was established. According to revisionist historians, the conflict between the elites in Concepción and Santiago was real, and the alternative of a federalist Chile was not implausible [Delgado, 2014]. The existence of alternative visions within the elite speaks to the intentionality embedded in the state building project. The resolution of the elite's conflicts was key for initiating a stable state building project in 1833. Even though the Constitution of the Republic (1833) was not the first constitution, it was the first to be implemented and ruled until 1925. As I said, it marks the beginning of a period of stability and a very strong state throughout the territory.

The winning alternative of centralism and a strong president can be seen through the structure of territorial administration and the creation of the Intendant, an important figure declared in Chapter VIII of the Constitution, articles 106 to 122 in particular, where the territorial administration was structured. The Intendant, who was appointed by the President and operated under his instructions and strict orders, was in charge of the administration of provinces, departments, and municipalities in Chile. Besides, the Intendant had in charge lower levels of administrative units (departments, municipalities, districts, delegations, sub-delegations). However, it was made explicit that the Intendant should always respond to the orders of the President. According to the Constitution, the Intendant office and its sub-ordinates should promote education, agriculture, industry, and commerce throughout the territory. The main idea behind this figure was to strengthen the executive power, which was thought as necessary to promote development of the country via property rights protection. This officer oversaw lower levels of administrative units but was always responsive to the President's orders. In turn, the Constitution delineated a close relationship of sub-ordination between the center and the territories. The main goal of the constitution was to empower the president and to strengthen a centralist vision of the State.

2.3 Legacies

2.3.1 Parasitism in Colombia:

In this section, I show how the distribution of power during a critical period in the process of state formation, resulted in a long-lasting legacy in terms of the inequality in Colombia. Two key aspects of the configuration of power marked this critical moment; first, economic and political powers were dispersed across multiple centers. Second, even though power was divided across geographical lines, there was enough agreement amongst local economic elites which made them cohesive. Legitimizing such cohesiveness, were ideas around the role of the state: they saw in the central state an impediment to economic development and took steps to dismantle the strength of the central state. These efforts to dismantle central state capacity empowered local economic elites at the same time. In what follows, I demonstrate how the institutional reforms made during this critical period fundamentally marked how the central state later related to elites at the local level. To do so, I rely on both secondary literature and archival material. Mainly, transcripts of Constituent Assemblies's debates in the process of crafting new constitutions both in 1863 and then again in 1884-85. I identify the institutional reforms made during Olimpo Radical as critical in shaping the resulting trajectory of a relatively weak state and a politically cohesive economic elite.

The institutional arrangements installed in the 1863 Constitution had consequences in multiple spheres of the country's political and developmental path. In most aspects, the radicalism of the liberal Constitution resulted in reactive sequences of change that difficult tracking a path of continuity in many of its institutions. However, I aim to show that parasitism endured periods of radical institutional reform. In particular, its legacy survived to Nuñez's project of *Regeneración*, a project intended to bring the country back to the conservative agenda. This project's main components included a unitary state, Catholicism as the official religion and protectionist measures.

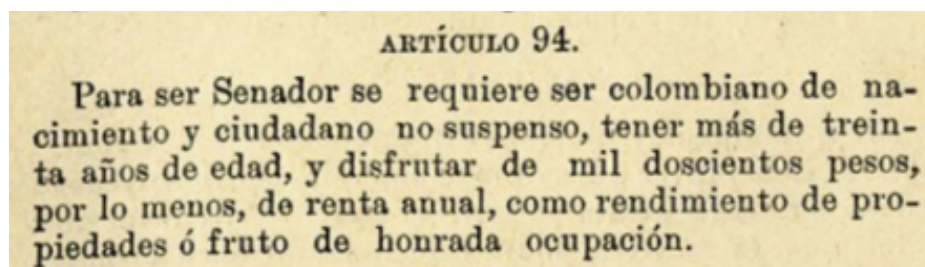
In 1880, Rafael Nuñez raised to power in a context of crisis, both economic and political. The national economy was fragmented, economic activity was bounded within each of the four regions (Cauca, Antioquia, Interior, and the Atlantic Coast), and internal commerce was mostly inexistent. Besides, the regions were heavily dependent on the exports of raw goods and imports of manufactured goods. An international economic crisis in 1873, together with a drop in the exports of quina and tobacco, had deep negative consequences for the regions. Around the same time, in 1876, a civil war broke out. In an attempt to face the crisis, Nunēz initiated a series of reforms towards the unification of the country and the strengthening of the central state that included: the foundation of the

National Bank, protectionist measures like the imposition of imports tariffs and subsidies for national industries, and the increase in public expenditure and goods provision. Initially, given the state's weakness and the depth of the political conflict, his attempts of reform failed. Until 1884, Nunéz was able to bring together a Constitutional Assembly that wrote in 1886 the new Constitution, one that ruled until 1991. Most of the articles written in this Constitution were intended as counter-reforms to the 1863 constitution. As I said earlier, the 1886 Constitution aimed to return the country to a unitary system of government. It made the Catholic Church regain its political status as the official religion. Besides, protectionist measures were implemented, and the central state regained a role in the economy.

However, surviving these efforts of counter-reform, was the imbalance of power between the central state and the power of regional economic elites. The central state was strengthened following these reforms. However, its relative weakness vis-à-vis the local economic elites, was maintained. According to Kalmanovitz, despite the centralist reform that led to the strengthening of the central state, political power stayed close to landowners and commercial elites. By analyzing the archival material of the debates over the proposed reforms to replace the 1863 constitution (archive of constitutional assembly), it is possible to see how the power of local elites was protected and reproduced in Nuñez's project. The Senate, composed by representatives of each department (former provinces), became a very important body in this newly formed central state.

On the one hand, an article (see Figure 2.2) was introduced to restrain the election of senators to citizens with minimal rent. A revision of the Constitution's text reveals the introduction of a required minimum annual income of \$1,200 pesos to become a Senator. Compared to the estimations of average annual income between 1850 and 1900, this minimum income required was between 10 and 20 times the average national income at the time Guillén Martínez (1979) (check). The introduction of this requirement can be interpreted as a way of guaranteeing local elites' participation in this unitarian government. The result was the intended; senators belonged to local economic elites and, in turn, represented such interests. Other rules complemented this article, including specifications on how senators would be elected and by what segments of the population.

Figure 2.2: *Income Requirements to be Eligible for Senate*



Archival documents containing transcripts of the debates among members of the Constitutional Assembly, reveal that this article was not up for debate, suggesting that the role of the Senate, and the segment of the society that was intended to be represented by it, was not controversial. In addition to the functions of law-making, as representatives of the departments, senators oversaw most decisions in terms of public finances, bureaucratic positions, celebrating contracts, allocation of budget, and territorial divisions of the country. The relative autonomy of local elites was maintained in this newly centralist Constitution.

As evidenced in the transcripts of the debates, a point that was subject to heated discussions was one of the territorial divisions - further division of states. Most of the discussions in the Constitutional Assembly had to do with the formation of new departments. A careful look into these debates shows that the main concern was on how the process of centralization posed risks to territorial borders and divisions and to the links between political and economic power. This is relevant because the stakes and the payoffs of having senators representing local elites were very high.

2.3.2 Mutualism in Chile

I claim that the Constitution empowered the central government in Chile and initiated a positive feedback sequence towards a strong centralized state that mirrored economic elites' interests. In fact, what followed the 1833 Constitution can be analyzed as a self-reinforcing sequence of institutional change that fed both state strength and economic elites (Mahoney and Thelen, 2010).

Partial evidence of this can be found on the subsequent reforms that followed the Constitution, and that progressively advanced the foundation of a liberal democratic state. Elections were held every two years, almost without interruption (1891 being the exception). Scholars attributes this Constitution as the beginning of a process of democratization and stability. According to him, it was the most important of all the Republican Constitutions (Valenzuela, 1977). First, it established the separation of powers, typical of liberal democracies, including an independent judiciary and a relatively strong bicameral congress. Second, the military was subordinated to the constitutional government. Third, it encouraged freedom of the press, and a lively and critical press can be found as early as the 1840s. Fourth, it traced the path for the freedom of association and political and social purposes and was institutionalized with an amendment in the 1870s. Further evidence of the positive sequence concerning the right to vote. Subsequent reforms (1874, 1884, 1885, and 1888) were progressively extending the right to vote. Overall, the subsequent reforms resulted in the institutionalization of a democratic regime that retained many of the institutional practices of the past (Valenzuela, 1977).

Because of this positive feedback in Chile, during the XIX century, the state was progressively getting stronger. This strong state was characterized by its strong ties with the elites, which resulted in the fact that the formation of the state and state projects mirrored their interests very well and continued to strengthen their privileged positions.

2.3.3 Commensalism in Uruguay

The histories of Chile and Colombia contrast with Uruguay's case in that the economic elite was politically divided along urban-rural lines. During a civil war, the state was not in a gradual path of strengthening its capacity, and the two elite factions were in constant conflict throughout the XIX century. The Constitution of 1930 contributed to feeding the existing dispute since it unevenly distributed power in favor of the landed upper class and triggered the response of their counterpart. The Uruguayan case can be seen as a reactive sequence in the sense that the events that followed the Independence and the First Constitution were embedded in the ongoing conflict and often constituted the actions of one party and the response of the other. Between 1830 and 1903, "twenty-five governments guided the Uruguayan ship, out of this, nine were forced out of power, two were liquidated by assassination and one by grave injuries, ten resisted successfully one or more revolutions. Only three were free of serious disturbance during their period in office" (Hanson, 1938). This ended up forming a very weak state that was not able to maintain institutional stability until very late in the XIX century. López-Alves documents that by 1870 the central power remained unable to penetrate the countryside and depended almost entirely on the parties and local political chiefs. In the end, this resulted in very weak ties between the state and economic elites. This disconnection may have been the key to the fact that in 1900, after almost 70 years of institutional instability and state collapse, a complete renewal/abrupt change of the Constitution and the birth of the first welfare state in Latin America. Scholars have studied this puzzling character of rapid change and the depth of these reforms in Uruguay and have emphasized the role of José Battle y Ordoñez in leading the process. "How great an abyss existed between the Uruguay toward the end of Guerra Grande and that which was born in 1900?" (Barran and Nahum (1968) cited in Lopez-Alves (2000)).

2.4 Summary of Findings and Contributions

The analysis yielded several important findings. First and foremost, the period of state formation was key for the formation of state-elite equilibriums which mapped onto distinct trajectories of economic inequality. The level of cohesiveness of economic elites and their ties to political power emerged as an enduring legacy of the period. Additionally, the research showed that the ideas surrounding the role of the state played a pivotal role in shaping

the first constitution of a country.

In Colombia, the central state was weak and local economic elites were very close to political power. In Uruguay, the division of economic elites along urban-rural lines allowed for the strengthening of the state and its autonomy. The foundation of the first welfare state in the region crystallized the distance between economic elites and political power.

Finally, the timing of the first commodity boom relative to the ruling constitution and the group that it empowered also played a significant role in determining a country's trajectory. These findings highlight the complexity and multifaceted nature of the factors that shape a country's development and underscore the importance of considering multiple variables in any analysis of this nature.

Relatively low levels of economic inequality have survived in Uruguay despite multiple sources of instability in the country. Chile has stayed around the middle. On the contrary, high levels of Economic Inequality have been the norm in Colombia. A century of deep transformations in many dimensions of the political, social, and economic spheres was not enough to solve structural inequalities. Attempts to redistribute have been insufficient, sometimes sabotaged by the economic elites' active efforts to protect their richness and sometimes sabotaged by state's incapacity to follow through with proposed policies. I believe that these sources of sabotage have a common origin in the redistributive power of the state.

In the last section of this chapter, I explored how the redistributive state power became an enduring trait in these countries in Latin America. This framework allows us to identify key differences that I believe are a fundamental piece to solve the puzzle of the divergent trajectories of economic inequality in these cases. A critical difference in these countries that anteceded the critical event of state formation can be found in the structure of power sustaining the economic elites and shaping their interests in state formation. The elite split in Uruguay resulted in a chaotic period of state formation, which led to the misalignment of the interests of the state and those of the economic elite. On the contrary, their unified interests allowed the economic elite in Chile to implement a vision of the state that mirrored the elite's economic interests and favored their privileged position. The decision to dismantle the state in Colombia necessarily created a pattern of relative state weakness vis-à-vis the local economic elites.

I trace the origins of the low levels of redistributive state power in Colombia by studying state formation's critical event. I identify its legacies even in moments of radical institutional change as the project *Regeneración*. After the new Constitution of 1886, prior levels of the relative autonomy of provinces/states during federalism were replaced (and maintained) by an extremely powerful Senate that represented the interests of the local economic

elites. Chile presents a different story. This analysis of the first Constitutions allowed me to identify how the distribution of power is reflected in the text. The Chilean Constitution protected elite interests and represented the beginning of a very stable period in which elites consolidated a cohesive position while the state achieved high infrastructural capacities. In Uruguay, the Constitution aimed to empower landowners to respond to the rural unrest threat. The result was a long-lasting civil conflict in conjunction with a weak state and weakening of elites. In the early 1900s, in the context of elite division, Battle's government initiated a series of reforms that strengthened the state's capacity and the redistributive capacity as a result.

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