

# New Economic Historians of Latin America

April 26<sup>th</sup> 2013

LSE NAB 2.08

Programme (Provisional)

9.15 Welcome

**9.30 – 11.00 Session 1:** Chair - Leonardo Weller (Fundacao Getulio Vargas, Sao Paulo)

## **"The fiscal sustainability of Colonial Spanish America: A quantitative appraisal"**

JAVIER L. ARNAUT (University of Groningen, The Netherlands)

### **Abstract**

This paper examines the long run fiscal sustainability of the colonial finances in the main Viceroyalties (New Spain, Peru and Rio de La Plata) of the Spanish Empire during its colonial rule in America. Drawing on colonial treasury data by TePaske and Klein (1982 & 1998), we adjust for inflation the records of nine local royal treasuries to explore the dynamics of real annual revenues, expenditures, and budget deficit, and test the condition of sustainability of the government's budget. Following the theory of the intertemporal budget constraint (IBC) of the government, we provide empirical evidence by conducting statistical tests to show how this condition changed over time in different colonies, mainly due to structural breaks caused by changes in colonial tax policies and war-related expenses during the Habsburg and the Bourbon regime. Empirical findings show that in spite the changes in imperial tax policies (the rise of transfers to Spain, intraregional transfers and other outlays) local budgets remained within a sustainable fiscal pattern in the most important treasuries.

Discussant: Alejandra Irigoin (LSE)

## **"Roads or schools? Political Budget Cycles with different types of voters: The Colombian case, 1830-2000."**

MARIA DEL PILAR LOPEZ URIBE (LSE Economics Department)

**Abstract** "Using a new Colombian data set (1830-2000), we analyze how the change of the electoral legislation about the characteristics of voters (in terms of education and income levels) affects fiscal policy in electoral times. In line with economic theory, we show that after the law was reformed in 1936 the composition of the expenditure shifts towards social spending (like education, health and welfare benefits) but decreases spending on infrastructure and investment projects (like roads). Consistent with the literature, we also find: 1) The timing and the size of the political budget cycles change after 1936 and 2) The change in the voters' characteristics shifts funding mechanism from indirect taxes revenues to more debt and deficit".

Discussant: Colin Lewis (LSE)

## **"The Bolivian fiscal pact, 1882- 2007. The paradoxical equilibrium between human capital investment and poor taxation"**

JOSE A. PEREZ CAJIAS (Universitat de Barcelona)

### **Abstract**

This paper presents for the first time several long - term fiscal series of the Bolivian Central Government. The data points to an increase in social public expenditure and public investment in

human capital since the late 1930s. Indeed, both fiscal categories converged to the levels shown by Chile and Uruguay, two of the most developmental countries of Latin America. Contrasting with this trend, tax collection figures and public revenues remained among the lowest across the region until the late 1980s. This fiscal gap contributed both to the instability of overall economy and the volatility of human capital spending during those periods when external resources -taxes, credits or donations- were not available. Therefore, beyond the explicit commitment of the political leadership, a solid fiscal base may constitute a pre-requisite for an efficient involvement of governments in human capital accumulation.

Discussant: James Dunkerley (Queen Mary)

## **11.30 – 13.10 Session 2** Chair Colin Lewis (LSE)

### **"Entrepreneurship in a Contested Age: British Merchants in Uruguay, 1830-75."**

PETER SIMS (LSE Economic History Department)

#### **Summary & Abstract**

This paper gives a broad overview and interpretation of the role of British merchants in Uruguay during the mid-19<sup>th</sup> century and the evolution of their activities over time, summarizing the findings of my PhD thesis. As a weak state with liberal policies, Uruguay served as an effective alternative point of access to River Plate markets for British merchants and their textile imports, but was also a turbulent market prone to sudden political, military, trade and capital shocks. They mitigated the potential market risks through family links, strategic marriages and social ties, and by maintaining small, easily modified partnerships. As the economy developed, British merchants increasingly moved beyond trade to become broad-based and regionally integrated entrepreneurs. While trade of primary commodities for manufactures was the primary function of merchants, they also played a transformative role in the development of the region through a variety of entrepreneurial activities. They functioned as innovators and capital allocators during the transition to modern infrastructure, banking and industry, paradoxically leading to their own obsolescence.

Discussant: Alfonso Herranz (Universitat de Barcelona)

### **"Engineers, Innovative Capacity and Development in the Americas"**

FELIPE VALENCIA-CAICEDO (UPF)

#### **Abstract**

Using newly collected national and subnational data, and historical case studies, this paper argues that differences in innovative capacity, captured by the density of engineers at the dawn of the Second Industrial Revolution, are important to explaining present income differences, and, in particular, the poor performance of Latin America relative to North America. This remains the case after controlling for literacy, other higher order human capital, such as lawyers, as well as demand side elements that might be confounded with engineering. It then finds that agglomeration, certain geographical fundamentals, and extractive institutions such as slavery affect innovative capacity. However, a large effect associated with being a Spanish colony remains. Inherited cultural and institutional factors relating to the establishment of scientific capacity, and a technologically literate entrepreneurial class thus appear important to explaining the relative income differentials found today.

Discussant: Tamas Vonyos (LSE)

## **13.10 – 14.30 Lunch**

**14-30- 15.40 Session 3** Chair Alejandra Irigoin (LSE)

**"The 'Golden Age' Myth: Livings Standards in Argentina, c. 1910"**

JOSEPH FRANCIS (LSE Economic History Department)

**Abstract**

The common assumption that Argentina was 'one of the richest countries in the world' at the beginning of the twentieth century is a myth, based at best on dubious estimates of historical GDP. By contrast, other indicators demonstrate that Argentina was not one of the world's leading countries according to the main measures of 'human development'. Levels of health and education were below the most developed countries, at roughly the same as Southern Europe, while an analysis of data on wages and prices suggest that workers' incomes were higher than in Italy or Spain but below the levels of Northern Europe, let alone the prosperous European offshoots. Argentina was not, therefore, among the world's most developed countries. Rather, it is argued, Argentina's capital city had achieved a degree of prosperity, while its landowning class was wealthy, yet average living standards were depressed by the preponderance of 'floating' day-labourers in the population outside Buenos Aires city.

Discussant: Alfonso Herranz (Universitat de Barcelona)

**"The Middle Class: Why is it Indispensable for Sustained Growth? The Brazil Experience in the 20th Century"**

MARIA GOMEZ-LEON (Universidad Carlos III, Madrid)

**Abstract**

This work deals with the debate on the causal relationship between institutions, middle class and growth, as well as the relative backwardness of the Latin American countries.

The hypothesis is that the rise of the middle class is indispensable to reach a sustained economic growth that leads to development. The main contributions to the existing literature are: first to address the endogeneity problem in establishing this causal relationship, and second to show the exception of the Brazilian's case to the Latin American path. For this purpose, a graphic model is presented. This model takes into account the endogenous nature of the middle class and attempts to explain the existing interrelationship among institutions, middle class and sustained economic growth. In the model the three variables relate and feed in to each other, generating a virtuous circle in which redistribution policies are the key factor. Then, this work suggests that a weak middle class might be an important factor to take into account, when explaining the lack of persistence of the economic growth in some Latin American countries. Furthermore, the Brazil's experience is shown as a good example of sustained growth and social policies. On the other hand, instead of using traditional measures (based on inequality indicators), this paper proposes studying middle class by polarization (more common cause of social instability). This works also points out the need of joining economics and history in order to reach a better understanding about the role that the middle class have played on development.

Discussant Colin Lewis (LSE)

**15.40-16 Tea break**

## **16 – 17.10 Session 4 Chair Rui Esteves (Oxford)**

### **“Stretching the financial boundaries: how Mexico borrowed cheaply in 1899-1910”**

LEONARDO WELLER (ESP – FGV)

#### **Abstract**

This paper shows that the Mexican loans of 1899, 1904 and 1910 were issued at a risk premium below the Mexican risk. Based on a wide collection of primary sources, it argues that this cheap borrowing only happened because of the aggressive approach of Finance Minister Limantour when negotiation with European and US bankers, including Bleichroeder, Paribas and Speyers. Instead of acting in favour of rent-seeking interests or in alliance with foreign capitalists, high officials of the Porfirian state successfully arranged the loans according to the interests of the National Treasury. Discussant: Coskun Tuncer (LSE/UCL)

### **“Tracing the *reversal of fortune* in the Americas. Bolivian GDP per capita since the mid-nineteenth century”**

ALFONSO HERRANZ-LONCAN and José Alejandro Peres-Cajías (Universitat de Barcelona)

#### **Abstract**

In the centuries before the Spanish conquest, the Bolivian space was among the most highly urbanised and complex societies in the Americas. In contrast, in the early 21<sup>st</sup> century Bolivia is one of the poorest economies in the Americas. According to Acemoglu, Johnson and Robinson (2002), this contrast between pre-colonial opulence and current poverty makes Bolivia a perfect example of the reversal of fortune hypothesis. This hypothesis, however, has been criticised for oversimplifying causal relationships by “compressing” history (Austin, 2008). In the case of Bolivia, a full contrast of the RF hypothesis would require a global approach to the whole postcolonial period, which has been prevented so far by the lack of quantitative information for the period before 1950. This paper aims at filling that gap by providing new income per capita estimates for Bolivia in 1890-1950 and a point guesstimate for the mid-nineteenth century. Our estimates indicate that divergence has not been a persistent feature of Bolivian economic history, but it was concentrated in the second half of the 19<sup>th</sup> century and the catastrophic episodes of the second half of the 20<sup>th</sup> century. By contrast, during the first half of the 20<sup>th</sup> century, the country converged both with the core countries and the richest Latin American economies. The Bolivian postcolonial era cannot therefore be described as one of sustained divergence associated to a bad institutional setting, and an adequate comprehension of Bolivian present poverty would require instead more specific and complex explanations.

Discussant: Steve Broadberry (LSE)

## **18hs Further comments and general discussion**

### **18.30 Happy Hour**

#### **Rules of Engagement**

As we will be a small group, and the objective of the Workshop is to promote discussion, we propose the following arrangements for presentations:

- i) Papers will be presented by Discussants - approximately 10 minutes;

- ii) Questions and comments from the floor - approximately 10 minutes per paper;
- iii) Response and summing up by Paper Authors - approximately 10 minutes.