

## **Crawling towards Weber? Mexican State Capacity in the 19<sup>th</sup> Century**

I examine 19th century Mexico for a better understanding of how and why it was so difficult to create the institutions of a modern state. I show that Mexico suffered from a vicious cycle in that period, something that is probably common to many developing countries, in that they needed a large army to create a monopoly on violence, but they did not have the money to fund such an institution. The chronic lack of funding led to a situation where the country was littered with roving bandits, and the central government had little ability to stop the constant revolts and banditry that prevailed.

Robin Grier  
Free Market Institute  
Texas Tech University  
[Robin.grier@ttu.edu](mailto:Robin.grier@ttu.edu)

## I. Introduction

There is a key paradox to the development of a modern nation-state, and one that has been taken seriously in the last several decades: namely, any state powerful enough to have a comparative advantage in violence also has the ability to use that violence on its people. Warlords and militaries in general are the institutions most able to use organized violence against citizens. It is incredibly difficult for rulers to take control over key portions of the government, including tax-collecting institutions and the military. How are rulers able to get a stable comparative advantage in violence and the ability to tax the citizens? And once they get this power, how does the ruler stop officials and military officials from maximizing their own income through predation and corruption?<sup>1</sup> How can they ensure that the government functions in a professional way and applies the rules of the game impartially?<sup>2</sup>

In a sense the problem is circular. To have a comparative advantage over violence, a ruler must be able to at a minimum pay military salaries. But to pay these salaries, the ruler must also be able to tax citizens, which of course relies on force. And if military officials are self-interested, why don't they overthrow the ruler and get access to all the tax revenue?<sup>3</sup>

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<sup>1</sup> Boettke & Candela (2020, p. 339) define state capacity as the “institutional capacity to constrain the state from public predation.” Besley and Persson (2010, p. 1) define it as not only the ability to raise revenue, but also “the wider range of competencies that the state acquires in the development process, which includes the power to enforce contracts and support markets.”

<sup>2</sup> James Buchanan called this “the paradox of being governed.” Boettke & Candela (2020, p. 332) note that “it requires that we endow the state with the capacity to secure the institutional conditions for economic development, but then constrain it from preying on its own citizenry.”

<sup>3</sup> The circularity problem is remarkably similar to something Ludwig von Mises wrote about with respect to money. That is, why do people accept money? Do they do so because it is useful for buying things? But why is it useful for buying things? Because people accept it. Mises's discussion of the purchasing power of money led him to develop the regression theorem: that the problem is only circular if we leave out time. In his case, he said a commodity, before it becomes money, would have had a history of exchange values against other commodities. Thus, it gradually becomes money. See Boettke et al. (2008) for an application of Mises' regression theorem to institutional stickiness and development.

We often take for granted the institutions behind the modern state, but the truth is that these institutions are relatively recent phenomena and are still lacking in many developing countries.<sup>4</sup> North once argued that neoclassical economics could never truly explain development because it mistakenly assumes that “institutions do not matter,” and that “time does not matter.”<sup>5</sup> Actually, both matter, and the evolution of a modern state is often a long and tortuous history, often spanning centuries.<sup>6</sup> To truly understand this evolution, it is important to study how state capacity changes over time in a particular region.<sup>7</sup>

In this paper, I examine 19<sup>th</sup> century Mexico for a better understanding of how and why it was so difficult to create the institutions of a modern state. Mexico won independence from Spain in 1821 and lagged significantly behind the United States in terms of per-capita GDP. While the data is not perfect, we can see in Figure 1 that average real per-capita income in Mexico after independence was 40% of real per-capita income in the United States. Almost eighty years later,

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<sup>4</sup> Martin & Ruhland argue something similar when they write: “Economists often take the ability of states to collect taxes and enforce laws for granted. In truth, these activities require investing in capacity and expertise. The power to levy broad-based, less distortionary taxes requires a relatively professional bureaucracy and the ability to monitor tax collectors. Enforcing property rights and contracts requires a system of courts. All of these processes are aided by having access to professionally trained public servants who can remember and enforce rules and regulations promulgated by rulers. And all of this is aided by the ability to generate and maintain extensive records.” They go on to cite Acemoglu et al. (2015) in arguing that governments do not always have the incentive to invest in this way because of spillover effects allowing local government to reap some of the benefits.”

<sup>5</sup> North, “Epilogue: Economic Performance Through Time,” p. 343.

<sup>6</sup> Hough & Grier (2015) examine these questions by studying the evolution of the state in England, Spain, the US and Mexico. Johnson and Koyama (2017) also conclude that “economic development and state-building are both lengthy and gradual processes..[and that]...this means that the deep past continues to matter for modern development opportunities.”For more on the evolution of state effectiveness over time, see Benson (1999), Barzel (2000, 2002), North et al. (2009), Congleton (2011), Salter (2015a, b), Leeson and Suarez (2016), Dincecco & Katz (2016), Dincecco (2015), Dincecco & Prado (2012), and Salter & Young (2019).

<sup>7</sup> Boettke & Candela (2020, p. 45) make this point well when they argue that “the answers to an inquiry regarding the nature and causes of state capacity do not reside in describing a set of initial conditions accidentally defined by history, geography, or culture. Such an approach is analogous to modelling the process of economic development as a problem of constrained maximization, one in which individual choices over time are excluded. Instead, we have proposed that unbundling the relationship between state capacity and economic development requires paying attention to the process by which political constraints emerged over time.”

that percentage had dropped to 18.5%. Cárdenas (1997, p. 65) calculates that per capita income fell 37% in the first sixty years of the century and it was not until the 1860s and 70s that the economy began to recover.<sup>8</sup>

Haber notes (1992, p. 5) that, “the great majority of the Mexican population were village-dwelling peasants who practised rain-fed, subsistence agriculture...[and that]...a sizeable portion of the population did not even function in the money economy.” In 1912, even after four decades of economic progress, over 71% of the population still lived in small towns (of less than 2,500 people) and large numbers of these villagers did not speak Spanish (“close to 60% in some states”). While average per-capita income went up by about 100% from 1845 to 1900, most households were still living at subsistence levels. It would have been very difficult for national manufacturers to develop during the 19<sup>th</sup> century because there was no national market and average incomes were low. The fact that the country was effectively divided into small, regional markets meant that manufacturing could not become large enough to take advantages of economies of scale.<sup>9</sup>

Mexican politics during this time was riven with instability and strife. Mexico suffered extreme political instability in the 19<sup>th</sup> century. Vanderwood (1992, p. 25) notes that “with no effective institutions to mediate their differences, Mexicans suffered 800 revolts between 1821 and 1875.” Between independence in 1821 and 1900, Mexico had 72 different chief executives, meaning that the average term was only a little more than one year long. Likewise, the country had 112 finance ministers of finance from 1830 to 1863.<sup>10</sup> Appendix A provides a timeline of major

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<sup>8</sup> It should be noted that while we often study which political institutions are important for economic growth, it is also likely that there is a coevolution of economy and government. See Ang (2017) for an application of this to Chinese political economy, and Kohn (2020).

<sup>9</sup> Haber does note that regional markets did not necessarily doom manufacturing since a lot of it was done at the artisanal level in Mexico. He also cites Pollard (1981, p. 6) as showing that “industrialisation in nineteenth-century Europe was largely a regional phenomenon.” The regionalization in Mexico, however, was compounded by very low, and unequally distributed, levels of income.

<sup>10</sup> Platt (1980), p. 118.

rebellions, wars, revolts, and coups d'état in Mexico in the 19<sup>th</sup> century. It is clear from the list that there were near-constant revolts, invasions, secessionist movements, and similar episodes.<sup>11</sup>

The country also experimented with several different forms of government, including two empires (including one headed by a French monarch), one disputed period where there were presidents from both main parties, four republics, one provisional republic, and a long dictatorship.<sup>12</sup> President Guadalupe Victoria was the first constitutionally elected president of the country and bizarrely, he was the only one who would complete a full term in the first 30 years of independence.<sup>13</sup> Appendix B lists all of the chief executives in 19<sup>th</sup> century Mexico after independence, while Appendix C does the same for the United States. The US had 21 presidents during this time, meaning the average president served 3.76 years.<sup>14</sup>

I argue that for much of the 19<sup>th</sup> century, Mexico was caught in a vicious cycle. It was a huge country with little experience with political centralization. To have any kind of control over such a large country, the central government needed a professional military with clear lines of hierarchy. This is a real chicken and egg situation, in that to have such a military, the government would need a lot of money, but to collect that money in the first place, they needed the army and a monopoly on violence.

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<sup>11</sup> From independence until roughly the 1870s, Mexico was in a near-constant state of skirmish or warfare with Native American tribes, most notably following the southward migration of the Comancheria from the Great Plains of what is now the United States. Mexico somewhat parallels the US conquest of the west in this regard, but with less effective state capacity in the conflicts that ensued. This strained finances and exacerbated state capacity issues.

<sup>12</sup> If we ignore the dictatorship that began in 1884, then there were 71 chief executives over a 63-year period, meaning the average term was considerably less than one year.

<sup>13</sup> President Sebastian Lerdo came close to finishing his term. He was overthrown by the Revolution of Tuxtepec and had to abandon his post a mere ten days before the end of his term.

<sup>14</sup> Two US Presidents died of natural causes during that time, William Henry Harrison and Zachary Taylor, while two were assassinated (James Garfield and Abraham Lincoln). Presidents Monroe, Jackson, and Grant all served two terms.

From a broader perspective, I study a period of Mexican history that is often too heavily parsed into isolated incidents but is in fact reflective of a recurring pattern of challenges for state capacity, stability, and thus economic growth for all developing countries.

Section 2 discusses the theory and empirics of state capacity, while Section 3 delves into the long evolution of state capacity in Mexico, discussing why the central government had so much trouble raising money and keeping control, and how banditry became institutionalized. Section 4 briefly investigates how Mexico was able to finally start to solve the state capacity paradox and began to consolidate power and to grow economically.

## 2. Theory & Evidence

So how do states become effective and why does it matter? We care about state effectiveness for many reasons, but one of the main ones is that there seems to be a strong and positive correlation between it and prosperity (see, for example, Besley & Persson (2010), Johnson & Koyama (2014, 2017, 2019), Acemoglu et al. (2015), and Geloso & Salter (2020)).<sup>15</sup>

As I noted above, the development of an effective state typically takes a long time, something we frequently forget when we expect developing countries to develop state effectiveness quickly. Pritchett & Woolcock call this strategy, often used by international financial institutions like the World Bank or the IMF, as “skipping straight to Weber;” that is, trying to get poor countries to catch up to rich ones by mimicking their institutions instead of recognizing that these emerge typically after a long process of trial and error.<sup>16</sup>

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<sup>15</sup> There is another branch of the literature that studies how competitive pressures affect state capacity. See Piano (2019) for a description of this literature and Salter & Young (2019) for a good description of jurisdictional competition in medieval Europe and how that influenced state capacity.

<sup>16</sup> Lant Pritchett and Michael Woolcock, “Solutions When the Solution is the Problem: Arraying the Disarray in Development,” *World Development* 32 (2004), 191-212, p. 193 and 201.

One of the reasons we may have too lofty goals for state effectiveness is that we do not perceive many of the invisible rules, habits, and customs, that govern our actions and those of our fellow citizens.<sup>17</sup> Hayek argued for the importance of an “underlying structure of rules” for a well-functioning price mechanism and market process. In *Rules and Order* in 1973, he writes, “man is as much a rule-following animal as a purpose-seeking one. His thinking and acting are governed by rules which have by a process of selection been evolved in the society in which he lives, and which are thus the product of the experience of generations.”<sup>18</sup> Brennan & Buchanan (1985, p. 6) also recognized that a spontaneous market order cannot flourish without “an appropriate ‘constitutional context’--a proper structure of rules, along with some arrangement for their enforcement.”<sup>19</sup> As Martin & Ruhland note (2018), “the same institutions that enable the Protective State are likely to enable the Productive State, because both represent widespread gains from exchange.”<sup>20</sup> One big problem with Buchanan’s emphasis on written constitutions is the fact that, by his own assumptions, officials are self-interested and likely to violate the rules of the game (either the social contract or a constitution). In that sense, constitutions cannot be the only answer to the question of how states become effective.

Mancur Olson dealt with this issue head-on, arguing that self-interest could not seriously be restrained with a social contract. He introduced the concept of roving and stationary bandits to explain how state may evolve from one to the other and in the process become more professional, more capable, and more peaceful. Roving bandits are warlords or local militias that care only about short-term revenue maximization. For that reason, they plunder and wreak havoc on their regions. However, when one roving bandit defeats the others and creates a monopoly of force, he might

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<sup>17</sup> See Coyne (2007) for an excellent examination of this phenomenon.

<sup>18</sup> Friedrich Hayek, *Law, Legislation, and Liberty* (Chicago: University of Chicago Press, 1973), p. 9.

<sup>19</sup> Buchanan wanted taxes to be included in constitutions to limit the role of rent-seeking.

<sup>20</sup> The “protective state” is one where the government is able to enforce property rights and contracts, while the “productive state” is one that has the capacity to raise revenue to provide and administer public goods.

then turn into a “stationary bandit” (essentially a government). This represents a welfare improvement in the sense that the stationary bandit now has “encompassing interests,” meaning he can raise more money through taxes and “peaceful order” rather than through plunder. Stationary bandits have an incentive to create the conditions for economic growth, even providing public goods, because doing so raises his tax base. This was Olson’s answer to the paradox of a modern state: rulers who want to maximize their long-term revenues will be constrained by their own self-interest and tend to refrain from plunder.<sup>21</sup>

Olson’s description of roving bandit conditions is consistent with what we know of weak or failing states.<sup>22</sup> These areas tend to lack basic public goods, like a functioning infrastructure, rule of law, and public sanitation. As Coyne & Pellillo (2012) note in their study of state capacity in Afghanistan and the Democratic Republic of the Congo, “without the background conditions these [public] goods provide, markets cannot deliver growth or equity.”

Governments in these countries often do not have a monopoly on the legitimate use of force throughout the nation.<sup>23</sup> There are often regional political actors who have monopolies of force in their areas. Any attempt by the central government to eliminate such power will obviously not be popular with these actors. Coyne & Pellillo write that “Members of a local militia may face few binding constraints on their behavior and may expropriate assets...and that...imposing constraints or changing incentives requires some function of diplomacy, legal pressure,

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<sup>21</sup> Olson did acknowledge, however, that rulers may sometimes seek to maximize short-term revenue at the expense of long-term growth, but mostly he seemed to see state capacity as positive for economic growth. Boettke & Candela note that the “stationary bandit argument is a necessary, though not a sufficient condition for taming public predation.” They go on to cite Olson (1993, p. 573) as writing “Historical evidence from at least the first pharaohs through Saddam Hussein indicates that resolute autocrats can survive even when they impose heinous amounts of suffering upon their peoples. When they are replaced, it is for other reasons (e.g., succession crises) and often by another stationary bandit.”

<sup>22</sup> See Eizenstat et al. (2005) and Coyne (2006) for more on this topic.

<sup>23</sup> See Scott (2009) and Coyne & Pellillo (2012) for more on this. Mancur Olson has one of the most famous Boettke & Candela (2020) write that “by Olson’s own admission, his stationary bandit argument is a necessary thought not a sufficient, condition for taming public predation.” (Ibid, p. 337)



political/financial incentives, or military/police force.” They cite warlords in Afghanistan as an example of this, where such actors have no incentive to share their tax revenues with the central government because doing so would lead to the elimination of their regional power.<sup>24</sup>

In what follows below, I will explore why it took more than 50 years before much of Mexico was able to make the transition from roving bandits to a stationary one.<sup>25</sup> One finding of the state capacity literature is that rulers that do not expect to extract wealth for very long will have short time horizons and act more like roving bandits than stationary ones. Piano (2019) notes that “when internal turmoil is prevalent, rulers will tend to underinvest in the ‘productive and protective state’ as they expect not to be in power when the fruits of such investments come to fruition.” This will turn out to be crucial in explaining Mexico’s lack of state capacity in the 19<sup>th</sup> century.

### **3. Mexico’s long road to state capacity**

As mentioned above, Mexico suffered extreme political instability after independence in 1821. As a few examples, there were four Mexican presidents in the years 1829, 1839, 1846, 1847, and 1853, while there were five in 1844 and 1855 and eight in 1833! Antonio López de Santa Anna, who was President of Mexico on ten separate occasions, was president four different times in a single year (May 16<sup>th</sup>, 1833 to April 24<sup>th</sup>, 1834).<sup>26</sup> President José María Bocanegra was only president

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<sup>24</sup> Giustozzi (2009, p. 39) writes about Afghanistan: “the landed wealth of Herat’s elites was the main source of their power and much of their effort to secure local autonomy might be explained by their desire to protect it from central taxation. The city had a tradition of rebelling against the dominant power, particularly when the local balance of power was being upset, and of demands for self-rule.”

For more on this topic, see also Murtazashvili (2009), Stearns (2011a, b), Del Castillo (2008), West (2011), and Martin & Ruhland (2018).

<sup>25</sup> It is important to acknowledge that explaining all historical processes are fraught with difficult. Piano (2019, p. 304) notes as much, pointing out that “such an effort is complicated even more by the possibility of virtuous cycles...[that is]...An increase in productivity may lead to investments in state capacity, which in turn may lead to a further increase in productivity, and so forth.”

<sup>26</sup> Many chief executives had short tenures because they would leave to go suppress a rebellion or would themselves be overthrown in one.

for 6 short days (December 17<sup>th</sup>, 1829 to December 23<sup>rd</sup>, 1829) because he had to fight a rebellion of his Vice President.

Craib (2002) writes that “Rebellions in northern territories, the secession of Texas and the Yucatán, and regional conflicts all confounded any comforting thoughts of a unified national space and repeatedly raised the specter of total national disintegration.” Indeed, Mexico lost one-half of its territory to the US in the mid-19<sup>th</sup> century, an event that caused many Mexicans to lose even further respect for their government. Craib (2002) writes, “In 1847, Mariano Otero, attempting to account for the ease with which ‘ten or twelve thousand men . . . penetrated from Veracruz to the very capital of the republic,’ offered a stinging explanation: Mexico did not constitute, nor could it properly call itself, a nation.”<sup>27</sup> It is also telling that the central government at the time did not have a clear sense of the scope of the country. When Mexico became more well-mapped in the mid 19<sup>th</sup> century, a better idea of Mexican geography and boundaries “brought an expression of bitterness from General Antonio López de Santa Anna who, for the first time, could actually envision the magnitude of territory Mexico had lost.” (Craib, 2002)<sup>28</sup>

This extreme political instability also created a situation where the government was unable to provide even minimal public goods in much of the country. So why did Mexico struggle for such a long time to establish a capable, central government? Many of the factors that plagued Mexico are also common to other developing countries after independence. Hough & Grier (2015), for

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<sup>27</sup> Vanderwood (1981, p. 37) writes that “the quick amputation of one-half of the national territory further discredited the govt, and respect for authority, on the decline since independence, largely disappeared. It seemed as if the bandits went out of their way to show their contempt for authority. They certainly displayed no pride in being Mexican. The war had eroded all such morale, and in disgust and in frustration ex-soldiers became brigands.”

<sup>28</sup> Craib (2002), discussing the importance of map-making in Mexico during this time, writes that “A national map could also prove useful in the war against fiscal chaos, administrative fragmentation, and regional politics in that a variety of local and regional statistical information, as well as what were said to be quite precise state maps, could be compiled and incorporated into a master map. Moreover, a national map offered a symbolic affirmation of the political reality of an entity whose very existence was at the time increasingly called into question: a unified and sovereign Mexican nation-state.”

instance, ask why Mexico was not able to do as well as Chile. They note that Chile had the typical conflicts that were found in much of Latin America, including conservatives versus liberals and secularists versus those that were very pro-Catholic Church. It is unlikely that Mexico would have transitioned to a well-functioning democracy after independence, but why was it so hard to create a stable authoritarian regime that, while illiberal, might build state capacity?<sup>29</sup>

Below I will argue that Mexico was caught in a vicious cycle. First, Mexico had little experience with centralized states and the little they did was eliminated by the time end of independence. Second, geographically, Mexico is a very large country and in order for the government to have a monopoly on violence, they also needed to have a transportation system and a professional army, both of which required a lot of money. Third, the government had no money! The war of independence destroyed both tax collection and the economy. As a result, the government could not pay the military, which meant that the country was littered with roving bandits, who were constantly amassing troops and revolting against the central government. Governments were short-lived and had short time horizons, resulting in inconsistent and ineffective policies.<sup>30</sup> Lastly, those groups became entrenched and actively resisted any actions by the central government to take control. They also fiercely resisted being taxed, which mean the government as chronically underfunded.

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<sup>29</sup> Hough & Grier (2015) argue something similar, writing “personalistic relations and corporate institutions are quite compatible with patrimonial authoritarian states that maintain order. Spain, after all, maintained order in Mexico for nearly 300 years, and it had a most imperfect authoritarian state for a large part of that period.”

<sup>30</sup> Mexico was plagued by exploitable political crises in the 19<sup>th</sup> century, but unlike Higgs’ (1985) ratchet thesis of state growth in times of crisis, very few leaders were able to successfully capitalize on these in a clear ratcheting pattern (unlike what happened in the United States. Instead, for much of that period, there was a constant toppling of predecessor regimes with little functional capacity growth.

*a. An unhelpful colonial legacy*

Recent literature has demonstrated a strong relationship that a country's development of modern state capacity is dependent on whether it had experience with a centralized government in the past (see, e.g. Gennaioli & Rainer (2007), Michalopoulos & Papaioannou (2013), and Acemoglu et al. (2015)). Unlike the U.S., which had a strong tradition of (limited franchise) democratic institutions before becoming a federal government, Mexico had little experience with effective government and tried to impose a state on the populace from the top down.<sup>31</sup>

There has long been a mythology in economic history that Spain was a strong, centralized state and ruled its colonies accordingly.<sup>32</sup> In actuality, Spain had only two viceroys in the Americas, one for North America one for South America.<sup>33</sup> Neither viceroy had much in terms of staff, let alone a centralized bureaucracy, and the staff that they did have was just their personal staff, not administrative. Brading (1973, pp. 399-400) notes that even by the late 1700s, "the Spanish Crown depended on a mere handful of officials to govern its American empire." He notes that "in New Spain the entire judicial bureaucracy, for example, the salaried members of the *Audiencia* of Mexico and Guadalajara, numbered about 30 persons."<sup>34</sup> In sum, there was no real executive branch.<sup>35</sup>

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<sup>31</sup> It would have been interesting to have seen what would have become of Mexico had the Spanish not colonized the area. The Aztecs had built up a relatively strong state in central Mexico and Foa (2017) calls state development in Mexico "arrested" because of the long colonial period. See Feld (2014) and McGinnis and Ostrom (2012) for a good discussion of James Buchanan's and Vincent Ostrom's work on federalism. See Bense (1990) for the evolution of state capacity in the late 19<sup>th</sup> century in the United States.

<sup>32</sup> See Arteaga (2013) for a good discussion of how the Spanish empire, which had seemed cohesive for centuries, could fragment in such a short amount of time.

<sup>33</sup> Compare this to the British North America, where each small city-state colony had its own governor, a formal governmental structure, and legal code. They also had elected assemblies that initiated legislation.

<sup>34</sup> In addition, the treasuries "did not employ more than 60 men above the level of mere clerks" and the colonies had no true military force besides "frontier patrols and the port guards."

<sup>35</sup> While there was some hierarchy in core regions, these officials were often quite independent from the viceroy. For instance, the justices of the *Audiencia* (the supreme court), were chosen by the king and had lifetime tenure. Tax collectors were appointed by the king as well and had to buy their positions starting in 1633. Mayors also had to buy their positions from the king. The viceroy was allowed to appoint mid-level church officials but in practice followed the advice of the archbishop. See Burkholder (2010, pp. 121-3) and J. H. Parry (1953).

Until the creation of the intendant system in the late 18<sup>th</sup> century, there was no system of provincial officials below the viceroy. Even then, the Spanish king was uncertain whether to allow the viceroy or the intendants to fully control tax collection.<sup>36</sup>

It is hard to conceive of how large the Viceroyalty of New Spain was, and how little control the viceroy had over this territory. In essence, the viceroyalty included modern Mexico as well as modern-day Texas, Kansas, Wyoming, Arizona, New Mexico, California, Florida, Nevada, Utah, Colorado, Oregon, Washington, Florida and portions of Idaho, Montana, Alabama, Mississippi and Louisiana.” It also included part of present-day Canada, all of Central America, Cuba, the Dominican Republic, Puerto Rico, Trinidad and Tobago, and the Philippines.<sup>37</sup> Figure 2 is a map of the viceroyalty in this hemisphere.

Centralized administration of such a large territory necessitates a specialized and professional bureaucracy that can provide the leader will good policy advice as well as an administrative oversight of the different regions. All of this territory, and the viceroy had a few secretaries at his service, and no military power! Spain was worried that a viceroy with too much power would also be a viceroy difficult to control. So while the preconception might be that Mexico inherited a centralized, hierarchical state, nothing could be further from the truth.

The Spanish Bourbons started to create provincial governments in the colonies in the late 1700s, but even then, these city-states did not have a formal system of government or laws, nor did they have any significant military force.<sup>38</sup> While power lay in these city-states, they did not form a

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<sup>36</sup> Most tax collection done in New Spain was in the form of tax farming, although the Catholic Church had the authority to tax wheat and corn through the tithes. Again, the comparison to British North America is striking. There, governments had the responsibility for tax collection and administration at the local level as well as militias.

<sup>37</sup> There’s more! It also included “Guam, the Northern Mariana Islands, the Caroline Islands, the Federated States of Micronesia, Palau, the Marshall Islands and the short lived Spanish Formosa in modern-day northern Taiwan, as well as during a century the island of Tidore and the briefly occupied Sultanate of Ternate, both in modern-day Indonesia).”

<sup>38</sup> See Luz for a good discussion of the Bourbon’s efforts to build fiscal capacity in Mexico.

true state. They were ruled informally by elites who had no official ability to collect taxes.<sup>39</sup> Spain also kept experimenting with new governmental structures and never effectively strengthened the executive power in the new provinces.<sup>40</sup> This mere beginning of state capacity and orderly government, however, was abandoned in 1808 when the Spanish king was overthrown and any vestiges of it seemed to be destroyed in the chaos and violence of the wars for independence.<sup>41</sup>

*b. The geography of Mexico*

Geographically, Mexico is a very large country, which creates real problems for building state capacity. For the government to hold a monopoly on violence, it needs a lot of revenue to create a professional army as well as an efficient transportation system. The problem is how to raise this kind of revenue if it does not already have a monopoly on violence.<sup>42</sup> Stasavage (2010) shows that medieval/early-modern representative activity in Europe was negatively related to the size of a country. He argues that when rulers wanted to hold these assemblies, this was a costly endeavor for both ruler and attendee. If we thinking of state capacity as the outcome of political bargains (i.e., I'll commit to such and such governance, that informed by your input, and you commit to funding it), then Stasavage's argument is important to the Mexican case given just how large the country was and, also, how difficult the terrain was for transportation.

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<sup>39</sup> Stasavage (2010, p. 625) argues that “there is broad scholarly agreement that the development of representative political institutions was a critical part of the process of European state formation.” See, for example, Levi (1988), Dincecco (2009), Bates & Lien (1985), Salter & Young (2018), Hoffman & Rosenthal (1997).

<sup>40</sup> Hough & Grier (2015) compare Mexico's paltry colonial legacy with the newly formed United States: “The American colonial and state political elite had the experience, the tax revenue, and the military force to govern. After 1776, they had ruled independently for 11 years under the Articles of Confederation. Farmers owned their own land and had rifles to control brigands who might interfere with the transportation of their goods to market. This also limited the ability of brigands to interfere with the movement of people.” As I will demonstrate below, this last part was especially true (and detrimental to Mexico's state capacity).

<sup>41</sup> It should be noted though that no matter how little state capacity the Bourbons had created, Mexico before independence was relatively richer and had more state capacity than they would 50 years later..

<sup>42</sup> Large enough to fit 23 European nations inside of it.

For instance, Haber (1992, p. 3) notes that only a third of Mexico has relatively level terrain, most of the population lived far from coastal areas, and there are very few navigable rivers. Thus, the geography and settlement patterns of the country meant that transportation was extremely costly. He notes (p. 4) that, “almost all traffic therefore had to move over mountainous terrain by expensive mule train or ox-drawn, wheeled vehicle.”<sup>43</sup>

The colonial authorities had done little to build up an efficient transportation system and by 1800, there was, “only a single roadway existed that was suitable for wheeled traffic over its entire length...[and]...even on this highway, which ran from Mexico City to Chihuahua via Zacatecas and Durango, mule trains outnumbered wheeled traffic” (Haber, p. 4). Transporting goods by mule was not only long and costly, it was also not conducive to large capital acquisitions. Firms were unlikely to invest in new equipment and machinery because the transport of the capital would be hugely expensive if not impossible.

Haber uses the Real del Monte mining company as an excellent example of the transportation troubles that firms faced. The company imported mining machinery in 1825 and it took almost a year for the imports to travel from the port of Veracruz to the mines (a distance of 350 miles). Similar costly delays were reported in other manufacturing sectors, such as textiles: “imported textile machinery often doubled in cost by the time it reached Mexico City from Veracruz, a distance of only some 300 miles.”<sup>44</sup>

There were bandits to deal with that made transportation difficult and dangerous. Again, there is very little hard data on the amount of banditry on Mexican highways in the 19<sup>th</sup> century, but anecdotal evidence seems to indicate that people considered travel to be relatively dangerous.

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<sup>43</sup> Haber also notes (p. 4) that transportation, “was also unreliable, as Mexico's rainy season, which stretches from May to September, regularly made the roadbeds impassable.”

<sup>44</sup> Haber cites Enrique Cárdenas, 'Some Issues on Mexico's Nineteenth Century Depression', mimeo (1981), pp. 29-30 as the original source of these two examples.

Vanderwood (1981, p. 3) cites the French Minister to Mexico, Dubois de Saliguet, about banditry at the time: “It is the only institution that can be taken seriously and functions with perfect regularity.”<sup>45</sup>

Unfortunately, transportation issues did not change much until railroad construction took off in the later 19<sup>th</sup> century. Beatty (2001, p. 27) notes that as late as the 1870s, Mexico “still had fewer than 5 km of road passable by 4-wheeled carts per 10,000 inhabitants, less than 1/10 the US figure. As I discuss below, the failure to develop an efficient transportation system had a lot to do with political instability and the inability of governments to raise revenue. Beatty (p. 27) notes that government expenditures were consistently less than 8% of GDP during this period and that “gross spending actually declined from Independence through the 1860s.” He concludes (p. 27) by arguing that, “political instability ensured that few efforts—public or private—were made to improve what might euphemistically be called a transportation network or the physical infrastructure for economic activity in general.”

*c. A chronic lack of money*

The war of independence, which lasted from 1810-1821, was devastating to the Mexican economy and to tax collection as well. There was an enormous amount of capital flight, which began even before the war.<sup>46</sup> Silver output, the mainstay of the Mexican economy, fell to its lowest level in the 1820s, a mere 44.6% of what it was in the 1810s, and it was not until the 1860s and 1870s that the industry really began to recover (Cárdenas, p. 68). Many of the mines were flooded

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<sup>45</sup> Vanderwood (1981, p. 6) writes that “nothing cultivates banditry like ineffective central government mired in a war for survival. Distinctions between soldier, brigand, patriot, and avenger simply disappeared.”

<sup>46</sup> Spain started this problem even before independence when it leaned heavily on New Spain to finance the Napoleonic wars. Cárdenas (1997, p. 67) notes that “exports of gold and silver reached 131.9 million pesos between 1807 and 1820, a figure that doesn’t include the “ordinary” royal net remittances to Spain.” He compares that with other estimates ranging between 80 to 140 million pesos and argues that since mining exports was around 160 million ten years before the war, it was clear that capital flight was an important problem.



and destroyed during the war. Silver mining had many links to other parts of the Mexican economy, which meant that the collapse of mining in the post-independence period also led to a reduction in production of other goods.<sup>47</sup>

The collapse also reduced the amount of money in circulation, which meant that there was less money to loan out, increasing interest rates and lowering investment. International trade was also hurt by the collapse in mining. Mexico was only able to import goods through its exports of silver. When mining collapsed, there was less silver in the domestic economy and less available for exports as well. The fall in mining also had a fiscal effect, in that taxes on mining and other trade were no longer securing as much revenue as they had previously. Most government revenue came from tariffs, so the reduction in international trade due to mining problems meant a severe contraction of government revenue.

The economy of Mexico City and many of the provinces was dependent on trade between the mines and Veracruz. The mining economy had been devastated, and Mexico City never really controlled Veracruz and the roads between the plateau and the coast. The royal commanders near the mines continued to appropriate resources for their own use. Mexico City was left without a reliable source of income other than in areas around the capital. Without foreign trade, this income was only large enough to finance activities in the central region.

Tax revenues during the war fell sharply. Cárdenas calculates that tax revenues fell from 24 million pesos annually in the late colonial period to only 12 million per year in the ten years after independence (p. 74). This meant that the state was unable to fund much of anything, especially

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<sup>47</sup> For instance, the large mining centers were surrounded by agricultural estates that made money supplying goods to the mines, including food for the miners as well as their animals, housing, clothing, and transportation. When mining production fell dramatically, these agricultural estates lost their markets (Cárdenas, p. 70).

since much of the decreased revenue had to be dedicated to the military because of the violence that still plagued the country.

The aftermath of the war brought its own challenges. For starters, old colonial trading networks had been disrupted and merchants had to find new contacts and avenues for trade. For instance, the break with Spain meant that Mexico had to look for a new supplier of mercury, an essential ingredient in the production of silver. With the end of colonization, Mexico faced several challenges in securing the much-needed mercury to be able to mine silver. Spanish trading networks were disrupted with the rupture of diplomatic relations between the two countries.<sup>48</sup>

Given the traditional structure of the Mexican export sector, which was almost totally oriented towards silver, it is hardly surprising that silver continued to dominate Mexican exports throughout the 19<sup>th</sup> century. It is difficult to get exact figures on the value of these exports because high taxes in Mexico made it profitable to smuggle silver out illegally.

There were other unfortunate legacies of the war. Félix María Calleja, viceroy of New Spain from 1813 to 1816, had no money to pay officers. He instead allowed them to “self-finance” through looting. He urged the elite to create and fund their own militias.<sup>49</sup> He divided up the country into districts and appointed commanders to deal with any militias that had been formed in their districts. Hamnett argues that this regionalization had dire consequences in that it, “unintentionally contributed to the creation of military satrapies in the provinces.”<sup>50</sup>

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<sup>48</sup> Herrera Canales (1990) notes that Spain was in no condition at the time of Mexican independence to be able to distribute mercury and even if they were, they could not have sold it directly to the Mexican miners for diplomatic reasons. Selling mercury to Mexico involved setting up relations with foreign agents, typically British, to act as go-betweens. (p. 31, 33).

<sup>49</sup> Christon Archer, “Years of Decision: Felix Calleja and the Strategy to End the Revolution of New Spain,” in Christon Archer (ed.), *The Birth of Modern Mexico* (Wilmington: Scholarly Resources, 2003).

<sup>50</sup> Brian Hamnett, “Royalist Counterinsurgency and the Continuity of Rebellion: Guanajuato and Michoacán, 1813-1820,” *Hispanic American Historical Review* 62 (1982), 19-48.

The anarchy and looting of the war led to a number of problems after independence. First, there was a history of pillage and looting as a way of getting ahead. Archer has argued that “people on both sides deliberately kept the war going (independence war) because it offered so much easy plunder, all in the guise of patriotism.”<sup>51</sup> Vanderwood writes that the army, while a source of social mobility and a way into national politics, was in no way a professional army. He writes (p. 32) that it was instead a:

conglomeration of competing political interests whose leaders had, in the main, gained their military rank through political appointment (or self-appointment) during the confusions of war. There was constant scheming—the most successful schemer became president—but not for long.

The Mexican government was dominated by military men for much of the 19<sup>th</sup> century. There were only 3 years on the first 30 years of being an independent country when the presidency was held by a civilian.

The army was big on promotions, so it was heavy with generals and other top-ranked officers. It was also surprisingly large, with “almost 20,000 permanent troops, scattered in garrisons all over the country, and slightly more than 10,000 active militia reserves attached to regional commands” before the Mexican American war.<sup>52</sup> The recurring problem though is the army is expensive to maintain and can become a potentially destabilizing force itself when turned on the government.

As for the second point, there were so many revolts in the post-independence era because (a) there was no real allegiance to a national government and (b) revolt was seen as a way to get

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<sup>51</sup> Vanderwood, p. 26

<sup>52</sup> Wasserman (2000, p. 82). Wasserman (p. 82) also notes that “there were far too many officers and far too few soldiers. When war came, the government had to raise a large number of troops quickly. Panicked officers could not pick and choose from the population. Conscription filled the ranks, but of necessity took unwilling men.”

promoted; and (c) there was no penalty for revolting.<sup>53</sup> Costeloe cites an observer during this period as saying “The rebellions are speculations in which one risks nothing and can gain a lot.” Perhaps not surprisingly given that Santa Anna was president 11 times, he also writes that “throughout all the turmoil, there was a remarkable degree of human continuity in the sense that the people involved did not change ... Rebel military and civilians lived to fight another day and mostly did so.”<sup>54</sup>

The constant instability in the country was a drain on national finances. Take the Pastry War of 1838, for example, where France invaded Mexico. The war damages settlement owed to France both further strained the Mexican treasury and provided a pretext for the more extensive French incursion in 1861. It is also a classic example of how the Mexican government’s inability to provide effective defenses against incursion destabilized its ruling regime, fueling the vicious cycle (specifically: Santa Anna “volunteered” to lead an army against the French incursion at Veracruz and used it to maneuver himself back into the presidency). This is just one example, but it shows a common pattern of how Mexico’s political stability and revenue were further compromised not only by internal discord but by international claims against the Mexican state that arose from previous conflicts.<sup>55</sup>

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<sup>53</sup> Vanderwood writes that officers “regularly pronounced against it (the national government) not only for promotion but to loot on a march to nowhere across a rural sector or to steal a payroll assigned to their troops.”

<sup>54</sup> Costeloe, *The Central Republic*, pp. 7, 27. Vanderwood (1981, p. 31) also notes that “brigands also served the armies raised by politicians in pursuit of power, even the presidency. If their side won, all the better. If not, common practice pardoned the defeated. Later it gave them police work in the service of the state.” This also applied to regular bandits, who carried political proclamations with them in case they were caught, “they would not be shot as common criminals. Printed political decrees became a kind of lifesaver. If one was arrested by those who had issued the manifesto, no problem. If taken by an adversary, one simply changed sides.” (Ibid, p. 4)

<sup>55</sup> The problem of secessionist and breakaway rebellions was also a constant problem. In addition to the well-known Texas Revolution, near-contemporaneous breakaway revolts on the Yucatan peninsula, Zacatecas, and the Republic of the Rio Grande resulted in the establishment of short-lived independent states during the formative decades of Mexico’s existence. These events reflect not only the vicious cycle but the underlying tensions of centralized government amid a diffuse geography and weak state capacity. Specifically, these and similar secessionist movements grew out of the preceding decade’s strife between Liberal and Centralist political factions, culminating in the toppling of Vicente Guerrero in a military coup in 1829. Political centralization both precipitated the ensuing wave of secessionist states and became the mechanism for dealing

As Appendix A illustrates, military capacity was often directed inward, which both triggered additional rebellion and undermined Mexican ability to resist foreign incursion. Some level of functional centralization was necessary to stabilize Mexico politically, but paradoxically, a succession of conservative and Centralist heads of state (Bustamante, Santa Anna) usually precipitated secessionist movements that then instigated successive waves of military suppression.

Given this economic and political turmoil, it is not surprising that the central government had so much difficulty raising taxes after independence as well. In 1824, the Mexican Congress enacted a new tax system, where the states would collect sales taxes, taxes on precious metals, and an income tax. The latter was supposed to be turned over to the federal government. The national government reserved the right to raise revenue through a 15% tariff on imports as well as national monopolies on tobacco, gunpowder, and salt. The government's numbers were wildly optimistic (they did not even control the main port of Veracruz to be able to collect tariffs) and the states never paid more than half of what they were expected to pay to the federal government.

The government turned to foreign countries to borrow money but the economic growth that would allow them to repay these loans did not occur and they defaulted on their loans to England in 1827. Tariffs tended to be high, outdated in terms of their valuation, and extremely inconsistent. Even more than the level of tariffs, however, the British merchants complained about the inconsistency that tariffs were enforced. Part of this inconsistency can be explained by the fact that the government had little ability to raise funds domestically. As Heath explains (p. 276), "tariff legislation changed with bewildering frequency as successive governments and their even more transient finance ministers strove frantically to increase revenue, fight the evils of the contraband system, and placate whichever private interest looked most immediately threatening (or promising)."

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with them, usually through military expedition (not only the 1836 expedition into Texas, but a successive invasion in 1842, invasions of the breakaway Yucatan states in the 1840s and subsequent caste wars).

The inconsistency of tariff enforcement can also be explained by the lack of an efficient communication system in the country. Tariffs were supposedly the purview of the federal government, but the isolation of much of the country from the capital city meant that local and provincial politicians could often act arbitrarily, “the isolation of most ports from the interior placed them out of the reach of successive politically and economically weak national governments. Contraband combined with the willingness of poorly paid customs officials to abet fraudulent practices” (Heath, p. 277). Regional governments were also desperate for cash, especially during times of civil war, and they would often take over customs houses to help fund their militias. As Hough & Grier (2015) write, “Mexico returned to semi-anarchy outside the Mexico City city-state for 60 years.”

*e. Entrenchment of local powerholders*

Banditry became an enduring institution during this period, one that became increasingly entrenched and resistant to central government interference. Vanderwood (1981, p.30-1) writes that “no common cause existed in provincial Mexico, unless it was a mutual determination to keep central authority at bay.”

After the war of independence, regional strongmen had sought to ensure the powers they had received during the war, and that often included the right to tax their regions. The more disorder there was in the provinces, the more difficult it was for the central government to impose their authority. This created the incentive for these regional caudillos to create a system of permanent disorder. Vanderwood (p. 34) writes that:

They tore up and otherwise refused to repair roads that approached their enclaves. Others looked on and waited for their chance to take power; they knew that continued disturbance paved the way, so they contributed to the anarchy. The national govt pleaded the need for domestic stability but had no means to enforce it, and so received scant compliance from the provinces.

Transportation difficulties created a system of regional, isolated markets, which reinforced political decentralization and decreased the capacity of the federal government (Haber, 1992, p. 5). Local and state governments continued to rely heavily on a tax leftover from colonial times, called the *alcabala*, which “were applied on goods as they made their way through different jurisdictions of the country.” (Martínez). They ranged between 10-15% on average and both stymied the creation of a national market and strengthened the political power of provincial authorities. The federal government officially outlawed it in 1857 but it was not until almost four decades later that it was abolished in practice. (Beatty, 2001, p. 29)

As for security, the federal policymakers did not help their case when they continually insisted that it was the job of states and municipalities to keep the peace. The militias and police departments that did emerge tended to be very poorly funded and served mostly to protect the “political interests of their creator rather than to involve themselves in disciplined law enforcement.”<sup>56</sup> Vanderwood writes that during that time “A man needed a troop of his own to get ahead” and that “petty politicians found that the best way to promote their careers was to establish a personal armed unit that could be used to counterbalance, or if necessary, batter a rival.”<sup>57</sup>

#### *f. External Threats and State Capacity*

There is a large literature that relates the creation of state capacity to external wars.<sup>58</sup> As Johnson and Koyama (2017) point out, however, the process of establishing state capacity is highly variable across countries. Dincecco et al. (2019), for example, show that war has tended to increase

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<sup>56</sup> Vanderwood, 1981, p. 34.

<sup>57</sup> He describes this era of roving bandits as the following: “Banditry, village uprisings, predatory armies, caste wars—they all combined to maintain rural Mexico in turmoil. No property was safe, no trade route secure. The two forces most responsible for sustaining the turbulence were the bandits and the army, and they often worked together, selling stolen goods for their mutual profit.”

<sup>58</sup> See, e.g., Tilly & Ardant (1990), Besley and Persson (2011), Besley and Persson (2013), Dincecco and Prado (2012), Gennaioli and Voth (2015), Hoffman (2015), and Scheve and Stasavage (2012).

state fragility, instead of the strengthening it, in Sub-Saharan Africa. This is consistent with what happened in Mexico, when France invaded in 1861 and installed an emperor there until 1867. The liberals loathed the idea of aligning themselves with bandits in the name of expelling the foreign threat, but they eventually did so in desperation.

Unfortunately, victory meant that there were thousands of bandits that now wanted well-paying jobs with security in return for the service they had provided both in the war against the French and the civil war before it. If not, they threatened to go back to being bandits:

The government couldn't afford a large army, for both political and financial reasons. It had to release its soldiers and hope that they would return to their former subsistence living, but they knew that the country's war-stricken economy couldn't possibly absorb them all. Juarez turned loose some 40,000 of these ex-soldiers in 1867. The subsequent upsurge in brigandage not only disrupted commerce and the social order but also rattled the regime politically.<sup>59</sup>

After the expulsion of the French, the government of Benito Juárez knew that Mexico needed a centralized police force that could provide order after many decades of chaos. When they first embarked on this project, however, they knew that they had to do so quietly “because so many powerful Mexicans were bound to protest the establishment of a political police controlled by the president.”<sup>60</sup> These were the first real steps taken to create state capacity in what had otherwise been a very unstable, almost anarchic, fifty years.<sup>61</sup>

#### **4. The Entrenched Interests Fight Back**

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<sup>59</sup> The quote is from Vanderwood (1981, p. 48). He also notes that “only when it became more worthwhile to join the federal government than to fight it would regional strongmen agree to central direction.” (p. 45).

<sup>60</sup> Ibid, p. 48.

<sup>61</sup> North, Wallis, & Weingast (2009) argue that all societies historically (and most today) were limited access orders (LAOs) that controlled violence through having claims to rents distributed amongst political elites; they, in turn, tended to constrain their use of violence to the extent that the occurrence of violence threatened their rents. The recruitment of bandits into para-police forces represents an attempt to create a LAO. See Young (2020) for a good examination of LAOs in early medieval Europe.



The creation of the Mexica Rural Police force was in no way a panacea to the central government's problems. For starters, they had to fill the police force and many of the new recruits were also bandits. This overlap between banditry and police force would remain a long-standing issue as the newly minted police officers often relied on banditry on the side.<sup>62</sup> Highlighting this overlap is the fact that the government designed the new Rural Police uniforms to look like some of the most well-known bandits of the century, the Plateados:

His uniform distinguished the Rural. It confirmed his transition from bandit to lawman, since the Rurales dressed much like the most powerful bandits of the time, the Plateados. Both wore the charro outfit, and everyone understood what it meant: its wearer could outride, outrope, outshoot, outdrink, and outwomanize any other cowboy, from whatever land. The Rurales rode and strutted in dove-gray bolero jackets and suede-leather, tight-fitting trousers embroidered with ornate braiding and studded with silver buttons. On their heads they wore the heavy felt sombrero that had emerged as a national symbol.<sup>63</sup>

By 1880s, Porfirio Díaz had increased the membership of the rural police force by 90%, but the total was still only 1,767 men, indicating how slow this process really was.<sup>64</sup> The Porfiriato is often treated as a major consolidation of centralized power, and it certainly was, but a study of the period shows that the process was far from linear. While a full discussion of this era would require at least another paper, if not a book, I do want to highlight two of the biggest differences from earlier periods and governments.<sup>65</sup> First, the Industrial Revolution was slowing down in Britain and investors were eager to invest their money in Mexico if only it were more stable. This provided ample financial incentives for the government to try to create more stability.<sup>66</sup> Second, Díaz was

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<sup>62</sup> Ibid, p. 57 writes that “complaints of dereliction of duty among the Rurales poured into the capital. One detachment arrived at a town they were supposed to patrol in company of brigands and proceeded to raid the village.”

<sup>63</sup> Ibid, p. 53.

<sup>64</sup> Ibid, p. 70.

<sup>65</sup> See Haber et al. (2003) for an excellent discussion of the political economy in Mexico in the late 19<sup>th</sup> and early 20<sup>th</sup> century, as well as Maurer & Gomberg (2004) for more on public finance and banking in Porfirian Mexico. While it is outside of the scope of this paper, it is important to study the Porfiriato more closely to understand why Mexico was able to consolidate a relatively strong and stable one-party state by the 20<sup>th</sup> century.

<sup>66</sup> Ibid, p. 68.

much more ruthless than previous governments in response to revolts. When the Fifth Corps of the Rural Police revolted, Díaz had them erased from the force and executed the traitors.

It became very clear just how entrenched regional caudillos were though in this period. They certainly did not give up power quietly or peacefully. Ganster (2014) notes that even during colonial times, the northern part of the country had been granted an “unusual degree of autonomy had been granted to settlers and frontier towns in return for holding the line against nomadic indigenous groups.” This autonomy only increased after the war of independence. When Díaz tried to impose economic and political power from Mexico City, by appointing local officials himself and changing land patterns, resentment grew strongly. In the ten-year civil war that followed Díaz’s dictatorship, the main leaders of the revolution were all from the north and they emerged in large part because of these resentments.<sup>67</sup>

## 5. Conclusion

Economists, especially those in international financial institutions, often act as if developing countries should be able to quickly and effectively mimic the institutions of rich countries. The feeling seems to be that there is no reason to re-invent the wheel; just look at what we did (“we” here being rich countries) and follow that. As De Soto pointed out in 2000, however, most economists have little appreciation for how long and difficult the process was in their own countries, and thus have no idea of what they are asking developing country governments to do. It might be that the creation of state capacity is something that has to be experienced rather than taught, and that attempts to “skip straight to Weber” are doomed to fail.

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<sup>67</sup> This is consistent with what Coyne & Pellillo (2012) argue is one of the main difficulties in establishing state capacity: entrenched local interests who actively resist central power.

While every country's experience is different, it is useful to study particular cases to illuminate what exactly are the major difficulties in creating an effective state. I do just that with the case of Mexico in the 19<sup>th</sup> century. I show that Mexico suffered from a vicious cycle in that period, something that is probably common to many developing countries, in that they needed a large army in order to create a monopoly on violence, but they had no money to be able to fund such an institution. The chronic lack of funding led to a situation where the country was littered with roving bandits, and the central government had little ability to stop the constant revolts and banditry that prevailed. It was not until the late 19<sup>th</sup> century that the government was finally able to create a centralized police force and the beginnings of some kind of centralized, state control.

I mostly focus on the reasons for why the process of building state capacity took so long, with less emphasis on the period when Mexico finally does consolidate power. As I mentioned in the introduction, the circularity problem of state capacity is remarkably similar to the issue of purchasing power of money that Mises studied. The Austrians long understood that the element of time is crucial in understanding development; a fact that neoclassical economists have forgotten to their peril.

Further research could extend this investigation by studying how state capacity was consolidated under the Porfiriato, lost again during the Mexican Revolution, and then constructed again under the long-standing one-party state ruled by the PRI. It would also be useful to take the lessons from Mexico's experience and compare them to other Latin American countries that shared a similar colonial culture, to see what the major differences were between them.

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**Figure 1: Falling behind economically**

Ratio of Mexican to US Real Per-Capita Income  
(in 1900 USD)

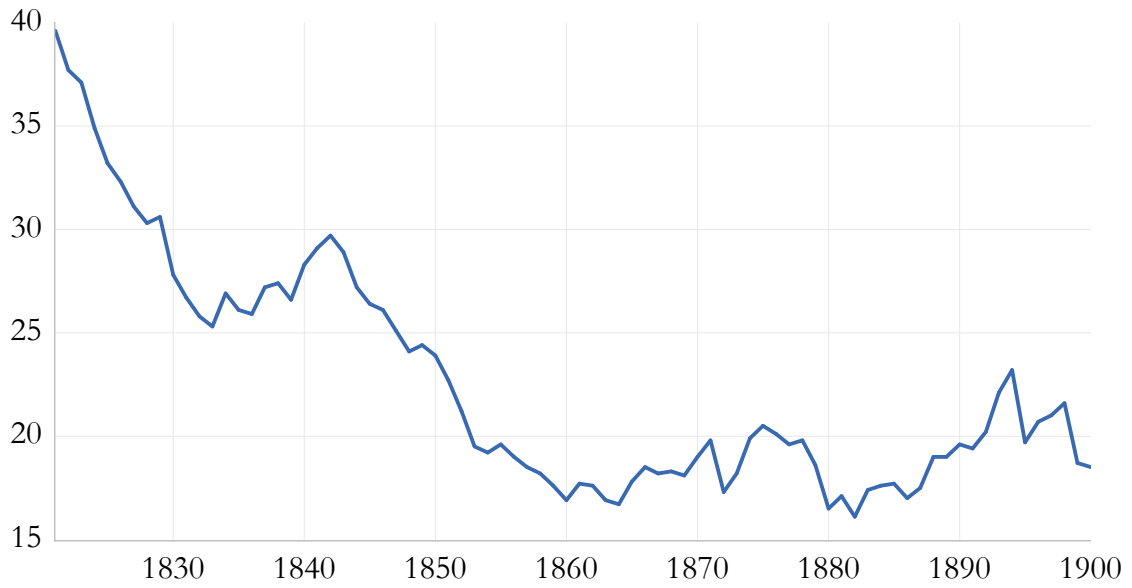


Figure 2: The Mexico-US Border in 1821



## Appendix A: Wars, Rebellions, & Revolutions in 19<sup>th</sup> century Mexico

1819	Long Expedition	Foreign invasion
1820–1836	Texas–Indian Wars	Internal war
1821–1829	Spanish Attempts to Reconquer Mexico	Foreign invasion
1821–1870	Comanche–Mexico Wars	Internal war
1821–1915	Apache–Mexico Wars	Internal war
1821–1929	Yaqui Wars	Internal war
1822–1823	Revolution overthrows Emperor Iturbide	Revolution
1823	Rebellion of Oaxaca, Guadalajara, Puebla, and Querétaro	Rebellion
1826–1827	Fredonian Rebellion	Rebellion
1827–1828	Failed conservative rebellion	Rebellion
1829–1831	Conservative Coup	Coup e'état
1835–1836	Texas secedes from Mexico in the Texas Revolution	Secession
1835	Rebellion in Zacatecas	Rebellion
1837	Chimayó Rebellion	Rebellion
1838–1839	First Franco–Mexican War (Pastry War)	Foreign invasion
1840	Republic of the Rio Grande	Rebellion
1842–1843	Mier expedition	Foreign invasion
1846–1848	Mexican–American War	Foreign invasion
1847–1933	Caste War of Yucatán	Internal war
1853	Expedition of William Walker to Baja California and Sonora	Foreign invasion
1854–1855	The Revolution of Ayutla	Revolution
1858–1861	The War of the Reform	Internal war
1859–1861	Cortina Troubles	War with US
1861–1867	Second Franco–Mexican War	Foreign invasion
1871–1872	Porfirio Díaz rebels against President Benito Juárez	Rebellion
1876	The second rebellion by Porfirio Díaz	Rebellion
1879–1881	Victorio's War	Armed conflict
1891–1893	Garza Revolution	Revolution
1897	Mexican annexation of Clipperton Island	Annexation

## Appendix B: Mexican Chief Executives from 1821 to 1900

### First Mexican Empire (1821–1823)

First Regency (6 people)	1821-22
Second Regency (5 people)	1822
Agustín I, Emperor	1822-23

### Provisional Government (1823–1824)

Composed of 6 people

### First Federal Republic (1824-1835)

Guadalupe Victoria	1824-29
Vicente Guerrero	1829
José María Bocanegra	1829
Pedro Vélez	1829
Anastasio Bustamante	1830-32
Melchor Múzquiz	1832
Manuel Gómez Pedraza	1832-33
Valentín Gómez Farías	1833
Antonio López de Santa Anna	1833
Valentín Gómez Farías	1833
Antonio López de Santa Anna	1833
Valentín Gómez Farías	1833
Antonio López de Santa Anna	1833
Valentín Gómez Farías	1833-34
Antonio López de Santa Anna	1834-35
Miguel Barragán	1835-36

### Centralist Republic (1835–1846)

José Justo Corro	1836-37
Anastasio Bustamante	1837-39
Antonio López de Santa Anna	1839
Nicolás Bravo	1839
Anastasio Bustamante	1839-41
Francisco Javier Echeverría	1841
Antonio López de Santa Anna	1841-42
Nicolás Bravo	1842-43
Antonio López de Santa Anna	1843
Valentín Canalizo	1843-44
Antonio López de Santa Anna	1844
José Joaquín de Herrera	1844
Valentín Canalizo	1844
José Joaquín de Herrera	1844-45
Mariano Paredes	1845-46
Nicolás Bravo	1846
José Mariano Salas	1846

**Second Federal Republic (1846–1847)**

José Mariano Salas	1846
Valentín Gómez Farías	1846-47
Antonio López de Santa Anna	1847
Manuel de la Peña y Peña	1847
Pedro María de Anaya	1847-48
Manuel de la Peña y Peña	1848
José Joaquín de Herrera	1848-51
Mariano Arista	1851-53
Juan Bautista Ceballos	1853
Manuel María Lombardini	1853
Antonio López de Santa Anna	1853-55
Martín Carrera	1855
Rómulo Díaz de la Vega	1855
Juan Álvarez	1855
Ignacio Comonfort	1855-57

**Reform War (1857-1862)**Presidents recognized by the Liberals during the Reform War

Benito Juárez	1857-1862
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Presidents recognized by the Conservatives during the Reform War

Ignacio Comonfort	1857-58
Félix María Zuloaga	1858
Manuel Robles Pezuela	1858-59
Félix María Zuloaga	1859
Miguel Miramón	1859-60
José Ignacio Pavón	1860
Miguel Miramón	1860
Félix María Zuloaga	1861-62

**Second Mexican Empire (1863–1867)**

Regency (3 people)	1863-64
Maximilian I, Emperor	1864-67

**Restored Republic (1867–1876)**

Benito Juárez	1867-72
Sebastián Lerdo de Tejada	1872-76
José María Iglesias	1876

**Porfiriato (1876–1911)**

Porfirio Díaz	1876
Juan Nepomuceno Méndez	1876-77
Porfirio Díaz	1877-80
Manuel González Flores	1880-84
Porfirio Díaz	1884-1911

### Appendix C: US Presidents from 1821 to 1900

James Monroe	1817 - 1825
John Quincy Adams	1825 - 1829
Andrew Jackson	1829 - 1837
Martin Van Buren	1837 - 1841
William Henry Harrison	1841 - 1841
John Tyler	1841 - 1845
James K. Polk	1845 - 1849
Zachary Taylor	1849 - 1850
Millard Fillmore	1850 - 1853
Franklin Pierce	1853 - 1857
James Buchanan	1857 - 1861
Abraham Lincoln	1861 - 1865
Andrew Johnson	1865 - 1869
Ulysses S. Grant	1869 - 1877
Rutherford B. Hayes	1877 - 1881
James Garfield	1881 - 1881
Chester Arthur	1881 - 1885
Grover Cleveland	1885 - 1889
Benjamin Harrison	1889- 1893
Grover Cleveland	1893 - 1897
William McKinley	1897 - 1901