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**The Legacy of War Dynamics on State  
Capacity: Evidence from 19th Century  
Mexico**

**LUZ MARINA ARIAS Y LUIS DE LA CALLE**

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## Abstract

The literature on conflict is ambiguous about the impact of war on state capacity building. We zoom in on the war of independence in Mexico (1810–1821) to uncover that the effect of war on long-term state capacity depends on the local dynamics of the conflict. Our analysis shows that municipalities where government militias were organized during the war had a higher number of public servants per 1000 people in 1900 than municipalities seized by the insurgents, and than municipalities with no conflict. The results hold controlling for socioeconomic factors and instrumenting for insurgent presence with pre-war data on weather shocks. As war ended with a negotiated settlement, we argue that conflict dynamics persisted by shaping local elite cooperation in the face of decentralized power to the regions. Our findings suggest that war can both further and hamper state capacity—within the same country.

**Keywords:** State Capacity, Civil War, Conflict, Legacies.

## Resumen

La literatura que estudia el conflicto es ambigua sobre el efecto de la guerra en el fortalecimiento o debilidad del Estado. Este artículo analiza con detalle la guerra de independencia de México (1810-1821) y descubre que el efecto de la guerra en la capacidad del Estado en el largo plazo depende de las dinámicas locales del conflicto. Nuestro análisis muestra que los municipios en los cuales el gobierno organizó milicias durante la guerra tienen un número mayor de empleados públicos por cada 1000 habitantes en 1900 que los municipios controlados por los insurgentes, y que los municipios donde no hubo conflicto. Los resultados son robustos a varios controles socioeconómicos y a instrumentar la presencia insurgente con datos de choques climáticos en el periodo inmediato anterior al conflicto. Dado que la guerra terminó con una negociación entre las partes, argumentamos que la dinámica del conflicto persistió porque contribuyó a determinar la cooperación (o ausencia de ella) entre la

elite local en un contexto de poder descentralizado en las regiones. Nuestros resultados sugieren que la guerra puede, en un mismo país, fortalecer y destruir la capacidad del estado.

**Palabras claves:** Capacidad del Estado, guerra civil, conflicto, legados.

# The Legacy of War Dynamics on State Capacity: Evidence from 19th Century Mexico

Luz Marina Arias

Luis de la Calle

January 31, 2018

## **Abstract**

The literature on conflict is ambiguous about the impact of war on state capacity building. We zoom in on the war of independence in Mexico (1810–1821) to uncover that the effect of war on long-term state capacity depends on the local dynamics of the conflict. Our analysis shows that municipalities where government militias were organized during the war had a higher number of public servants per 1000 people in 1900 than municipalities seized by the insurgents, and than municipalities with no conflict. The results hold controlling for socioeconomic factors and instrumenting for insurgent presence with pre-war data on weather shocks. As war ended with a negotiated settlement, we argue that conflict dynamics persisted by shaping local elite cooperation in the face of decentralized power to the regions. Our findings suggest that war can both further and hamper state capacity—within the same country.

# 1 Introduction

Inter-state wars are typically related to increases in governmental fiscal extraction while civil wars are portrayed as dampening state capacity. Indeed, the burden of the failure of Latin American nations to build effective states has been placed on the negative impact of domestic conflicts. Nonetheless, some interesting variation is obvious not only between these countries, but also within them. Chile and Argentina manifest a stronger state capacity than other South American states such as Peru and Paraguay. In a similar vein, the Mexican states display differences in terms of fiscal extraction and other state capacities.

We shed new light on this variation by proposing that the independence wars in Latin America unraveled the two aforementioned effects of violence on state capacity. On the one hand, these wars can be interpreted as inter-state wars, as the local elites feared that independence would imply their rule being wiped out. In so being, elites were willing to cooperate with the war effort and fill the fiscal coffers of the military. On the other hand, these conflicts were also civil wars, as indigenous peoples as well as creoles (American-born Spaniards) often featured on both sides. We document that the two opposing forces had a distinct impact on the institutional capacity of the newborn United States of Mexico: the regions where royalists organized militias have higher levels of state capacity by the end of the 19th century, measured by the size of the administration, than regions where insurgents were able to operate up to the end of the conflict, and than regions with no civil conflict. This finding is scope-conditioned by two relevant features of the conflict. First, war ended when a number of royalist officials switched sides and brokered a deal with the rebels to declare independence. Far from being an outlier, the Mexican case is a typical outcome of war termination—that of a negotiated settlement (Toft 2010). And second, the end of the Spanish Empire involved a generalized process of decentralization, which transferred powers and strengthened local elites' position vs the central government on fiscal bargaining—among other dimensions. Decentralization brought to the fore coordination problems that are paramount to war-ridden countries after the conflict is over. The literature largely recommends to solve them with power-sharing agreements (Hartzell and Hoddie 2003), but peace-preserving solutions may not be the best fit for state-building efforts.

Our paper contributes to the broader debate on the effect of violent conflict on state capacity. This literature has offered two main takes on this relationship. First, Tilly's honorable tradition of works drawing on European history has found that medieval protostates were able to muscle up the central state by increasing tax efforts over their subjects under the threat of foreign invasion. Rulers made use of recurrent warfare to consolidate fiscal capacity even when the threat had faded away (O'Brien 1988, Brewer 1989, Tilly 1990, Bonney 1995, Brewer and Hellmuth 1999).

Researchers looking at other areas in the world have found a weaker effect of war on state capacity, in part because arbitrary country borders were rarely challenged. In Latin America, interstate wars were clustered in a few regions, were of short duration, and were mostly land-grabs by the more powerful neighbor (Centeno 2002, 37-44).<sup>1</sup> In spite of this apparent lack of external stimulus for war, Thies (2005) shows that long term antagonisms between countries (inter state rivalry) are positively correlated with measures of tax collection across Latin America.

On the other hand, in the civil war literature the net effect of warfare usually goes against state capacity building. Civil wars happen more often in poor states (Fearon and Laitin 2003). Ruling elites in weak states have no interest in boosting fiscal receipts if they foresee they will prevail over the rebels, which typically happens in civil-war torn countries. In addition, the technology of warfare in civil wars may not promote fiscal extraction, as irregular warfare imposes a lower burden on the budget than more conventional tactics of military engagement. Namely, civil wars in Latin America seem to have had a negative effect on state building (Thies 2005). Centeno (2002, 142) argues that Spanish American elites shared a common fear of peasant unrest but were divided by other geographical and social cleavages (e.g. creole vs. peninsular). Further, the recourse to external borrowing by national governments after independence further dampened the incentives for state capacity building (López-Alves 2000).

Other studies problematize the apparently negative effect of internal violence on state capacity building. Slater (2010) has shown evidence that for Southeast Asia internal threats were a stimulus for state building. Toft (2010) has found that rebel victories in civil war guarantee a more stable postwar period and a lower probability of war recurrence (see also Fortna 2004). More generally, Blattman and Miguel suggest that "wars that end in outright military victory for

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<sup>1</sup>For the case of Africa, see Herbst (2000).

one fighting side lead to a more stable peace and possibly stronger state institutions” (Blattman and Miguel 2010, p. 43).

Our paper contributes to this discussion by showing that the same conflict can have a positive impact on some regions of the war-torn country, whereas imposing a large penalty on other regions of the same country. Leaving aside the across-the-board negative effects of civil war on the economy, some regions seem to be able to recover faster than others. Do the legacies of war help explain this variation?

The independence war in Mexico (1810–1821) provides an excellent case to answer this question, because it carved out opportunities for systematic fiscal extraction by both the rebels and the military and militias. Overall, the war left a legacy of decentralization of fiscal and military decision making previously centralized in Mexico City. Further, while regions controlled by the royalists devised new systems of tax collection aimed at feeding the newly created local militias, in rebel-controlled regions colonial fiscal institutions were undermined. These fiscal changes set the stage for fiscal capacity building after the war.

We argue that the war dynamics endured by shaping political and economic elite negotiations in a context of devolution of power to the regions. In particular, in regions with an early penetration of insurgency and a subsequent strong presence of the military, later efforts to build fiscal capacity are more likely to be successful. In regions where the insurgency operated and maintained a foothold, later efforts to build fiscal capacity are less likely to overcome the costly legacy of the conflict on the ground.

To test the argument, we analyze the variation in state capacity at the municipal level in Mexico after the war of independence. Our results demonstrate that municipalities where royalist militias were organized have more public servants per 1000 people in 1900 than insurgent-controlled municipalities. Our results are robust to controlling for the share of indigenous peoples, presence of mines, number of railway stations and geographic variables, such as altitude and soil suitability. A nearest neighbor matching empirical strategy to deal with problems of omitted variation also supports these findings. In addition, we instrument insurgent-group presence using two different proxies for drought conditions in the five-year period prior to the onset of the war. The results hold. Finally, we complement the statistical analysis with a number of illustrations to trace the mechanisms through which early-century conflict may have had a

lasting impact on state capacity. In all, the empirical results as well as the narratives seem to provide support for our argument.

This paper is structured as follows. The next section describes the main features of the war of independence. Section 3 summarizes our theoretical expectations. Sections 4 and 5 describe the data and results. The last section discusses the mechanism through which civil war dynamics may have left a legacy on state capacity building and concludes.

## 2 Historical background and war dynamics

We describe in this section the historical background of the war of independence, the dynamics observed during the conflict, and more specifically the sources of revenue utilized by the two main armed actors during the war.

### 2.1 Onset of Rebellion

There are three canonical accounts of the onset of rebellion in New Spain, the first one focuses on external factors while the two others on internal features of the colony. The first narrative highlights the two exogenous circumstances that set the stage for the political revolution taking place in New Spain. First, the abdication of Charles IV and Ferdinand VII in 1808 as a result of Napoleon's sudden and unexpected intervention of Spain. Second, the institutional changes triggered by the application of the Cadiz Constitution in American territory between 1812 and 1814, and again in 1820.<sup>2</sup>

In 1808 power at the center of the Spanish empire broke down. Napoleon drew the Spanish royal family to Bayonne and announced the abdication of Charles IV and Ferdinand VII. The monarchy's decapitation had repercussions first in the peninsula. In the absence of a king the *Junta Suprema Central* was formed in Spain with the executive and legislative powers of the absent king. The *Junta* proceeded to call elections to choose the viceregal deputies that would represent New Spain in Cadiz. This ignited the first struggles between capital towns and regions because the *Junta* called only the *cabeceras de partido* (capital cities). Subject towns claimed they also had the right to participate. Disagreements arose about how government should be

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<sup>2</sup>See Rodríguez (1993) and Serrano Ortega (2001).

organized in *vacatio regis*. Still, Spanish Americans reasserted their loyalty to Spain and their commitment to the overthrown king.

The second narrative emphasizes the role of the local elite, the so-called creoles (American-born Spaniards), pushing for a more equitable access to political power in the aftermath of the Bourbon reforms implemented by the crown during the second half of the 18th century. This viewpoint is well articulated by John Lynch (1973) who interprets the conflict as a result of internal pressures. The Bourbon reforms augmented fiscal pressures on various colonial groups who became increasingly, the argument goes, dissatisfied with the Crown. Furthermore, the Spanish crown appropriated church funds in 1805, with the *Consolidación de Vales Reales*. During the Spanish crisis of 1808–1814, the grievances came to the surface.

Affluent creoles resented that access to political power was blocked by Europeans and took advantage of the institutional standoff to attempt a new balance of power with the metropolis. Indeed, peninsular Spaniards overthrew the viceroy in 1808 for fear that he would side with the creoles in Mexico City after elements of the latter group began to openly push for autonomy within the empire. Autonomy for the creoles, however, did not entail separation from the metropolis (Rodríguez 1998). This seemingly contradictory position came to the fore after the defeat of the Hidalgo-led revolt, which the creole economic elite initially supported but quickly backed away from after the pillage and brutality displayed by Hidalgo's untrained troops.

The third narrative proposes an alternative explanation for the onset of conflict that centers on peasant mobilization as the driving force behind the push for independence and the large number of recruits joining rebellion in short notice (Tutino 1988). Indeed, in large part the Hidalgo revolt waned on a number of short-term grievances against the authorities driven by the subsistence crisis in 1808–1810, which increased the prices of foodstuff and moved many communities to the verge of starvation. Nevertheless, it was not the first time that hunger crisis triggered revolts. Yet, revolts were usually self-contained, with little appetite for larger institutional reform. This time it was no different, and the militancy of the lower classes rarely looked beyond seeking local revenge and redressing food scarcity. As Hamnett (1986) has documented, the onset of the insurgency was not necessarily related to the food crisis. Although large tracts of Mexico were affected by the crisis, the Hidalgo rebellion spared some of those areas, such as the Yucatan peninsula, and took root in others, such as Michoacán, where the scarcity was

less acute. Likewise, the presence of indigenous populations does not seem to help explain the rebellion, as they fared in both insurgent and royalist forces, and most remained by and large aloof from the conflict (Hamnett 1986).

In sum, the ultimate cause of conflict onset seems to be exogenous—the collapse of the Spanish monarchy in Europe. Yet, scholars do not agree on the role that structural factors such as wealth or indigenous presence played once the conflict started. Section 4 performs a number of tests to address the concerns regarding the potential link between warfare, wealth, and state capacity.

## 2.2 Dynamics of conflict

Unlike most civil wars (Butcher 2015), the revolt in New Spain broke out in the Bajío region, one of the most economically dynamic areas at the time in central Mexico. But violence did not follow the wealth trail: it spared the two most opulent cities of New Spain—Puebla and Mexico City. In addition to not showing a clear correlation with wealth or the presence of natives, violence spared several regions during the eleven years of civil war.

The conflict broke out in Dolores (Guanajuato) in 1810, when father Hidalgo both declared American autonomy and swore loyalty to ousted Fernando VII. His rebellion won quick traction and spread over several key towns around the Bajío, with Guanajuato, Querétaro and Guadalajara as his main victories. Taken by surprise, the vicerojal government was slow in reorganizing the army. This first phase was characterized by open battles between the insurgent army and the renewed royal army. Hidalgo, aware of the unreliability of his soldiers, decided to step back from attacking Mexico City and concentrated his troops in the Guadalajara-Guanajuato corridor, but he was encircled by later viceroy Calleja, defeated, and forced to flee to the North. Less than a year after the so-called *grito* (cry) of Dolores, Hidalgo was arrested and killed in Chihuahua in 1811, bringing to an end the opening phase of the rebellion.

After the killing of Hidalgo, father Morelos took the lead in spearheading the second phase of the insurgency. With a clear military vision and a masterful capacity to attract followers, Morelos moved the conflict from the Bajío axis—where royal militias had organized and succeeded in securing the main urban dwellings—to Mexico, Puebla and Michoacan. His tactics heavily relied on irregular warfare, carrying out hit-and-run attacks that granted his units the advantage of

surprise. Morelos was able to conquer important towns such as Acapulco and Oaxaca, but failed to attack the city of Puebla, where he could have gained resources, support and legitimacy to build a parallel administration. This inability to raise alternative government institutions, also fueled by dissent within the movement, cost the insurgents dearly. Further campaigns to enlarge the rebellion to Veracruz and Oaxaca lost momentum once Fernando VII was restored as king of Spain in 1814, which delegitimized the cause for the revolt. Morelos was finally arrested and executed in December 1815.

The third and final stage of the war, between 1816 and 1821, was characterized by the existence of irregular bands of rebels roaming across countryside areas of Guerrero, Michoacan and Veracruz, but with little capacity to harm the colonial state. Spanish policies in part kept the revolt alive. Rather than propose a workable political solution, Ferdinand VII bet on crushing the rebels by force (Costeloe 1986). This fuelled the disintegration of the empire by making it impossible to rebuild the pacts and coalitions on which colonial rule depended (Adelman 2006). The war ended when an influential section of the creole military officialdom, led by general Iturbide, signed a pact with the rebels to declare independence in the face of the liberal *coup d'état* in Madrid in 1820 that reinstated the 1812 Constitution. Many royal army officials—even Spaniards—switched sides and independence was declared without major battles nor bloodshed in 1821.

### **2.3 Fiscal institutional changes during the wars**

Even though prior to the independence war colonial Mexico had a network of treasuries (*cajas*) well connected to the central treasury in Mexico City and transferring large amounts of tax revenue, two circumstances severely weakened the link between the regional treasuries and the central *caja*. First, the war itself, which increased insecurity in the roads and the risk of sending silver to the Mexico City mint. Second, the liberal reforms mandated by the Cadiz Constitution, which entailed a devolution of power from the center to the regions through a new bureaucratic structure with three tiers: municipal, provincial and imperial. The first two were selected by an electoral process where most males (*vecinos*) were called to participate. Municipal cabildos multiplied, increasing the political sway of local communities. Constitutional city councils were

created with new judicial, fiscal and electoral powers. Both rebels and royalists tried to take advantage of this decentralized scenario by devising local mechanisms of fiscal extraction.

## Royalists

A combination of standing army and militias were used by the royalist forces to confront the insurgents. When the rebellion started in September 1810, the regular army consisted of between 7,000 and 8,000 effective members and some provincial regiments (Sánchez Santiró 2013, 98-99). Yet, the army was in dire conditions and unable to crush the movement.<sup>3</sup> The viceregal government adapted its military strategies by creating so-called “patriotic units” (regional garrisons) in the main cities recaptured from the insurgents, and later called for a general mobilization of local militias to curb the rebels. In this way, both the urban and rural populations were mobilized against the rebellion.

The financing strategy was also dual. Initially, the viceregal government drew on revenue from taxes, monopolies and loans. Yet the coffers of the Royal Treasury suffered as a result of the rebellion (Serrano Ortega 2007). In 1811, tobacco monopoly revenues had practically disappeared, the internal sales tax—the *alcabala*—was difficult to collect, and little was coming in from *amonedación* (minting) (Serrano Ortega 2007, 26-27). The link between the regional cajas and the main caja in Mexico City was severely weakened: most of the resources collected stayed in the regions. Indeed, due to the increased uncertainty in the roads, minting houses were created during the rebellion in the main silver producing regions (Marichal and Carmagnani 2001, 295-96). This crisis situation led the fiscal authorities to implement extraordinary fiscal measures.<sup>4</sup> One such measure was the *contribución directa universal y extraordinaria* (universal and extraordinary direct contribution)—a tax on income—dictated by the Cadiz Constitution but justified in New Spain as a temporal measure responding to the civil conflict.

The Calleja Plan, devised by army general Felix Calleja and implemented in 1811, organized an extensive network of *juntas de arbitrios* throughout the territory to provide for the local financing of militias. In doing so, the plan sought the cooperation of local elites in the war effort. The *juntas de arbitrios* was a new fiscal institution that gave fiscal authority to local

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<sup>3</sup>See Ortíz Escamilla (2014) and Sánchez Santiró (2013).

<sup>4</sup>See Sánchez Santiró (2013, 105-107) for a detailed description of the new measures.

communities. As mentioned above, the implementation of the Cadiz Constitution had already initiated a decentralization of the administration in colonial territory. In line with this, the plan authorized the collection of taxes and the creation of militias by the *juntas* at the local level. (Both of these prerogatives resided previously in the capital city of each province.) Local army commanders were allowed to enforce the collection of taxes and even impose martial law. The *juntas* were authorized to collect new taxes—such as the direct contributions and the *pension de fincas* mandated by the *Cortes de Cádiz*—and other taxes previously collected by the Royal Treasury, which had come into disarray. According to Serrano Ortega (2007, 30), the collection of direct taxes in 1812 was relatively successful, although it came not without protests.

In 1814, with the return of King Ferdinand VII, the Cadiz Constitution was abolished and New Spain was instructed to return to the state of affairs prior to 1808. However, because of the continued rebellion the viceroy ordered the collection of the direct contribution as previously implemented due to the scarcity of fiscal funds. Serrano (2007, 40-42) provides suggestive evidence that resources were indeed collected between 1816–1817 in some regions—the intendancies of Michoacan, Guanajuato and Mexico were excepted because they still faced civil unrest.

When the Constitution of Cadiz was reinstated in 1820, many city councils called for their right to supersede military-led local militias with new, voluntary ones, where officials would be popularly selected. The requests are a manifestation of the profound impact that the organization of local militias had in local governments. These requests notwithstanding, the military kept tight control of the militias up to the end of the conflict in 1821 (Moreno Gutiérrez 2014).

## **Insurgents**

The fiscal measures decreed by Hidalgo during the first stage of the war were short-lived. Hidalgo abolished the Indian tribute and the *diezmo* (church tithe), and reduced the *alcabala* (internal trade tax) to obtain support for the cause. Yet some of these strategies were followed by Morelos and even also by some local military leaders (Moreno Gutiérrez 2014).

During the second stage of the war spearheaded by Morelos, a *Suprema Junta Nacional* gathered various insurgent leaders on August 1811 who decided upon measures to organize what now appeared would be a long fight. In line with the new liberal ideas, the insurgents emphasized equality for all, abolished the tribute—a tax only paid by the natives—and also all

other ethnic exceptions.<sup>5</sup> During the colonial period the natives enjoyed the privilege of not paying the *alcabala* nor the tithe (except on products from Castile, e.g. hens). According to the new measures, natives now had to pay the (reduced rate) *alcabala* and the tithe (on agriculture).<sup>6</sup> Further, like the royalists, the insurgents dictated new direct taxes and a *capitación* (head tax) based on demographics not income.

The *Junta Suprema* was later replaced by a National Congress as an attempt to create a parallel government and organize a fiscal apparatus in the regions controlled by the insurgents. The Congress first summoned in Chilpancingo on August 1813. A Constitution was declared a year later in Apatzingan. The National Congress declared in 1814 a “general and extraordinary contribution,” which resembled closely the direct contribution established earlier by the viceregal authorities (Serrano Ortega 2008, 65). Further, the decree indicated how the tax was to be collected: by means of a committee of neighbors (*juntas de padrón*), a mix of judges and citizens (Moreno Gutiérrez 2014, 141). The insurgent administration sometimes relied on colonial administrators who changed sides and other times on their own men.

The implementation of the new taxes was slow and many refused to pay in the name of “tradition” (Serrano Ortega 2008, 66). The Indians were more willing to embrace the abolition of the tribute than the payment of the new taxes, not surprisingly. In some of the regions controlled by the insurgents the parallel administration was relatively more successful: parts of Guanajuato, Valladolid (Morelia), Oaxaca, Puebla, Veracruz and what is today Morelos and Guerrero.<sup>7</sup> However, compared to the system enacted by the royalists, this structure was less able to rely on traditional taxation.

In the end, in terms of the amount of resources obtained, the main sources of revenue for the insurgents were the *fincas nacionales* and “taxes” obtained through control of trade routes.<sup>8</sup> The *fincas* were properties confiscated or seized from those who supported the royal government. To avoid the early rampage by insurgents, Morelos clearly mandated that property could be confiscated only from those supporting the royalists and had to be authorized by the

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<sup>5</sup>As already mentioned, and highlighted by Sánchez Santiró (2016), many of these new fiscal measures were announced as extraordinary and temporary by both insurgents and royalists. As such, these new equal and proportional taxes were not rooted on liberal ideas, but justified simply by the necessity of the war.

<sup>6</sup>See Serrano Ortega (2008, 51-57).

<sup>7</sup>See Serrano Ortega (2008, 73) and Archer (2005).

<sup>8</sup>Serrano Ortega (2008) and Jáuregui (2010, 254). The royalists also obtained resources from controlling trade routes and offering protection.

chief of the expedition (Serrano Ortega 2008, 68). The insurgents obtained resources from the *fincas* by directly administering them or by leasing them to others. In some cases, the insurgents did not take over but offered protection to *haciendas* in exchange for a fee.<sup>9</sup> To administer the properties, the insurgents organized a system of functionaries who overlooked the properties and transferred the money to the central treasury of the insurgent movement (Serrano Ortega 2008, 71-72). Neither of these sources of funds relied on a fiscal traditional structure.

After Morelos and other leaders were executed in 1815 and Ferdinand VII reinstated in Spain, the insurgent movement lost momentum. In the provinces where the royalists were stronger than the insurgents, the latter accepted an amnesty. However, in the regions of permanent foci of the insurgents, they remained strong even if more a set of guerrilla groups rather than an organized movement (Archer 2005, 227). Archer (2005) argues that there was more of a tie between insurgents and royalists since the latter were unable to crush the insurgents in their controlled territories. This stalemate remained until 1820 when the Constitution of Cadiz was reinstated and many in the army, led by Agustín de Iturbide, decided to change sides, negotiate with the rebels, and declare independence in 1821. The so-called Army of Trigarantes in less than half a year managed to co-opt most loyalist officials who turned in their soldiers and local coffers.

### 3 Expectations

Based on the previous discussion, we derive three expectations from the dynamics of the war of independence in New Spain. First, municipalities and regions at large where royalist troops maintained a permanent presence should display ease at building state capacity after the war. In contrast, in areas where irregular rebels operated during the conflict we expect less success in building state capacity after the war. Finally, we are agnostic about the areas unaffected by conflict, which overlap with the border territories.

Our argument is that the dynamics of the war endured by shaping political and economic elite negotiations after independence at the local level in a context of devolution of power to the regions. The war left a legacy of decentralization of fiscal and military decision making. And, as a result of the war ending with a negotiated settlement, in some regions insurgent leaders

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<sup>9</sup>Virginia Guedea (1996) describes how in the region of Puebla insurgents protected the land and trade of landowners as long as they cooperated financially with the movement.

gained formal political authority after the war while in others military generals took over or the previous colonial elite remained in place.

The warring side in control of a region determined the extractive/fiscal legacy of the war and whether the local colonial elite remained in place or a new insurgent elite, typically allied with the peasants, also had political voice. The regions that the royalists managed to control until the end of the war, inherited a stronger local elite able to collect taxes and mobilize a militia. The regions with more insurgent presence inherited greater conflict among elites (insurgent and colonial) and either undermined fiscal institutions or, in the best scenario, a parallel fiscal, insurgent administration.

We proceed now to describe the data and present the results. The final section discusses the mechanisms to explain our findings and concludes.

## 4 Data

We use data at the municipal level for Mexico from the 1900 census, the first nation-wide census undertaken in independent Mexico with data at the municipal level. As a measure of our outcome of interest—local state capacity—we employ the number of public servants per 1000 people. The number of public servants relates state capacity with the size of the state apparatus. As such, the measure is closely related to Michael Mann’s (1986, 113) definition of state capacity as infrastructural power: “the capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm.” The measure includes mostly public servants hired by the local state or municipality, but federal public employees may also be included. It is not possible to distinguish from the census information if the public servant is local or federal. The census does not provide fiscal income or expenditure data.

### 4.1 Type of conflict dynamic

We obtained information on the localities with insurgent and royalist presence between 1810 and 1821 from Ortíz Escamilla (2014) who identifies localities with presence of insurgent groups during the insurgency (Ortíz Escamilla 2014, Table I.1) and localities where civilians organized in counterinsurgent, i.e. royalist, militias (Ortíz Escamilla 2014, Table II.2). To our knowledge, this

is the more exhaustive and compelling effort to date to document systematically the dynamics of the war of independence in Mexico. We identify the municipalities to which each locality belongs and create a dummy variable that equals 1 if there is at least one locality in the municipality with a group of insurgents (“Insurgent groups”) and 0 otherwise, and a corresponding dummy variable for “Royalist militias”.

Some municipalities had both insurgent groups and royalist militias during the 1810–1821 period: some insurgent localities were sometimes eventually taken by royalist militias. Other municipalities had no conflict: neither insurgents nor royalists were organized. There are thus four types of conflict dynamic in our data: (1) municipalities with no conflict (Royalist militias=0 and Insurgent groups=0), (2) municipalities with only royalists (Royalist militias=1 and Insurgent groups=0), (3) municipalities with only insurgents (Insurgent groups=1 and Royalist militias=0), and (4) municipalities with both types of conflict (Royalist militias=1 and Insurgent groups=1). Of the 1,272 observations in our data, 975 had no conflict (77%), 83 have royalist militias (7%), 154 have insurgent groups (12%) and 60 have both insurgents and royalists (5%). So there is conflict in 24% of the municipalities in our data.<sup>10</sup>

We consolidate the type of conflict dynamic in three categories that better reflect the argument underlying our analysis. Per the expectations posed in section 3, we expect local fiscal capacity to be higher in regions where royalists organized militias. This should be the case even if insurgent groups also had a presence in the municipality because in many cases the presence of organized militias is a sign that the locality was recovered by the royalists. We therefore consolidate types (2) and (4) above in one category. Thus, we conduct the analysis with the following three types of conflict dynamic: municipalities with no conflict, municipalities with only royalists and both royalists and insurgents (in what follows royalist militias, for convenience) and municipalities with only insurgents.<sup>11</sup>

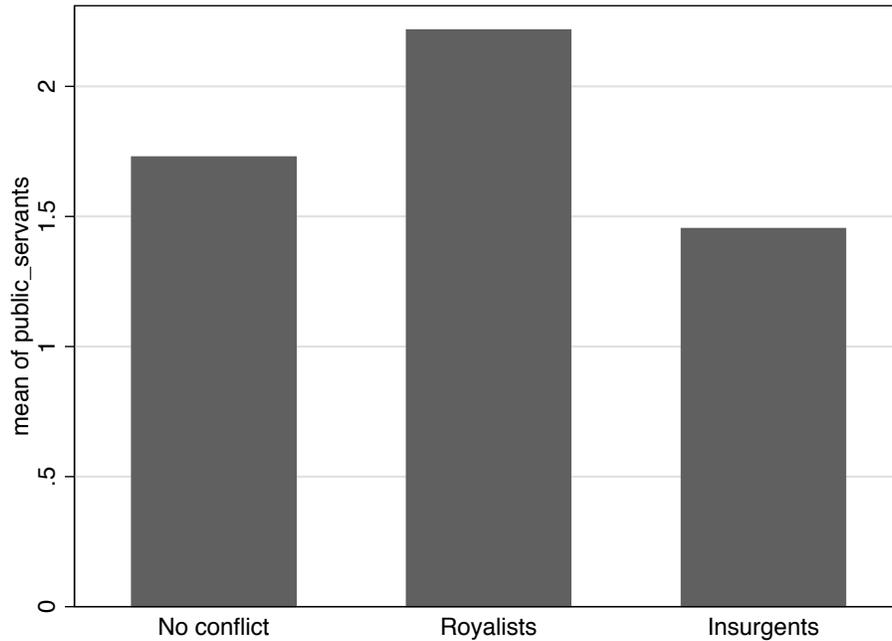
The raw data by type of conflict dynamic go in the direction of our argument: the mean for public servants per 1000 in municipalities with organized royalist militias is larger than the

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<sup>10</sup>Almost half of the 2,458 municipalities in our data have missing information for public servants. This reduces our observations for the regression analysis to 1,272 municipalities. Of the total 2,458 municipalities, 85% have no conflict, 5% have royalist militias, 8% have insurgent groups and 3% have both.

<sup>11</sup>When including the original four dynamics in the analysis, the estimated coefficients for royalists and royalists and insurgents (categories 2 and 4) have the same sign although the coefficient for category 4 is not statistically significant in some specifications.

Figure 1: **Public servants per 1000 by conflict type**



mean for municipalities with presence of insurgents, 2.2 versus 1.5, and the difference in means is statistically significant at the 99% level. The average number of public servants per 1000 for municipalities with no civil violence is 1.7 (Figure 1). Therefore, relative to municipalities that experienced no conflict, war seems to lead to state building where royalist militias took over yet war seems to undermine state building in municipalities with insurgent groups.

## 4.2 Identification strategy

A third variable could be driving both state capacity building during the 19th century and the independence war dynamic in 1810-1821. In particular, we might wonder whether relatively “rich” regions in 1810 were more likely to be controlled and protected by the royalists and also more likely to develop higher state capacity than relatively “poor” regions. We account for this in two ways. First, we include data on geographic characteristics related to potential agricultural productivity: we measure median altitude and soil suitability for each municipality. Tropical countries, like Mexico, have better conditions for agriculture in regions with relatively higher altitudes. Certain soils are more conducive to agriculture than others. Altitude is measured in kilometers while the index of soil type takes the values  $\{0, 1, 2\}$  according to the suitability of

the soil. Types that are more conducive to agriculture receive a higher index number.<sup>12</sup> Second, mineral wealth is a good proxy for “richness” in early 1800. Mining was a major productive activity during the colonial period. We obtain data from von Humboldt (1822) on the location of productive mines circa 1800.<sup>13</sup> We then created a dummy that equals “1” if there is at least one mine located in the municipality, and “0” otherwise.<sup>14</sup>

Table 1 shows that soil suitability is lower in municipalities with royalists than in municipalities with insurgents, and the difference is statistically significant. Yet, median altitude in regions with the presence of royalists is higher than in regions with insurgents. It is thus not clear that royalists or insurgents targeted the areas more suitable for agriculture, since the two alternative measures go in different directions. However, regarding presence of mines, it appears that royalist militias did target regions with relatively more mines circa 1800 than insurgent groups. We control for these three variables in the regression analysis.

It is important to note that mining activity changed by the end of the 19th century. Mining remained important for international trade, but industrial minerals took precedence over silver and gold—the primary metals exploited during the colonial period. Copper, lead and coal are among the minerals exploited for industrial production by the end of the century. We obtain information on productive mining sites between 1880 and 1910 from Velasco Ávila et al. (1988).<sup>15</sup> The variable takes values  $\{0, 1\}$  depending on whether there is at least one productive mine located in the municipality. Table 1 shows there is no statistically significant difference in presence of mines between royalists and insurgents by 1900. Mining activity increased in all three types of municipalities by the end of the century. We use mines in 1900 as a proxy for municipal income in 1900 and include it as a control in the regression analysis. We have found no municipal-level information on income or production. Municipalities with relatively higher income may be better able to increase their local state capacity.

The share of indigenous peoples in a municipality could be associated with insurgent presence and low fiscal capacity development. Municipalities with a relatively high share of indigenous

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<sup>12</sup>We obtained median altitude and dominant soil data from the Global Agro-Ecological Zones (GAEZ). Both are averages for 1961-1999. <http://www.fao.org/nr/gaez>. We thank Leticia Arroyo for providing us with a classification of soil types according to their suitability for agriculture.

<sup>13</sup>We are grateful to Alberto Díaz-Cayeros for sharing this data with us.

<sup>14</sup>Municipalities with mines have one or at most two mines.

<sup>15</sup>The information comes from the map between pages 256 and 257.

Table 1: **Summary statistics by conflict dynamic**

	(1)	(2)	(3)
	No conflict	Royalist militias	Insurgent groups
Soil Suitability	0.391 (0.600)	0.203 (0.421)	0.383 (0.639)
Median altitude (km)	1.319 (0.849)	1.695 (0.640)	1.461 (0.843)
Mines circa 1800	0.0164 (0.127)	0.0420 (0.201)	0.00649 (0.0806)
Mines 1900	0.0697 (0.255)	0.140 (0.348)	0.0974 (0.297)
Indigenous share	0.228 (0.348)	0.112 (0.198)	0.155 (0.255)
Railway stations	0.0759 (0.301)	0.231 (0.485)	0.117 (0.411)
Observations	975	143	154

Note: The table demonstrates means across types of conflict dynamic with standard deviations in parentheses. The difference in means between royalists and insurgents is not statistically significant for presence of mines in 1900 and indigenous share.

peoples may be more easily mobilized for insurrection and also have lower per capita income.<sup>16</sup> Regions with low economic development will likely have lower state capacity. Table 1 includes the proportion of the total population whose main language is an indigenous language from the 1900 census. To the extent that the share of indigenous peoples was relatively stable across states during the 19th century, the measure also proxies for indigenous population in 1810. Table 1 shows that the presence of indigenous people is negatively correlated with conflict. Regions with no conflict have the highest indigenous share. This suggests that the war took place mostly in regions with relatively lower shares of indigenous-speaking people and that both royalists and insurgents were able to mobilize the indigenous population. In addition, to the extent that regions with high indigenous share are poorer than regions with low share, the table suggests the war took place in relatively richer regions. The difference in means between royalists and insurgents in the share of indigenous peoples is not statistically significant.

As a final control, we include a measure for railway stations built during the Porfiriato. Starting in 1880 the federal government began a series of investments in railways to better

<sup>16</sup>In Mexico, regions with a high proportion of indigenous peoples typically have lower levels of income.

connect the country and increase trade. By reducing transportation costs, the presence of railway lines and stations can facilitate building local state capacity. In addition, the railway line was built along the main trading routes which followed to some extent the routes that in 1812 both royalists and insurgents attempted to control. The data in Table 1 shows more railway stations were built in municipalities that had organized militias during the war. The variable “Railway stations” counts the number of railway stations in a municipality by 1910.<sup>17</sup>

We may still be concerned that, despite the above controls, public servants per 1000 and conflict dynamic are both influenced by some unobserved pre-colonial characteristic such as fiscal income collected or other colonial institution. For instance, royalist militias may have been easier to organize in municipalities with higher fiscal incomes and this higher capacity survive until the end of the century; or municipalities with hacienda labor may have been more likely to resist insurgent revolts.

To address this additional concern, we construct an instrument for the presence of insurgent groups using information on the severity of droughts for the 5-year period prior to the insurgency. Some regions underwent subsistence crises as a result of severe droughts that hit parts of the territory between 1805 and 1810 and, as mentioned in section 2, some scholars argue the Hidalgo revolt partly succeeded in recruiting supporters because of the food crisis. Other studies have also documented a positive relationship between drought and conflict. Couttenier and Soubeyran (2014) find that in Africa civil war is more likely after droughts. Dell (2012) uses drought severity to instrument for insurgency during the 1910 Mexican Revolution. Miguel, Satyanath and Sergenti (2004) use climate information to instrument for the effect of economic conditions on the onset of civil war.<sup>18</sup>

We obtain climate data for the 19th century from the Mexican Drought Atlas created by Stahle et al. (2016).<sup>19</sup> The climate reconstructions in the data are based on 252 tree-ring chronologies obtained from various old forests in and near Mexico. The reconstructions were calibrated using the Palmer Drought Severity Index (PDSI) and provide a very good proxy for the intensity and spatial distribution of moisture regimes. The index is a normalized measure

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<sup>17</sup>The information comes from Cosío Villegas et al. (1955).

<sup>18</sup>For a review of the growing literature on the effect of climatic variables on economic activity see Dell, Jones and Olken (2014).

<sup>19</sup>The data are available for download at <https://www.ncdc.noaa.gov/paleo-search/study/20353>.

that captures deviations from typical conditions at a given location. Negative numbers represent dry conditions (moisture lower than average) while positive numbers represent wet conditions (higher rainfall than average). We overlay the grid provided by the Atlas on the 2010 Mexican municipal boundaries and extract the average PDSI for each municipality.

We use two alternative measures of drought as instruments based on the PDSI index between 1805 and 1810: “Lowest PDSI” is the lowest value taken by the index in the interval; “Two Lowest PDSI” is the sum of the two consecutive years with lowest index values between 1805 and 1810. The latter measure incorporates the duration of the drought. If the drought lasted for more than one year, the ‘two consecutive’ measure is more negative than the ‘lowest’ measure. The mean for Lowest PDSI is  $-1.87$  and it is  $-2.13$  for Two Lowest PDSI with standard deviations  $0.74$  and  $1.36$ , respectively.

To account for variation at the municipality level, we perform two empirical exercises. The first compares outcomes across municipalities with all types of conflict dynamic, including no conflict. The second exercise compares only across municipalities with conflict:

$$y_m = \beta_0 + \beta_1 Royalists_m + \beta_2 Insurgents_m + X'_m \gamma + \epsilon_m \quad (1)$$

$$y_m = \alpha_0 + \alpha_1 Insurgents_m + X'_m \lambda + \eta_m \quad (2)$$

where  $y_m$  is number of public servants per 1,000 inhabitants in municipality  $m$  in 1900,  $Royalists_m$  takes a value of 1 if municipality  $m$  had royalist militias in 1810–1821,  $Insurgents_m$  takes a value of 1 if municipality  $m$  had presence only of insurgent groups, and  $X_m$  is a vector of controls. We include median altitude in kilometers, soil suitability, the share of indigenous-language speakers, presence of mines in 1900, and number of railway stations as controls. We estimate both equations using ordinary least squares with robust standard errors. In addition, we estimate equation (2) with two-stage least squares (2SLS) using the following system of equations:

$$y_m = \alpha_0 + \alpha_1 Insurgents_m + X'_m \lambda + \eta_m \quad (3)$$

$$Insurgents_m = \gamma_0 + \gamma_1 Drought_m + X'_m \delta + \mu_m \quad (4)$$

Table 2 shows the first-stage regressions using the two alternative instruments (columns 1 and 2). In both cases, the relation between drought and insurgent group presence is as expected: more negative numbers (lower PDSI) are associated with a higher probability of insurgent group presence. That is, a region is more likely to join the insurgent ranks during the conflict if the region had undergone a period of severe drought prior to the war than if the region did not endure a drought. The two consecutive years, lowest PDSI is a somewhat stronger instrument than lowest PDSI: the F-statistic is 9.47 for Two Lowest PDSI and 5.88 for Lowest PDSI. We perform an additional identification test by estimating a “false experiment” specification. Columns 3 and 4 include the PDSI measures for the period 1821–1825 as additional explanatory variables. Drought after the war ended (in 1821) should be orthogonal to insurgent group presence during the 1810-1821 war period. Table 2 shows that the coefficient on drought immediately after the war is small and not statistically different from zero.

Identification additionally requires that the instrument satisfy the exclusion restriction: drought conditions should have no impact on long-term, local state capacity, net of warfare effects. It is intuitively plausible that climate shocks are as if random. Droughts may be more likely in some areas but severe droughts do not always hit exactly the same areas. In fact, the test performed in columns 3 and 4 of Table 2 suggests that it is not the same municipalities that systematically face severe droughts. Still, severe drought might have a direct impact on local state capacity in the long run. Extreme conditions—severe drought or abundant rainfall—have not been uncommon in Mexico’s history because of the impact of the ocean-atmospheric variability in the Pacific and the Atlantic oceans that border the country (Stahle et al. 2016). And community revolts have also not been uncommon after subsistence crises, especially during the colonial period. Yet, local revolts subsided quickly and did not travel far from the community, suggesting the drought itself is not directly linked with long-term outcomes (Hamnett 1986). Drought between 1805 and 1810 seems to have had an impact on state capacity only via the dynamic of the civil war that unfolded after 1810. As a placebo check we include droughts in other periods as explanatory variables for state capacity in 1900. Table A.1 in Appendix A shows that drought in other periods is not statistically different from zero except for the period 1891–1896 (at the 10% level) while the effect of drought between 1805 and 1810 remains significant in all specifications (columns 3 and 4).

Table 2: **Effect of Drought on Conflict Dynamic (First-Stage)**

	Dependent variable: Insurgent Groups			
	(1)	(2)	(3)	(4)
Lowest PDSI 1805-1810	-0.129** (0.053)		-0.132** (0.055)	
Lowest PDSI 1821-1825			-0.015 (0.044)	
Two Lowest PDSI 1805-1810		-0.087*** (0.028)		-0.076** (0.033)
Two Lowest PDSI 1820-1825				0.023 (0.034)
Soil Suitability	0.107** (0.047)	0.108** (0.046)	0.104** (0.048)	0.114** (0.048)
Median altitude (km)	-0.082** (0.040)	-0.087** (0.040)	-0.082** (0.040)	-0.089** (0.040)
Indigenous share	0.122 (0.120)	0.153 (0.123)	0.123 (0.120)	0.147 (0.124)
Mines 1900	-0.079 (0.088)	-0.099 (0.088)	-0.078 (0.088)	-0.095 (0.087)
Railway stations	-0.148** (0.068)	-0.148** (0.066)	-0.147** (0.068)	-0.142** (0.066)
Constant	0.379*** (0.122)	0.458*** (0.094)	0.362*** (0.135)	0.503*** (0.118)
Observations	297	297	297	297
$R^2$	0.075	0.082	0.076	0.083

Note: First-stage regressions. OLS with robust standard errors.

\* sig at 10 percent; \*\* sig at 5 percent;\*\*\* sig at 1 percent.

See the text for a description of the variables and data sources.

## 5 Results

In Table 3, column 1, we find that while the presence of organized royalist militias has a positive effect on state capacity in 1900, the presence of insurgent groups has a negative effect—relative to regions with no conflict and including the controls. The number of public servants per 1000 is 0.5 higher in municipalities with royalists than in those without civil conflict, and the effect is statistically significant. This is an increase of 30% from the average value of public servants (1.75). Recall that municipalities with royalist presence include municipalities with only royalist militias and municipalities with both royalist militias and insurgent presence during the 11-year war period. Municipalities with only presence of insurgent groups have 0.3 fewer public servants per 1000 than municipalities with no violence, and the effect is statistically significant.<sup>20</sup>

Table 3: **Effect of Conflict Dynamic on State Capacity**

	Dep variable: Public servants per 1000				
	(1)	(2)	(3)	(4)	(5)
Royalist militias	0.471** (0.214)				
Insurgent groups	-0.290** (0.121)	-0.700*** (0.214)	-0.718** (0.307)	-4.378* (2.312)	-3.570** (1.690)
Soil Suitability	0.158 (0.129)	-0.243* (0.145)		0.146 (0.341)	0.060 (0.272)
Median altitude (km)	-0.595*** (0.080)	-0.516*** (0.136)		-0.765*** (0.268)	-0.711*** (0.229)
Indigenous share	-0.791*** (0.162)	-0.846** (0.335)		-0.482 (0.584)	-0.562 (0.485)
Mines 1900	-0.037 (0.254)	-0.169 (0.265)		-0.439 (0.448)	-0.380 (0.382)
Railway stations	1.153*** (0.351)	0.919*** (0.282)		0.482 (0.432)	0.578 (0.364)
Constant	2.552*** (0.169)	3.051*** (0.353)		5.292*** (1.523)	4.800*** (1.173)
Observations	1272	297	297	297	297
$R^2$	0.107	0.138		.	.

Note: (1) and (2) OLS with robust standard errors; (3) Nearest neighbor matching on geographic distance, altitude and soil suitability with robust standard errors; (4) and (5) 2SLS instrumenting insurgent groups using the Palmer Drought Severity Index (PDSI). \* sig at 10 percent; \*\* sig at 5 percent; \*\*\* sig at 1 percent. See the text for a description of the variables and data sources.

<sup>20</sup>Appendix A Table A.1, column 1, clusters the standard errors at the state level. The results are robust albeit with lower significance for the coefficient on royalist militias.

When reducing the sample to only municipalities with civil conflict (column 2) we observe that those with insurgent groups have 0.7 less public servants per 1000 than municipalities where royalist militias were organized, controlling for geographic characteristics, indigenous share, mines in 1900 and railway stations. As a distinct way to account for omitted variables, we also estimated a nearest neighbor matching analysis. The estimated average treatment effect of insurgent group presence is -0.72 and it is statistically significant at the 5% level (column 3). The matching results confirm the finding in column 2 by comparing only neighbors that are similar with regards to their geographic characteristics (median altitude and soil suitability).<sup>21</sup>

The results for the IV 2SLS estimation are shown in columns 3 and 4 (column 3 is the second stage of column 1 in Table 2 and column 4 is the second stage of column 2). We again find that municipalities with insurgent groups have lower public servants relative to municipalities with royalist militias, and the effect is statistically significant. Moreover, we find that the magnitude of the negative effect of insurgent groups is larger relative to royalist militias after taking into account endogeneity issues. According to the more conservative estimation, municipalities with insurgent groups have 3.6 less public servants per 1000 than municipalities where royalists organized militias.

In sum, the analysis shows that conflict has a positive effect on state building in regions with royalist militias. The number of public servants are overall higher in municipalities with royalists than in municipalities with any other type of dynamic. In contrast, regions with insurgent groups have overall the lowest state outcomes in 1900. The results suggest that a municipality was able to develop more state capacity if involved in the conflict as long as a royalist provincial militia was created and financed in the municipality.

## 6 Discussion: How war legacies persist

This paper contributes to the literature by showing that specific dynamics within armed conflicts may have opposite effects. In line with research highlighting the negative impact of violence on state capacity, we find that municipalities where insurgent groups took hold during the war of independence have the worst state capacity outcomes decades later. But, in line with the

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<sup>21</sup>Appendix A Table A.1, column 2, clusters the standard errors at the state label. The results remain statistically significant.

literature emphasizing the *positive* impact of war on state building, municipalities that royalists maintained under their control during the war have on average much better outcomes than those where insurgents had a presence and than those with no conflict, regardless of their economic and demographic conditions. In this sense, war furthered state capacity but also hampered it.

The obvious question remaining is why a war fought in the early 19th century can have an impact on fiscal outcomes decades later. We explore in this final section a specific mechanism related to how elite cohesiveness is facilitated during wartime. In a nutshell, after independence elites in areas with royalist militias cooperated with political leaders in building local state capacity and taking advantage of war-time practices of fiscal extraction. In contrast, insurgents taking over local power faced elite resistance and their extractive tools were poorly equipped to peacetime. Elite cohesiveness is made even more salient by the fact that many local strongmen shared civilian and military positions, which granted them enough power so as to impose their preferences or, at least, boycott the policies they disliked. In this way, local elites in Mexico were not only able to extend fiscal practices developed during the war, but they maintained and strengthened them in the next decades, as regional strongmen with military credentials fought for control over the political agenda at the federal-government level.

Two features of the war of independence are key for this argument: decentralization and a negotiated termination. The eleven years of civil conflict only deepened the devolution of power from the center to the provinces which began with the Cadiz liberal reforms, the measures enacted by the viceregal government in response to the civil conflict, and the war itself. As documented above, fiscal authority was now in the hands of local authorities. Conflict and negotiation among different levels of the government hierarchy remained therefore part of the state building process in Mexico after independence, with the municipalities—the lower tier of government—playing an important role as they were in charge of collecting many taxes (Ortíz Escamilla and Serrano Ortega 2007).

In addition, the end of the war was negotiated rather than a result of a clear military victory for one side. With the restoration of the Cadiz Constitution in Spain in 1820, many top military officials decided to opt for independence, changed sides and negotiated with the rebels. To the extent that a military victory makes focal the leader or group around which to coordinate state building efforts, a negotiated outcome will likely not bring about the expected cooperation.

That is, even if the war shifts attention away from issues of distribution and toward common interests,<sup>22</sup> the elites may not agree on who should hold power at the center, hindering state building efforts (Centeno 2002, p. 140-41; Arias 2013). We argue this is exactly what happened in Mexico after independence and until the process of centralization of power in the hands of Porfirio Díaz began in 1877. For decades, most governments were overthrown under the pressure of regional military leaders whose strength went back to the war years.

In this context of fiscal and military decentralization and negotiated independence, we concur with other authors, such as López-Alves (2000, 17-18), Soifer (2015) and Slater (2010), that the role of war mobilization on shaping elite alliances was critical for state formation. Like other armed conflicts, the war of independence required solving problems of collective action. Groups of rebels relied on local networks and organization to sustain participation and cooperation with funding efforts. Local political bosses and military leaders organized the mobilization and funding of the local militias to complement the military forces against the rebels. The fiscal and military legacy of collective action that resulted from the conflict, whether insurgent or royalist, can thus help or hinder the elites' alliances required to increase the state's ability to tax after the war.

Some provinces (later called states) remained after the end of the war politically in the hands of army officers who had previously sided with the royalist army or militias, while in other provinces insurgent leaders (appointed military generals after the war) managed to obtain public office and oust the colonial elite. We have evidence from three cases, Guanajuato, Oaxaca and Guerrero to support our argument. Guanajuato is an example of a state in the hands of the military and militias after the war, while Oaxaca and Guerrero have an insurgent legacy.

In Guanajuato during the early years of the war the region around the town of Dolores was occupied by insurgent groups who sought resources from mining sites and from agricultural landholdings in the Bajío region—reckoned to be the “granary” of New Spain. By 1818, however, militias had been organized in most of the state and royal authorities collected the *alcabala* (sales) tax (Serrano Ortega 2015, 41). By the end of the war, in 1821, the insurgents had mostly fled

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<sup>22</sup>The traditional mechanism in the literature through which civil and interstate wars have an effect on state capacity is by drawing attention to common interests. See, for instance, Besley and Persson (2009, 2011), Kiser and Kane (2001) and Levi (1988).

the state, which was in control of the militias and the royalist army. The fiscal organization to fund the militias locally (described in section 2) was also in place.

In contrast, Oaxaca and the western part of what was then the State of Mexico experienced a stronger insurgent presence up to the negotiated end of the conflict, and rebel leaders leveraged this strength to access political power at the local level. Militias in these areas were weak or lacking by the end of the conflict and the official fiscal structure was in disarray, given the rebels' reluctance (or incapacity) to organize a permanent system of extraction. Once in office, creating new taxes rates or increasing existing ones was contrary to the political agenda of former rebels, further undermining the fiscal capacity of the areas. The new political leadership relied for support on the network of rural poor mobilized during the rebellion. In the municipalities that later became the state of Guerrero, for instance, Juan Alvarez allied with the peasants to displace the colonial elite as the dominant group.<sup>23</sup> These leaders were thus typically against taxes inherited from the colonial period and did not mind draining federal coffers to finance their clientelistic networks (Hernández Jaimes 2006, 210). Tensions between the mobilized new political class and the traditional economic elite also led to unwillingness of economic elites to cooperate with state building.

The partition of the State of Mexico during the first three decades of independent life provides palpable evidence of these tensions between former and new rebel-led elites. During the colonial period, the State of Mexico hosted the seat of government and amassed the largest portion of the regional wealth, its territories going from Acapulco in the Pacific seashore to the Huasteca in the Eastern side of the Central plateau. After independence, leaders from other (mostly Northern) states feared that centralization-prone leaders in Mexico City could syphon off resources and power from the states to the center by using the State of Mexico's influence in their favor. To prevent this, several Congresses passed laws to reduce the territorial reach of the State (Macune Jr. 1970). As of 1870, the territory of the State of Mexico had been dramatically reduced by the creation of the Federal District (1824), and the new States of Guerrero (1849), Morelos (1869), and Hidalgo (1869).

Interestingly, Mexican elites sought to repeal some of these laws, but not others. The capital city of the state, Mexico City, became the Federal District. This was the largest fiscal shock to

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<sup>23</sup>See Guardino (1991) for the case of Guerrero and Henkel (1999) for the case of Oaxaca.

the State since Mexico City had become a staunch stronghold of the Army during the war of independence, with well-funded militias. The loss of fiscal revenues collected in the city created a large hole in the State of Mexico's finances. State elites tried several times to reverse this decision to no avail (Macune Jr. 1970, 24-40). In a remarkable contrast, the declaration of Statehood for the western lands of the State (the districts of Taxco and Acapulco, which became the core of the new state of Guerrero) was barely met with contestation from state leaders (Guardino 1991, 172). As aforementioned, these districts had been rebel bastions during the war, and they hosted the political base of former rebel leaders such as Vicente Guerrero and Juan Alvarez, who, far from helping fill state fiscal coffers, had encouraged peasants to do the opposite. It is difficult to find a hostile declaration from State leaders repudiating the creation of the new State. These leaders were happy to yield.

More generally, the tension originated by the composition of the local, founding state elites repeatedly surfaced over the 19th century in Mexico, adding more fuel to the divide between liberals-federalists and conservatives-centralists. In this sense, one could claim that the main consequence of the war of independence was to reset the political and economic elite of the country by adding a war-born rebel layer of strongmen that fought for political preeminence against their old rivals and tried to sink their fiscal encroachment efforts. Decades of *pronunciamientos* and guerrilla warfare against internal and external enemies (the USA and France) helped cement the original dynamics of warfare and elite cohesiveness. It was not until the arrival of Porfirio Díaz that the country began to be pacified, although the foundations of the three-decade-long Pax Porfiriana were shattered with the breakout of the Mexican Revolution in 1910. It is still to be investigated whether this Revolution killed the cleavage created by the war of independence or whether its effects travel beyond this watershed period. One way or another, it is worth investigating whether the Revolution in 1910 also had a lasting legacy on state capacity outcomes in contemporary Mexico.

In this paper we have shown that internal conflicts may have long-lasting, seemingly contradictory implications for state capacity: warfare can both boost fiscal extraction in some areas and dampen it in others within the same conflict. Our findings speak to two important discussions. First, our evidence suggests that the conversation between those emphasizing the advantageous consequences of conflict for state building and those singling out their negative

impact may have to zoom in on the internal dynamics of each conflict. Our results suggest, for instance, that the war dynamic in modern Europe was such that local elites were able and willing to cooperate with the war effort through the fiscal institutions of the state; a different dynamic may have led to a different outcome. Further, many contemporary conflicts go beyond the traditional civil war versus international war divide, sharing features of both types with long-run effects at the micro level. Additional studies giving careful consideration to conflict dynamics are necessary if we want to figure out what good can come out of war.

And second, we contribute to the debate on the causal impact of institutions by showing that the success of fiscal institutions may be endogenous to warfare practices implemented during the conflict. As 19th-century Mexico attests, multiple institutional changes did not add to improving fiscal efforts across the board, as their effects were mediated by fiscal practices developed during the war of independence. Wars are game-changers that shatter the foundations of society. We still need to understand more carefully their dynamics and implications on the building and consolidation of effective institutions, more so in contexts where the conflict between armed actors reaches a negotiated termination, without a clear triumph for one side.

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