THE THEORY OF SOCIAL ORDERS AND THE GREAT DIVERGENCE BETWEEN NEW ZEALAND AND URUGUAY AFTER 1930[#]

ANDRÉ SCHLÜTER[*]

Department of Social and Economic History, University of Vienna

ABSTRACT

Does the theory proposed by North, Wallis and Weingast (NWW), as set out in their book *Violence and Social Orders* (2009), represent a valid explanation for the socio-economic dynamics in New Zealand and Uruguay between 1930 and 1973? The research question of this paper draws its relevance from the widely discussed role of institutions for economic growth and the two settler economies' ideal prerequisites for testing NWW's dichotomy of open access orders (OAOs) and limited access orders. The paper develops a structured conceptual framework, which guides the empirical analyses. Elaborations on a macro scale largely confirm NWW's propositions of fundamental differences in basic institutional underpinnings and, consequently, economic growth patterns. Nevertheless, New Zealand's substantial institutional imperfections do not match NWW's OAO ideal type. In the case of Uruguay, an unstable coalition of elites dominated political markets, which exhibited rent-seeking patterns. In contrast to substantial variations in public investments, differences in the size of total fiscal spending cannot be substantiated as a major distinguishing feature between social orders. Moreover, the two export sectors continued to rely on primary products, with New Zealand benefiting from heavy state support. This challenges NWW's laissez-faire picture of OAOs. It is concluded that NWW's theory is a valuable addition to the existing literature and its application to the two countries has produced important insights into their socio-economic dynamics, but the research question cannot be answered positively.

JEL CODES: B52, E11, H50, N40, O43, P16

KEYWORDS: economic theory, great divergence, institutional change, public goods, settler economies

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[*] Any comment to the author's email address andre.schlueter@gmx.net.

INTRODUCTION

This paper evaluates whether the theory of social orders (ToSO) proposed by North, Wallis and Weingast (NWW), as set out in their book *Violence and Social Orders* (2009), represents a valid explanation for the socio-economic dynamics in New Zealand and Uruguay between 1930 and 1973.[1]

The study draws it relevance from the continuously increasing list of scholarly attempts at explaining the tremendous differences in material well-being which have emerged since the beginning of the industrial revolution. More recently, academia has widely acknowledged the outstanding role of institutions in determining an economy's fortune during the era of modern economic growth (Hodgson, 2009; Rodrik, Subramanian and Trebbi, 2004). In addition, several scholars have already attempted to combine perceived key institutions for long-term development into a single endogenous framework. Among the most recent concepts, the theory propounded by North et al. (2009) deserves special attention, because the authors claim to account for all major socio-economic developments within the last 10,000 years and to include or revise other major scholarly contributions.[2] These bold claims have already inspired others to undertake follow-up research.[3] In general, these works not only vary substantially in their methodologies and the time periods covered, but also in the research outcomes and, hence, their appraisal of NWW's theory.[4] What is still missing is an evaluation of their main propositions through in-depth comparative analyses of 'success stories' and less fortunate development trajectories.

The different institutional origins of the two countries New Zealand and Uruguay facilitate a natural experiment concerning the impact of initial institutional frameworks on long-term economic development.[5] Moreover, these two modern settler economies shared similar factor endowments and levels of material prosperity at the end of the 1920s (Denoon, 1983). However, less than half a century later, the gap in national income per capita between the two countries had risen to almost its highest levels in their common history. Furthermore, their social spheres

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[1] North, D. C., Wallis, J. J., & Weingast, B. R. (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. New York: Cambridge University Press.

[2] NWW refer to Acemoglu and Robinson (2006), Landes (1998), Olson (1993), Pomeranz (2000), Rostow (1960) and Tilly (1992).

[3] The most direct offshoot is a collection of single case studies in North, Wallis, Webb and Weingast (2013). Carden and Coyne (2010) apply NWW's theory to Memphis riot of 1866, Bedasso (2012) to post-independence Kenya and Bogart and Oandasan (2012) to the aftermath of Britain's Glorious Revolution. Gollwitzer Franke and Quintin (2012) and Bluhm, de Crombrugghe and Szirmai (2012) undertake econometric analyses based on broad country samples.

[4] For reviews of North et al. (2009) see Bates (2010), Harley (2010), Holden (2009), Margo (2010) and Snyder (2010).

[5] A so-called 'British-Iberian dichotomy' has been widely debated in many academic works over time (e.g. Haber, 1997; Landes, 1998; La Porta, Lopez de Silanes, & Shleifer, 2008; North, 1981, 1990; North, Summerhill, and Weingast, 2000; Olson, 1982; Robinson, 2001).

represented something like ‘the beauty and the beast.’ In other words, the contrasting socio-economic trajectories of New Zealand and Uruguay provide an extraordinary opportunity to examine core hypotheses of NWW’s theory. In addition, this paper also goes beyond earlier comparisons of the two settler economies by Álvarez and Bértola (2012), Álvarez, Bértola, and Porcile (2007), Denoon (1983) or Kirby (1975) by applying a rigorous institutional research agenda. Likewise, the results of this study also contribute to the larger field of literature concerning settler economies in general.[6] In addition, the outcomes will also feed back into the theoretical debate.

In Section 2, a brief literature review outlines key characteristics of NWW’s theory and sets them into context with the propositions of competing concepts. Section 3 establishes the research agenda. Section 4 compares the two countries’ economic growth patterns and searches for potential determinants in their institutional settings. Section 5 provides insights into key characteristics of social welfare provision and public incentives for development. Section 6 covers important attributes of their export patterns. Section 7 concludes.

THEORETICAL BACKGROUND

Violence and Social Orders (2009) constitutes the culmination of a distinguished episode by the three scholars, which can be traced back to their joint paper *The Natural State: The Political-Economy of Non-Development* (2005). Their common research efforts have continued with *In the Shadow of Violence* (2012, 2013 with S. Webb).

The ToSO builds up on a set of core elements of the new institutional economics (NIE), such as scarcity assumptions, rational choice, private property rights, institutions, and the state as the central source of power. NWW continue to consider shared belief systems as fundamental determinants for economic growth, as North (2005) or Greif (2006) have argued before. This is in contrast to Acemoglu and Robinson (2006) or Olson (1993, 2000), who emphasize the importance of formal institutions. The most notable divergence from earlier works of North (1990, 2005) is the avoidance of open references to ‘path-dependence’, ‘transaction costs’ and ‘learning’, and the introduction of ‘elites’ and ‘violence’. Public choice literature, with its focus on political markets, collective goods and interest groups, is an integral part of their new theory, but has already been used to similar extents by Acemoglu and Robinson or Olson. Important thought-provoking ideas are NWW’s view of the state as an organization of organizations, as well as their deliberate reversal of Mancur Olson’s ‘collective action theorem’ (Haaga, 2010, p. 841; Stefancic, 2011, p. 398). Furthermore, their way of incorporating intra-elite power struggles into a broad institutional

[6] Belich (2009), Willebald (2011) and Lloyd, Metzer, and Sutch (2013) represent recent contributions to this field.

framework is an interesting point, especially in comparison to Acemoglu and Robinson's rivaling theory. However, the ToSO does not sufficiently address the role of international power struggles on development, as Tilly (1992) discusses comprehensively in his framework.

Based on these requisites, NWW form two major ideal types of social orders, *natural states/limited access orders* (LAOs) and *open access orders* (OAOs), and propose three so-called *doorstep conditions*, which have to be fulfilled in order to transit to OAO status and to maintain economic prosperity in the long run.[7] According to the authors, 85 per cent of global population live in rent-seeking and unequal LAOs nowadays, where personal networks are the key to success and occasional power imbalances between elites cause periods of disorder. Only OAOs mirror Weber's conception of the state, where its politically controlled monopoly on violence supports stable development. Following their principle of *double balance,* sophisticated competitive *economic markets*, as present in OAOs, can only emerge and sustained if the same Schumpeterian capitalistic forces of creative destruction are also in operation in *political markets*. Moreover, a higher provision of public goods and a complex system of checks and balances lead to bigger, but more decentralized governments. NWW present Britain and the USA repeatedly as prototypes for the early evolution of open access orders until the mid 19th century. Due to their common institutional background, their political and economic markets remained adaptively efficient and weathered every external shock. North et al. (2009, p. 77) extend this institutional interrelationship to all of Britain's major former settler colonies. All of them successfully fulfilled the doorstep conditions, which include (#1) *rule of law for elites*, (#2) *perpetual lived forms of organizations*, including the state itself, and (#3) *political control of the military*, early in their history. On the other hand, NWW argue that former Spanish colonies in Latin America still share a common, colonially inherited legacy of domestic military coups, macroeconomic imbalances, budget crises and selective property rights, and, thus, continue to be politically and economically less successful (ibid., pp. 136-143).[8] Referring back to the research question, antithetical institutions should have been the major determinants for the diverging socio-economic trajectories of New Zealand (OAO) and Uruguay (LAO) between 1930 and 1973.

RESEARCH AGENDA

The assessment of NWW's comprehensive theory in the light of the socio-economic developments of New Zealand and Uruguay between 1930 and the early 1970s requires a more structured research

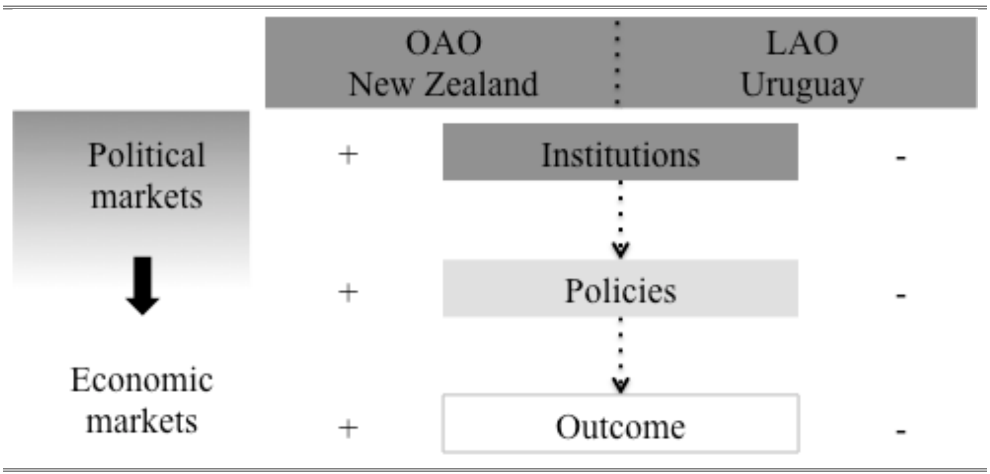
[7] NWW use the terms 'natural state' and 'limited access order' interchangeably during the gestation of their theory. Subsequently, the term 'limited access order' is used for this study.

[8] Spain is now considered as a OAO after a lengthy, but yet not explained transition (North et al., 2009, p. 27).

mode than these scholars provide themselves.[9] As it is important to reveal the causal mechanisms behind economic patterns, research has to be historical and comparative, with institutions being placed in the center of investigation (Boettke, Coyne, & Leeson, 2013, p. 286). Consequently, the analysis of a comprehensive set of country and time specific phenomena of human interaction is preferred (Atkinson & Oleson, 1996, p. 704). On the other hand, a certain degree of simplification is needed in order to deal with the complexity of the matter.

The evolving research tool is firmly based on four main propositions advanced by NWW. Firstly, there are fundamental differences between the two major social orders (North et al., 2009, p. 2). Secondly, based on the scholars' paradigm of transfers of "contrasting institutions from metropole to colonies" (ibid., p. 77) New Zealand, as former British colony, is taken as representative of an OAO, whereas Uruguay, as a former Spanish colony, represents a LAO. Thirdly, according to North et al. (2009) "over the past two centuries, political and economic development appear to have gone hand in hand" (p. 2). In other words, the existence of a sustained positive relationship between their so-called political markets and economic markets is supposed. Finally, a more detailed interrelationship has to hold too, where "beliefs → institutions → organizations → policies → outcome" (North, 2005, p. 155, cited in North et al., 2009, p. 28). Consequently, a conceptual framework studying the socio-economic development of New Zealand and Uruguay based on the ToSO can be represented in the following way (Figure 1):[10]

FIGURE 1: OUTLINE OF THE CONCEPTUAL FRAMEWORK



Source: own elaboration based on North et al. (2009); + better; - worse

[9] North et al. (2009, p. xii) state that "[w]e do not present a formal model that generates explicit empirical tests or deterministic predictions about social change."

[10] 'Beliefs', 'institutions' and 'organizations' are subsumed due to NWW's definition of institutions. NWW use organizations rather as vehicles to transport Adam Smith's idea of the division of labor (Margo, 2009).

The schematic representation of NWW's core propositions reveals the complexity of the matter. Hence, the conceptual framework will comprise two layers of analysis to adequately deal with the research question.

The first layer focuses on typical NWW top-level evaluations of a specific set of variables, representing national political and economic markets. Therefore, a detailed evaluation of the two settler economies' GDP per capita growth patterns needs to be undertaken at the beginning to serve as a basis for further inquiries. New Zealand should demonstrate higher average growth rates, mainly because of less frequent and less severe negative returns (North et al., 2009, p. 6). PPP-adjusted time series estimates produced by Maddison (2010) provide the required long-term comparable data as well as the incorporation of local expertise.[11] They are set into context by means of the respective data from a set of other settler economies and the so-called 'Four Leaders' – France, Germany, UK and USA. Following NWW's dialectic of double balance, identified economic growth patterns should be determined mainly through national basic institutional characteristics and security of property rights. Therefore, the subsequent inquiries into the sophistication of national political markets address most directly two of NWW's three doorstep conditions, encompassing (#1) rule of law for elites and (#2) support for perpetually lived organizations.[12] Comparing types and duration of prevailing political orders provides a starting point for these analyses. Respective data should demonstrate New Zealand's higher political durability and social liberty, with rather incremental than dramatic regime shifts. Furthermore, lower barriers of political access, more effective political competition and well-drafted constraints on the executive branch are expected to have prevailed (ibid., p. 3). Therefore, a closer look is taken at the extent and different means of formal control over direct political participation through elections, as they are fundamental features that separate the two social orders (ibid., p. 118). In addition, higher institutional stability and open political access will have positively influenced property rights systems (ibid., p. 6). Consequently, these evaluations will mostly deal with constitutional rules, as they can be considered the most basic layer of formal institutions (Voigt, 2008, p. 363). In general, these fundamental rules are said to have far-reaching consequences for overall levels of public spending, provision of public goods, as well as for investment horizons, income and output per worker (ibid., pp. 372-385). The Polity IV data set from Marshall and Jaggers (2010) is taken as a feasible major source for evaluating social liberty and institutional

[11] In the case of New Zealand, Greasley and Oxley (2000) provide a good synthesis of available national estimates for national GDP figures, which also form part of Maddison's (2010) estimates, as well as proprietary estimates covering the period 1870-1993. Bonino et al. (2012) offer a similar overview for Uruguay.

[12] NWW's doorstep condition #3, the Weberian paradigm, is not directly evaluated here because of its supposed dependence on national institutional superstructure rather than its representing an independent variable itself.

stability.[13] Based on the abovementioned hypotheses, the POLITY2 value should provide appropriate information about political accessibility, and changes in it might mark potential points of political transition.[14] Moreover, the variable DURABLE is used to count the number of major regime shifts.[15] For a visual representation of barriers of entry for political parties, an inverse Herfindahl-index is calculated for national election results and the parties' share of seats in the two countries' first parliamentary chambers. This basic measure for concentration is commonly applied in economics for estimating competition, but is also utilized in political analyses.[16] The contract-intensive money (CIM) measure, as presented in Clague, Knack, Keefer and Olson (1999), supplements the preceding data. This measure intends to quantify general levels of property rights and impartial contract enforcement by calculating the ratio between broad money supply and currency held by people outside banks. These mainly quantitative analyses contribute to the research outcome primarily through the objective measurement of fundamental characteristics and interdependencies.[17]

The second layer comprises in-depth discussions of country-specific data covering the subcategories policies and outcome. This layer also heavily builds on a comparative research mode. The objective of this layer is to explain the causal process, which has led to the overall macroeconomic outcomes (Ragin, 2006, p. 116). Inquiries into economic policy strategies clarify whether national policy-makers provided the right incentives to adapt efficiently to exogenous shocks (North et al., 2009, p. 133). These investigations need to deal mostly with the provision of pecuniary and non-pecuniary public goods as door openers to a successful exploitation of the theoretical economic output limit (ibid., p. 117). These investigations lead directly to discussion about the size of the public share in the economy. Its size should stand in direct relation to the degree of political competition for popular approval in New Zealand and Uruguay (ibid., p. 129). Furthermore, allocation of discretionary power over fiscal resources between national and federal entities reveals existing checks and balances between different public bodies. Information on these matters is obtained mostly from local databases, such as those of Azar et al. (2009) and Thorns and

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[13] See Williams and Siddique (2008) for a comparison of major governance indicators.

[14] The integer scale of POLITY2 ranges from -10 to 0 for autocracy and from 0 to 10 for democracy.

[15] The variable DURABLE counts the years of a prevailing regime. The variable is set back at major regime shifts of changes in values >= +/- 3. A similar variable, PERSIST from the Polity IV polity data set, is more sensitive as it also accounts for minor changes, and therefore has not been chosen. However, analyses based on PERSIST provide similar results as ones based on DURABLE.

[16] For its application in political markets see Aboal, Lorenzo, Moraes, and Oddone (2003), Buquet and Chasquetti (2008), Moraes (2008), or Oddone (2010).

[17] Statistical analyses are limited to identifying crucial patterns, because the interpretation of the data and their economic significance plays a more important role than the sole reliance on mere correlations (Dow, 2002, p. 50; Hodgson, 1998, p. 173; Ziliak, & McCloskey, 2013, p. 98).

Sedwick (1997), and accompanying literature. Next, inquiries into economic outcomes need to look at the export sectors of New Zealand and Uruguay, as NWW regard these sectors as tremendously important for small outward-oriented nations and, therefore, reveal much about their international competitiveness (ibid., p. 27). 'Openness' and adaptive efficiency of these sectors should be a distinguishing point between the two economies. For this purpose, broad economic indicators are employed, including sector sizes, their export composition and destinations. Sector size is measured in absolute real values as well as in relation to GDP and population. Concentrations of export compositions and destinations are presented through computed values of an inverse Herfindahl index. The data are obtained mostly from national databases and a comprehensive literature review.

Hypothesized differences between the two ideal types are almost entirely presented on a relative scale to account for real-world imperfections in New Zealand and Uruguay. Consequently, the main hypotheses are as follows (Table 1):

TABLE 1: MAIN HYPOTHESES OF THE CONCEPTUAL FRAMEWORK

Layer	Hypothesis	OAO New Zealand	LAO Uruguay
1st General assessment			
	Economic development	Higher	Lower
	Institutional sophistication	Higher	Lower
2nd Economic policies			
	Provision of public goods	Higher	Lower
		Growth enhancing	Growth distorting
	Fiscal spending	Egalitarian	Selective
		Federal	Centralized
2nd Economic outcomes			
	Export sector	Open	Limited
		Adaptive	Static
	Productivity	Higher	Lower

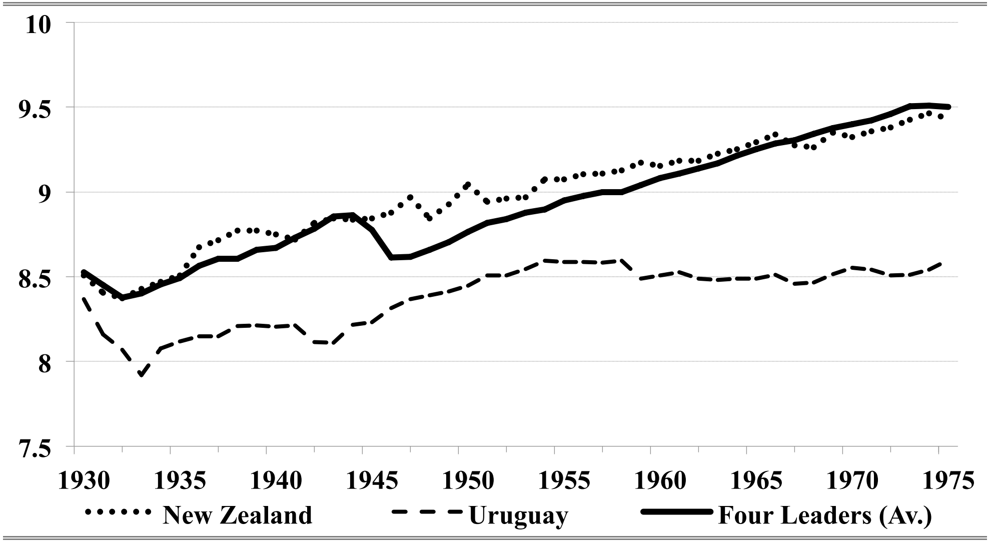
Source: own elaboration derived from North et al. (2009)

GENERAL ASSESSMENT

THE GREAT DIVERGENCE IN PROSPERITY

After 1930, material well-being in New Zealand and Uruguay diverged markedly during the next four decades. This seems to manifest NWW's proposed different adaptability to external changes (Figure 2).

FIGURE 2: GDP PER CAPITA DEVELOPMENT



Source: Maddison (2010); LN scale; Four leaders = France, Germany, UK and US, arithmetic average

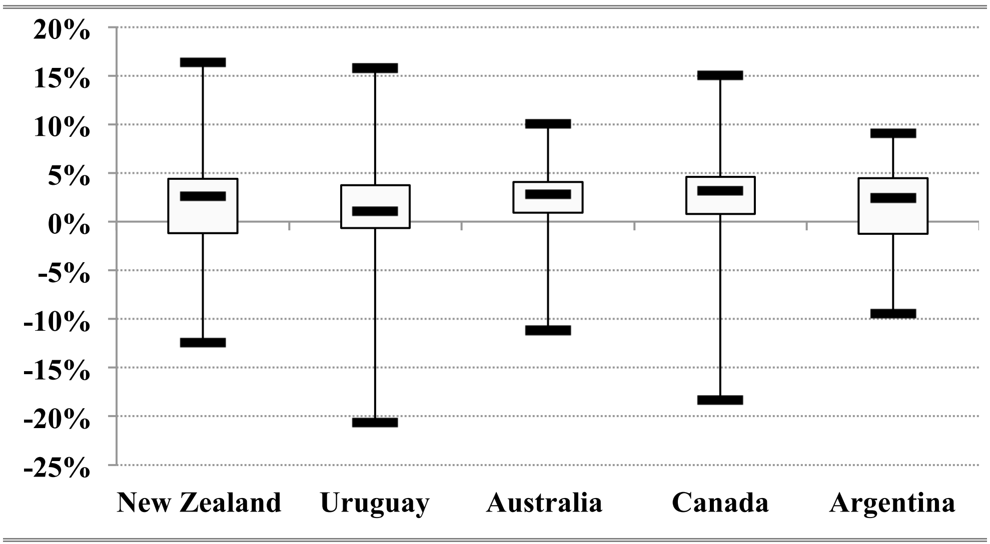
The direct aftermath of the Great Depression affected New Zealand as badly as other leading nations. However, in comparison to them New Zealand's recovery was markedly more rapid (Greasley & Oxley, 2002, p. 697). Spared from foreign aggression on domestic soil, its solid economic growth continued during the subsequent eventful decades. However, increases in New Zealanders' material well being began to dwindle considerably towards the end of the examined period (Greasley & Oxley, 2000, p. 179).[18] On the other hand, Uruguay's real GDP per capita fell even more pronouncedly than in its South American neighbors until 1933, and it took another 14 years to recapture its pre-crisis income levels. The following epoch of further rising prosperity remained short-lived, as Uruguay's income levels remained virtually flat after 1954. Based on these differences in their economic growth trajectories, Uruguay's real GDP per capita level in comparison to New Zealand fell from 87 per cent in 1930 to 40 per cent in 1973. If population growth had been similar in both countries, the differences would have been even higher.[19]

The aforementioned divergence resulted from the accumulated effects of their substantially different return distributions after 1930, which are depicted in Figure 3.

[18] Easton (1997, p. 73) refers to the collapse of the Wool Exchange in Auckland in December 1966. Other authors consider the UK's accession to the European Economic Community or the first oil price shock in 1973 as decisive.

[19] Uruguay's population grew 22.5 per cent, while New Zealand's population grew by 46.1 per cent between 1954 and 1974. The four leaders' population rose on average by 22.9 per cent during the same period (Maddison, 2010).

FIGURE 3: VARIATION IN GDP PER CAPITA GROWTH RATES 1930 - 1975

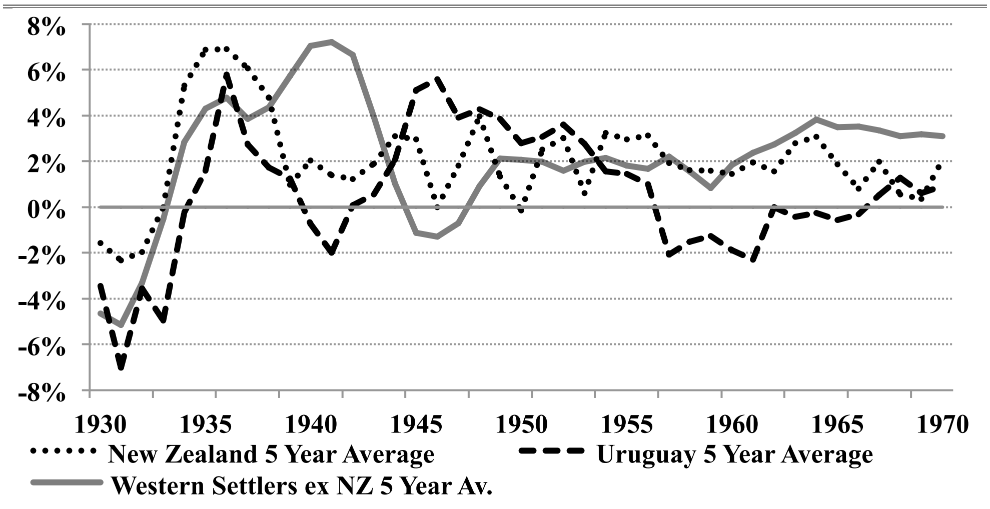


Source: see Figure 2; LN returns

Although economic development in New Zealand continued to exhibit a greater growth rate than Australia, both countries together with Canada shared the feature of high average growth rates. In contrast, Uruguay's missing periods of sustained positive growth combined with heavy economic setbacks, especially during the Great Depression, were unique among the peer group.[20]

Economic growth in both countries also followed different cyclical patterns, whereby Uruguay's tradition of switches between boom and bust continued until the 1960s (Figure 4).

FIGURE 4: GDP PER CAPITA GROWTH CYCLES



Source: see Figure 2; LN returns

Figure 4 demonstrates that the two countries under consideration also managed to smooth cyclical patterns during the second half of the period, with Uruguay's economic growth volatility

[20] Sanz-Villarroya (2005) presents a special case between Argentina and Australia, which both moved on parallel paths until 1975 before drifting further apart from each other.

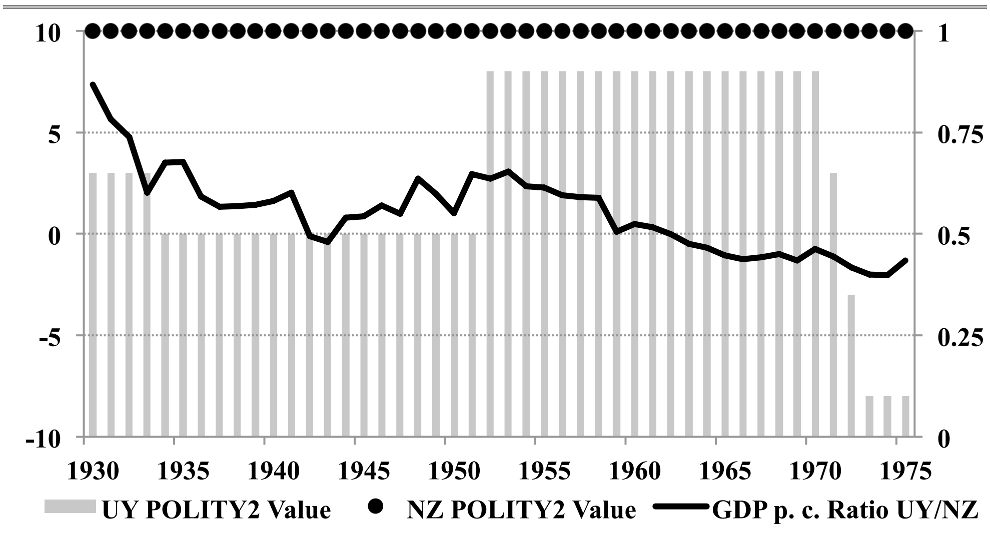
being below New Zealand's for the first and only period during the twentieth century (Carbajal & De Melo, 2007, p. 315).

To summarize, New Zealand experienced a long boom, sometimes faster, sometimes slower (Easton, 1997, p. 19). In contrast, Uruguay's repeated downturns were more severe, while upward swings were only marginally better (Carbajal & De Melo, 2007, p. 315). These differences in economic growth patterns confirm the conceptual framework's hypotheses regarding general economic growth patterns of LAOs and OAOs. On the other hand, New Zealand's most rapid development epoch since the late 19th century occurred at a time when its economy could be described by many characteristics except 'open access' (Belich, 2001, p. 308). Uruguay's low volatility from the 1950s also challenges the conceptual framework, as it did not spare the country from falling behind even further.[21]

CHANGES AND PERSISTENCY IN INSTITUTIONAL UNDERPINNINGS

Following the conceptual framework, the economic divergence must be clearly ascribable to variations in the fundamental rules of the game. Therefore, the comparison of abstract differences in institutional accessibility and economic performance between the two settler economies provides valuable insights (Figure 5).

FIGURE 5: POLITICAL ACCESS AND RELATIVE ECONOMIC PERFORMANCE



Source: see Figure 2 and Marshall and Jaggers (2010); Left ordinal scale for POLITY2 values; Right scale for GDP per capita ratio

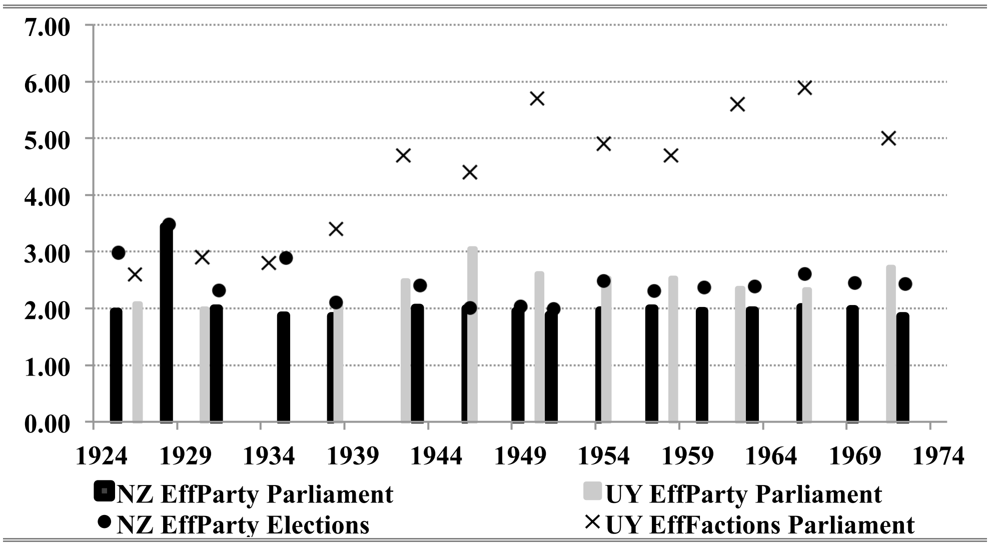
Their respective POLITY2 values represent an apparently stable and ideal-typical 'open' society in New Zealand, and alternating periods of democracy and autocracy in Uruguay. The

[21] Between 1960 and 1965 only Malawi and the Dominican Republic had worse economic growth rates than Uruguay (Weinstein, 1988, p. 36).

latter's shifts signal the coming into force of one of three new constitutions, in 1934, in 1952 and 1967, which switched back and forth between single-presidential systems and Swiss-style shared executive power, and involved further amendments (Rehren, 1998, p. 723).[22] In fact, it became the period with the most reversals and shortest average life span of its constitutions.[23] The less democratic system after 1934 could at least maintain the economic gap in relation to its British sibling.[24] In contrast, the establishment of the Swiss-style Colegiado in 1952 was followed by further relative economic decline. Hence, institutional arrangements were incapable of reinforcing development.

One major reason for this outcome was the change in the de facto accessibility of political organizations. Differences in election results and actual party representation in the respective first legislative chambers after 1930 highlight the contrasting developments in New Zealand and Uruguay. These differences are illustrated by the use of concentration indices (Figure 6).

FIGURE 6: NUMBER OF EFFECTIVE PARTIES AND FACTIONS IN ELECTIONS AND THE LEGISLATIVE



Source: Atkinson (2003), Aboal et al. (2003); Number of effective parties or factions based on Oddone (2010)

Despite the institutional differences described earlier, tight two-party political systems emerged in both countries and survived at least until the beginning of the 1970s. As shown by the measures of effective parliamentary party representation, New Zealand's first chamber became even more concentrated, with a typical majority-based British two-party system becoming

[22] In 1942, another constitution was approved by plebiscite. However, it is rather regarded as a modification of the existing 1934 constitution (Jacob & Weinstein, 1992, p. 32).

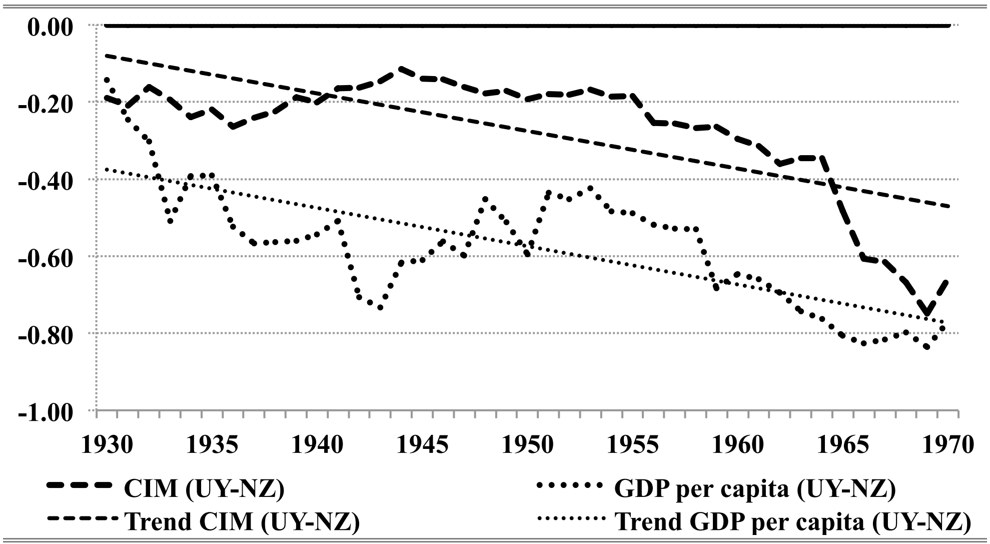
[23] According to the variable DURABLE from Marshall and Jaggers (2010), institutional break points were the years 1934 (29), 1952 (17), 1971 (18), 1973 (2). The years of respective duration are put into brackets.

[24] The populist regime occurred in a period when many European countries and the Southern Cone countries experienced their periods of totalitarianism or populism (Weinstein, 1975, p. 70).

solidified.[25] In Uruguay, the difference between the voters' will, as measured by the number of elected effective factions, and the comparatively stable measure for effective party representation in the Cámara de Representantes was even higher.[26]

Proceeding to the dimension of contract rights enforcement, the close interrelations between the differences in GDP per capita levels and their respective CIM values are obvious (Figure 7).

FIGURE 7: URUGUAY'S RELATIVE CONTRACT ENFORCEMENT AND ECONOMIC PROSPERITY



Source: Bloomfield (1984), Maddison (2010), RBNZ (1987), Román and Willebald (2011), Table F.4.1 from Statistics New Zealand (2010); LN differences

In New Zealand, economic actors remained convinced of the enforceability of their contract rights. On the other hand, their Uruguayan counterparts gradually lost their confidence during the four decades under consideration. Credibility of contract enforcement slipped continuously except during a comparatively stable period between the mid 1940s and the mid 1950s. In other words, neither the mild dictatorship after 1933 nor its immediate democratic successors could stop this process. Impartial enforcement of contract rights became constantly more difficult until the mid 1960s and, finally, was hardly possible at all during times of rising political turmoil and severe relative economic decline.[27] In other words, Uruguay's rising institutional instability must have adversely affected contract enforcement levels and, thus, economic growth.

Despite these generally affirmative outcomes in regard to institutional differences and their impact on economic growth, New Zealand continued to exhibit some crucial deviations from OAO ideal type institutions. The emergence of a modern mass-based party system based on a small

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[25] A country quota, which gave advantages to the rural electorate, blurred the results in addition to the first-past-the-post election system.

[26] Each faction can be treated as an independent party because of their individualistic character. Actual parties serve as umbrella organizations. For further information see Moraes (2008) or Morgenstern (2001).

[27] The CIM values presented for Uruguay might be overstated yet due to the impact of rising inflation on this measure. See Clague et al. (1999) for methodological considerations.

electorate after 1930 fostered economies of scale and, together with the provisions of the first-past-the-post election system, limited political access for independent ideas (Martin, 2004, p. 203). Hence, official economic decision making became an exclusive privilege for compliant members of the newly modeled Labour Party and National Party between 1946 and 1966, a phenomenon which Milne (1966, p. 11) considers distinctively British.[28] In contrast to constitutional procedures, real decision making power was transferred to the Cabinet, which totally controlled the Members of Parliament through caucuses as early as 1940.[29] This marked the beginning of a long tradition whereby governments could frame regulations without scrutiny. In 1947, its parliament rather reluctantly accepted the gift of general de jure sovereignty as granted by the British Statute of Westminster from 1931 (Wilson, 2007, p. 7). The politicians involved did so mainly to obtain the means to abolish the second parliamentary chamber, the Legislative Council, which finally happened in 1951 (Jackson, 1972, p. 198). This made New Zealand unique among Western countries in having neither a written constitution nor a second chamber. Afterwards, the House of Representatives became the supreme and sole legislature on any political matter and could control its own major constraining powers (Jackson, 1998, p. 492). On the one hand, it was a logical consequence, since the Legislative Council had already been out of practical use for decades. On the other hand, this change was to have a decisive impact on subsequent policy making.[30] Moreover, the new Electoral Act in 1956 created higher barriers to the remaining first chamber (Atkinson, 2003, p. 145). Therefore, people's only major controls remained the ballot box and plebiscites, which were frequently used to block longer legislative periods, as proposed by political elites. In other words, New Zealand's characteristics challenge the general OAO ideal type in respect to its falling its decreasing federal open access and the misaligned power balances between the legislative and the executive.

There was also a strong countermovement in New Zealand against further recess from its British heritage (Belich, 2001, p. 246). Among others, the position of the Governor General remained undisputedly in the hands of genuine Britons until 1967. Although a separate New Zealand citizenship was introduced, people remained British subjects. Its cultural heritage was defended even more subtly by applying higher import duties on American movies, granting preferential market access for British cars, or declaring the Queen's birthday a statutory holiday in

[28] The last independent MP left the House in the early 1940s (Martin, 2004, p. 204).

[29] Martin (2004) quotes Labour member Paddy Kearins: "All legislation is really passed before it ever comes into this chamber. The caucus of the government party decides – and rightly so, I think - what will pass and what will not pass in this chamber. What happens in this Chamber are mere formalities …" (p. 222).

[30] One of the immediate consequences was the unhindered passing of the very harsh Police Offences Amendment Bill in 1951, which legalized very tough strike-breaking measures and the use of emergency powers (Belich, 2001).

1952 (ibid., p. 267).[31] In other words, this "intensified re-colonization" preserved the traditional social setup of a dominant settler class of European origin much more than would have been necessary.[32] Likewise, a tight society freely subordinated to voluntary censorship. These developments certainly demonstrate NWW's proposed stability through a deeply entrenched social consensus, but with a very different outcome than fostering civil diversity (Milne, 1966, p. 7). It shows also that externally created traditions served as quasi-institutional safeguards instead of developing a novel set of well-working formal balances. This challenges NWW's progressive and liberal image of OAOs.

Uruguay's institutional checks and balances also experienced some crucial curtailments. The 1934 constitution split the seats in the Senate evenly between the two traditional Colorado and Blanco parties (Weinstein, 1975, p. 72). Although simultaneously the Supreme Court of Justice was empowered to watch over the constitution, executive decrees repeatedly overruled judicial arbitration (Hudson, 1992, p. 155; Zurbriggen, 2006, p. 164). Even after the later reversal of some of the adverse institutional changes from 1934, there was neither an increase in individual support for the state nor did effective formal counter-balances emerge (Weinstein, 1988, p. 29). Uruguay's political system remained a plural democracy, but it was not a majority one (Zurbriggen, 2006, p. 57). Highly closed-off political markets hindered effective parliamentary inclusion of competing ideas (Jacob & Weinstein, 1992, p. 38). Hence, some went further and chose to fight, especially the Tupamaros after 1962 (Lanzaro, 2010, p. 204). In other words, Uruguay's reputed deeply entrenched democratic sentiment did not translate into equally undisputed support for the state, as was the case in New Zealand.

In a nutshell, differences in the two institutional frameworks were profound between 1930 and the early 1970s, which gives credibility to the conceptual framework in this matter. They clearly affected governability (Table 2).

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[31] British traditions were even conserved in 'the traditional compulsory dawn tea service' served in the hospitality industry until 1972 (Belich, 2001, p. 316).

[32] Māori's incremental improvement of access to the ballot box between 1937 and 1975 was not matched with equal attention to distribution of seats and other electoral processes (Atkinson, 2003, p. 166).

TABLE 2: AVERAGE POLITICAL TENURES 1930 - 1972

	New Zealand	Uruguay
Duration of major party in power (years)	7.17	8.60
Duration of major factions in power (years)	n. a.	2.53
Average tenure of head of executive (years)	4.30	1.95
Average tenure of finance ministers (years)	3.91	1.59
Average tenure of head of monetary policy (years)	7.80 (1)	2.36 (2)

Source: For party and factions see Figure 6; Other data for New Zealand from Hawke (1973), McKinnon (2003) and Schemmel (2012); Head of executive is Prime Minister; Head of monetary policy is Governor of RBNZ from 1934; Data for Uruguay from FCS UdelaR (2011a); Head of executive is President or Presidents of the National Council of Government; Head of monetary policy is head of BROU or BCU from 1967; (1) Data for 1934 to 1972 (2) Data for 1940 to 1972

Table 2 presents the erosion of governability in Uruguay, where power within parliament as well as key economic policy-making positions changed hands more than twice as often than in New Zealand. In fact, it was Uruguay's politically most unstable period during the 20th century and the rise in political turnover after the mid-1950s clearly increased uncertainty among economic actors and, thus, provided a less supportive climate for economic growth. On the other hand, New Zealand's historically above-average tenures demonstrate not only continuity in its policymaking but also in its tradition of power concentration in the hands of a few single individuals, especially among conservative powers (Gustafson, 1986, p. 112).[33] Hence, New Zealand's unique institutional settings allowed the Labour Party after 1935 to establish the most left-wing government outside the Soviet Union and to rule, as Belich (2001) terms it, by "a mild and benign populism" (p. 260).[34]

THE RISE OF STATE ACTIVITY AFTER 1930

After the Great Depression, the Keynesian spirit was also well received in the two settler economies (McKinnon, 2003, p. 151; Azar et al., 2009, p. 39). They were also a major reason for the aforementioned decreasing volatility in national income growth (Oddone, 2010, p. 110).

SIZE OF GOVERNMENT EXPENDITURE

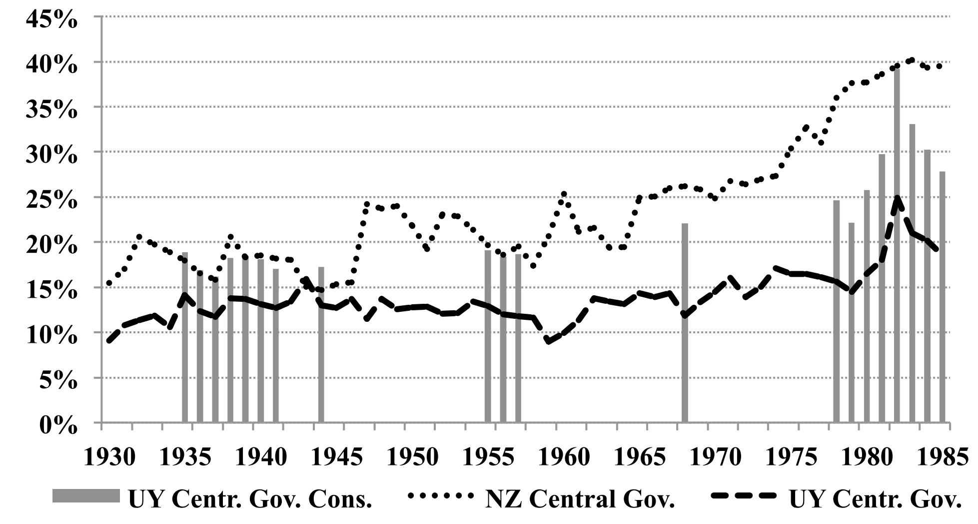
Initial inquiries show that the government stake in the economy increased faster in New Zealand than in Uruguay after 1930, with the relative spending levels of the two central authorities diverging considerably after WWII. Even when the latter's state-controlled social security bodies are included, its total central authorities' budget levels could not keep up with New Zealand's public

[33] S. Holland simultaneously held the offices of the Prime Minster as well as the Treasury between 1949 and 1954 (McKinnon, 2003). Sir K. Holyoake was the third longest serving Prime Minister in New Zealand (Gustafson, 1986, p.108).

[34] The Labour Party abandoned its communist background as late as 1925 and only dropped plans for the confiscation of private property in 1927 (Martin, 2004, p. 227).

spending from the late 1960s. Therefore, NWW's proposed divergence between the shares of the public hand in LAO and OAO did indeed occur, albeit rather late (Figure 8).

FIGURE 8: GOVERNMENT EXPENDITURE AS PERCENTAGE OF GDP 1930 - 1985



Source: Azar et al. (2009), New Zealand Treasury (2010), Thorns and Sedwick (1997); Nominal GDP from Table E.1.1 from Statistics New Zealand (2010), Bonino et al. (2012) and New Zealand Treasury (2010); UY Central Government Consolidated incl. social security bodies

New Zealand's total government spending, including local authorities, also increased considerably from 31.7 per cent in 1935 to 44.4 per cent in 1978, while Uruguay's ratio shifted from 18.9 per cent to 25 per cent respectively. Therefore, New Zealand's persistently higher rate of decentralized public spending in comparison with its South American counterpart adds credibility to NWW's propositions. However, this affirmation leaves out the fact that the former's central government's direct or indirect control over total public resources increased almost unrestrictedly after 1930, which left few real discretionary powers to local authorities (Hawke, 1985, p. 305). In other words, New Zealand increasingly contradicted NWW's assumption of a truly federal OAO setup.

WELFARE SPENDING

As mentioned before, the major reason behind increasing state size after the Great Depression was the unfolding of the welfare state, which included spending on education, health care and social security, as well as rising public employment (Table 3).

TABLE 3: PUBLIC WELFARE SPENDING AND PUBLIC EMPLOYMENT 1926 - 1975

	Social Spending[1] (as % of GDP)		Public Employment[2] (as % of Economic Active Population)		No. of Pensions (as % of Population aged 59+)	
	NZ	UY	NZ	UY	NZ	UY
1926	3.6	3.9 [3]	9.1	6.9 [4]	43.4	37.7 [4]
1936	5.4	7.2	8.4	7.2 [5]	43.9	61.0 [5]
1949	13.0	5.8 [6]	18.6	12.1	99.5 [7]	80.6
1975	18.1	15.0	19.3	20.7	86.7 [8]	120.2

Source: Spending ratios from Azar et al. (2009), Tables D.2.2 and D.2.6 from Statistics New Zealand (2010) and Thorns and Sedwick (1997); Employment ratios from Azar et al. (2009), Bloomfield (1984), Fleitas and Román (2010) and Thorns and Sedwick (1997); Pension ratios from Azar et al. (2009), Bloomfield (1984), FCS UdelaR (2011b) and Pereira and Trajtenberg (1966); For GDP see Figure 8

(1) includes education, health care, housing and social security; (2) includes central government employment and state entities (3) 1925 data; (4) 1924 data; (5) 1934 data; (6) 1947 data, (7) 1951 data, (8) 1976 data

Both countries experienced very similar multiplications of their levels of welfare spending and public employment between 1930 and 1975 irrespective of their institutional background. In fact, Uruguayan welfare spending to GDP was higher than in Argentina or many OECD countries after WWII (Azar et al., 2009, p. 224). Especially spending on social security and education grew disproportionately in the two settler countries, which contributed strongly to the emergence of Uruguay's nickname "Switzerland of South America". Moreover, the share of public employment in their economies increased to similarly high levels. In other words, neither welfare policies nor the extent of public employment seemed to crucially differ between the two countries on a macro scale.[35] If further characteristics are considered, a more differentiated picture emerges.

In New Zealand, conservative interests put fiscal orthodoxy before the needs of approximately 80,000 unemployed New Zealanders at the height of the Great Depression (Hawke, 1985, p. 124). Thus the introduction of unemployment benefits was deferred until 1934 and public works programs were notoriously poorly paid (Belich, 2001, p. 257).[36] The new Labour government after 1935 rapidly turned around to globally admired welfare policies, where the Social Security Bill in 1938 became the legislative centerpiece for coverage 'from the cradle to the grave' (Martin, 2004, p. 212).[37] Subsequently, human development indicators made forward leaps, as infant mortality halved and life expectancy increased (Sutch, 1966, p. 152). In contrast to these positive changes, New Zealand's generally highly egalitarian education system lacked sufficient funding of

[35] Social spending in Uruguay in 1947 appears to be a negative outlier compared with neighboring data points. Likewise, respective figures for New Zealand and Uruguay during the early 1970s are on more equal terms than the 1975 data point suggests, which is impacted by important policy changes. For further information contact the author.

[36] In 1930, Prime Minster G. W. Forbes announced the principle of 'no pay without work' (Sinclair, 2000).

[37] The policies included the reversal of public sector wage cuts, the expansion of public works programs, the improvement of general working conditions, free health care, state housing, pensions at the age of 60, universal superannuation at the age of 65, unemployment, disability and family benefits for everyone, except, at least initially, Māori (Belich, 2001, p. 261).

the tertiary sector compared with other OAO, which limited the economy's potential to adapt adequately to exogenous shocks. Likewise, higher entry barriers for Māori to formal education and, thus, to well paid jobs persisted. These social welfare policies remained largely untouched by the 1950s National Party governments. Likewise, full employment was the leitmotif for all governments until 1967 irrespective of party background, resulting in the further enlargement of the public sector (Hawke, 1985, p. 173).[38]

In the case of Uruguay, public welfare grew especially between 1947 and 1955 and at that time consumed two thirds of total spending. Among its components, spending on old age pensions continued to enjoy priority over education and health care.[39] The administration of the pension system was also affected by the general trend towards the personalization of public services in a vote-buying manner (Daly, 1965, p. 329). Likewise, only the upper urban middle class benefited from rising education expenditures, while very low rates of admission to higher education and its local concentration barred others from entering certain schools and professional careers.[40] Low graduate turnout ratios by the 1960s and preferences for degrees from the faculties of law and medicine further demonstrate the university's role in providing elite insignia rather than fostering innovative contributions (Azar et al., 2009, p. 106). In addition, rising public employment, either direct or through state agencies, followed the aforementioned pork barrel agreements with similar intentions as for the pension system (Finch, 2005, p. 247). Consequently, public sector productivity remained very low and drained state resources even further (Weinstein, 1975, p. 109). As a result of these trends, Uruguay's population became deeply divided in its access to health care, education and career opportunities.

It can be concluded that the two general policy strategies differed primarily in the devotion of resources to the enhancement of labor capacities through education and health care and the degree of impersonal access to public benefits. New Zealand fared better in both respects.

INVESTMENTS AND SUBSIDIES

Welfare spending did not remain the sole playground for the higher state activity after 1930. Following the conceptual framework, substantial differences in public investments, further incentives for private capital formation and direct sectorial support can be identified (Table 4).

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[38] Full employment was also pursued in Britain and Australia after WWII (McKinnon, 2003, p. 185).

[39] In general, people could retire after 30 years of service at the age of 50 to 55. Women who bore a child after 10 years of service also qualified for an inflation-indexed pension (Daly, 1965, p. 328).

[40] Tertiary education was 0.3 per cent of GDP in 1930 and about 0.5 per cent of GDP at the end of the 1960s and has continued at this level since then (Azar et al., 2009, p. 235).

TABLE 4: GROSS CAPITAL FORMATION AND DIRECT SUBSIDIES 1939 - 1974

	Public Gross Capital Formation (as % of GDP)		Private Gross Capital Formation (as % of GDP)		Direct Subsidies (as % of GDP)	
	NZ(1)	UY	NZ(1)	UY	NZ(1)	UY
1939	9.5	n. a.	7.5	n. a.	0.2	n. a.
1950-54	8.4	n. a.	12.1	n. a.	2.0	n. a.
1955-59	9.5	2.6	13.4	10.3	1.3	4.2
1960-64	8.9	2.8	13.4	11.2	1.0	3.7
1965-69	9.1	2.2	13.8	9.1	0.8	n. a.
1970-74	7.6	2.6	15.1	7.8	1.2	n. a.

Source: Gross capital formation from Bloomfield (1984), BROU (1965) and BCU (1976, 1980, 1989); Direct subsidies from Bloomfield (1984) and Instituto de Economía (1969); (1) GNP data

After the worst effects of the Great Depression had abated, New Zealand's public gross investments were on average 8.5 per cent of GDP per year (Easton, 1997, p. 129). Apparently, private capital investments were also not deterred from rising. On the other hand, at least from the 1950s onwards the depreciation of its capital stock paid for Uruguay's tremendous income redistribution and welfare provision (Rama, 1990, p. 211).[41] In other words, Uruguay's already more limited public spending capacity was disproportionately used for consumption payments and severely limited the economy's growth potential (Daly, 1965, p. 320). Likewise, incentives for private capital formation must have diminished towards the end of the period under examination. On the other hand, direct subsidies were substantially higher in Uruguay. Therefore, these analyses outline the importance of the state in fostering economic development and consequently major reasons for Uruguay's declining capacity to adapt to external changes.

In the decades after 1930, the majority of New Zealand's direct fiscal support went into the primary sector, related infrastructure, energy production, and large-scale metal processing. During the years of the Great Depression, several infrastructure programs were commenced, mostly in rural areas, and certain limited subsidies were paid to farmers (Hawke, 1985, p. 149; McKinnon, 2003, p. 143). Based on increasing government revenues, the new Labour government after 1935 expanded public construction and capital investments in new machinery as well as nationalized infrastructure and financial entities. Public works expenditures peaked at 35 per cent of all government spending in 1958 and continuously exceeded 20 per cent in each year between 1949 and 1967 (Belich, 2001, p. 315). These high investments, supported by further policy means, went mainly into roads, airports, harbors, schools, forestry and substantial hydroelectric infrastructure. New Zealand's long-term focus on upgrading and diversifying its competitive advantage led to the establishment of the Murupara pulp and paper mill in the 1950s to bring earlier planted Crown

[41] Initially, Uruguay had the sixth highest supply of capital in the world during the years 1935-38 (Daly, 1965, p. 319).

forests into production (McKinnon, 2003, p. 202). On the other hand, from 1936 onwards the Primary Products Bill already provided direct financial support to farmers and associated industries in the form of guaranteed prices (Martin, 2004, p. 210). Likewise, the provision of health measures for livestock and of subsidies for phosphate fertilizer were further direct means of boosting primary production. The farmers' political supremacy secured 'deficiency payments' to the primary sector and further guaranteed price schemes for major primary products. In addition, existing comprehensive economic planning resources were devoted mainly to the primary sector as well as the public service itself during the 1960s (McKinnon, 2003, p. 236). Substantial direct industrial investments were made mostly during the second Labour government (1957-60) with its ambitious 'manufacturing in-depth' program (Hawke, 1985, p. 251).

In the case of Uruguay, the general preference for income redistribution through welfare spending left little room for further active development incentives (MacFeeters, 1992, p. 107).[42] Between 1935 and 1944 there were five development plans implemented, with some investments in new infrastructure, schooling and housing (Azar, et al., 2009, p. 199). In 1948, the largely obsolete national railways were finally nationalized through the utilization of the accrued trade balances in London (Finch, 2005, p. 244). However, these investments were not intended to diversify the export sector, but to change import composition according to the general import substitution industrialization strategy – ISI (Zurbriggen, 2006, p. 171). Moreover, the governmentally supported prevalence of high real wages between 1940 and 1970 created a spiral of lower business profits, lower investments, and lower economic growth. Subsidies to sustain fixed maximum prices for basic consumption goods further drained state resources (Oddone, 2010, p. 115). Hence, at the beginning of the 1950s public investment sank to only 5 per cent of public spending, while the military still received up to 13 per cent (Azar et al., 2009, p. 40). Consequently, declining public investment contributed to rising uncertainty and falling private investment.

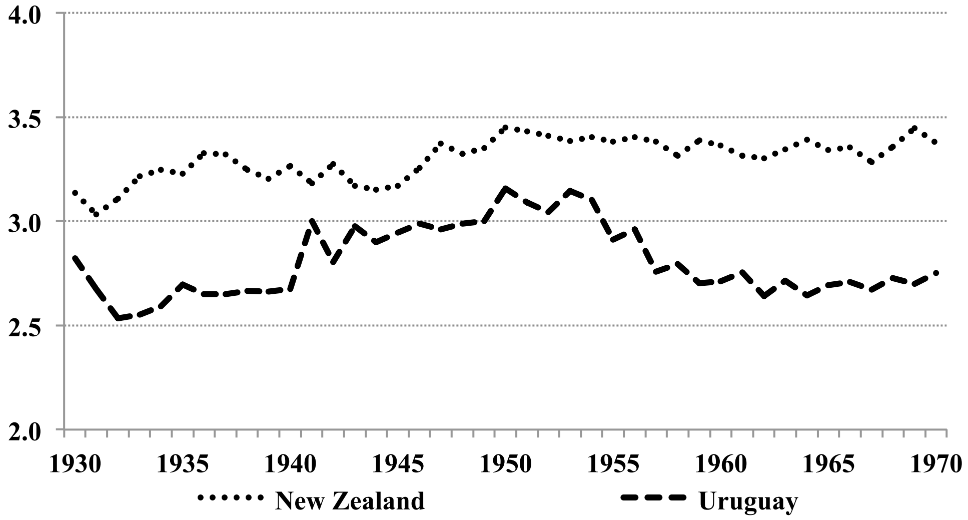
THE EXPORT SECTOR AFTER 1930

Exports remained overly important for both settler economies after 1930, as it provided valuable foreign exchange for their ISI strategies and welfare policies. In this section, differences in international competitiveness and transformations in the range of export products are examined.

The trend of divergent export capacities commenced earlier continued after 1930 and even intensified with Uruguay's stagnation from the 1950s (Figure 9).

[42] In addition to welfare spending, 20 per cent of central government budgets were reserved for debt repayments until the 1950s, but these expenditures fell to only 5 per cent after 1959 (Azar et al., 2009, p. 195).

FIGURE 9: REAL MERCHANDISE EXPORTS PER CAPITA 1930 - 1975



Source: Nominal merchandise exports from Baptista and Bértola (1999), Bloomfield (1984) and Finch (2005); Population data from FCS UdelaR (2011b) and Table A.1.1 from Statistics New Zealand (2010); Nominal GDP figures GDP from Table E.1.1 from Statistics New Zealand (2010), Bonino et al. (2012) and New Zealand Treasury (2010); Numbers adjusted through Maddison (2010); In 1990 int. GK$ PPP; Log scale

TABLE 5: MERCHANDISE EXPORTS 1930 - 1968

	1930		1952		1968	
	NZ	UY	NZ	UY	NZ	UY
Total merchandise exports (in m 1990 int. GK$)	2,048.1	1,138.0	5,128.5	2,485.6	6,271.4	1,481.8
Merchandise Exports (% of GDP)	27.7	15.4	33.0	22.3	21.6	14.9
Export destination concentration (regions)(1)	1.41	1.63	1.54	1.98	2.59	1.95
Export product concentration (categories)(2)	1.18	n. a.	1.11	1.58	1.35	1.21

Source: Export destination and product sector concentration from FCS UdelaR (2011b), Instituto de Economía (1969) and NZOYB (1932, 1954, 1970), For total merchandise exports and GDP see Figure 9; Total merchandise exports adjusted through Maddison (2010), in 1990 int. GK$ PPP; Concentration ratios calculated according to Oddone (2010, p. 249)

(1) Regions: North America, South America, Europe, Asia, Africa, Oceania

(2) Categories: Pastoral produce, agricultural produce, mining, and others

As shown through Figure 9 and Table 5, the two countries' export capacity diverged considerably after the Great Depression. After an initial 35 per cent drop in New Zealand's export receipts between 1930 and 1932, these soon recovered and continued to grow afterwards (Belich, 2001, p. 244). However, the loss in per capita export growth momentum during the 1960s challenges NWW's propositions of sustained economic adaptability of an OAO. Moreover, its export compositions and their destinations remained highly concentrated throughout most of the period. This is also at odds with the theoretical propositions. Uruguay experienced an even higher slump in exports, by as much as 62 per cent, immediately after 1930 (Oddone, 2010, p. 111). Its foreign trade receipts recovered on an upward oscillating trend until the early 1950s, but, when measured on a per capita basis, substantially fell again thereafter. Only after a change in government in 1959, and the subsequent trade reforms, did the situation improve slightly (Finch, 2005, p. 155). Nevertheless, participation of the external sector in national economic activity achieved historically low rates.[43] In other words, Uruguay's trajectory appears to be in line with theoretical predictions.

An important point to consider is the existence of higher overseas barriers of entry, which were faced by Uruguayan exporters in overseas markets as a result of the Ottawa Conference in 1932, the limitation of French meat imports in 1935 and the US import ban on wool in the 1950s (Finch, 2005, p. 150; Jacob & Weinstein, 1992, p. 37).[44] Therefore, initially higher diversification ratios for its export destinations, as shown above, were signs of Uruguay's dependence on more random external market access rather than of deliberate risk spreading (Becker et al., 2001, p. 49).[45] On the other hand, New Zealand benefited from its self-chosen re-colonization to Great Britain, as its motherland provided stable demand, special rents and economies of scale for primary producers (Belich, 2001, p. 313). These contrasting effects diminished only during the 2nd half of the 20th century. In other words, the interests of foreign elites had considerable influence on the fluctuating demand patterns for the major exports of the two settler economies and, thus, on the transaction cost levels of domestic producers.

Notwithstanding these remarks, variations in external market access cannot satisfactorily explain the two countries' growing divergence in their export capacities over the long run. Firstly, the real dollar value of New Zealand's exports in 1938 was 24 per cent below its 1930 high watermark, but meanwhile national income per capita had risen 30 per cent, which made its inhabitants briefly the richest in the world (Greasley & Oxley, 2002, p. 710).[46] In other words, this short episode of extraordinary prosperity resulted rather from domestic sources than imperial trade preferences. Furthermore, New Zealand's exporters also faced rising barriers of entry to their 'home market' after the end of bulk purchase agreements with Britain in 1954 (Hawke, 1985, p. 209; Sutch, 1966, p. 166). On the other hand, Uruguayan exporters also gained substantially from soaring commodity prices during WWII and the Korean War (MacFeeters, 1992, p. 105).

[43] In 1970 wool, meat and leather represented the same major export goods as had already been the case in 1900. In addition, the combined share of meat and wool leveled off at about 75 per cent of total exports after 1940 (Finch, 2005, p. 133).

[44] Between WWI and WWII Uruguay's meat exports almost exclusively depended on the British market (Finch, 2005, p. 136).

[45] Any data on export destination concentration are uncertain, as about 30 per cent of exports went to Brazil and Argentina in the 1930s, but a large share of them must have been on transit to overseas markets (Finch, 2005, p. 135).

[46] In 1938, Uruguay's real dollar exports were 50 per cent below their 1930 levels and its GDP per capita 14 per cent below, respectively.

Moreover, Uruguay's location on the map still provided considerable advantages in terms of transportation costs (Kirby, 1975, p. 266). Nevertheless, its export receipts remained mostly unchanged between 1950 and 1970, especially due to the constant volume of its main exports. Finally, both settler economies faced similar conditions in new markets for their produce after WWII, which were characterized by less stability in demand, costlier marketing and higher price elasticity (Belich, 2001, p. 310; Finch, 2005, p. 151). New Zealand tapped these novel markets more successfully and continuously increased the quantity of its exports.

In other words, endogenous reasons must have played a significant role for the increasing differences in their respective export capacities. As Table 6 shows, growing productivity differentials between the two agriculture sectors were crucial reasons for this divergence.

TABLE 6: AGRICULTURAL PRODUCTIVITY LATE 1960S

	New Zealand		Uruguay	
Employment in primary sector (% of total workforce)	118,000 (11.5)	(1966)	141,000 (13.6)	(1966)
Size of cultivated land (m ha)	17.3	(1)	16.2	(1)
Artificial or improved pasture (% of all grassland)	63	(1)	9	(1)
Animal units per hectare of pasture	5.7	(1)	3.5	(1)
Meat equivalent per hectare (kg)	134.5	(1971)	64.9	(1971/73)
Wool per head (kg)	5.5	(1971)	3.9	(1971/73)
Wheat yield (100kg/ha)	26.5	(1970)	11.5	(1970)

Source: Álvarez and Bortagaray (2007); Kirby (1975);
(1) data from Kirby (1975) without date, presumably late 1960s

A large share of New Zealand's continuing export successes during the four decades after 1930 depended on the efficient exploitation of their natural factor advantages and political support. The decreasing share of employment in agriculture was not different from other high-income countries, but the sector's higher share in national income points to its tremendous productivity (Hawke, 1985, p. 233). Output limits were constantly raised through motorization, the application of new scientific procedures in animal husbandry, successful state-led pest-control campaigns, soil cultivation as well as further infrastructure investments (Senghaas, 1985, p. 125).[47] As a result, agricultural output increased 6.5 fold between the 1930s and 1970.[48] Composition within primary production also changed remarkably, with the appearance of cattle on former sheep country being the biggest visual change in New Zealand during the post-war years (Hawke, 1985, p. 237). Moreover, long-term planning and governmental aid turned forestry and protein derivatives into

[47] Belich (2001, Chapters 8-10) provides a comprehensive analysis of changes in the New Zealand agricultural sector between 1930 and 1970.

[48] New Zealand's fast-growing population still put some supply constraints on farming exports (Sutch, 1966, p. 62).

significant export industries from the 1950s (Belich, 2001, p. 309).[49] In addition, further government-led land redistribution facilitated the continuing efficiency of the mid-sized family farm, the maintenance of a stable number of farmers and their comparably high incomes.

Such a fundamental upgrade of its prime export sector did not occur in Uruguay (Senghaas, 1985, p. 113). Sinking shares of the primary sector in total employment and in national output were caused rather by internal migration towards the city and the sector's stagnating productivity (Weinstein, 1975, p. 93). Low levels of mechanization, the lack of systematic soil analysis or supplementary winter feeding of livestock, along with faltering efforts for the improvement of natural pastures clearly hampered the sector's output growth (Daly, 1965, p. 318). Wool yields remained far below New Zealand figures in the 1950s as a result of two decades of cheap labor, plentiful land, and the lack of capital investments in the rural hinterland (Handelman, 1979, p. 5). Even minor upgrades, such as silos and shelters, were foregone, as the legally restricted duration of land leases increased farmers' discount rates for potential investments to prohibitively high levels. Farmers instead preferred to invest their money in urban real estate in the 1950s, and overseas opportunities ('capital flights') in the 1960s (MacFeeters, 1992, p. 105). Persistent extremely skewed land ownership and absentee ownership further limited agricultural entrepreneurship (Daly, 1965, p. 318). In addition, between 1930 and the early 1960s government support for agriculture waned and became the subject of volatile political interests (Álvarez & Bortagaray, 2007, p. 266). Research efforts of public entities faltered and even the recourse to imported technology, such as from New Zealand, lacked further adaptation to local conditions. Animal diseases were not fought off thoroughly. When politics intervened, its fiscal incentives converted fertile pastures into lower yielding cropland (Finch, 2005, p. 250).[50]

Owing to the aforementioned processes, beef production stagnated by the 1930s and wool production by the 1950s (MacFeeters, 1992, p. 105). High volatility in their production figures raised uncertainty among foreign buyers (Finch, 2005, p. 157). In addition, a growing population and their rising preference for price-capped meat further curtailed supply for external markets (Daly, 1965, p. 326). Hence, the share of exports in total national primary production fell from 49 per cent in 1941-43 to only 26 per cent in 1959-61. Moreover, the remaining exports left the country largely unprocessed either through a largely obsolete and uncompetitive state-owned meat works monopoly, small illegal facilities without quality control, or in their most natural form via illicit cross-border trade (Finch, 2005, p. 154; Rama, 1990, p. 195). Consequently, only positive

[49] For a detailed picture of New Zealand's public research efforts see Álvarez and Bortagaray (2007).

[50] Wheat, rice, and oil from sunflowers and peanuts became new export goods from the late 1940s (Finch, 2005, p. 135).

external demand shocks, such as in 1969/1970, could lift national export receipts occasionally. In other words, uncertainty, disinvestment, mismanagement, and a lack of incentives for more entrepreneurial activity clearly hampered the advancement of Uruguay's primary export sector.

These intra-sector differences in export capacity, however, did not extend to the two countries' cross-sector export compositions, which, on the other hand, changed considerably in most OAOs after WWII (Feinstein, 1999). New Zealand's reliance on wool exports, which became its most important export product after WWII, made its economy highly vulnerable to exogenous shocks (Sutch, 1966, p. 61). Likewise, 95 per cent of its primary product exports left New Zealand unprocessed in 1958, placing them among the slowest growing category of global agricultural exports after 1950. On the other hand, New Zealand did not experience rapidly rising exports of manufactured products, which contributed also to the diminishing growth of its export sector and the nation's subsequent relative economic decline (Hawke, 1985, p. 327). A crucial reason was the lukewarm political support for export industries, which consisted in little more than a small number of tax concessions and export incentive schemes (Jones, 1999, p. 208). Only when Britain's entry into the European Economic Community created a serious threat did government policy and the redefinition of export priorities change substantially (Gustafson, 1986, p. 102).[51] In other words, New Zealand shared typical LAO characteristics of inadequate adaptation to external changes.

CONCLUSION

The years 1930-70 marked a watershed between the further socio-economic trajectories of New Zealand and Uruguay. The application of the ToSO provided many valuable insights into the reasons for their 'great divergence'. The most basic finding of this study is that institutions matter. North's long-standing dictum is still valid and any serious research regarding the rise of the West needs to incorporate this sphere into its agenda. Institutions are able to turn natural endowments into a blessing for development, rather than a curse. Thus, the domestically rooted reasons for the divergent development trajectories of New Zealand and Uruguay also provide steadfast arguments against contrasting assertions from other fields of academia, such as Dependencia literature or the geography hypothesis.

The first layer of analysis pointed out a positive interrelationship between institutional stability and economic progress. New Zealand's higher and smoother economic growth coincides with the durability of its gradually changing institutional setting towards formal independence and

[51] As a result, industrial exports, such as carpets, swelled to more than 12 per cent by the end of the 1960s (Sutch, 1966, p. 136).

sustained high contract enforcement levels, which supports NWW's doorstep conditions #1, rule of law, and #2, perpetually lived organizations at least for the political realm. Furthermore, New Zealand's stable majority-based party system facilitated governability and the integration of new interest groups. In contrast, Uruguay's sluggish economic development corresponds to the nation's most frequent reversal of its constitutional setup and the fast deterioration of the rule of law and civil liberties. Its power-sharing oligarchic structure of mainly urban interests and a small elite of rural latifundistas persisted, with invincible barriers for competing ideas (Senghaas, 1985, p. 119). NWW's distinction between different types of social orders rightly focuses on deterministic causalities rather than on specific state forms, as is the case in Olson (1993, 2000), Acemoglu and Robinson (2006), Tilly (1992) or the wider autocracy-democracy literature. Both formal and informal rules were crucial for the developments in the two countries. Secondly, the transfer of institutions from the metropolis to the periphery cannot be neglected in discussions of long-term development patterns, even though Landes' (1998) account is overstated. On the other hand, New Zealand's initial economic cooling-off after WWII, the abolition of formal checks and the reliance on informal, partially external safeguards challenge NWW's picture of rising socio-economic maturity. As Sutch (1966) already noted in his Olsonian-type analysis:

> It is rather because of our social heritage, of our patterns of thought and customary ways, and of our amiable inferiority. All of these stem from nineteenth-century colonial society. In universities, the press, and in the schools; in public meetings and official pronouncements, the mental activity reflects the thought-patterns of the mother society, the thought patterns of England a century and more ago (p. 183)

Economic policy making clearly mirrored the prevailing institutional setups and political power relationships. However, NWW's emphasis on state size, federal spending, public employment and provision of welfare were not (yet) major distinguishing features, as the resumption of a state-led growth model caused similar results in Uruguay.[52] Differences in public and private investment were of greater importance, although New Zealand's spending was almost exclusively devoted to upgrades of its natural factor endowments in favor of rural interests. In contrast to NWW's assertions, its fastest per-capita growth in material well being occurred, when severe state interventions into the domestic economy and the foreign trade sector occurred (Easton, 1997, p. 178). On the other hand, economic polices in Uruguay did not follow such a comprehensive strategy for developing the rural hinterland through infrastructure investments or fundamental renovations of the public apparatus, once big state enterprises had been erected. Its

[52] Benedetti (1960, p. 58) concluded that "Uruguay es la unica oficina del mundo que ha alcanzado el status de República" (cited in Rama, 1990, p. 193).

loose fiscal policies benefited a dwindling urban elite, but also eroded the general trust in public administration and created a typical form of 'rentier capitalism'.

Finally, New Zealand's increasing export balances were also the result of heavy state support of various kinds, especially for its primary sector, as well as temporary single-sided trade advantages. Pastoral exports became more varied and capital-intensive, which made its economy less vulnerable to exogenous shocks. Notwithstanding these assertions, the export structure lacked cross-sectoral diversification, which shows the limited success of its ISI strategy. In other words, neither New Zealand nor Uruguay adapted to global changes in the way that NWW's theory implies for OAO. Hence, both countries did not escape marginalization, albeit on different levels.[53] Their particular factor endowments cannot be a sufficient explanation for these developments.[54]

In conclusion, this analysis has shown that NWW's theory does not hold to its full extent in explaining the two countries' great divergence. On the one hand, a credible connection between national institutions, organizations, policies and outcome was indeed evident. The trajectories of New Zealand and Uruguay also confirmed the majority of the characteristics of their respective ideal types, but the ToSO describes the case of the latter more accurately than the case of the former. On the other hand, NWW's picture of OAOs as freely competitive or egalitarian societies was not a signature mark of New Zealand between 1930 and the early 1970s, which Chang (2002) has argued in a similar way in the case of other countries before. It also needs to be stressed more clearly that any OAO is not a mere copy of inherited rules and norms, and adapts to local conditions, sometimes decisively, over time. A considerable number of LAO elements might cause a more nuanced picture of OAOs than NWW's pure black or white painting.

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[53] New Zealand rather remained "an informal colony, a privileged colony, a voluntary colony, but a colony all the same" (Belich, 2001, p. 321).

[54] As Senghaas (1985) has already noted, Denmark with its similar natural factor endowments managed to avoid a potential resource curse after WWII and now possesses a much more differentiated economic structure.

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