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Ricardo R. Noé
University of South Florida

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Power, Property Rights, and Political Development: A property rights theory of political development and its application to the study of development in Honduras and Costa Rica

by

Ricardo R. Noé

A thesis submitted in partial fulfillment of the requirements for the
degree of
Master of Arts in Latin American, Caribbean, and Latino Studies
School of Interdisciplinary Global Studies
College of Arts and Sciences
University of South Florida

Major Professor: Aaron Augsburger, Ph.D.
Jonathan Bean, Ph.D.
G.P. Manish, Ph.D.

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DEDICATION

To my Mother, who 25 years ago and far away from home wrote and finished her thesis while pregnant with the individual writing this today (Happy Birthday Madre).

To my Father, whose love for Honduras inspires me to follow in his footsteps every day.

To my best friend, tu impacto en mi vida ha sido innegable.

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ABSTRACT

Following the dissolution of the Federal Republic of Central America in 1838, Costa Rica and Honduras were highly underdeveloped politically and economically, while at the same time lacking a strong conservative presence found in the more politically established and economically developed Central American countries of Guatemala and El Salvador. However, By the late 20th century Costa Rica established itself as a bastion of democracy in Latin America, supported by a strong middle class. While on the other hand, Honduras would fall victim to a continuous string of coup d'états, with the last being in 2009, by a military that did not exist for the majority of the first half of the 20th century. Ultimately leading to the question, what were the conditions that occurred that led to drastic differences in political development between Costa Rica and Honduras, regardless of similarities following the collapse of the Federal Republic of Central America?

There is a wide array of literature regarding the topic of Central American political development with the intent to answer this question, however it falls short when analyzing the case of Honduras. Now that, its political history is not as violent as that of El Salvador and Guatemala, it did not have the large-scale socialist presence of Nicaragua and did not become the democratic success of Costa Rica. Ultimately, leading to the under theorization of Honduran political development.

Due to this, this work provides a theory guided application of a path dependent explanation to understand the political development of both Costa Rica and Honduras, and the distinction between the two, regardless of their similarities at one point in time. Making the case that distinctions between the distribution of *de jure* property rights during processes of establishing legitimacy is ultimately able to explain the emergence of the particular interest groups in both countries, that define their respective political development.

With the application of this theory guided approach to a path dependent explanation, it is possible to make the case that during their respective periods of establishing legitimacy, Costa Rica developed a strong middle class with the desire to participate in the political process, leading to the rise of the strong democratic institutions it now has; while in the case of Honduras a political class dependent on foreign military and financial aid and a national military keen on intervening in domestic politics, creating institutions whose stability is dependent on the interests of the military, political class, and United States state and non-state actors.

Ultimately, this work not only helps to overcome the under theorization of Honduran political development and contribute to research on Central American political economy, but provide a theory broad enough to apply to other cases involving political development from a property rights perspective.

INTRODUCTION

Following the dissolution of the Federal Republic of Central America in 1838, both Honduras and Costa Rica faced a highly undeveloped political and economic landscape, in comparison to other countries that made up the Federal Republic, such as El Salvador and Guatemala. In addition to this, both Costa Rican and Honduran history is much less violent than their Central American counterparts, partly due to the fact that they were highly undeveloped in 1838, but also due to the lack of a strong conservative presence within these two countries.

However, by the mid-20th century, there were drastic differences in the both the political and economic development of the two. Costa Rica developed a local economy revolving around the production of coffee and even though a merchant/export class existed within the country, a small landholding middle class emerged, ultimately forcing political development to include these individuals in the political process. This middle class influenced the diversification of political ideology within the country and influence the fact that Costa Rica would eventually become the longest standing democracy in region, with respect towards political freedoms and civil liberties.

On the other hand, Honduras did not develop a local economy that allowed for the emergence of a middle class that would influence the political development of the country. Instead the country developed a local economy driven by banana exports and owned by United States capitalists to which the local political class were dependent on, and a military class

influential in Honduran politics that did not exist prior to the second quarter of the 20th century. The influence of foreign interests, a political class dependent on these interests, and the existence of a military class would ultimately play an effect on the string of coup d'états in the second half of the 20th century and into the 21st century, as well as a flawed democratic system lacking respect towards political freedoms and civil liberties.

Latin Americanists have aimed to not only explain the political development of Costa Rica and Honduras, but Central America as a whole. Unfortunately, in the process leading to a significant level of under theorizing when it comes to Honduras and unable to explain Honduran political development. To avoid the under theorization of Honduras, this thesis aims to develop a theory properly able to grasp Honduran political development and in the process answering the question **why is Honduran and Costa Rican political development significantly different, regardless of their similarities following independence from Spain in 1821 and the dissolution of the Federal Republic of Central America in 1838?**

Due to this, it is necessary to develop a theory broad enough to fit both Honduras and Costa Rica and at the same time allowing for mid-level theorizing, in order to do so, it is necessary to adopt an ahistorical theory, properly able to grasp the dynamic nature of development. As a consequence of the aforementioned, this project aims to employ and develop political economic theory, in order to guide the study of political development of both Honduras and Costa Rica.

CHAPTER 1: THEORETICAL FRAMEWORK, METHODS, METHODOLOGY, AND HYPOTHESIS

AUSTRIAN ECONOMICS AND INSTITUTIONS (THEORETICAL FRAMEWORK)

The word “wirtschaftende” in German means to economize and the causal-realist/Austrian tradition of economics inspired by Carl Menger places Wirtschaftender Individuum or the economizing man at the center of any analysis. Menger and the tradition he inspired, aims to analyze the “practical activities of economizing individuals” (Principles of Economics 2007, 48). Deducing economic action from the axiomatic principle that all individuals act purposively and apply means to attain ends amidst scarcity (Mises, Human Action: A Treatise on Economics 1998, 70). The causal-realist tradition does not aim to study how individuals maximize or will maximize utility from unrealistic models, but instead looks at purposeful human behavior and the results of said action(s); placing a significant amount of importance on the concepts of time, ordinal maximand, and the relation between the application of methodological individualism and institutions.

Austrians differentiate themselves from their neoclassical counterparts in the field of economics, due to the importance placed on the concept of time. The latter depicting the world and economics through static equilibrium models with unrealistic assumptions surrounding human action, while the former understanding that humans do not hold perfect knowledge and err, while simultaneously making decisions in time. As stated by Menger regarding the study of

economics (2007), “a process of change involves a beginning and a becoming, and these are only conceivable as processes in time... it is certain that we can never fully understand the causal interconnections of the various occurrences in a process, or the process itself, unless we view it in time and apply the measure of time to it (67).” Although, time is central to the causal-realist study of economics, this does not absolve or imply that certain occurrences and economic phenomena of a particular point in time and region are not bound or explainable by economic laws deduced from the axiomatic principle of purposive individual action and the application of means to attain ends amidst scarcity. The Austrian approach to economics is ultimately ahistorical, however the importance placed on time allows for the introduction of an anti-historical method based around cause and effect with the ability to realistically observe economic phenomena empirically, without unrealistic assumptions, hence the term causal-realist. The word causal stemming from the importance of understanding cause and effect and realist as in adhering to realistic assumptions surrounding human behavior, evident in the distinctions between the neoclassical and Austrian application of utility.

Even though, both the neoclassical and Austrian study of economics involve the application of utility, through the use of the maximand, and the understanding that individuals aim to maximize utility, there are distinctions in their interpretation and representation. During the marginal revolution of the 1870s, where Carl Menger, William Stanley Jevons, and Léon Walras independently developed the concept of marginal utility, Jevons and Walras ignored the central role of cause and effect, favoring “the technique of modeling complex relations as a systems of simultaneous equations in which no variable ‘causes’ another” (Klein 2007, 7). The non-Austrian concept of utility is the mathematical interpretation dominant in mainstream or neoclassical microeconomics, placing *homoeconomicus* in a vacuum separated from time, with

the sole purpose of maximizing revenue and profit, ignoring the fact that in reality value is immeasurable and distinctive to each individual. The Austrian adopts radical subjectivism and, in the process, depicting utility as an ordinal phenomenon where to maximize utility decisions making is dependent on the level of importance of different ends an individual ascribes to it.

Additionally, unlike the atomistic neoclassical approach to the individual and its application of methodological individualism to the study of economics, the causal-realist tradition does not ignore the social relation amongst individuals; but instead, applies economic methods to understanding how these institutions arise and function. Products of the distinct ends and means employed by individuals, lead to the rise and development of social dynamics. Notwithstanding the importance of institutions to the causal-realist tradition, it does not take a holistic approach to the study of economics, but instead understands that the only way to properly study economics is to acknowledge that groups and collective action do not occur separate from the individuals that compose said groups (Rothbard, *Man Economy, and State with Power and Market* 2009, 2-3). And the only way to meaningfully interpret human action is through the application of methodological individualism and the understanding that laws of economics bind individual behavior.

POLITICAL SCIENCE AND INSTITUTIONS (THEORETICAL FRAMEWORK)

Ultimately, the causal-realist acknowledgement of time to the study of economics allows for an institutionalist and evolutionary approach to the study of economic phenomena and finding a space within the field of economics for this approach, for individuals interested in applying economic tools and methods to the study of historic phenomena. However, the purpose of this thesis as a whole is applying the Austrian ahistorical theory to the study of political development. Due to the political nature of it, it is necessary to identify a space within political

science that allows for the introduction of a Mengerian approach to the study of political phenomena and institutions.

Within political science there are three distinct analytical approaches to the study of institutions: the sociological, rational choice, and historical approaches. The methodological implications of the sociological and rational choice institutionalists deem both as incompatible to any Mengerian approach to institutions. However, the hybridization of rational choice and sociological institutionalism found in historical institutionalism allows for the possibility of a study of political economy consistent with the importance of time, maximand, and application of methodological individualism to the interpretation of institutions made by Austrians.

By analyzing the implications of sociological institutionalism, it is possible to recognize the incompatibility between sociological institutionalism and causal-realism, due to both the interpretation of utility and the application of methodological individualism. Now that the sociological institutionalist is not concerned with how an individual maximizes utility, by the application of means in the attainment of ends, but instead concerned as to why individuals and organizations embrace a set of institutions or actions due to their value within a cultural context (Hall and Taylor 1996, 949). The sociological approach aims to answer a set of questions that causal-realists are not concerned with, and its holistic approach is inconsistent with methodological individualism, now that the questions raised by sociological institutionalists are primarily concerned with how culture affects the individual and organizations and not the other way around.

On the other hand, the rational choice institutionalist, take on what James Alt and Kenneth Shepsle identify as the calculus approach to institutionalism (1998, 735), viewing institutions as outcomes of Nash equilibriums (Furubotn and Richter 1997, 39). Due to this, the

rational choice approach shares the static nature of neoclassical models in economics and in the process strip any cultural implications away from an analysis, limiting individual behavior and the creation of institutions to the extent as which it minimizes transaction costs and maximizes utility (946). Deeming the rational choice institutionalism as inconsistent with causal-realism now that causal realists aim “to understand/elucidate purposive behavior in the context of the actor’s intent and to bring into relief the unintended consequences of human action” (Boettke and Leeson, An ‘Austrian’ Perspective on Public Choice 2004, 28). Without an understanding of the context individuals face it is not possible to meaningfully interpret human action, interpreting institutions, not as efficient with the purpose of minimizing transaction costs and maximizing utility, but efficient to the ends of a society, where culture and norms potentially play a role or influence in the decision making process.

Historical institutionalists differ from both sociological and rational choice institutionalists by certain distinctive features consistent with causal-realism: the broad conceptualization of the relationship between institutions and individual, asymmetries of power during the process of institutional development, and the importance of path dependent explanations and unintended consequences (Hall and Taylor 1996, 938). By conceptualizing the relationship between institutions and individual in broad terms, research from a historical institutionalist approach potentially adheres to a rational choice, sociological, or a combination of the two approaches. The combination of the two is consistent with an Austrian interpretation of the relationship between institution and individual, finding themselves in a point in-between what Boettke (1989) identifies as naïve individualism and holism within economics, as sophisticated individualists (76). The naïve individualist takes on an atomistic and strictly calculative view of the individual, the holist takes social institutions as a given without

acknowledging their emergence as a product of and traceable back to the result of distinct individual ends, while the sophisticated individualist, places the individual as central to its analysis and by doing so “able to understand and thus explain the origin and evolution of institutions, such as the market, law, and rules of conduct” (Boettke, 77).

There are additional similarities between Austrians and historical institutionalists, particularly regarding asymmetries of power during the process of institutional development. Within the causal-realist tradition, Murray Rothbard’s analysis of unions in *Man, Economy, and State* notes how unions achieve higher wages for members of their organization at the expense of lowering wage rates of those excluded from this institution (708). In *Power and Market*, Rothbard identifies how government intervention within the political economy leads to the rise of special interest groups and ultimately class conflict, a similar observation is made by Hayek (2009) in his analysis of inflationary monetary policy and how certain groups benefit from these policies, with short term higher purchasing power, at the expense of others in the long run. Central to analyses by both Austrians and historical institutionalists is the conceptualization of cause and effect, as an evolutionary process: observable in the historical institutionalists’ use of path dependence as a tool to their analyses, and the role of time in the study of economics by Austrians. Due to the importance of cause and effect by both, the use of the two in conjunction potentially expands the breadth of analyses involving the study of political economy. Historical institutionalists with a systematic guide to studying the evolution of institutions within a historical context and causal-realists with an ahistorical economic method and theory able to guide the interpretation of these historical events.

In conclusion, regardless of the incompatibility of rational choice and sociological institutionalism with causal-realism, historical institutionalism is not only compatible with the

Mengerian approach, but the two in conjunction are able to expand the analytical breadth of analyses involving the field of political economy. This is primarily due to the similarities between the hybridization of rational choice and sociological institutionalism found in historical institutionalism and the sophisticated individualism of causal-realists found in an in-between of naïve individualism and holism. Additionally, due to the use of path-dependence by historical institutionalists and time within the study of economic phenomena by Austrians, it is possible to create a theory guided explanation and application of path dependence of political economic phenomena within their respective historical contexts (which will be developed in Chapter 2).

AN ECONOMIC THEORY OF POLITICAL DEVELOPMENT AND PATH DEPENDENCE (METHOD AND METHODOLOGY)

The basis of the economic theory of political development derives from the axiomatic principle that individuals act purposively, by applying means in the attainment of ends amidst scarcity. Austrians take this to be true, deducing economic theory through the use of this axiomatic principle. However, it is important to note that this does not imply that these deductions are able to explain the ends of individuals within a certain point in time. This calls for the necessity of the use of empirical or historical data, with these economic laws guiding the analysis alongside the process. Although Chapter 2 of this thesis will elaborate the theory in depth, a brief summary of its assumptions is necessary and then point out how the study of history through the application of path dependent explanations is able to supplement these theoretical developments.

First, the state is a predatory entity as it does not emerge through a unanimity rule and if it emerges through some form of social contract, it excludes individuals from the contracting, due to its monopoly on the use of force will eventually abandon the contract, and predate all

individuals in society. Although, the state holds a monopoly on the use of force, its level of predation is limited to the extent an individual holds the means to fend themselves against predation, this leads to a drawing of *de jure* property rights between state and individual.

Although limited, the ability for an individual to save and invest within the initial drawing of property rights, allow for an increment in wealth and the ability to acquire means to fight predation or purchase additional property rights. This is a dynamic process in which individuals and the state are constantly able to negotiate property rights, leading to the rise of eventual freedoms associated with the process of political development; now that property rights are the extent to which one individual accepts another individual's self-ownership and extensions of self-ownerships in property and the fruits of one's labor. In addition to this, it is able to explain the rise of interest groups, due to greater means to fight efforts of predation by the state or the ability to buy additional property rights from the state; and instability in democratic institutions that do not emerge through an increase in means, if a state desires to maintain the same level of predation, now that it will increase its predation on individuals with the means to challenge that level of predation, eventually leading to the removal of these democratic institutions (all theoretical insight is further elaborated in the theory chapter).

In the application of this theory, it is necessary to adopt a method able to examine the dynamics that occur within it, ultimately it is an evolutionary theory of both the state and society. The path dependent explanation allows for a systemization of this theory in order to guide its application to the study of political development, when applying it to the historical contexts of both Honduras and Costa Rica.

The importance of path dependence lies in the understanding that specific events and phenomena are the product of a sequential pattern (Bengtsson and Ruonavaara 2017, 48-49).

These patterns exist within time, since the theory to be further developed in Chapter 2, lies in understanding the process of development, it is necessary to understand the sequence of patterns in which these two occur, in Costa Rica and Honduras. Where the theory develops how they occur, the study of both Costa Rica and Honduras, not only tests the validity of the theory, but also tests how these events came to occur within these two countries, through the production and reproduction of sequences to these occurrences(49). It is difficult to diverge from these paths and the abandonment of these institutions due to the transaction costs involved with divergence and costs of institution reconstruction. However, before studying any path dependent process it is necessary to understand the crucial event leading to the emergence of the development of a set of institutions and the sequences that reinforced said event, these institutions are born in a period of critical juncture (50).

A critical juncture must occur in order to lead to the rise of a particular path and rise of institutions that within the process evolve and reinforce themselves within society, and due to costs surrounding institutions difficult to abandon. In systemizing a path dependent approach the process develops in the following matter. The first involves the antecedent conditions, or in other words the “historical factors that define available options and shape selection processes (Donnelly 2010, 44-45).” The second is the critical juncture or moment in time where the selection of a set of options led to the rise of a set of institutions. The third, structural persistence, during this time there is a reproduction of sequences strengthening the set of institutions that arise during this time. Fourth, reactive sequence, consisting reactions and counter reactions to this set of events. The fifth, outcome, or the effect to the resolution of actions or counter reactions.

Placing the theory within this systemized process path dependence it is then possible to see the chain of events involving this theory of political and economic development. When

looking into the antecedent conditions of a critical juncture, it is necessary to understand the means available to groups within a historical context to either predate or challenge predation. The critical juncture, is the point in time where the individuals with the means to predate and the end of establishing a state, set forward a process of state centralization or legitimization, this leads to the initial drawing of *de jure* property rights. Due to the discriminatory nature of this process, the increase in means to challenge predation is different dependent on the individual, this leads to the rise of special interest groups within a certain society, and policy constrained by these special interest groups and the state's predation ability. The reaction to this rise of special interest groups, then leads to a process of democratization, with the outcome being either the success or failure of the establishment of these democratic institutions.

POLITICAL DEVELOPMENT IN CENTRAL AMERICA (EXISTING LITERATURE/LITERATURE REVIEW)

An issue with existing literature surrounding the process of political development within Central America is the lack of clarity surrounding what political development is, however this is a problem not only with the existing literature on Central America, but literature involving political development as a whole. Within the existing literature surrounding Central American research involving political development, characterizing political development as a process of power centralization, the ability of states to pursue their ends, and in the process leading to the democratization of the region. However, a unique feature of this thesis is the defining of political development as a process in which political freedoms arise; viewing political freedom within a negative liberty lens, such as freedom of speech and religion, without ignoring the fact that these political freedoms characterize democratic processes and institutions.

Regardless, of the lack of the clear defining of political development, there is a wide array of path dependent explanations to Central American political development, viewing political development as a process in which the state centralizes power and in the process increasing its ability to enforce policy/laws. However, an issue with the existing literature is that there is very little work involving Honduras's political development; now that its institutions were less violent than regimes found in both Guatemala and El Salvador, not a success story of democracy, such as in Costa Rica and the complete absence of socialist governments and movements in Nicaragua. Due to this, although Honduras is included within the literature, the differing path dependent explanations are not properly able to explain the political development of Honduras.

James Mahoney (2001), properly critiques the differing path dependent explanations and their identification of periods of critical junctures, such the colonial period, depression period, post-World War II period, and the liberal reform period as a critical juncture; and ultimately makes the claim of the period of liberal reform as a critical juncture for all Central American countries falls short, regarding Honduras. Due to this, it is necessary to both adopt and expand Mahoney's critiques and then demonstrate why the period of liberal reform is not a critical juncture for Honduras.

In *Government and Society in Central America, 1680-1840*, Miles Wortman (1982) focuses on tracing development throughout colonial Central America and is a significant contribution to the study of colonial Central American political economy. However, regardless of its contribution to the understanding of institutions of this time with their potential residual effect on the political economy of present, it is insufficient to explain/include structures of post-independence. In the case of Honduras, the colonial period is insufficient in explaining the rise of

the conservative political party of the *Partido Nacional*, which militarized and centralized state power within the country, but not existing until the early 20th century; while in the case of Costa Rica it cannot explain the rise of a strong middle class demanding democracy in the region.

In addition to this Mahoney (2001), points out that differences during the colonial period of this time are not sufficiently large enough to properly explain the path divergence of El Salvador, Honduras, Nicaragua, and Costa Rica; and even though the colonial footprint lessened the farther south, Guatemala with the strongest colonial impact and Costa Rica with the weakest colonial impact, this explanation might only be applicable in explaining path divergence in both Guatemala and Costa Rica.

Enrique A. Baloyra-Herp (2009), establishes his period of critical juncture during the Great Depression, characterizing this period as one defined by the rise of reactionary despotism and despots. Central to his theory is the claim that in Honduras, Nicaragua, Guatemala, and El Salvador, during the period of the Great Depression, rural elites aiming to maintain hegemony over workers' upheaval, allied themselves with despots with military power, leading to dictatorships in the region; and due to this, how the state interacted with these despots defined the political development of the region. However, as pointed out by Mahoney (2001), worker movements within Honduras were not against national elite, but instead foreign owned banana companies (26). In addition to this, it is necessary to point out that the Honduran government was extremely decentralized during the initial period of the Great Depression and a national military did not exist until the Tiburcio Carias dictatorship in the latter half of this period and the Carias dictatorship was significantly less violent than the dictatorships found in Guatemala and El Salvador.

In *Demanding Democracy*, Deborah Yashar (1997) makes the claim that the post WWII period was a critical juncture, however her work only focuses on Costa Rica and Guatemala. Applying her claim to Honduras it does not include the process into which major players in the political development of Honduras arose, such as the military, the Partido Nacional, and United States special interests. Ultimately forcing any critical juncture involving political development of Honduras to a period prior to this.

Finally, James Mahoney (2001), places the period of liberal reform as the critical juncture within all Central American countries. With a reformist liberalization in Costa Rica, a radical liberalization in El Salvador and Guatemala, and aborted liberalism or failed liberalization in Honduras and Nicaragua. A feature of the countries where liberal reform succeeded, such as in Costa Rica, El Salvador, and Guatemala is a process of power centralization. A process that did not occur in Honduras and Nicaragua, due to the introduction of the United States as highly influential within the political structures of these countries.

However, regardless of the lack of power centralization in Honduras during the period of liberal reform, it eventually occurred during the Tiburcio Carias dictatorship in the first half of the 20th century. Defining this period as a critical juncture in Honduran politics. Where the period of liberal reform might have served as a critical juncture and period of state power centralization in Costa Rica, the period of power centralization in Honduras occurred during the Carias presidency. Making the case that for a comparative analysis of both Costa Rica and Honduras the Carias dictatorship must be included in an analysis. Particularly, regarding the purpose of this thesis and a path dependent explanation to development of both of these countries.

HYPOTHESIS

It is possible to make the case that there are three separate parts to the hypothesis within this thesis. The first is a theoretical, making the case that property right distribution during the process of establishing legitimacy or centralizing power is able to explain the political development of a region or nation. The importance placed on the centralization of power or establishing legitimacy, is due to the fact that both require the state to be able to hold enough power to either establish its monopoly over a geographical region or increase the extent of its monopoly over said region.

The second part to this hypothesis is that the period of liberal reform in Costa Rica, served as a period of both establishing legitimacy and centralizing power increasing its ability to enforce laws in the country and having a long term effect on the political development of the country, ultimately making the period of liberal reform a critical juncture in Costa Rican history. This claim is similar to that of James Mahoney (2001). However, an issue with Mahoney's work as a whole is that he defines the period of liberal reform in Costa Rica as one of almost 100 years, from 1821-1914. He divides the liberal reform in two phases one from 1821-1870 and the other from 1870-1914; the first phase is one of establishing legitimacy and the second is one of government expansion.

Due to the large span of time Mahoney designates as a period of critical juncture, Chapter 3 will make the case that the critical juncture is the period of time between 1838-1871, beginning with the dissolution of the Central American Federal Republic and the emergence of the 1871 constitution. This is primarily due to the fact that for the first time in history Costa Rica emerges as a sovereign state and forcing state actors to take on the task of establishing legitimacy; this period ends in 1871 because there is the emergence of a Costa Rican constitution that is largely

maintained until 1949 and within it there are guarantees involving property that the state was not able to enforce prior to this.

The second part to this hypothesis is that the Tiburcio Carías dictatorship served as a critical juncture able to explain the political development and rise of interest groups within the country. In agreement with Mahoney, the chapter on Honduras will demonstrate how during the period of liberal reform state actors were unable to establish legitimacy within the country. However, unlike Mahoney whom disregards the Carías dictatorship as a period of establishing legitimacy, the chapter on Honduras makes the case that Carías centralized power and established legitimacy, ultimately giving explanatory power to the rise of special interests such as the Honduran military, United States government, and the Partido Nacional.

Mahoney is critical of other scholars trying to shove the case of Honduran political development into a theoretical box that does not fit. However, by disregarding the Carías dictatorship and its impact on establishing legitimacy, Mahoney finds himself making the same mistake as other scholars. The chapter on Honduras makes the case that the span of time 1924-1949 served as a critical juncture within Honduran politics able to explain the political development of the nation; now that in 1924-1931, Carías served as president of congress and his dictatorship spanned from 1933-1949.

Ultimately making the overarching hypothesis that the distribution of property rights during periods of establishing legitimacy or centralizing power are able to explain the political development of a nation. In Costa Rica this happened during the period of liberal reform during the span of time of 1838-1871, in which Costa Rica develops a middle class able to constrain state predation, and leading to the gradual emergence of political freedoms and democratization within the country. While in Honduras, the state's ability to enforce laws and centralize power

did not happen until Carías's involvement in politics, leading to a state constrained by special political interests both foreign and domestic, explaining the failure of the emergence of a stable democracy within the country and political freedoms and civil liberties.

CONCLUSION

This chapter has laid out the theoretical and methodological arguments, necessary for the remaining chapters within the text. The following chapter, Chapter 2, will develop a property rights theory of political development, highly influenced by Austrian insight; as briefly developed in the method and methodology section of this chapter, the aim of the theory is to demonstrate the relationship between power and property rights when a state aims to establish legitimacy and the effect this has on political development. Chapter 3, will then apply a path dependent explanation to Costa Rica, while Chapter 4, will focus on Honduras. Finally, Chapter 5 will serve as the integration of the path dependent explanations of the two countries within the theoretical context.

CHAPTER 2: A PROPERTY RIGHTS THEORY OF POLITICAL DEVELOPMENT

INTRODUCTION

This chapter aims to develop and establish an economic theory of political development, demonstrating that the freedoms associated with the process of political development and the establishment of democratic institutions and values, are ultimately a product of a constant redrawing of property rights between state and individual. This process is only possible through a certain level of economic development, making it a necessary condition to political development.

To best develop this theory the organization of this chapter is one consisting of six parts. Through the use of the thought experiment of the isolated individual, the first part will look into the requirements of economic growth and development, demonstrating the importance of savings and the proper investment and allocation of capital. Even though it is possible to demonstrate economic growth and development through the use of the thought experiment of the isolated individual, the second part will then point out that all interpersonal exchange, either voluntary or violent, is dependent on an individual's acknowledgment of another's self-ownership. This acknowledgment of self-ownership or the process of establishing property rights, ultimately have an effect and can constrain a society's economic development and growth.

Although this chapter will demonstrate how property rights initially emerge through *de facto* norms and not *de jure* laws, due to political development being a phenomena requiring the

state, the third part will introduce dominant theories within economics involving the emergence of the state and the state in of itself. However, due to the underlying claim of these theories that the state is a beneficial entity, coming to existence unanimously through the social contract, and better than anarchy, regardless of any predatory features it might have, it is inapplicable to historic situations of plunder and imposition, and challenged by cases where individuals are better off without a state.

In order to overcome the issues and inapplicability of a contractarian theory of the state, the fifth part introduces a predatory theory of the state, while the sixth demonstrates the necessity of introducing the concept of power over the individual as a means within any analysis involving the state, now that it must first hold sufficient power to impose itself on any individual, in order to establish hegemony and legitimacy. With the understanding that all interpersonal exchange requires an acknowledgement of one individual's property rights of the other, this theory will make the case that a state's predation is limited to the extent of its power over an individual and individual's ability to challenge the state's predation; demonstrating the initial drawing of property rights through *de jure* laws.

With the understanding that the state uses power as a means to establish legitimacy; an individual's property rights depend on its ability to challenge the state's predation; savings, investment and the proper allocation of capital are necessary for economic development; and economic development is dependent on societal acknowledgment of an individual's self-ownership, an economic theory of political development is possible. Now that, even though an individual's ability to save and invest is limited to the initial drawings of property rights by the state, any increase in welfare allows for the ability to either invest in the means to fight against predation or "purchase" property rights from the state. Ultimately, leading to a continuous

redrawing of property rights and the introduction the political freedoms that characterize political development.

ECONOMIC GROWTH AND DEVELOPMENT

To avoid confusion, it is necessary to clarify the distinction between both economic development and economic growth. Economic development is the process in which there are qualitative improvements in standards of living, where individuals are also able to pursue ends beyond those necessary for basic subsistence. This differentiates from the concept of economic growth or as defined by Ludwig Lachman (1978), economic progress, requiring of constant restructuring and expansion of the capital structure and only possible through the process of sacrificing current consumption for future consumption i.e. savings and (non-mal) investment.

The processes of economic growth and development are visible in the use of the isolated individual stranded on an island, better known as Crusoe economics. At the current point of time in this scenario, Crusoe currently fishes with their hands and is only capable of catching one fish per hour and in order to not be hungry throughout the day must eat at a minimum five fish. Unsatisfied with current output, Crusoe decides to build a spear, but in order to do so must sacrifice two hours of time. During these two hours, Crusoe must find a piece of wood that is not too long or too short, now that if it is too long it will wobble when thrown and if too short challenging to throw properly. In addition to this, Crusoe must also find a stone that is not too dull where it cannot pierce through a fish or too sharp that it will cut through the string made from tree bark tying the wood and stone together. After allocating two hours of time in finding the materials needed and building the spear, Crusoe returns to the fishing grounds and is able to catch five fish in one hour. Increasing the hourly output of fish, while now able to allocate time

to an end not possible without the existence of a spear, in this case allocating the remaining two hours to exploration.

What this thought experiment demonstrates is that economic growth requires a restructuring and expansion of the existing capital structure. Economists have long observed that the driver of economic growth lies in the concept and importance of capital, observable in classical development economics literature. Walt Whitman Rostow identifies the process of capital accumulation in his preconditions for take-off stage whilst addressing his five stages of economic growth in his dynamic model of economic growth (*The Stages of Economic Growth* 1959, 4-5). While independent work by both Roy F. Harrod and Evsey Domar focused on stability properties within a Keynesian macroeconomic framework, their individual works led to the first generally accepted economic growth model within economics (Ritenour 2016, 2-3). Similar to Rostow's take off stage, the Harrod-Domar Growth Model identified the importance and effect of capital accumulation on economic growth (Todaro and Smith 2017, 120). Replacing the Harrod-Domar growth model within development economics, the Solow growth model maintains the assumptions made by both Harrod and Domar involving the importance of capital, whilst introducing labor as a factor and technology as an independent variable within the model (1956, 65-66).

Within the Austrian tradition, although Carl Menger himself never used the term, he was the first to identify and analyze the "Capital Structure" (Shenoy 2010, 48), placing importance on the concept of capital and its effect on economic growth. However, differing from literature and models in classical development economics on capital, any Austrian analysis involving economic growth not only involves capital accumulation, but its proper investment. Visible in Crusoe's need to build a spear with particular specifications, in order to increase output.

PROPERTY RIGHTS

Although the thought experiment of the isolated individual is useful to demonstrate the basic requirements of savings and proper investment needed for economic growth. In order to introduce a theory of the state or a theory of political development it is necessary to expand the analysis by expanding the thought experiment to include more than one individual. In this case the introduction of a second individual named “Friday”.

During the two hours allocated to exploration Crusoe bumps into Friday. Similar to Crusoe, Friday just went through a process of saving and investment building a fruit picker that now allow the ability to pull 10 fruits per hour from the tree, where before 5 hours were required to climb up in the tree and pick the same amount. Crusoe sees the fruit and fruit picker Friday has and finds them both appealing. Ultimately, Crusoe faces a decision of offering the fish or spear in exchange for some fruit, the fruit picker, or they can steal them.

Austrians identify two forms of interpersonal action, the voluntary or the violent (Mises, *A Treatise on Economics: Human Action* 2008, 196-197, Rothbard, *Man, Economy, and State with Power and Market* 2009, 84-85). If Crusoe offers an exchange and Friday accepts, this is a voluntary interaction and now both individuals are better off. However, if Crusoe decides to steal from Friday, this is a violent interaction and one benefits at the expense of the other. Ultimately, the decision Crusoe makes depends on the extent of the acknowledgement of Friday’s ownership of the fruit, fruit picker, and ultimately, themselves. If Crusoe decides to kill Friday and steal the fruit and the fruit picker, then there is no acknowledgement of any form of ownership, if Crusoe decides that the only way to receive either fruit or the fruit picker is through trade then there is full acknowledgement of ownership. Ultimately, although its true development is much more complex, what this demonstrates is the emergence of property rights. Either a full

acknowledgement of an individual's self-ownership, including the fruits of their labor, no acknowledgement, or an in between.

Property and property rights are an unintended historical development, developing and evolving through time. In other words, not a product of central planning, but instead first coming into existence through rules and conventions, an evolutionary process, and a result of distinct individual ends (Shenoy 2010). A society, might not purposefully decide to enact rules surrounding property, but instead property rights emerge as a byproduct of the historical development of norms surrounding property; Robert Sugden (1989), identifies this as *de facto* property rights (95-96). Due to its normative nature *de facto* property rights are self-enforcing, without the need of the state, where the costs of nonobservance are greater than any benefit gained from not adhering to these norms (Pejovich 1990, 27).

This is not to say that property rights are strictly normative in nature, now that in analyses that include the state, *de jure* laws do play an important role in the interaction between the state and property. However, for purpose of this theory it is important to note that property and property rights can and do exist in a state of anarchy; and first and foremost a social and normative institution, rather than one only possible through the enactment of legislation. Although, economists are known to challenge the longevity of these institutions, particularly in relation to development (Bush and Mayer 1974).

This social interaction of acknowledging property rights, alongside a sound monetary system, allows individuals within a society to base their valuations of goods against one another and understand the potential profitability of allocating capital within a structure, what Mises defines as economic calculation (Economic Calculation in the Socialist Commonwealth 1990). In addition to this, how property and property rights are distributed and established affects "the

allocation of resources and the flow of innovation in specific and predictable ways (Pejovich 1990, 30).” In other words, economic calculation is dependent on the constraints and freedom involving the movement of capital in relation to a society’s conception of property and property rights. These constraints involving the vertical movement of capital, having an effect on the potential expansion of capital structures (economic growth) and ultimately economic development. It is of crucial importance to understand the role of property rights in economic development, now that without economic calculation, there is no movement of capital and economic calculation is only possible through the existence of private property. In other words without private property there is no economic development and even though it is impossible to completely abolish private property, either societal or state imposed constraints on property limit a region’s potential for economic development (Mises, *Economic Calculation in the Socialist Commonwealth* 1990).

ECONOMIC THEORIES OF THE STATE

As previously noted, although briefly, the state does interact with property rights; and even though property and property rights emerge as normative bound institutions, the state interacts with property rights through the enactment and enforcement of *de jure* laws. The interaction between state and property, then holds the potential to also mold and change the rules surrounding property. Ultimately, playing a major role in any study of economic development, now that the state is able to have an effect on the movement of a society’s capital. However, prior to any analysis involving the state it is necessary to define the nature, purpose and dynamics of the state.

Public choice theorists, establish an economic theory of the state and developed in detail in works such as Buchanan’s *The Limits of Liberty*, making the case for a contractarian theory of

the state within economic analyses. Buchanan begins his analysis using Crusoe economics or the isolate individual thought experiment, and identifying this pre-state scenario as the Hobbesian state of anarchy.

However, within Buchanan's analysis he adopts a pessimist view of human action. Using Crusoe and Friday as an example, within this scenario there is no acknowledgement of either's self-ownership and instead they both decide to steal from each other. This violent interaction between the two continues and in order to avoid future assaults both must reallocate time to defend themselves, time that could have been used fishing, picking fruit, improving or maintaining the spear and improving or maintaining the fruit picker. Bush and Mayer (1974) identify this scenario as the non-cooperative game in the Hobbesian jungle (405).

In this state of anarchy, Crusoe and Friday are constantly partaking in both predatory behavior and defending themselves from predatory behavior, in addition to basic production. Eventually, both reach a point to where they are able to both calculate and be aware of the resources needed to produce, defend themselves, and partake in predatory behavior, the natural equilibrium in the Hobbesian jungle (405-407). Friday and Crusoe identify the losses created by partaking in predatory behavior, understanding that it is better to respect and acknowledge each other's property and reallocate the resources wasted on predatory behavior to more productive endeavors (407).

Friday and Crusoe transition themselves from the Hobbesian jungle to a state of orderly anarchy (407); a process of disarmament and establishment of property rights (Buchanan, 588). Both, Friday and Crusoe, decide to no longer partake in predatory behavior and establish an initial contract setting boundaries involving property and private goods. However, as noted by Bush and Mayer, even though there is no longer a non-cooperative game, the game set in place

still posits a prisoner's dilemma. If an individual decides to break the established contract, they benefit at the expense of any other party within the contract, eventually incentivizing other individuals to break contract and transition from orderly anarchy back to the Hobbesian jungle (1974, 410).

To overcome this issue, Buchanan identifies that all parties consent to the initial contract of establishing property rights, there is a unanimity rule. Furthermore, in understanding that there are incentives other parties face in breaking contract, there is a consensus that it is necessary to call in an arbitrator or third party to enforce this contract. According to Buchanan, individuals understand that they are better off with a third-party enforcer i.e. the state, granting it legitimacy due to consent surrounding the social/initial contract (1975, 66).

Douglas North (1986) makes similar observations in his neoclassical theory of the state, making the case that there are initial gains from the creation of the state. However, introducing predatory features into the dynamics of the state and by doing so identifying that the state is in a state of conflict between maximizing societal output and attempting to maximize state revenue. This conflict leads to the enactment or establishment of inefficient property rights, ultimately leading to some form of harm to particular individuals within society. Notwithstanding, even though North identifies the negative effect *de jure laws* have on property rights (249-250), he still maintains a similar argument to that of Buchanan, claiming that individuals are still better off with inefficient property rights over a state than of anarchy.

However, there is a major issue with the representation the establishment of the state as one where all parties gain from it and there is some level of unanimity or consent, and simultaneously disregarding the viability of anarchy in the process. When applying these claims historically, regarding colonialism, it is possible to make the case in favor of instances where the

state emerges through some form of unanimity, this is the case with colonization through settlement. Cases, where the colonists were (usually) non state-actors and a primary end involved settling in a new geographical region (Acemoglu, Johnson and Robinson 2001, 1370). Nonetheless, inapplicable in the case of extractive colonization; instances, where a primary end of the colonist is to extract as much from a geographical area as possible (1370). Unlike colonization through settlement, in the extractive instance, a pre-existent state plays a crucial role in the process and aims to establish institutions to maximize extraction through the use of violence and not institutions and a state that enable settlement. In these cases, the state does not come into existence through a process of unanimity or consent; but instead states rise through conquest, plunder, and imposition on certain individuals.

Buchanan addresses conquest and slavery and gives a simplified model, where individuals are better off accepting the terms of the imposed state, over death (59). Although, his concern involved the emergence of the state through the social contract and not through violence, by ignoring the emergence of the state through violence his contractarian model is inapplicable to the study of colonial and post-colonial political economies, in extractive colonial instances, where there is no unanimity rule in the establishment of the state. Now that the dynamic within these economies is one of constant conflict and struggle in attempt to break from these “contracts”, where any form of drawing consent is from an initial and continued use of force from the beginning of the interaction between state and conquered/enslaved.

In addition to this, within societies there are individuals that do not benefit from the existence of the state as whole, a feature of both colonial and post-colonial political economies. The Maya, being an example of individuals not benefitting from the establishment of the state during the colonization period or post-independence. Networks of Maya communities, both

outlived and existed as separate entities from large Ancient Maya city states; where prior to the Conquista, norms, geography, trade and specialization were sufficient to maintain *orderly anarchy*, in place of the state, within these communities in the region (Scarborough and Valdez Jr. 2009). However, with the arrival of the Spaniards and post-independence, at no point did they benefit from the introduction of a state, but instead continually oppressed and even now fighting for land and resource rights by this institution (Anaya 1998).

LEGITIMACY BEFORE REVENUE

Margaret Levi (1989) modifies North's model, recognizing that there are individuals that at no point benefit from the existence of the state and due to this, the state in of itself is not a beneficial entity with predatory features, but solely predatory in nature. By recognizing that the state is predatory, Levi's model does not conflict with historical cases of extractive colonialism. Furthermore, Levi is in agreeance with North, that the maximization of state revenue is the primordial end of all state action and policy.

A state's monopoly on the use of force, causes it to act in non-competitive matters (Colombatto 1998, 134). Hence, North's claim that the state acts as a discriminatory monopolist in the distribution and recognition of property and property rights. Although, the state holds a monopoly of force and its primordial end is the maximization of revenue, it is constrained in an equilibrium between rent extraction and public good delivery. This equilibrium between public good delivery and rent extraction varies on the type of state (Furubotn and Richter 1997, 473-474). Where redistributive democratic states are less extractive than autocracies (Boix 2003); and constitutional republics/non-redistributive democracies the least extractive in comparison with autocracies and redistributive democracies (McGuire and Olson 1996).

Although Levi's modifications of North create a model of the state that is applicable to cases of extractive colonialism, it does not present sufficient insight into the process as to which the state is able to hold a monopoly on the legitimate use of force. Additionally, if the state is predatory in nature and its end is to maximize revenue, for both cases involving rent extraction and the redistribution of rent extracted in public good delivery, it must first hold the means necessary to plunder its people. Ultimately, what these analyses fail to address is the role force and power play as a means to the ends of maximizing revenue, rent extraction, and public good delivery.

Max Weber (1999) identifies that "(the) state is a human community that (successfully) claims the monopoly of legitimate use of physical force within a given territory" (78). Due to this, any analysis of the state, even if economic, must include a conception of power, and the process of establishing legitimacy, in order for it to act as a discriminatory monopolist in the distribution of property rights, and finally accumulate sufficient power to increase its ability to plunder. Due to these limitations, it is necessary to return to the thought experiment of Friday and Crusoe and include a conception of power within it, by doing so be able to properly explain the interaction between state legitimacy, economic development, and ultimately political development.

POWER

Power is the ability an individual has to control their environment to satisfy their wants (Rothbard 2009, 1330). The cases where Crusoe and Friday utilized their resources in order to increase their capacity to fish or pick fruit, demonstrate an individual's power over nature and visible in an increase in welfare. However, if Crusoe were to hold Friday at spear point and steal the fruit or fruit picker, this case demonstrates power over the individual and one benefiting at

the expense of the other. When using the term power in the development of this theory it does not focus on an individual's power over nature, but instead their power over another individual. Ultimately compatible with Robert Dahl's (1957) conception of power "A has power over B to the extent that he can get B to do something that B would not otherwise do" (202-203).

In the use of the thought experiment of Crusoe and Friday it is possible to develop two possibilities of the emergence of the state and the process of legitimacy, one representing the case of extractive colonialization and the other of colonization through settlement. Although states emerge through forms other than colonization, the representation of power within either case is applicable to any case and demonstrates the inevitable predatory nature of the state.

In the first scenario, extractive colonialization, Crusoe holds Friday at spear point and requests both the fruit and the fruit picker. Friday resists Crusoe, however by using the spear Crusoe is able to steal a fourth of Friday's fruit. Due to Friday's resistance, Crusoe's fatigue only allows the stealing of a fourth of the fruit, now that with any amount greater than that Friday is able to swat away the spear with the fruit picker. However, Friday is not strong enough to recover the stolen fruit. This same interaction repeats itself, nonetheless Crusoe understands that Friday is able to fend for themselves and Friday acknowledges the risk of a stabbing by Crusoe. From this point, Friday agrees to give Crusoe a certain amount of fruit, with the understanding that Crusoe will not continue using the spear in effort to steal from Friday; the amount of fruit must be less than the amount lost in predation, but its worth greater to Crusoe than the cost of exertion to acquire more than that amount of fruit. (Brute force or being conniving are also applicable to the thought experiment. In the case of brute force, one might be stronger than the other, but not strong enough to steal everything or smarter than the other, but not smart enough to steal everything. Either of the three cases demonstrate power of one individual over the other).

In this particular case, Crusoe is the equivalent of the state and although establishing hegemony over Friday, Crusoe's predation is limited to the extent Friday will not fight back. In short, the extent to which the state is willing to acknowledge property rights is limited to an individual's ability to "fight" back and any form of payment does not represent consent from the individual, but instead the payment serves as protection from the state itself, similar to a payment towards a racketeering firm (Levi 1989, 11).

On the other hand, the second scenario representing settlement colonialism, introduces a third individual, "Mr. Gunning's Giant". In this scenario, Friday wishes nothing more than to be free to pick fruit without Crusoe stealing it and due to this hires Mr. Gunning's Giant, who is stronger than both of them individually and whose cost of hiring is lower than the cost of paying Crusoe to stop stealing. Although, one party consents to Mr. Gunning's Giant, the other does not; demonstrating, Levi's observation of individuals excluded from the contracting process (1989). The relationship between Mr. Gunning's Giant and Crusoe becomes the relationship found in the previous scenario between Crusoe and Friday. Additionally, due to differences in strength and power between Mr. Gunning's Giant and Friday, at any point Mr. Gunning's Giant can decide that the amount of fruit is insufficient and although Crusoe may no longer partake in predatory behavior against Friday, Mr. Gunning's Giant is free to do so and to a greater extent than Crusoe¹.

¹ This theory does not build on Buchanan's introduction of a third party arbitrator, due to the fact that it seems logically inconsistent with his claim that individuals are inherently unequal and there is a version of the state that comes to existence through unanimity. If individuals are unequal than in the use of the Crusoe/Friday thought experiment, one must be stronger than the other, holding a comparative advantage in the use of force. For Crusoe the introduction of an arbitrator require that the costs of plunder, subtracting its benefits, be higher than the losses of introducing a third party arbitrator. While for Friday, involve that losses to plunder be more than losses to include an arbitrator. However, if the costs of plunder are significantly high for Crusoe, than it is more beneficial to partake in non-predatory behavior (trade); in addition to this, it seems irrational that Friday benefit from any use of force or power given that between the two Friday is the weaker individual. As stated by Buchanan "A contract of slavery would, as other contracts, define individual rights, and, to the extent that this assignment is mutually accepted, mutual gains may be secured from the consequent reduction in defense and predation effort" (59). This view seems

Ultimately, what both scenarios present are the inevitability of a predatory state. However, the state's level of predation is dependent on the extent an individual is able to defend themselves against predation. The ability an individual has to defend themselves, defines the extent as to which an individual is free to do with both themselves and their property amidst the existence of the state. This observation is consistent with North's claim that the state acts as a discriminatory monopolist in the distribution of property rights, however what this theoretical insight demonstrates is that the state acts as a discriminatory monopolist, due to the limitations of its predation regarding each individual within a society during the process of establishing hegemony and legitimacy.

POWER AND DEVELOPMENT

The introduction of power, alongside the understanding of the necessity of property rights for economic growth and development, then creates a better understanding of intra-societal economic growth and economic development. The more particular individuals are able to fight against or avoid predation by the state, the more likely these individuals are able to save and invest and see increases in welfare and changes in social mobility. At no point does this imply that the state's existence is beneficial, but the introduction of its predation and power through *de jure laws* creates a drawing out of a particular society's property rights and, although limited, able to guide investment activity.

An additional implication, is the understanding that the political means of accumulating wealth does not come to existence through the creation of wealth, but instead the seizure of wealth (Oppenheimer 1922, 24-25). Due to this, a state's ability to accumulate wealth is limited to the extent individuals victims of its predation are able to create wealth through the market

more compatible as a whole with the assumption of inequality among individuals and similar to the view adopted by this theory, with the exception that it does not accept the existence of "mutual gains".

system, in other words the more individual wealth there is the more the state is able to take from the victims of its predation. This limitation is able to explain the effect economic development has on the rise of democratic institutions and values, or political development. Now that with democratic institutions “ordinary citizens have a meaningful, even if indirect, role in the affairs of the State, including the formulation of policies and laws and their implementation” (Shihata 1997, 635).

Visible in the thought experiment of two individuals, Crusoe and Friday, if Friday is able to save, invest, and see increases in welfare, Friday is now capable of investing in means necessary to “fight” predation or capable of “purchasing” additional property rights. Both scenarios create a redrawing of an individual’s property rights, the potential for an increase in wealth, creating a continuous renegotiation of rights and the eventual introduction of values, such as freedom of speech and religion. These democratic values involving freedom from state coercion, ultimately involve the extent of an individual’s self-ownership and are not a product of a state’s benevolence, but instead of this process of renegotiation. As stated by Mises,

Freedom, as people enjoyed it in the democratic countries of Western civilization in the years of the old liberalism’s triumph, was not a product of constitutions, bills of rights, laws and statutes, those documents aimed only at safeguarding liberty and freedom, firmly established by the operation of the market economy, against encroachments on the part of the officeholders. No government and no civil law can guarantee and bring about freedom otherwise than by supporting and defending the fundamental institutions of the market economy. Government means always coercion and compulsion and is by necessity the opposite of liberty. Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of economic

freedom. Where there is no market economy, the best-intentioned provisions of constitutions and laws remain a dead letter (283).

Ultimately, political development, defined as the rise of democratic institutions and values, is a byproduct of the effects of economic development. Now that before the rise of democratic institutions and values, an individual must first acquire the means necessary to fight predation or “repurchase” property rights and renegotiate the extent of their self-ownership, through an accumulation of wealth².

CONCLUSION

The purpose of this chapter is to develop an economic theory of political development, understanding that freedoms that characterize democratic institutions and values are ultimately a byproduct of economic development. By laying out the basic conditions of economic growth and development, the understanding that interpersonal exchange involves an acknowledgement of self-ownership, and the inadequacy of contractarian theories of the state in economics to grasp the predatory and negative effects of government, it created the possibility to demonstrate the importance of state power over the individual, and property rights to explain the process of political development.

By abandoning the idea of the state as beneficial entity and introducing its predatory dynamics, this theory was able to demonstrate how the state uses power as a means to establish legitimacy, but limited to the extent an individual is able to challenge its predation. The limitation on predation, creates the establishment of *de jure* laws surrounding property rights and allow an individual to save, invest, and increase personal welfare. This increase in welfare allows

² Both Mises’s observation and theoretical insight developed here are consistent with the Hayek-Friedman hypothesis that “economic freedom is a necessary condition for political freedom” (Lawson and Clark 2010, 231).

the individual to either invest in means to challenge predation or “purchase” additional property rights, with either scenario leading to a redrawing of property rights.

Finally, increases in property rights, lead to an increase in welfare, creating the means to challenge or repurchase property rights, and the continuous repetition of this cycle. This continuous cycle eventually leads to the rise of political freedoms, such as free speech and freedom of religion, which are ultimately an acknowledgement of property rights and demonstrate the effects of economic development on political development. Chapter 3 will demonstrate how a state’s limited ability to predate, forced it to adopt policies in which there was a general acknowledgement of property rights, leading to a rise of a middle class, and the eventual emergence of political freedoms. While Chapter 4 will demonstrate a case where there is less of an acknowledgement of property rights within the region, but also the effect on political development to the groups of individuals who do benefit from a greater acknowledgement of their property rights.

CHAPTER 3: COSTA RICA

ANTECEDENT CONDITIONS

Costa Rica's colonial history is extremely unique in comparison to the rest of the countries in the Viceroyalty of New Spain (this includes the countries of Nicaragua, Guatemala, El Salvador, and Honduras), ultimately playing a major role in this nation's particular political development. During the Conquista and initial days of colonization, the Costa Rican landscape did not fit the particular ends of the Spanish Crown, like other countries, nations, and regions in Latin America. Unlike colonization in the United States, New Zealand, and Australia whose colonization is one characterized by the end of settlement, colonization by the Spanish was one with the end of extraction. Due to this, the political economy of the Crown was one in which the main purpose of policy was to maximize rent extraction. The antecedent conditions of Costa Rica play a significant role in its political development. The country lacked an indigenous population to enslave and exploit, a land inadequate for agriculture, and a lack of precious metals to extract (Facio 1972, 27-35). Due to these three factors, the special interest groups that arise during the colonial period, were not large estate owners and individuals with limited access to owning property, ultimately having a significant effect on Costa Rican politics, following the dissolution of the Federal Republic of Central America.

As noted by Baloyra-Herp, there are individuals who make the case that the lack of an indigenous population led to a homogenous population and positively impacted the political

development and modernization of the country (2009, 298). Putting aside the racial and racist component of this argument, there is some truth to it; the lack of a large indigenous population did have an effect on the country's political development. Policies involving the use of coerced native labor such as those involving *encomiendas* and *repartimientos* were not possible in a geographical landscape that lacked a large indigenous population. This not only had an effect on the lack of large landholding individuals in Costa Rica, but also the lack of a Catholic Church presence which was stronger in countries in Central America with larger indigenous populations, such as Guatemala.

In addition to this, the inadequacy of land for commercial agriculture, isolated Costa Rica from the possibility of trade. Until the 18th century the large portion of Costa Rican agriculture mainly consisted of wheat, corn, and legumes, and even though there was a push to grow tobacco in the region it ultimately failed (Facio 1972). Due to this, not only did Costa Rica lack a population to exploit for commercial agriculture, but its land made it difficult to create an agricultural economy other than that of subsistence agriculture.

Finally, the lack of precious metals, such as gold and silver, played a similar role as that of the lack of an indigenous population and that is the fact that this did not allow for the establishment of mining special interests. An aspect many political and economic historians ignore from the Costa Rican colonial political economy is the effect the lack of trade had on money in the region. Due to the lack of trade, the introduction of silver and gold in the region was sparse, and even into its time of independence Costa Rica lacked a banking system, and Cacao served as currency until the mid-19th century (León Sáenz 2014, 197-198). This is an important aspect that often overlooked, now that how government interacts with coinage, either through taxation or regulation on banking, ultimately has an effect on economic development.

However, prior to regulating any banking system there must first be a system to regulate and second, be able to hold sufficient power to enforce these banking regulations.

The lack of an indigenous population to exploit, land inadequate for agriculture, and the absence of precious metals, are ultimately a reason as to why the special interests of Costa Rica were much different than those found in both Guatemala and El Salvador. The special interests in those countries were conservative interests that benefitted from the existence and structure of the Spanish colony, such as large landholders and the church, the legacy of these large landholding elite ultimately affected the violent political development of these countries. On the other hand, the Costa Rican elite were a merchant class, dependent on the work by poorer classes. Due to this, the merchant class was not necessarily interested in the ability to own large plots of land, but instead a class whose wealth depended on the ability to trade in both domestic and foreign markets, but limited by constraints on local production.

This is visible in the development of the Costa Rican coffee economy; with coffee as inexistent in Costa Rica until 1804 and its export did not begin until 1832 and slowly increasing until its boom in 1837 (Facio 1972, 39-40). In addition to this, during this time cities such as San José started encouraging the homesteading of *terrenos baldíos*, this led to a rise in small landholders, however since the merchant classes were not concerned with the ownership of land, but instead the export of products, this allowed for the development of the Costa Rican coffee economy.

CRITICAL JUNCTURE

In agreement with Mahoney, a critical juncture occurred during the period of liberal reform, which he defines as a period between 1821-1914, however the defining period of time does not range from 1821-1914, now that this period of time engulfs a too large of a span in

Costa Rica history, but instead from 1838-1871. Now that, it is important to note that during the span of time between 1821-1838 Costa Rica was a part of the Federal Republic of Central America and not an independent nation, prior to 1838 there were policies aiming to liberalize the Costa Rican economy, however these efforts were more local and occurring in cities, such as San Jose, and not state-wide initiatives to centralize power.

Regarding the period of time after 1871, is a process of state centralization, however not possible and constrained by the emergence of special interest groups and institutions prior to this period, in particular a small landholding class/middle class and a merchant class that existed prior to 1838, but largely depended on the coffee economy until afterwards. Mahoney identifies two highly influential presidencies, during the period of liberal reform, the presidency of Braulio Carrillo Colina (1838-1842) and Tomás Guardia Gutiérrez (1870-1882). The Guardia presidency and the time after that is one consisting of increased governmental spending, centered around the Coffee economy that developed within the country, however, this increase in government spending would not be possible without the policies enacted prior to the Guardia presidency, due to this the critical juncture in Costa Rican policies did not happen during the entire liberal reform period, but instead during the period of time between 1838-1871, and the remaining time of the liberal reform period (1871-1914) consisting of reactive sequences to the critical juncture in 1838-1871.

The first Costa Rican presidency following the dissolution of the Federal Republic of Central America, was that of Braulio Carrillo. The Carrillo presidency was extremely limited in resources and due to this, found itself adopting nation-wide efforts, although regional, centered on the exportation of coffee. His presidency was authoritarian, but the limitations placed on his ability to centralize power were dependent on the coffee exporting class and visible in policies

regarding the protection of private property; this is visible in his enactment of the *Ley de Bases y Garantías* (Law of Foundations and Guarantees), as well as initial efforts in the creation of a military or police force in the region.

The *Ley de Bases y Garantías* is the first major political document by Carrillo and any government post-dissolution of the Federal Republic of Central America, in effort to centralize state power. This is visible in Article 4 of the political document, in which power is taken away from the municipalities in the region, and redistributed to “el primer Jefe (head of state), una Cámara Consultiva (advisory board), y otra Judicial (and a judicial board) (1841)”; the head of state was the president and in this case Carrillo and both the advisory board and judicial board were appointed by him. This led to the separation of the country by department and the citizenry would elect leaders to represent them, ultimately making up the advisory board that interacted with the head of state (CIJUL en Línea 2009, 7-8). In addition to this and of crucial importance is the definition of a citizen according to the document, ultimately limiting political participation and state protection to individuals whom were of 21 years of age, 20 if academics or had children, as long as they owned property with the ability to provide sustenance to their family members³.

Son Ciudadanos Costarricenses, todos los naturales del Estado, ó naturalizados en él que tengan veintiún años cumplidos, ó veinte si fuesen profesores de alguna ciencia, ó padres de familia; con tal que posean, a mas de casa propia, alguna propiedad, capital ó industria, con cuyas ganancias ó frutos puedan en proporción a su estado, sostenerse con sus familias. Solamente los Ciudadanos en ejercicio de este derecho, gozarán de voto

³ In addition to this, citizenship could be lost if an individual did not pay their taxes leading to the loss of any “rights” granted by the *Ley de Bases y Garantías*.

activo y pasivo en las elecciones, y pueden obtener destinos públicos de nombramiento del Gobierno. (1841)

In addition to establishing the *Ley de Bases y Garantías*, which served as an initial effort to centralize power, Carrillo took initial efforts to establish a military/policing force across the nation. This military would eventually be vulnerable to the whims of elites within the country, however since the elite were mainly a merchant class any conflict would not happen at the producer level, with small landholders, but instead at the level involving exports and imports. In addition to this, there was not a separate military class and bourgeoisie, but instead the Costa Rican elite integrated the military, ultimately creating an institution in which military action was constrained to where it did not interrupt economic activity and stability, due to vested interests; but existing interests limited the furthering of power centralization requiring a stable monopoly of force.

Due to the elite integrating the military, following the coup d'état of Braulio Carrillo by Honduran military general Francisco Morazan in 1842, Costa Rica faced a period of large-scale political instability. At the same time the initial steps of state centralization of the Carrillo presidency, and the lack of a strong conservative presence in Costa Rica, allowed for a continuous process of liberalization; one where the coffee economy was not put at risk, but instead “a political tool for particular factions within the dominant class” (Mahoney 2001, 149). This continuous political instability continued until 1871, under the presidency of Tomas Guardia and the establishment of a constitution that for the most part remained intact until 1949. For the first time in Costa Rican political history are there guarantees involving freedom of speech, freedom of religion, and freedom from government violation of privacy; central to the constitution was also the defense and respect of private property (CIJUL en Línea 2009, 10-11).

Finally, the effects of liberalization are visible in the economic effects that occurred in Costa Rica during this time, in which there was an emergence of a middle-class product of the small landholders and a state encouraging a homesteading approach to the ownership of property. Precious metals, such as gold and silver, slowly started to emerge within the economy as a product of the coffee economy and the rise of exports. During this time (1838-1871) the state attempted to monopolize the coinage of gold and silver, but failed in the process; with foreign currency dominating the Costa Rican economy (León Sáenz 2014, 197-198). Regardless of failed efforts of the Costa Rican government to establish power over local currency, private banks emerged and with them the issuing of paper currency.

Ultimately, what this span of time demonstrates is a process of liberalization, ensuring the survival of interests involved with the coffee economy that was slowly emerging in Costa Rica. At the beginning of this period of time the means available to the state were limited, and it is possible to make the argument that the lack of a strong existing power structure allowed for the emergence of a middle class product of the emerging coffee economy and a state with a vested interest in its success.

REACTIVE SEQUENCES AND LEGACY

A state with a vested interest in its coffee economy is visible in periods of time following 1871 and although the state slowly incremented its functions, its predation was ultimately constrained, now that its main source of income depended on the monoculture political economy of the country. Ultimately, this led to the rise of a strong middle class with a vested interest in being included in the political process (Mahoney 2001).

This is not to say that the period of time after 1871, was one of political stability, visible in the large mobilizations against Bernardo Soto (1885-1889), coup d'état of Alfredo Gonzales

Flores in 1917 and the 1948 Costa Rican Civil War, however these events of political instability are largely due to the vested interests existing within the country at the time. The large mobilization of Bernardo Soto was mainly due to opposition created by wealthy classes of individuals who were unable to influence policy to the extent they had prior to this (González Villalobos and Avila 1983, Mahoney 2001). The policies of Alfredo Gonzalez Flores were ultimately aimed at the country's wealthy and the coffee export class, putting at risk the special interests of the dominant class within the country, but it makes the strong case of the limitations of state power and its constraints. Finally, the Civil War in 1948 is primarily due to the use of military force by Teodoro Picado administration and ultimately the strike of fallen arms or Huelga de Brazos Caidos in which local merchants halted the Costa Rican economy, these events eventually led to the Civil War which lasted for 44 days, but resulted in the abolishment of the Costa Rican military, the creation of the supreme electoral tribunal and the beginning of a democracy that continues to go uninterrupted and the eventual development of the strongest economy in Central America.

CHAPTER 4: HONDURAS

ANTECEDENT CONDITIONS

Honduran colonial history begins with the discovery of the island of Guanaja by Christopher Columbus on his fourth voyage to the Americas (Cohen 1969). During the initial period of Spanish rule under colonial Honduras, the economy largely centered around the mining industry and the extraction of gold and silver from the region. The impact of this initial discovery was so substantial that at one point, Gracias, a city in occidental Honduras, was the capital of the Captaincy General of Guatemala from 1540-1543. However, the boom of the Honduran mining industry and its decline and fall, both occurred during the 16th century with Honduran history. Ultimately, during the colonial period Honduras faced little to no economic development similar to that of Costa Rica and the emergence of any elite were regionally dispersed in the countries major cities and the vast differences in geographical features within Honduras also created very little intra-elite conflict within the nation. As noted by Mahoney, if one were to look at Honduran political development and its colonial history, it is very possible to make the argument that its political development should have been similar to that of Costa Rica (2001).

After independence from the Spaniards in 1821 and prior to the dissolution of the Federal Republic of Central America, Hondurans such as José Cecilio del Valle and particularly Francisco Morazan were highly influential within the political development of the Federal Republic of Central America. Morazan was a radical, more than many liberals at the time, and

often came into conflict with conservative special interests established in Central America. While José Cecilio del Valle was a moderate found in an in between the paternalism of conservatives and radicalism of liberals within this span of time. However, even though both of these individuals were highly influential within the politics of the Federal Republic of Central America, their battles and political interests did not tend to represent the reality of conservative and liberal conflict in Honduras.

With the dissolution of the Federal Republic of Central America, Honduras did not have the conservative special interests found in El Salvador and Guatemala, but a country decentralized to the extent that political stability of a regime within Honduras, largely depended on conservative or liberal support in Guatemala or El Salvador. From the dissolution of the Federal Republic of Central America in 1838, until the presidency of Marco Aurelio Soto in 1876 there were no major impulses and efforts to centralize state power in the country, during this span of time. Even though the Carrillo presidency managed to set rudimentary foundations to influence political development in Costa Rica during the time between 1838-1842, this did not occur in Honduras; however, what did occur that was similar to Costa Rica during the thirty year span of time following the dissolution of the Federal Republic of Central America was the lack of political stability due to intra-elite conflict and a span of time where presidencies lasted no more than 2 to 3 years at a time. Regardless, of the lack of political stability and due to the geographical and regional interests within the country, although small in comparison with other economies in Central America, a small economy centered on the exportation of leather began to develop in the country.

Finally, in 1876, Marco Aurelio Soto (1876-1883) took first steps to centralize power within Honduras, and the beginning of the liberal reform period within Honduras. For the most part the

leather industry took hold of the nation's economy, but in addition to this industries such as alcohol and tobacco were developing in the area and due to this Soto found himself in a state where to enact public policies it was required to raise taxes within these industries, however not raise them to the extent that it would negatively affect investment within the country (Mahoney 2001, 167-169).

Since the coffee economy was emerging in Central America, there was a positive effort to develop a coffee economy within Honduras with the push of an agrarian reform, revolving around a model similar to that of Costa Rica consisting of small and family landholders. However, regardless of efforts to push for the development of the Honduran economy to one of coffee exportation, the geographical layout did not allow the development of a strong coffee economy.

Unlike the Costa Rican government in which tax revenue increased with the growth of the coffee economy, state reform and the funds needed from this relied on already established industries, to push a positive effort during the Soto presidency and after the end of his tenure in 1883, which was ultimately not suitable for its environment. However, simultaneously two developments in the late 19th century were crucial and necessary for the rise of Tiburcio Carías in the first half of the 20th century. The first, was the rise of the banana economy, which at first were owned by small local landholders, but generated interest by foreign investors ultimately leading to the presence of US capitalists within Honduras (171-175). The conservatization of liberalism and the liberalization of conservatism in Central America, that led to liberal policy centered around maintaining power and not democratization and liberalization, which at least on paper were the ends of Central American liberals prior to independence (Becerra 2007, 12, Woodward 1984). The conservatization aspect, ultimately aims to keep certain socioeconomic

structures in place, while the liberalization was mainly due to the fact that conservatives understood the necessity of adopting liberal policies in order to increase wealth accumulation.

The effects of the emergence of the foreign dominated banana industry and conservatization of liberalism and liberalization of conservatives are visible in occurrences during the early 20th century. The first being the relationship between deposed president Manuel Bonilla and Sam “Banana Sam” Zemurray would devise a plan that would lead to the reinstatement of Manuel Bonilla as president, with a militia funded by Zemurray (d'Ans 2009, 191-192); in which Bonilla would take control of the Bay Islands and Honduran coasts in 1911 and with help of local militia reinstate himself in office on 1912. Ultimately, leading to the concession of 10,000 acres for the production of banana to Zemurray along the Honduran Guatemala border and solidifying the relationship between Honduran political leaders and United States/foreign capitalists. This enabled an understanding among the political class that a crony relationship with the United States, served as a means, necessary for political action, that would not be possible through the output created by domestic producers.

Similar to Costa Rica there was a lack of a strong conservative presence within Honduras. However, the conservatization of liberalism and liberalization of liberalism influenced the Honduran Partido Liberal with a conservative and radical group of liberals, ultimately leading to constant conflict within the party and the inability to back only one political leader. From this conservative group the Partido Nacional emerges and solidifying itself within Honduran politics with the Tiburcio Carías dictatorship.

CRITICAL JUNCTURE

The Partido Nacional emerged out of a group of conservative members of the Partido Liberal in 1916 and quickly integrated itself within the Honduran political party system. Their

presence was significant to the extent that prior to the elections of 1932 that placed Carías into power, he had run twice and was able to become president of the national congress from 1924 to 1931.

Prior to the elections of 1932 and during his time as president of congress, Carías was able to gain loyalists across the country and strengthen the party in the process, and due to this the Carías was supported by a unified Partido Nacional and able to win the presidency while running against three other candidates from the Partido Liberal. The Honduras Carías interacted with during the initial years of his administration (1933-1949) was largely decentralized and the economic development within the country was for the most part centralized around the foreign owned banana companies.

However, during his presidency Carías managed to centralize power, primarily due to the fact of the existence of United States special interests. Unlike other presidencies in Latin America and Central America, Carías faced no threat to the interests of both American capitalists and diplomats, to the extent that diplomats largely believed that the Carías administration as easily manipulable (Dodd 2005, 47), but when looking into the political action of Carías he managed to use United States presence in his favor.

In return for land grants and concessions the United Fruit Company would give Carías the financial resources to both pay off and reward his loyalists and in the process allow Carías to both centralize power by placing supporters and loyalists at every level of Honduran government. In addition to this, the funds from American capitalists allowed him to invest in nonexistent infrastructure and in the process expand his power by placing supporters in charge of these industries, the telegraph one of many industries (58). Unlike Soto in the 19th century who largely relied on taxing slowly developing industries, in order to expand government power,

Carías's expansion of government largely relied on foreign capitalists, in a largely successful industry at the time. Not only did the Carías administration centralize power, largely surrounding the ends of the administration, but Carías also managed to stifle efforts of unionization by individuals working in the banana industry with the potential to risk both the profitability and stability of foreign owned banana industries.

Another aspect that is crucial during the Carías presidency is his success in managing to set the foundations necessary for a centralized national military, something only possible through United States military aid. Carías ran a successful support campaign in depicting Honduras as a pro-America country and his presidency as a pro-America administration. Prior to Carías, the Honduran military largely consisted of decentralized militias, serving as political instruments, in which their presence was strong during election season, but not actively present during any other span of time and due to this there was no strong military force in the country (Ropp 1974, 505-506). However, with United States foreign aid the Carías administration managed to found the Escuela de Aviación Militar in 1934, establishing the Honduran air force, through which the United States maintained control over aerial training until 1947 and the establishment of the basic arms force (army) in 1946 (509-510). The whole span of the Carías presidency was one in which not only did Carías manage to invest and expand government infrastructure, but also establish a Honduran military in the region, ultimately centralizing a decentralized nation in the process.

REACTIVE SEQUENCES AND LEGACY

The Carías dictatorship ended in 1949, however it established the institutions that dominated 20th century Honduran politics: a ruling class dependent on the United States

government and foreign capitalists and the establishment of the military as a strong interest group within Honduran politics.

Unlike the rest of Central America (with the exception of Costa Rica) victims of civil wars in the mid and late 20th century, Honduras became ridden of a string of coup d'états until the temporary, but longest running establishment of democracy in 1982. Following the Carias administration there were coup d'états in 1956, 1971, 1972, and 1978. It is unfortunate, that Mahoney is unable to recognize the importance of the Carias dictatorship, now that without his presidency the special interest of the military would have not arisen and although responsible for a lack of political instability, policies during the late 20th century centered on strengthening and not challenging the military's position within Honduran politics.

In addition to this, the distinction between the Partido Nacional and the Partido Liberal were minimal, now that administrations from either party were dependent on the support of foreign capitalist and United States government interests. In no other point in time is this visible, than during the Carter and Reagan administrations in the United States, where United States and Honduran relations focused on advancing American interests in the rest of Central and Latin America, and as stated by Philip Shepherd back in 1984, "Honduras is doing Reagan's dirty work in Central America" (109).

Since the existent institutions within Honduras did not revolve around a middleclass or national interests, but instead on foreign interests, during the span of time after the Carias dictatorship, political leaders held little to no incentive to liberalize Honduras and attempts to do so, either politically or economically, led to the strong-arming or removal of individuals from political office. This is visible in the failed land reforms of the 1970s within Honduras.

Finally, the legacy of the Carias dictatorship is visible in the 21st century, where after 28 years of uninterrupted democracy, Honduras suffered from a coup d'état once more. A coup d'état led by Honduran political and economic elite in which the United States did not speak out against and one in which the secretary of state at the time, Hillary Clinton, admitted to playing a hand in the aftermath (Weisbrot 2014). Due to this, it is necessary to challenge Mahoney's assessment of the Carías and instead see this point of time as one of never seen before state centralization in Honduras, with a legacy well into the 21st century.

CHAPTER 5: ANALYSIS

The purpose of the analysis is to place the path dependent explanation within the theory developed. As mentioned in Chapter 1, the antecedent conditions are the pre-existent groups and the means available to either predate or challenge predation. The critical juncture is a period in which state actors, and individuals with the means to predate, aim to establish legitimacy within a region, leading to a drawing of *de jure* property rights and the emergence of special interest groups. The reactionary sequence (and part of the critical juncture) is a strengthening of institutions in which state action revolves around and is constrained by these groups; in certain cases, this leads to the eventual rise of political freedoms that characterize political development, such as freedom of speech, the press, and of religion. Finally, the legacy is both the emergence and longevity of these freedoms visible in democracy or the failure of them.

ANTECEDENT CONDITIONS

In both Costa Rica and Honduras there were a lack of strong conservative interests, such as the Catholic Church and individuals that benefitted from the colonial structure, and elites regionally dispersed and either uninterested or lacking the means available to centralize power, or the ability to expand within the respective countries. It is important to take this into account, because in comparison with other Central American countries, such as El Salvador and Guatemala, both the economic and political development of Costa Rica and Honduras were significantly lacking. Due to this, after independence where elites, conservatives and liberals, in

El Salvador and Guatemala were interested in maintaining power, any state action by both Costa Rica and Honduras required an establishment of power.

In the case of Costa Rica, prior to the dissolution of the Federal Republic of Central America in 1838, the country did not have precious metals, a large indigenous population to exploit, or the ability of large-scale agriculture. However, the exportation of tobacco and the eventual emergence of coffee in the country, created a merchant class with special interests vested in exporting. At the same time, since there were no slaves or sufficient military power to create forced labor, regional governments found themselves incentivized to both encourage and accept the homesteading of land, leading to the emergence of family/small landholding peasantry.

On the other hand, prior to and after the dissolution of the Federal Republic of Central America, Honduras found themselves in a similar position. However, unlike Costa Rica in different points in time, especially in the 16th century, Honduras established a strong mining industry, eventually fading after its boom in the first half of the 16th century. Following the dissolution of the Federal Republic of Central America, Honduras did not have the coffee economy of Costa Rica and until the introduction of foreign banana capitalists, Honduras's economy was diverse, but regionally dispersed throughout the country and not strong enough to sustain a centralization of state power or the establishment of legitimacy. Ultimately, this created a political class with little impact, but with the introduction of foreign interests, one with the capability of expanding state power. The role Sam Zemurray played in placing Manuel Bonilla in power in the early 20th century, in exchange for the concession of land on the Honduras/Guatemala border established a political class, dependent on foreign special interests.

CRITICAL JUNCTURE

The critical juncture among both of these countries is separated by a significant amount of time, in Costa Rica from 1838-1871, while in Honduras from 1933-1949. Both of these periods consisted of political actors with the purpose of establishing legitimacy and succeeding in the process.

In Costa Rica the critical juncture begins with the presidency of Braulio Carrillo in 1838. During this point of time both the export class and small landholding peasantry/class were established within the socioeconomic structure of the country and due to this the Carrillo administration found itself in a position in which the drawing of *de jure* property rights either disrupted or built on the growing coffee economy in the country, in this case the Carrillo administration decides to expand and encourage the homesteading of land, while simultaneously aim to expand government functions in which revenue is dependent on the growth of the coffee economy. Following his coup d'état to Francisco Morazán in 1842, there was a continuous process of political instability, caused by intra-elite dispute, however with political leaders and action constrained to the continuous success of the coffee economy. During the span of time from 1838-1871, from the small landholding peasantry a middle class emerges. A unique feature that may potentially aid the of Costa Rica by economic historians is that of the country's banking system, one which lacked Gold and Silver, but with the increase in exports the growth and development can be traced by seeing the eventual introduction of gold and silver coins, as well as the emergence of a private banking system.

The critical juncture in Honduras, did not happen until the Tiburcio Carías dictatorship in 1933, now that prior to this point any efforts of state centralization largely failed. Marco Aurelio Soto aimed to adopt policies similar to Costa Rica at the time, encouraging homesteading and

small landholding. However, these efforts largely failed, due to the fact that the government pushed for the development of a coffee economy, not suitable for the geographical landscape of the entire country. Dispute among liberals in the Partido Liberal, led to the rise of the Partido Nacional in 1916, individuals whom made up a conservative group within the liberal party. The Partido Nacional quickly solidified itself within the Honduran political landscape and in 1932 won the elections with Tiburcio Carías.

Making sure to become a candidate that appealed to United States government interests, as well as the interests of the United Fruit Company, both assisted in Carías effort to centralize power and ultimately establish legitimacy in Honduras. Through the continuous concessions given to the United Fruit Company, as well as stifling unionization efforts, Carías received the funds necessary to both expand government infrastructure and place and payoff loyalists at every level of the Honduran governmental and socioeconomic level. Prior to this point there had not been a level of widespread centralization as one under his dictatorship. In addition to this prior to this period of time the Honduran military consisted of a dispersed militia, used as a political tool among the elite. With help from the United States and through the use of United States military aid Carías managed to establish a centralized military, and in the process further centralizing power.

REACTIVE SEQUENCES AND LEGACY

What the critical juncture in both of these countries demonstrate are the emergence of special interests highly influential within the socioeconomic and political structures of each country, ultimately influencing the political development of the two, in Costa Rica the period of 1838-1871 solidified the small landholding middle class, eventually demanding political

participation and in Honduras 1924-1949, creating a political class dependent on United States state and non-state financing, and a military class, ultimately interrupting processes of democratization throughout the 20th century and the inability to guarantee political freedom. While ultimately, able to explain why two countries with similar conditions during their periods of colonization and prior to independence developed drastically different.

In the case of Costa Rica, the coffee economy and the lack of a strong conservative presence allowed for the introduction of homesteading policies and the emergence of a landholding peasantry, which eventually became a strong middle class advocating for democratic freedoms. In this case, the state did not hold sufficient means to predate against this people, but forcing it to adopt policies which recognized the property rights of these group of people in order to establish legitimacy. While government means of predation grew with the expansion of the coffee economy, so did the impact of this group of individuals on the political structure and due to this in order to maintain legitimacy the state not only depended on an elite class, but the emerging middle class to exist. This is not to say that the government was for the people, however largely constrained by these two classes and in no other instance is this as clear as the Costa Rican coup d'état in 1917, where the coffee economy was put at risk by the policies of the president Alfredo Gonzalez Flores.

Although Honduras lacked a strong conservative presence, the absence of the potential for a coffee economy and the introduction of foreign capitalist interest are ultimately able to explain the drastic differences in economic and political development between Costa Rica and Honduras. In Honduras a middle class did not develop and due to this, not able to hold the state accountable, but instead largely a victim of its predation. The *de jure* property rights drawn during the Carías dictatorship revolved around United States and political class interests,

however additionally establishing a military class that did not exist prior to this point. Due to this, state action was not constrained in respecting and expanding the property rights of a middle class, but instead of foreign interests, a political/bureaucratic class, and the military.

These two drastic differences properly explain legislation emerging in 1871 in the Costa Rican constitution defending political freedoms, such as freedom of speech, the eventual abolition of the military, and the establishment of a continuous democracy in 1949. While in Honduras, this properly grasps the string of coup d'états in the second half of the 20th century and the lack of incentives by political actors to satisfy the interests of individuals outside of the military, political class, and United States/foreign interests.

CONCLUSION

Through the application of a theory guided application of a path dependent explanation, this work aims to overcome the issue of the under-theorization of Honduran political development, while contributing to the literature on Central American political economy by including an analysis of Costa Rican political development. As mentioned in Chapter 1, the main goal of introducing and developing a property rights theory of political development is to create a theory broad enough to grasp the concept of political development as a whole, in order to allow middle level theorizing. The property rights approach is one that aims to be consistent with property rights analyses, as well as Austrian or Mengerian approaches to issues pertaining to political economy.

Although the analyses within this work aim to contribute to research on the political economy of Central America, it is important to point out additional contributions of this work. The first, is an attempt to consolidate the Austrian approach to economics and the (historical) institutionalist approach to political science, ultimately allowing for the introduction of theory guided applications of path dependence, based on the axiomatic principle that individuals act purposively in attainment of their ends, amidst scarcity. The use of the economizing man allows for the introduction of an economic approach to political science, without the need to ignore the fact that the individual is a social being and the effect culture and norms play in molding society.

The second contribution is the theory developed in Chapter 2, this theoretical contribution provides a rudimentary framework as to which either economic historians or political scientists can build on; either through the application of the theory to the study of other historical cases or the potential to formalize the theory through the use of game theory. In addition to this, the theory aims to point out the importance of property rights and the potential effect this has on political development, this is ultimately visible in the historical cases of both Costa Rica and Honduras.

Finally, the final three chapters show the coherence between the Austrian approach to economics and historical institutionalism, the theory developed, and the application of path dependence. Ultimately, achieving the goal of demonstrating the effect *de jure* laws surrounding property rights during period of state centralization, lead to the rise of interest groups, whom ultimately have an effect of the political development of a nation. This is visible in the middle class that emerged from the Costa Rican coffee economy from 1838-1871, which eventually created a middle class with a desire to participate in the political process, creating a sustainable democracy. While in Honduras, during the Tiburcio Carias period as president of congress and dictatorship, creating a political class dependent on foreign financial and military aid and a military class that did not exist prior to this, ultimately creating an unstable process of political development constrained by domestic political interests by the political and military class, as well as United States governmental and non-governmental interests.

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