

Victory, Institutions, and State Formation in Latin America

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Motivation

- War is central to state-building — but does it affect all states equally?
- Bellicist accounts [Tilly 1985](#); [Schenoni 2020](#) predict consolidation; alternative views stress weak trajectories in Latin America [Mazzuca 2021](#).
- We argue war effects depend on inherited institutional environments.

Why Is This Relevant?

- Cross-country work absorbs institutions via fixed effects.
- Subnational institutional heterogeneity is substantial [Dell 2010](#); [Bruhn and Gallego 2012](#); [Maloney and Valencia 2016](#).
- If institutions mediate shocks, fixed effects hide key variation.

This Paper

- War outcomes and state capacity from [Schenoni 2020](#) which comes from [Banks & Wilson 2019](#).
- Merge with subnational institutional data [Bruhn and Gallego 2012](#).
- Test conditional bellicism using institutional heterogeneity.

Results

- Fiscal capacity: war effects are amplified by institutional heterogeneity.
- Railroads expansion: conditional effects appear only under hyperbolic sine transformation(IHS)-sensible to variable transformation- and are sensitive to pre-colonial population.
- Corrected clustering weakens key railroad results in [Schenoni 2020](#).

Why Should We Care?

- War-induced state-building is conditional, not uniform.
- Institutional legacies mediate responses to shocks.
- Fiscal extraction is a more reliable measure than infrastructure.

Data

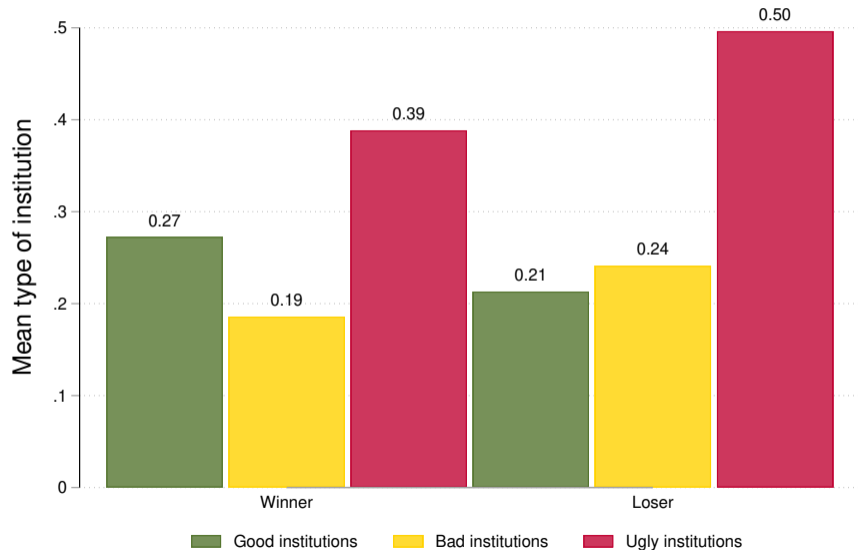
- Outcomes: railroads, government revenues. [Schenoni 2020](#)
- Institutional exposure: share of good, bad, ugly institutions. [Bruhn and Gallego 2012](#)
- 1865–1913 country–year panel 686 country–year observations (14 countries).

Good, Bad, and Ugly Institutions

| | Low Pre-Colonial Pop. | High Pre-Colonial Pop. |
|----------------------------------|-----------------------|------------------------|
| Non-Extractive Endowments | Good Institutions | — |
| Extractive Endowments | Bad Institutions | Ugly Institutions |

- Classification follows [Bruhn and Gallego 2012](#), based on the idea of [Engerman and Sokoloff 2000](#)
- Captures persistent differences in colonial labor systems and extractive structures.

Institutional Composition by War Outcome



Empirical Model

- Baseline: DiD with country and year FE [Schenoni 2020](#).
- Triple interaction allows heterogeneous postwar effects.

$$\begin{aligned} Y_{ct} = & \alpha_c + \delta_t + \beta_1 \text{Defeat}_c + \beta_2 \text{Post}_{ct} + \beta_3 \text{Institutions}_c \\ & + \beta_4 (\text{Defeat}_c \times \text{Post}_{ct}) + \beta_5 (\text{Defeat}_c \times \text{Institutions}_c) \\ & + \beta_6 (\text{Post}_{ct} \times \text{Institutions}_c) \\ & + \beta_7 (\text{Defeat}_c \times \text{Post}_{ct} \times \text{Institutions}_c) + X'_{ct} \theta + \varepsilon_{ct} \end{aligned}$$

Parameter of interest: β_7

(How institutional exposure conditions the postwar effect of defeat.)

Replication and Inference

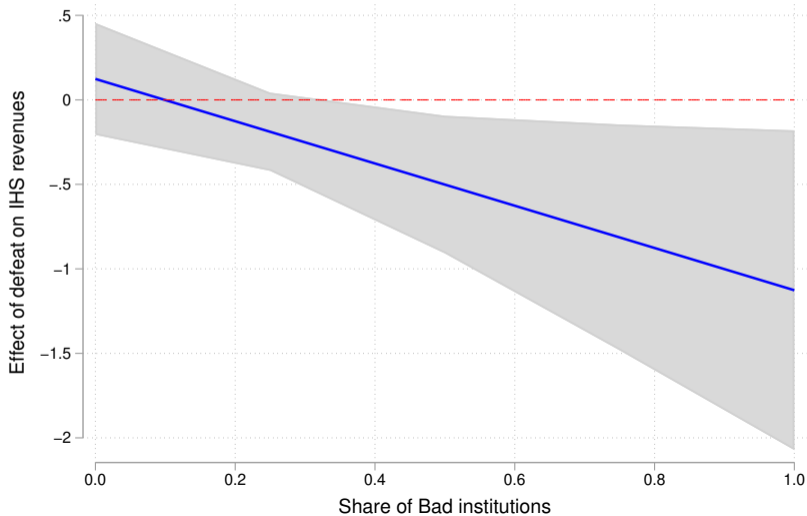
- Replicate [Schenoni 2020](#).
- Correct clustering \rightarrow railroad loses significance.
- Wild bootstrap inference (small- N).
- Railroads sensitive to functional form.

Heterogeneous Effects

- Ugly institutions significant for railroads (IHS only).
- Bad institutions significant for government revenues.
- Marginal effects interpretation [Norton 2022](#).

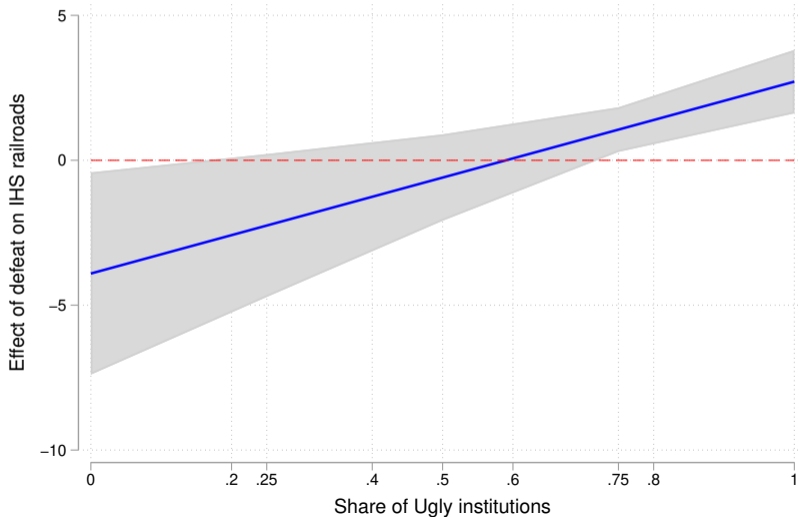
Effect of Defeat on Government Revenue

Exposure to Bad Institutions

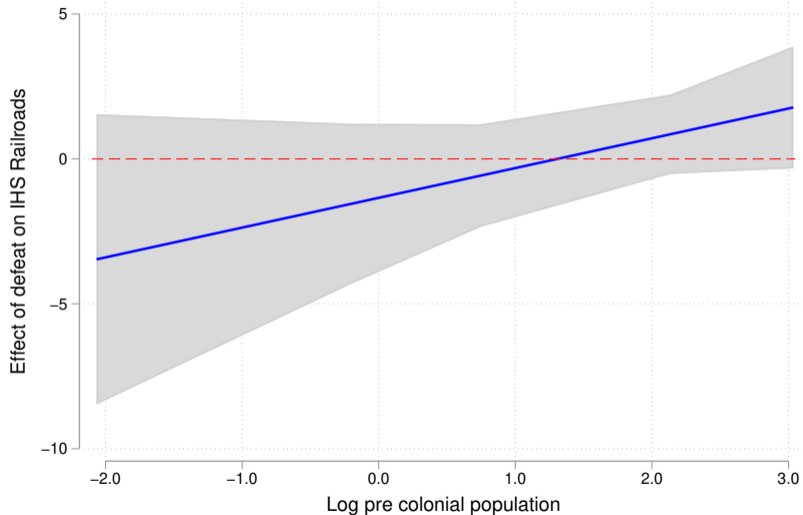


Effect of Defeat on Railroad Expansion (IHS)

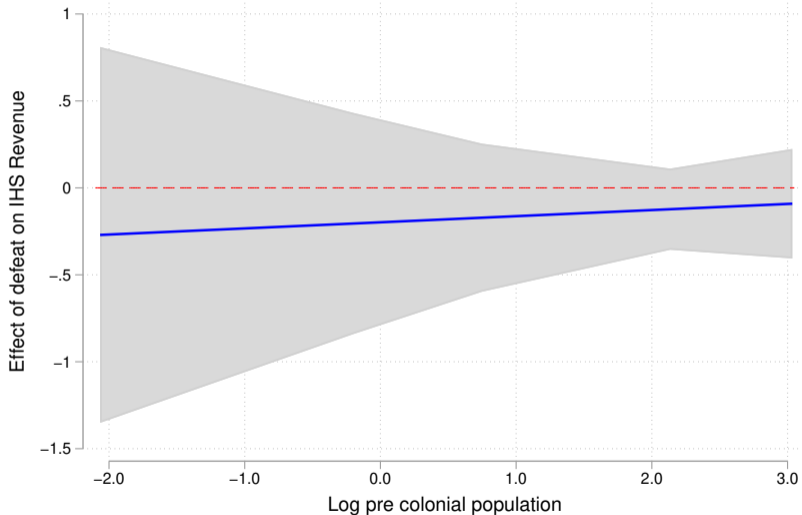
Exposure to Ugly Institutions



Railroads and Pre-Colonial Population



Government Revenue and Pre-Colonial Population



Interpretation

- Railroads reflect localized political–economic dynamics.
- Significance disappears in raw measure → fragile proxy.
- Fiscal capacity provides more stable evidence.

Conclusion

- War effects are conditional on institutional legacies.
- Fiscal capacity responds systematically to heterogeneity.
- Infrastructure is not a reliable proxy for state capacity here.