

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

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## **Abstract**

The wars of independence in Mexico led to a de facto decentralization of the Mexican territory, after almost 300 years of colonial rule tightly commanded from Mexico City. The nascent Mexican states showed large variation in their capacity to tax. Most accounts of this variation have focused on the liberal-conservative cleavage that shaped institutional change from its birth, without looking back to the dynamics of conflict that permeated the newborn country during the independence war. We claim that this war actually had a long term effect on fiscal capacity building by shaping local elite alliances after independence. By using municipal and state-level data, our results show that Mexican regions where the royalist army was able to take a foothold during the independence war had a higher number of public servants and higher fiscal revenues in the late 19th Century than regions where the insurgency operated. This finding sheds light on why war in Latin America had deleterious effects on state building by emphasizing the dynamics of rebel vs. royalist warfare.

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

We shed new light on this variation by proposing that the independence wars in Latin America unraveled the two aforementioned causal effects of violence on state capacity. On the one hand, these wars can be interpreted as inter-state wars, as the local elites feared that independence would imply their rule being wiped out. In so being, they were willing to cooperate with the war effort and fill the fiscal coffers of the military. On the other hand, these conflicts were also civil wars, as indigenous peoples as well as creoles often featured on both sides. And rebels, facing an uneven playing field, levied revolutionary taxes by boycotting the fiscal apparatus of the state. We claim that the two opposing forces had a distinct impact on the institutional capacity of the newborn United States of Mexico: the areas where royalists kept a permanent foothold show stronger measures of long-term capacity, such as fiscal extraction and the size of the administration, than areas where rebels were able to operate up to the end of the conflict. A relevant feature of the Mexican case is that war ended when a number of royalist officials switched sides and brokered a deal with the shrinking insurgency to declare independence. Far from being an outlier, the Mexican case is a typical outcome of war termination—that of a negotiated settlement (Toft 2010). In this sense, this twofold effect of the dynamics of war on state building may be more common than previously thought.

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

On the other hand, researchers looking at other, less developed, areas in the world have found a weaker effect of war on state capacity. Wars did not make strong fiscal-military states in Latin America (Centeno 2002) nor in Africa (Herbst 2000). In Latin America, violence was in the most part a result of civil unrest rather than of conflict between states.<sup>1</sup> Civil wars, usually for independence or rent-seeking, weakened the structures of government instead of empowering them. Thies (2005) shows that intra-state rivals have a negative effect on state building in Latin America. To account for this outcome, Centeno (2002, 142) argues that Spanish American elites shared a common fear of peasant unrest but were divided by other geographical and social cleavages (e.g. creole vs. peninsular). Also, non-native elites were unaccustomed to paying taxes due to fiscal privileges, so they always found ways to shirk on the fiscal effort. And by the same token, the rising, native elites had also few incentives to pay for the war effort. National states after independence were able to resort to external borrowing, and had a hard time relying on internal funding, which further dampened the incentives for fiscal capacity building (López-Alves 2000).

Some Latin American states did face external rivals, but these wars were clustered in a few regions and of short duration, and for the most part were land-grabs by the more powerful neighbor.<sup>2</sup> Oddly enough, arbitrary country borders were rarely challenged. In spite of this lack of apparent external stimulus for war, Thies (2005) shows that long term antagonisms between countries (inter state rivalry) are positively correlated with measures of tax collection across Latin America.

In the civil war literature, the net effect of warfare usually goes against state capacity. If there is a civil war, the state is very weak to begin with, and the ruling elites, whose position relies pretty much on this sheer weakness, have no interest in boosting fiscal receipts as long as they foresee that the internal conflict will be won. And it is not only that, in interstate wars, fearful elites may have a greater propensity to cooperate, but also that the technology of warfare makes it easier to collect taxes and spend them when the contest is fought by well-established

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<sup>1</sup>During the wars of independence the colonial subjects did not perceive Spain as a common threat, as was the case with the Thirteen American colonies. In contrast to Britain, Spain emerged from the eighteenth century under financial strain and with its own war to fight on the other side of the Atlantic (Marichal 2007). Coping with rebellion within the empire was not Spain's priority at the time.

<sup>2</sup>The region of the La Plata basin shared by Argentina, Brazil, Paraguay and Uruguay; the coastal region shared by Peru, Bolivia, and Chile; and northern Mexico. See Centeno (2002, 37-44).

armies. In civil wars, warfare is usually not conventional, and counterinsurgency is less about destroying your enemy and more about winning over their potential supporters. Money, being important, is not the most important part of the winning equation in civil wars, as the successful use of self-defense militias attest (Jentzsch, Kalyvas and Schubiger 2015).

Our paper adds to this discussion by siding with the literature that problematizes the apparently negative effect of violence on state capacity. Slater (2010) has shown evidence that for Southeast Asia internal threats were a stimulus for state building. Toft (2010) has found that rebel victories in civil war guarantee a more stable postwar period and a lower chance of war recurrence (see also Fortna 2004). More generally, Blattman and Miguel suggest that “wars that end in outright military victory for one fighting side lead to a more stable peace and possibly stronger state institutions” (Blattman and Miguel 2010, p. 43). In a similar vein, our research shows that the same conflict can have a positive impact on some regions of the war-torn country, whereas imposing a large penalty on other regions of the same country. Leaving aside the across-the-board negative effects of civil war on the economy, some regions seem to be able to recover faster than others. Can the legacies of the dynamics of previous wars explain this variation?

The independence war in Mexico (1810–1821) is an excellent case to answer this question, because it carved out opportunities for systematic fiscal extraction by both the rebels, and the military and militias. Overall, the war left a legacy of decentralization of fiscal and military decision making previously centralized in Mexico City. Further, while regions controlled by the royalist inherited stronger local capacity to collect existing and new taxes, enforced by the newly created militias, in rebel-controlled regions colonial fiscal institutions were undermined, or at best, a parallel insurgent administration was in place. These fiscal changes set the stage for fiscal capacity building after the war.

We argue that the dynamic of the war—the fiscal and military strategies of each warring side and their penetration—endured by shaping political and economic elite negotiations in a context of devolution of power to the regions. In particular, in regions with an early penetration of insurgency and a subsequent strong presence of the military, later efforts to build fiscal capacity are more likely to be successful. In regions where the insurgency operates and maintains a

foothold, later efforts to build fiscal capacity are less likely to overcome the costly legacy of the conflict on the ground.

To test the argument, we analyze the variation in fiscal capacity both at the state and the municipal levels in Mexico after independence during the 19th Century. Our results demonstrate that states where the royalist army was able to extract resources regularly during the war had also higher fiscal revenues in 1900 than states where the insurgency operated. We also find that the ability to collect taxes is highest in states with no civil violence, that is in states where neither the rebels nor the army had presence during the war. Our state-level results are robust to controlling for the share of indigenous peoples. At the municipal level, we show that neither insurgent nor royalist presence are correlated with geographic variables, such as altitude and maize suitability. In addition, we find that municipalities with a strong royalist presence have more public servants in 1900 than insurgent-controlled municipalities. A nearest neighbor matching empirical strategy to deal with problems of omitted variation also supports these findings. Finally, we complement the statistical analysis with a couple of illustrations to trace the mechanisms through which early-century conflict had a lasting impact on fiscal capacity by 1900. In all, the empirical results as well as the narratives seem to provide support for our argument.

Our focus on Mexico is further justified for two reasons related to endogeneity concerns. First, all the regions that later became the Mexican republic were under the same political authority and institutions prior to the outbreak of insurrection. They had shared almost three hundred years of colonial rule under the Spanish crown. This allows us to avoid endogeneity issues that are present in other comparative work studying the origins of the state (for instance, in Europe one could imagine that some dimension of state capacity determined both that some protostates faced war or threat of war and were able to build up their military and fisco). This allows us to identify better the effect of the dynamics of war.

Second, the outbreak of insurrection was a product of circumstances exogenous to New Spain, in contrast to civil unrest in most other contexts, where internal struggles and grievances escalate into violence. In colonial Mexico, it was the unexpected abdication of Ferdinand VII and the resulting vacuum of legitimate power at the center that drove both peninsular Spain and the colonies into a dispute about how to govern in *vacatio regis*.

This paper is structured as follows. Section 1 describes the historical background and the types of conflict dynamic during the war. Section 2 describes the fiscal efforts of each warring side during the conflict. Sections 3 and 4 describe our data and results. The last section outlines the mechanisms through which civil war dynamics, we argue, impact fiscal capacity in the long run.

## 1 Historical background

We describe in this section the historical background and the type of conflict dynamics observed during the independence wars. We discuss first whether the onset of the conflict can reasonably be interpreted as an exogenous event to conditions in New Spain. Then, we single out the different dynamics undergone during the war period (1810–1821).

### 1.1 Onset of Rebellion

Leaving aside the short-lived historiographies that tended to teleologically characterize the processes of independence in Latin America as a struggle against colonial rule, the vast historiography about the wars of independence has shown that the struggle was a more complex one (Rodríguez 1998). In the two main American territories of the Spanish Empire, Mexico and Peru, most of the revolutionaries were seeking autonomy, not independence.

There are three canonical accounts of the onset of rebellion in New Spain, the first one focusing on external factors, and the two others emphasizing internal features of the colony. The first narrative highlights the two exogenous circumstances that set the stage for the political revolution taking place between 1810 and 1821 in New Spain. First, the abdication of Charles IV and Ferdinand VII in 1808 as a result of Napoleon’s intervention in Spain. Second, the institutional changes triggered by the application of the Cadiz Constitution in American territory between 1812 and 1814, and again in 1820.<sup>3</sup>

In 1808, suddenly and unexpectedly, power at the center of the Spanish empire broke down. Napoleon drew the Spanish royal family to Bayonne and announced the abdication of Charles IV and Ferdinand VII. The monarchy’s decapitation had repercussions first in the peninsula. In the

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<sup>3</sup>See Rodríguez (1993) and Serrano Ortega (2001).

absence of a king the *Junta Central* proceeded to call elections to choose the viceregal deputies that would represent New Spain in Cadiz. Disagreements arose in New Spain because the *junta* only called the *cabeceras de partido* (capital cities), and subject towns claimed they also had the right to participate. This ignited the first struggle between capital towns and regions about how government should be organized in *vacatio regis*.<sup>4</sup> Still, Spanish Americans reasserted their loyalty to Spain and their commitment to the overthrown king.

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

Thus, when the peninsular Spaniards overthrew the viceroy in 1808 for fear that he would side with the creoles in Mexico City, elements of this group started to openly push for autonomy within the empire. Affluent creoles resented that their pathway to political power was blocked by Europeans and sought to take advantage of the institutional standoff to craft a new balance of power with the metropolis. But autonomy for the creoles did not entail separation from the metropolis (Rodriguez 1998). This seemingly contradictory position came to the fore after the defeat of the 1810 Hidalgo-led revolt, which the creole economic elite initially supported but quickly backed away from after the pillage and brutality displayed by Hidalgo's untrained troops.

The third narrative proposes an alternative explanation for the onset of conflict that centers on hunger crises as the driving force behind the push for independence and the large number of recruits joining rebellion in short notice. Indeed, in large part the Hidalgo revolt waned on a number of short-term grievances against the authorities driven by the subsistence crisis in

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<sup>4</sup>The historiography also highlights the role of Spain in the demise of the empire, especially after the first restoration of Ferdinand VII in 1814. Rather than propose a workable political solution, Spanish policies sought only to crush the rebels by force (Costeloe 1986). Spanish policies helped in the disintegration of the empire by making it impossible to rebuild the pacts and coalitions on which colonial rule depended (Adelman 2006).

1808–1810, which increased the prices of foodstuff and moved many communities to the verge of starvation. As it had already happened in the last quarter of the 18th century, subsistence crises triggered local revolts, but they were usually self-contained, with little appetite for larger institutional reform. This time it was no different, and the militancy of the lower classes rarely looked beyond seeking local revenge and redressing food scarcity. Further, as Hamnett (1986) has documented, the onset of the insurgency was not necessarily related to the subsistence crisis. Although large tracts of Mexico were affected by the crisis, the Hidalgo rebellion spared some of those areas, such as the Yucatan peninsula, and took root in others, such as Michoacán, where the scarcity was less acute.

By the same token, the map of the rebellion did not seem to be uniquely determined by long-term economic factors. The literature on civil wars has focused on weak state capacity as the main determinant of conflict onset, with rebels looking for safe havens to trigger the insurgency (Fearon and Laitin 2003). This does not seem to be the case in New Spain, as Hidalgo and his army relied more on networks of supporters to spread the insurgency than on mere structural factors. Thus, the rebellion broke out in an affluent part of the country, the so-called Bajío, but moved quickly to relatively poorer surrounding areas such as Michoacán and Pacific Mexico (later known as Guerrero). Neither did the presence of indigenous populations in the area seem to explain the onset of the rebellion, because indigenous peoples fared prominently in both insurgent and counterinsurgent armies and most remained by and large aloof from the conflict (Hamnett 1986).

In all, it is safe to argue that the ultimate cause of conflict onset was exogenous—the collapse of the Spanish monarchy in Europe—and that the rebellion did not proceed along structural factors such as wealth or indigenous presence. In the data section we perform tests at the local level showing that geographic conditions (altitude and maize suitability) are not correlated with either insurgent or royalist presence.

## 1.2 Dynamics of conflict

Unlike most civil wars (Butcher 2015), the revolt in New Spain broke out in the Bajío region, one of the most economically dynamic areas at the time in central Mexico. But violence did not follow the wealth trail: it basically spared the two most opulent cities of New Spain—Puebla

and Mexico City. In addition to not showing a clear correlation with wealth or the presence of natives, violence spared several regions of Mexico during the 10 years of civil war prior to the country proclaiming its independence from Spain in 1821. In this subsection we describe the three main dynamics of the war. The next section derives implications for the impact of war dynamics on fiscal capacity.

The conflict broke out in Dolores (Guanajuato) in September 1810, when father Hidalgo both declared American autonomy and swore loyalty to ousted Fernando VII, king of Spain. His rebellion won quick traction and spread over several key towns around the Bajío, with Guanajuato, Querétaro and Guadalajara as his main victories. Taken by surprise, it took some time for the viceroyalty to reorganize the army and start fighting back. This initial period of the conflict ended with the failure of Hidalgo to take Mexico City and his ultimate defeat in the Battle of Puente de Calderón (Jalisco) against the royal troops commanded by later viceroy Calleja.

This first stage was characterized by open battles between the insurgent army and the renewed royal army, and ended with the crushing of the insurgency in 1811. Hidalgo, well aware of the unreliability of his soldiers, decided to step back from attacking Mexico City and to concentrate his troops back in the Guadalajara-Guanajuato corridor, but he was encircled by Calleja, defeated, and forced to flee to the North. Less than a year after the so-called *grito* (cry) of Dolores, Hidalgo was arrested and killed in Chihuahua, bringing to an end the opening phase of the rebellion.

After the captures of Allende, Hidalgo and Aldama, father Morelos took the lead in spearheading the second stage of the insurgency. With a clear military vision and a masterful capacity to attract followers, Morelos was forced to move the conflict from the Bajío axis, where royal armies had reorganized and succeeded in securing their main urban dwellings, to Mexico, Puebla and Michoacán. His tactics relied much on irregular warfare, carrying out hit-and-run attacks that granted his units the advantage of surprise. Besides, Morelos was able to conquest important towns such as Acapulco and Oaxaca, but failed to attack the city of Puebla, where he could have gained resources, support and legitimacy to build a parallel insurgent administration.

This incapacity to raise alternative institutions, also fueled by dissent within the main leaders of the movement, cost the insurgency movement dearly. Further campaigns to enlarge the

rebellion to Veracruz and Oaxaca lost momentum once Fernando VII was restored as king of Spain in 1814, which delegitimized the cause for full independence. Morelos was finally arrested and executed in December 1815.

The final stage of the war was characterized by the existence of irregular bands of rebels roaming across countryside areas of Guerrero, Michoacán and Veracruz, but with little capacity to harm the empowered colonial state. The war ended when an influential section of the creole officialdom, led by Iturbide, decided to sign a pact with the rebels to declare independence in the face of the liberal *coup d'état* in Madrid in 1820 and the reinstatement of the liberal 1812 Constitution. Many royal army officials—even Spaniards—switched sides and independence was declared without major battles nor bloodshed in 1821.

We therefore envision three different dynamics of the conflict during the war of independence in New Spain. First, there are regions with an early penetration of the insurgency and a subsequent strong and permanent presence of the army—such as most of the Bajío, Jalisco, and Puebla. Second, there were areas where the insurgents kept a foothold and operated during most of the conflict—Michoacán, Guerrero, Oaxaca and Morelos would epitomize this. And finally, there were large tracts of the country where the insurgency and the army remained largely absent. The border states Coahuila, Sonora, Tamaulipas in the North, and Yucatan and Chiapas in the South would fall in the latter category.

## **2 Why does conflict dynamic impact fiscal capacity building?**

We argue that the war dynamics endured by shaping political and economic elite negotiations after independence at the local level in a context of devolution of power to the regions. The warring side in control of a region determined the extractive/fiscal legacy of the war and whether the local colonial elite remained in place or whether a new insurgent elite, typically allied with the peasants, also had political voice. The war left a legacy of decentralization of fiscal and military decision making, previously centralized in Mexico City. The regions that the royalists managed to control until the end of the war, inherited a stronger local elite able to collect taxes and mobilize a militia. The regions with more insurgent presence inherited more conflict among elites (insurgent and colonial) and either undermined fiscal institutions or, in the best

scenario, inherited a parallel fiscal, insurgent administration. Accordingly, at independence, in some regions insurgent leaders gained formal political authority while in others the colonial elite remained in place.

Needless to say, both sides relied to some extent on the confiscation of property, forced loans, extraordinary contributions, and looting of local tax funds (Moreno Gutiérrez 2014, 137). Yet, the independence conflict carved out opportunities for fiscal extraction by both warring sides. A new local fiscal administration was developed by the royalists to finance the local militias. The traditional historiography, in contrast, portrays an anarchic insurgency that relied on looting, pillage and sometimes loans Alamán (1985). Recent scholarship shows that insurgents did organize a fiscal structure that included specific taxes and some administration under Morelos' leadership (Serrano Ortega 2008), but these systems of extraction did not last and largely vanished after Morelos' death. These institutional efforts set the stage for fiscal capacity building after the war. We describe below the fiscal underpinnings of each side, insurgents and royalists.

## 2.1 Fiscal institutional changes during the wars

Even though prior to the independence wars colonial Mexico had a network of treasuries (*cajas*) well connected to the central treasury in Mexico City and transferring large amounts of tax revenue, two circumstances severely weakened the link between the regional treasuries and the central *caja*. First, the wars of independence, which increased insecurity in the roads and the risk of sending silver to the Mexico City mint. Second, the liberal reforms mandated by the Cadiz Constitution, which entailed a devolution of power from the center to the regions.

The liberal Constitution of Cadiz changed the structure of government in New Spain. Administration was now structured at three levels: municipal, provincial and imperial, and their respective authorities were selected by an electoral process. All males were called to participate, which transformed the previously vertical power relation across territories. Municipal cabildos multiplied and implied a transfer of powers from the central state and capital cities to the local communities. In addition, constitutional city councils were created with new judicial, fiscal and electoral faculties.<sup>5</sup> Both sides used to their advantage the new liberal context that sought equality among all citizens and an equal share of the fiscal burden.

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<sup>5</sup>Serrano (2001, 18) calls this a change in the “territorial hierarchy of the colonial political regime.”

## Royalists

A combination of standing army and militias were used by the royalist forces to confront the insurgents. The army in New Spain by 1810 was in dire conditions.<sup>6</sup> The regular army consisted of some 7000-8000 effective members and some provincial regiments (Sánchez Santiró 2013, 98-99). When the rebellion started in September 1810, the army was unable to crush the movement. The viceregal government adapted its military strategies to the war founding first so-called “patriotic units” (regional garrisons) in the main cities recaptured from the insurgents. And later called for a general mobilization of local militias to impede the expansion of the rebels. In this way, both the urban and rural populations were mobilized against the rebellion.

The financing strategy was also dual. The Royal Treasury financed the army by means of three main sources of revenue: taxes, monopolies and loans. However, the coffers of the central state suffered as a result of the rebellion (Serrano Ortega 2007). In 1811, tobacco revenues had practically disappeared, the internal sales tax—the *alcabala*—was difficult to collect, and little was coming in from *amonedación* (minting) (Serrano Ortega 2007, 26-27). The link between the regional cajas and the main caja in Mexico City was severely weakened: most of the resources collected stayed in the regions. Indeed, due to the increased uncertainty in the roads, minting houses were created during the rebellion in the main silver producing regions (Marichal and Carmagnani 2001, 295-96). This crisis situation led the fiscal authorities to implement between 1811 and 1816 extraordinary fiscal measures.<sup>7</sup> One such measure was the *contribución directa universal y extraordinaria* (direct and universal extraordinary contribution)—a tax on income—dictated by the Cadiz Constitution but justified in New Spain as a temporal measure responding to the civil conflict.

The Calleja Plan, devised by army general Felix Calleja and implemented in 1811, organized an extensive network of *juntas de arbitrios* throughout the territory to provide for the local financing of militias. In doing so, the plan sought the cooperation of local elites in the war effort. The *juntas de arbitrios* was a new fiscal institution that gave fiscal authority to local communities. As mentioned above, the Cortes de Cadiz had already initiated a decentralization of the administration in colonial territory. In line with this, the plan authorized the collection

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<sup>6</sup>See Ortiz Escamilla (2014) and Sánchez Santiró (2013).

<sup>7</sup>See Sánchez Santiró (2013, 105-107) for a detailed description of the new measures.

of taxes and the creation of militias by the *juntas* at the community level. (Both of these prerogatives resided previously in the capital city of each province.) Local army commanders were allowed to enforce the collection of taxes and even impose martial law. The *juntas* were authorized to collect new taxes—such as the direct contributions and the *pension de fincas* mandated by the *Cortes de Cadiz*—and other taxes previously collected by the Royal Treasury, which due to the wars had come into disarray. According to Serrano Ortega (2007, 30), the collection of the contributions in 1812 was relatively successful, although it came not without protests.

In 1814, with the return of King Ferdinand VII, the Constitution of Cadiz was abolished and administratively New Spain was supposed to go back to the state of affairs prior to 1808. However, because of the continued rebellion the viceroy ordered the *contribución general directa* to be collected as it was instructed previously due to the scarcity of fiscal funds. Serrano (2007, 40-42) provides suggestive evidence that they were indeed collected in 1816–1817 and, after 1817, in those regions where the fight between insurgents and royalists had ended (the intendancies of Michoacan, Guanajuato and Mexico were excepted because they still faced civil unrest).

As a manifestation of the impact of local militias led by military officers, when the Constitution of Cadiz was reinstated in 1820, many city councils called for their right to supersede military-led local militias with new, voluntary ones, where officials would be popularly selected. These requests notwithstanding, the military kept tight control of the militias up to the end of the conflict (Moreno Gutiérrez 2014).

## **Insurgents**

The first stage of the war led by Hidalgo lasted less than a year. The fiscal measures decreed by Hidalgo were short-lived. Hidalgo abolished the Indian tribute and the *diezmo* (church tithe), and reduced the *alcabala* (internal trade tax) to obtain support for the cause.<sup>8</sup>

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

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<sup>8</sup>These strategies were in fact quickly followed also by some local military leaders (Moreno Gutiérrez 2014).

and also abolished all other ethnic exceptions: all had to pay now the (reduced rate) *alcabala* and the tithe (on agriculture), including the Indians.<sup>9</sup> During the colonial period the Indians enjoyed the special privilege of not paying the *alcabala* nor the tithe (except on products from Castile, e.g. hens). Further, like the royalists, the insurgents dictated new direct taxes: the direct contribution on production and revenues.<sup>10</sup> A *capitación* (a head tax), based on demographics not income, was also attempted in some regions. However, Serrano Ortega (2008, 64) argues that it was soon set aside by the Chilpancingo Congress, an institution of the insurgent government.

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

Were the decrees implemented and the taxes collected? In the regions controlled by the insurgents they managed to create a parallel administration to obtain resources. This was in parts of Guanajuato, Valladolid (Morelia), Oaxaca, Puebla, Veracruz and what is today Morelos and Guerrero.<sup>11</sup> Not surprisingly, however, the Indians were more willing to embrace the abolition of the tribute than the payment of the new taxes. The implementation of the new taxes was slow and many refused to pay in the name of “tradition” (Serrano Ortega 2008, 66). Compared to the system enacted by the royalists, this structure was less able to rely on traditional taxation.

In the end, in terms of the amount of resources obtained, the main sources of revenue for the insurgents were the *fincas nacionales* and “taxes” obtained by taking control of trade

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<sup>9</sup>See Serrano Ortega (2008, 51-57).

<sup>10</sup>As already mentioned, and highlighted by Sánchez Santiró (2016), many of these new fiscal measures were announced as extraordinary and temporary by both insurgents and royalists. As such, these new equal and proportional taxes were not rooted on liberal ideas, but justified simply by the necessity of the war.

<sup>11</sup>See Serrano Ortega (2008, 73) and Archer (2005).

routes.<sup>12</sup> The *fincas* were properties confiscated or seized from those who supported the royal government. To avoid the early rampage by insurgents, Morelos clearly mandated that property could be confiscated only from those supporting the royalists and had to be authorized by the chief of the expedition (Serrano Ortega 2008, 68). The insurgents obtained resources from the *fincas* by directly administering them or by leasing them to others. In some cases, the insurgents did not take over but offered protection to *haciendas* in exchange for a fee.<sup>13</sup> To administer the properties, the insurgents organized a system of functionaries who overlooked the properties and transferred the money to the central treasury of the insurgent movement (Serrano Ortega 2008, 71-72). Neither of these sources of funds relied on a fiscal traditional structure as much as it did in the case of the royalists (although the royalists also obtained resources from controlling trade routes and offering protection).

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

Brought together, these dynamics of the conflict yield three expectations. First, municipalities and states at large where royalist troops maintained a permanent presence should show stronger measures of fiscal capacity. In contrast, our second expectation is that areas where irregular rebels operated until the end of the conflict should experience less successful efforts to raise taxes and build a bureaucracy. Finally, we are agnostic about the areas unaffected by conflict, which overlap with the border territories. We proceed now to describe the data and

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<sup>12</sup>Serrano Ortega (2008) and Jáuregui (2010, 254).

<sup>13</sup>Virginia Guedea (1996) describes how in the region of Puebla insurgents protected the land and trade of landowners as long as they cooperated financially with the movement.

present the results, which prove the legacy of war on fiscal capacity. The last section discusses the potential mechanisms accounting for persistence.

### 3 Data

We pursue a twofold empirical strategy, with data at the state and municipal level for Mexico. Our outcome of interest, local state capacity, is measured in the first decade of the 20th Century, while the war dynamic data is for the period 1810–1821. The territorial division of Mexico underwent transformations during the 19th century. The Constitution of 1824 declared Mexico a Federal Republic with 20 states and 3 territories (INEGI 1997). In 1849, Guerrero was created, and in 1867 Hidalgo and Morelos were also parceled out from the state of México. By 1900, there were thirty states in the Mexican republic.<sup>14</sup>

For the municipal analysis we focus on the states in the central corridor of the country. These were the states where most of the conflict took place, even though there were municipalities with no conflict in that corridor. We also focus on these regions because their geographic characteristics (discussed below) are more similar than those of the northern and southern states of the country. There are 1200 municipalities in the 20 states along that central corridor.<sup>15</sup>

#### 3.1 Fiscal capacity

Some types of taxes require more administrative capacity than others to be collected. Soifer (2015, p. 162) classifies taxes according to (1) the extent to which the state apparatus has to be present throughout the territory to collect a specific tax and (2) the difficulty of assessment and extracting revenue. Income, land value, and wealth taxes are the ones that require higher state capacity.

The measure of fiscal capacity at the state level focuses on (2) above: the ability of each state to obtain revenues from its population. We utilize data for total fiscal revenue as well as

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<sup>14</sup>The states: Aguascalientes, Campeche, Coahuila, Colima, Chiapas, Chihuahua, Durango, Guanajuato, Guerrero, Hidalgo, Jalisco, México, Michoacán, Morelos, Nuevo León, Oaxaca, Puebla, Querétaro, San Luis Potosí, Sinaloa, Sonora, Tabasco, Tamaulipas, Tlaxcala, Veracruz, Yucatán, Zacatecas; and the territories: Baja California and Tepic. Of these, only twenty six are included in our analysis due to data availability. For the state level analysis, we do not include Mexico City because it was not a state but the seat of the federal government.

<sup>15</sup>Aguascalientes, Distrito Federal, Colima, Guanajuato, Guerrero, Hidalgo, Jalisco, México, Michoacán, Morelos, Nayarit, Nuevo Leon, Oaxaca, Puebla, Querétaro, San Luis Potosí, Tlaxcala, Veracruz, Zacatecas.

for direct taxes. Our measure of direct taxes includes rural and urban land value taxes, taxes on capital invested in commercial and industrial ventures, on wages and a capitation tax.<sup>16</sup> We coded the data from Villers (1911) who provides detailed fiscal data by state for the period 1905-1909. We averaged 1905 and 1909.

Our measure of fiscal capacity at the municipality level relates to (1) above, that is, the size of the state apparatus. We use the measure of total public servants from the 1900 Population Census per 1000 people.<sup>17</sup>

### 3.2 Type of conflict dynamic

To construct an index of type of conflict dynamic we aggregate information on all the localities with insurgent and royalist presence between 1810 and 1821.<sup>18</sup> We identify the municipalities to which each locality belongs and create a dummy variable that equals 1 if there is at least one locality in the municipality with insurgents, and a corresponding dummy variable for royalist presence. For the state-level analysis, we aggregate over municipalities and obtain the proportion of municipalities with insurgent presence for each state. We weigh each municipality by its population in 1900.<sup>19</sup> We aggregate the localities with royalist militia presence in the same fashion. Finally, we match the localities to their municipality and state in 1900 in order to match the observations with those of the state-level fiscal data.

Our theoretical argument refers to the dynamic during the conflict between the share of insurgents and of royalists. We thus created an index for conflict type with three categories: (1) states with no violence; (2) states where the royalists dominated the insurgents, and (3) states with a high insurgent presence, even if also with royalist presence. Figure 1 shows the relation between the share of insurgents and the share of royalists.

The raw data at the state level for mean fiscal capacity by conflict dynamic type go in the direction of our argument: the mean for fiscal capacity in states where the royalists were dominant is larger than the mean for states where the insurgents had a large presence, 0.94 versus 0.73 using average total tax revenues per capita and 0.81 versus 0.61 for average direct

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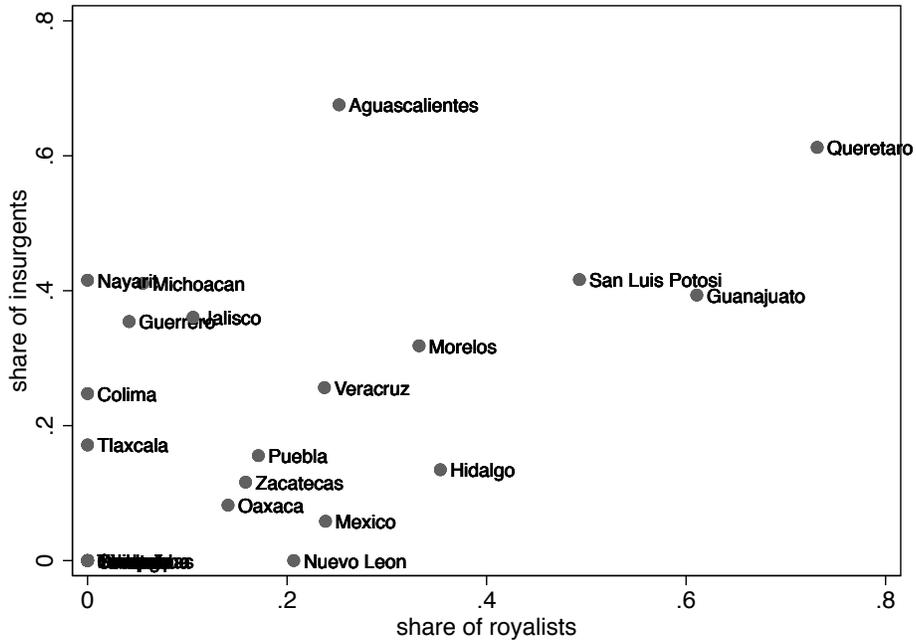
<sup>16</sup>Predial rural y urbano, patente, giros industriales, sueldos y capitación.

<sup>17</sup>The source for population is the 1900 census for both the municipal and state-level data.

<sup>18</sup>The data is from Ortiz Escamilla (2014) Tables I.1 and II.2.

<sup>19</sup>There is no municipal level population data for 1810.

Figure 1: Insurgent and royalist presence



fiscal revenues per capita. The mean for the states with no civil violence is 1.60 and 1.01, respectively.

### 3.3 Controls

A third variable could be driving both fiscal capacity building during the 19th century and the independence war dynamic in 1810-1821. In particular, one might wonder whether “rich” regions in 1810 were more likely to be controlled and protected by the royalists and also more likely to develop higher fiscal capacity than “poor” regions. To account for this we measure median altitude and suitability for growing maize for each municipality.<sup>20</sup> Tropical countries, like Mexico, have better conditions for agriculture in regions with relatively higher altitudes. Maize was the major crop during the colonial period.<sup>21</sup> Table 1 shows that only altitude is correlated with presence of royalists, and thus we include altitude as a control variable. Insurgent presence, however, is not correlated with either maize suitability or altitude.

<sup>20</sup>We obtained median altitude and suitability from the Global Agro-Ecological Zones data. Altitude is measured in meters while maize suitability is measured in tons per hectare, both averages for 1961-1999. <http://www.fao.org/nr/gaez>.

<sup>21</sup>Mining was probably the major economic activity during the colonial period. We are in the process of obtaining municipal level data for mineral wealth. We do not have income data at the municipal or state level.

Table 1: **Balance table for Insurgent and Royalist presence**

	(1)	(2)	(3)	(4)
	No conflict	Royalists	Insurgents	Royalists and Insurgents
Maize Suitability	1.021 (0.705)	1.169 (0.684)	1.041 (0.558)	0.979 (0.536)
Median Altitude (km)	1.493 (0.801)	1.740 (0.688)	1.470 (0.837)	1.628 (0.549)
Observations	736	83	160	61

Note: The table demonstrates means with standard deviations in parentheses across types of war dynamic. We test the statistical significance of the pairwise difference in means. Altitude is statistically significant for royalists against all other groups, and suitability for royalists against insurgents only, at the 99% level.

The number of indigenous peoples could be associated with insurgent presence and low fiscal capacity development. Indigenous peoples may be mobilized more easily for insurrection. Also, regions with a large indigenous population are typically less developed, even today. We thus include the share of indigenous people in 1900, at the state level. To the extent that indigenous population was relatively stable across states, the indigenous share also proxies for indigenous population in 1810.<sup>22</sup>

We also include the literacy rate in 1900 as a proxy for the level of economic development of a region. Regions with higher economic development will likely have higher fiscal capacity.

We run the following regression with state-level data:

$$y_i = \text{constant} + \beta_1 RC_i + \beta_2 IC_i + \gamma X_i + \epsilon_i \quad (1)$$

where  $y_i$  is fiscal revenue in state  $i$ ,  $RC_i$  is the category for royalists dominating the insurgents,  $IC_i$  is the category for high insurgent presence, and  $X_i$  is an indigenous share control.

To account for variation at the municipality level, we perform the following empirical exercise:

$$y_m = \text{constant} + \beta_1 R_m + \beta_2 I_m + X_m \gamma + \epsilon_m \quad (2)$$

where  $y_m$  is number of public servants (or literacy) in municipality  $m$ ,  $R_m$  takes a value of 1 if municipality  $m$  had presence of royalists,  $I_m$  takes a value of 1 if municipalities  $m$  had

<sup>22</sup>The source for indigenous share is the proportion of native language speakers from the *Estadísticas Sociales del Porfiriato* (1956, México: Secretaría de Economía, Dirección General de Estadística).

insurgents presence, and  $X_m$  is a vector of controls. We include median altitude, maize suitability and literacy rate of municipality  $m$  as controls. We cluster standard errors at the state level.

## 4 Results

Table 2 documents a statistically significant difference on total fiscal revenue between states with any type of conflict relative to states with no conflict (the latter captured in the constant term). The negative coefficient on royalist presence indicates that total fiscal revenue is lower in regions with royalist presence than in regions with no civil conflict. Similarly, total fiscal revenue is lower in regions with insurgent presence than in regions with no civil conflict. Interestingly, however, the coefficient on royalist presence is smaller (and statistically significant) than the coefficient on insurgent presence, indicating that total fiscal revenue is even lower in regions with high insurgent presence than in regions with high royalist presence. In Table 2, column 2 proves even further the relationship between war and fiscal extraction, since it focuses only on direct taxation. One could claim that total taxes are dependent on many other factors, such as the availability of commodities; direct taxes, however, hinge more on the capacity of the fiscal bureaucracy to make citizens pay. The result indicates that the difference between conflict-proof states and those with past royalist presence is still positive although not statistically significant, whereas the difference between these states and the rebel-ridden states is negative.<sup>23</sup>

Figure 2 demonstrates the predicted values of total fiscal revenue for each type of conflict dynamic. The figure shows a negative relationship between conflict dynamic and fiscal capacity. States where the insurgency took hold are less able to collect total fiscal revenue in the early 1900s than states where the royalists were able to take a foothold. The highest total fiscal revenue is collected in states where there was no civil violence during the independence wars, and the lowest total fiscal revenue is collected in states where the insurgency took hold.

To exploit the variation at the intra-state level we now show the results for the analysis at the municipality level. The above results only take account of variation at the state level. Our data about the dynamics of the independence war is at the locality level, so we can exploit more

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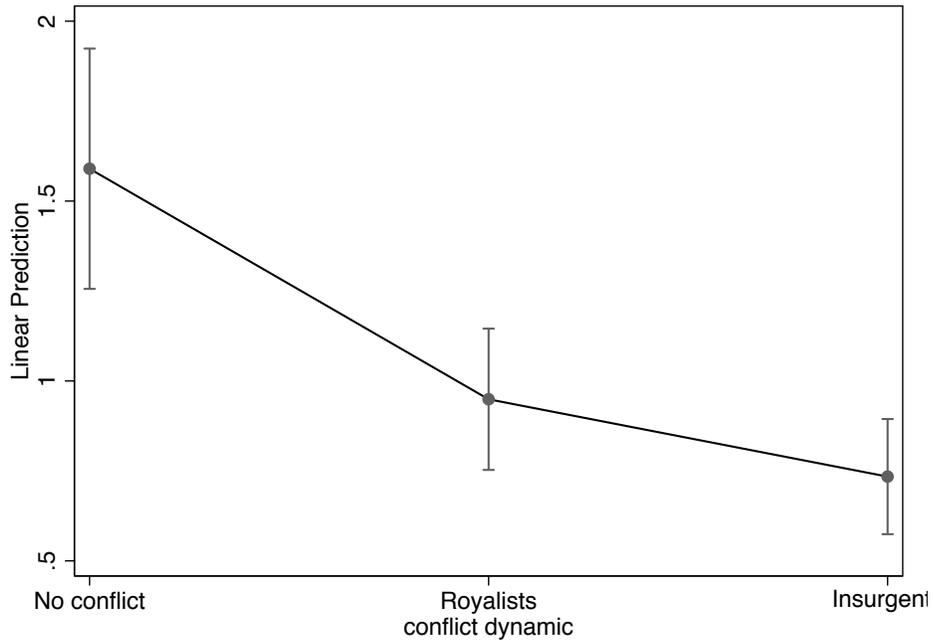
<sup>23</sup>We additionally ran some robustness checks to test whether our main results are driven by omitted variables antedating the onset of the war. We controlled for the number of indigenous peoples, the number of large farms, the number of mines, and population in 1800 in every state and the results held, even if losing a considerable number of observations. Data for all these variables come from Sánchez Santiró (2013).

Table 2: **Effect of Conflict Dynamic on Per Capita Fiscal Revenues**

	(1) Total Fiscal Revenue	(2) Direct Fiscal Revenue
High Royalist Presence	-0.641*** (0.192)	-0.225 (0.175)
High Insurgent Presence	-0.856*** (0.182)	-0.420** (0.179)
Indigenous Share	0.004 (0.004)	-0.003 (0.003)
Constant	1.537*** (0.193)	1.067*** (0.193)
Observations	26	26
$R^2$	0.602	0.265

Note: Dependent variables are per capita; \* sig at 10 percent;  
 \*\* sig at 5 percent; \*\*\* sig at 1 percent. OLS with robust standard errors.  
 See the text for a description of the variables and data sources.

Figure 2: **Linear prediction for Total Fiscal Revenue per capita (95% CIs)**



of that variation using municipality as unit of analysis. We do not have disaggregated data for fiscal income, but we have data for the total number of public bureaucrats and literacy rates in each municipality.

Table 3 shows that while royalist presence has a positive effect on the total number of public servants, insurgent presence has a negative effect. The number of public servants is higher in regions with royalists than in regions without royalists, and the effect is statistically significant. Notice that some of the observations in the category “no royalist presence” include regions with insurgent presence (and also regions with no civil violence). Insurgent presence relative to regions with only royalist presence or no violence have a negative but not significant effect.

**Table 3: Effect of Conflict Dynamic on Bureaucrats**

	(1) Public Servants per 1000	(2) Public Servants per 1000	(3) Public Servants per 1000
Royalist presence	0.554* (0.302)	0.655** (0.281)	0.655** (0.282)
Insurgent presence	-0.161 (0.155)	-0.181 (0.173)	-0.181 (0.176)
Literacy rate	7.640*** (1.736)	7.648*** (1.998)	7.641*** (2.040)
Median altitude (km)		-0.471*** (0.153)	-0.471*** (0.154)
Maize suitability			0.005 (0.167)
Constant	0.646*** (0.178)	1.350*** (0.326)	1.346*** (0.393)
Observations	1040	1040	1040
$R^2$	0.114	0.151	0.151

Note: OLS with standard errors clustered at the state level.

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

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

The results are in line with what we found at the state level, to the extent that royalist presence appears to be “better” than insurgent presence in terms of fiscal capacity outcomes. However, at the municipality level, conflict had a positive effect on state building in regions controlled by the royalists, as opposed to a negative effect, which we found at the state level. Total fiscal revenue is overall higher in states with no conflict. In contrast, at the municipality level, regions with no violence have less public servants than regions where the royalists domi-

nated the insurgents. Recall, however, that the municipality analysis is constrained to only the 18 states in the central corridor of the country, which were directly involved with the conflict. This result, thus, does not include the large regions in the north and south that largely spared the war. In that light, the result suggests that, if in the region of conflict, a municipality was able to develop more fiscal capacity if involved directly in the conflict than if not involved.

We also include a nearest neighbor analysis in Table 4.

Table 4: **Average Treatment Effect of Conflict Dynamic on Bureaucrats**

	(1) Public Servants per 1000	(2) Public Servants per 1000	(3) Public Servants per 1000
ATE			
Royalist presence	0.895*** (0.343)		
Insurgent presence		-0.019 (0.118)	
Any conflict			0.654*** (0.179)
Observations	1040	1040	1040

Note: Nearest neighbor matching on geographic distance, altitude and suitability.  
 \* sig at 10 percent; \*\* sig at 5 percent; \*\*\* sig at 1 percent. Robust standard errors.  
 See the text for a description of the variables and data sources.

## 5 Discussion: How legacies persist

This paper contributes to the literature by showing that specific dynamics within armed conflicts may have opposite effects. In line with research highlighting the negative impact of violence over state capacity, we found that states unaffected by the war of independence had the best per capita record of fiscal capacity decades later. But strikingly enough, states and municipalities that royalists strove to maintain under their side during the war were on average much better than those where insurgents had a presence until the end of the conflict, regardless of their economic and demographic conditions. In this sense, war furthered fiscal capacity but also hampered it.

The obvious question remaining is how a war fought in the early 19th century had an impact on fiscal outcomes decades later. We explore in this final section a specific mechanism related

to how elite cohesiveness is facilitated during wartime. In a nutshell, elites in royalist areas shaped the new local institutions and took advantage of previous practices of fiscal extraction to feed the treasury. In contrast, insurgents taking over local power faced elite resistance and their extractive tools were poorly equipped to peacetime.

Two features of the war of independence are key for the argument: decentralization and a negotiated termination. The eleven years of civil conflict only deepened the devolution of power from the center to the provinces which began with the Cadiz liberal reforms, the measures enacted by the viceregal government in response to the civil conflict, and the war itself. As documented above, fiscal authority was now in the hands of local authorities. These local elites also had mobilized militias in response to the war. As a result, conflict and negotiation among different levels of the government hierarchy remained inherent to state building in Mexico after independence.

In addition, the end of the war was negotiated rather than a result of a clear military victory for one side. With the restoration of the Cadiz Constitution in Spain in 1820, many top military officials decided to opt for independence, changed sides and negotiated with the rebels. To the extent that a military victory makes focal the leader or group around which to coordinate state building efforts, a negotiated outcome will not bring about the expected cooperation. That is, even if the wars shift attention away from issues of distribution and toward common interests,<sup>24</sup> the elites may not agree on who should hold power at the center, hindering state building efforts (Centeno 2002, p. 140-41; Arias 2013).

In this context of fiscal and military decentralization and negotiated independence, we concur with other authors, such as López-Alves (2000, 17-18), Soifer (2015) and Slater (2010), that the role of war mobilization on shaping elite alliances was critical for state formation. Like other armed conflicts, the war of independence required solving problems of collective action. Groups of rebels relied on networks and organization to sustain participation and cooperation with funding efforts. Local political bosses and military leaders organized the mobilization and funding of the local militias to complement military forces against the rebels. The fiscal and

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<sup>24</sup>The traditional mechanism in the literature through which civil and interstate war can have an effect on state capacity is by drawing attention to common interests. See, for instance, Besley and Persson (2009, 2011), Kiser and Kane (2001) and Levi (1988).

military legacy of collective action that resulted from the conflict, whether insurgent or royalist, can thus help or hinder the elites' alliances required to increase the state's ability to tax.

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

The region around the town of Dolores, in the north of Guanajuato, was not fully under the royalist side until 1818, when militias were organized and there is evidence of collection of *alcabalas* by royal authorities (Serrano Ortega 2015, 41). Insurgents had before tried to access the area in the search of resources from both mining sites and productive agricultural landholders in the Bajío region, considered the “granary” of New Spain. By 1819 the insurgents were mostly fleeing the state. By the end of the war, in 1821, the state had been pacified, and was in control of the militias and the royalist army. The fiscal organization to fund the militias locally (described section 2) was also in place.

In contrast, Oaxaca and Guerrero remained in control of the insurgents. No militias were organized and the official fiscal structure was in disarray, given the rebels' reluctance (or incapacity) to organize a permanent system of extraction. Increasing tax rates or creating new taxes was also contrary to their political agenda, further undermining the fiscal capacity of the state. The new political leadership relied for support on the network of rural poor mobilized during the rebellion. In the municipalities that later became the state of Guerrero, for instance, Juan Alvarez allied with the peasants to displace the colonial elite as the dominant group.<sup>25</sup> These leaders are thus typically against taxes inherited from the colonial period. Tensions between the mobilized new political class and the traditional economic elite also led to unwillingness of economic elites to cooperate with state building.

The tension originated by the composition of the local, founding elite repeatedly surfaced over the 19th century in Mexico, adding more fuel to the divide between liberals and conservatives. In this sense, one could claim that the main consequence of the war of independence was to reset

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<sup>25</sup>See Guardino (1991) for the case of Guerrero and Henkel (1999) for the case of Oaxaca.

the political and economic elite of the country. By selecting different types in different areas, it contributed to setting the conditions for state capacity building for the rest of the century. It is still to be investigated whether this cleavage died out with the Mexican Revolution that broke out in 1910, or whether its effects travel beyond this watershed period. One way or another, it is worth finding out if the Revolution also had lasting consequences on outcomes in contemporary Mexico.

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