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Extractive Institutions and their Effect in the Long Run Economic Development, the Case of Huasipungo in Ecuador

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Abstract

What is the effect of extractive institutions on a country's economic performance? This research aims to test the theory of Acemoglu and Robinson, which predicts low economic development in the presence of extractive institutions, that is, those that concentrate power in the hands of a small elite, present expropriation risks for the majority, and discourage investment and economic growth. Using Process Tracing, I studied the extractive institution of 'Huasipungo,' a precarious work system typical of the Ecuadorian Andes, suggesting a causal mechanism that relates it to the poor economic performance of the country. The evaluation of pieces of evidence empirically found strongly suggests the presence of a causal mechanism that enforces the persistence of a sub optimal institution due to its short-term benefits to the landed elites: near-zero salaries, dominant relations, power asymmetry, and an apparent blockage to innovation and market institutions. Hence, the incentives that the extractive institution of Huasipungo presented for the landed economic and political elites, like near zero labor costs, induced the landlords to maintain suboptimal institutional trajectories because of the costs of change, assuming a path dependence dynamic.

Keywords: *Institutions, Economic Development, Process Tracing, Latin America, Ecuador*

INTRODUCTION

Extractive institutions, characterized by the concentration of power and resources in the hands of a few elites, have been linked to poor economic performance and underdevelopment in many countries. These institutions, which prioritize the extraction of wealth over sustainable economic growth and social equity, often perpetuate cycles of inequality and hinder the formation of inclusive political and economic systems. Scholars such as Acemoglu and Robinson (2012) argue that such extractive arrangements create barriers to innovation, investment, and productivity enhancement, thereby stifling long-term economic progress.

The persistence of extractive institutions often finds its roots in historical contexts of colonization or elite dominance, where legal and economic structures favor the elite's ability to maintain control over resources and labor. This perpetuates economic inequality and restricts opportunities for sustainable growth and development (North, 1991), specifically impacting local communities and economies, a subject of ongoing research and debate.

In Latin America, a region marked by a history of colonial exploitation and post-colonial oligarchies, extractive institutions have profoundly shaped economic and social landscapes. These institutions range from exploitative labor systems like encomiendas and haciendas to contemporary forms of rent-seeking and corruption that undermine effective governance and public trust (Engerman and Sokoloff, 2002).

During the 19th and early 20th centuries, most Latin American economies relied on additive and destructive modalities that failed to extend benefits beyond the export sector. These modalities often competed for labor with other export activities and marginalized non-export sectors. To maintain low labor costs, employers reinforced extractive institutions like Huasipungo, perpetuating forms of colonial-era labor such as huasipungo in Ecuador, tenants in Chile, or tenant farmers in Mexico—characterized by minimal or no remuneration.

This type of extractive institution exacerbated economic inequality, stifled the development of a domestic market and national industries, reinforced dependency on European and American industrial centers, and

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impeded technological innovation. The prevalence of unpaid or underpaid precarious labor reduced incentives for investing in technologies that could enhance productivity.

To explain this problem, this study analyzed the incidence of Huasipungo an extractive institution in the Andean highlands of Ecuador where hacienda land is allocated to indigenous peasants in exchange for labor, on long-term economic performance in the region. The literal definition of Huasipungo in Quechua is something like 'small plot of land next to the house' (huasi = house; pungo = courtyard or door). Most precisely, it is a set of rights and obligations between peasants and landlords, the main obligation of the huasipunguero peasant is that he must work for the landlord for a certain number of days, typically between four and five, regarding the rights of the huasipunguero, he was entitled to a parcel within the hacienda.

Huasipungo in Ecuador represents a system not only entrenched socio-economic hierarchies also restricted mobility and economic autonomy among indigenous communities (De la Torre, 2014). The landlords, primarily of European descent, wielded disproportionate power over the indigenous population, perpetuating a cycle of dependence and exploitation that endured well into the 20th century (Acemoglu, Johnson, and Robinson, 2005). The impact of Huasipungo on Ecuador's economic development has been profound. By tying indigenous labor to large estates under exploitative terms, Huasipungo hindered the emergence of a competitive domestic economy and perpetuated reliance on external markets controlled by colonial powers. This extractive institution exacerbated income inequality, suppressed technological innovation, and limited social mobility, thereby contributing to the broader underdevelopment of Ecuador's highland regions (Engerman and Sokoloff, 2012).

Scholars studying the historical and economic impacts of Huasipungo argue that its legacy continues to influence land tenure systems, socio-economic disparities, and political dynamics in modern Ecuador. The persistence of extractive practices like Huasipungo underscores the enduring challenges of dismantling colonial-era institutions and fostering inclusive development strategies that empower marginalized communities (Rodrik, 2000).

Furthermore, Huasipungo serves as a critical case study for understanding how extractive institutions interact with broader socio-political structures to shape economic outcomes. By examining Huasipungo within the framework of institutional economics and historical analysis, researchers can elucidate the complex causal mechanisms that link extractive practices to long-term economic stagnation and social inequality in Ecuador (Acemoglu and Robinson, 2016).

This study seeks to shed light on the causal mechanisms through which extractive institutions hinder economic development and perpetuate poverty, thus allowing us to understand the dominant relationship and rent extraction between landlords and indigenous peasants. It also provides some clues about the strategies of economic and political elites to maintain a status quo that is favorable to their interests; at the same time, they allow some gradual institutional changes, for example, the agrarian reform of 1964, by which the Huasipungo was abolished. For this purpose, the research question that aims this research is: What is the causal mechanism through which Huasipungo, as an extractive institution, negatively influences the long-term economic performance of Ecuador?

To answer this question, this study applies a within-case method, Process Tracing, which is understood as the analysis of evidence about processes, sequences, and conjunctures of events within a case, with the purpose of developing or testing hypotheses about causal mechanisms that might explain the case causally (A.Bennett and Checkel 2015). By doing so, it will be possible to deduce a causal mechanism to understand the extent to which extractive institutions, such as Huasipungo, influenced the lag in terms of economic development.

This research is situated within the empiric literature about the relationship between institutions and economic development, such body of literature is concerned about the historical analysis of colonial institutions in developing countries in different regions. Research on African institutions tends to compare the influence of French and British colonial empires (Lee and Schultz 2012), as well as the different types or intensities of institutions of the same colonial empire, Seidler argues that the persistence of informal precolonial institutions influenced the intensity by which European institutions were adopted, using case studies in Botswana and Niger

(Seidler 2011). In a similar argument on a different continent, it is evidenced that the differentiated application of institutions that manage private property in Indian regions colonized by the British and the way in which land taxes have different effects on the ulterior development level (Banerjee and Iyer 2005).

For Latin America, the literature varies in terms of subnational comparisons or between countries. For the former, researchers studied the effect of forced labor extractive institutions as the 'Mita' (Dell 2010; Gil Montero 2011), concluding that the application of semi slavish labor regimes for mining during colonial times had negative effects in the posterior economic performance. Dell compares regions with high and low incidence of the institution of Mita in Peru and Bolivia and concludes that in regions with high Mita prevalence, it has a negative impact on land tenure and the provision of public goods. Gil Montero compares mining in Potosí and San Antonio del Nuevo Mundo, with two different labor regimes. In Colombia, historical roots have been studied that determine state capacities at a subnational level through the net of municipalities, the spillover effect in investment decisions of the central government, and the impacts on regional poverty levels (Acemoglu, García-Jimeno, and Robinson 2015).

A comparison between countries takes the gap with developed countries as a reference. Mexico and Peru have been studied as pillars of the colonial empire and the gap against Spain (Arroyo and Van Zanden 2016). In Central America, countries from the northern triangle (Guatemala, Honduras, and El Salvador) have been taken as case studies, researching the elite's role, its interaction with weak institutions, and its implications for the posterior level of development (Bull 2014). A large N study with 324 subnational units in 17 Latin American countries examined the effects of pre-colonial institutions on the region's actual economic performance (Angeles and Elizalde 2017). Like Seidler (2011), pre-colonial institutional persistence would be due to great communities self-governed in rural zones; the more developed the institutions, the more capacity those communities have to oppose Spanish domination first, and the nation-state later, which will have beneficial effects on economic performance in the long run.

Several investigations have considered cases without a regional specification, trying to establish similar patterns in different cases at a global level. A study compares two relatively successful cases, the classic Athens and early modern England, to identify regularities in state-building to explain the generation of political inclusive institutions (Acemoglu and Robinson 2016). The findings conclude that different patterns of social norms and informal institutions not only helped in state formation, but also in civil society strength, which finally allowed them to overcome collective action problems and spur industrial revolution. Another large N study tested theories that affirm that the kind of settlement or colonizer identity determines the set of institutions adopted by the colonized country, suggesting that the type of settlement is more determinant if the colonizer identity is British (D. L. Bennett et al. 2017).

Geographic differences and the lottery of commodities explain the economic destiny of three Caribbean non-Hispanic colonies: Guyana, Barbados, and Mauritius (Constantine and Khemraj 2019). Despite that, the explanation that affirms that these geographic characteristics determine an economic structure that influences presidential powers, de jure and de facto, and how these political institutions process conflicts and power distribution between elites, may be interpreted as the existence of exogenous factors that shape the type of political institutions to be adopted in each case.

The findings of these studies suggest the importance of colonial institutions in explaining the economic gap between developing and developed countries. Research by Dell (2010), for instance, provides evidence of the influence of the type of labor relations that are netting in a society, and how rent extraction from the population by the economic elites may impact the development level in each territory.

The remainder of this paper proceeds as follows: The next section discusses Process Tracing as a valid method to unveil the causal mechanism that links extractive institutions and economic development; the third section presents the research results, evidence found for each part of the causal mechanism, and the level of confidence of the findings; the fourth section discusses the findings in the framework of political economy and economic institutionalism; and the last section concludes.

METHOD

Process Tracing (PT) aims to study causal mechanisms linking two variables: an independent and a dependent variable, but applying the dependent and independent variable concepts in case studies poses challenges owing to the different ontological characteristics of case or variable-based methods. Therefore, it is essential to consider ontological, epistemological, and methodological alignments when selecting an appropriate method to study a research problem and understand causality.

Ontologically, four types of methods are recognized: neo-positivist, realist, analytical, and reflexivist (see Table 1). Neo-positivist methods, often used in large-scale or quantitative studies, aim to identify average causal effects, and have a probabilistic orientation that defines causality as the probability of X affecting Y on average. Realist methods, such as PT, assume a deterministic ontology that explains the relationship between X and Y through a combination of necessary and/or sufficient conditions between cases or causal mechanisms in single-case studies. We assume asymmetrical causality, implying that the absence of a condition does not necessarily imply the absence of a result. Analytical methods examine the ideal type of phenomenon being studied and the necessary characteristics for it to belong to a particular type. Reflexivist methods focus on constructing meaning without emphasizing causality and are more akin to ethnography.

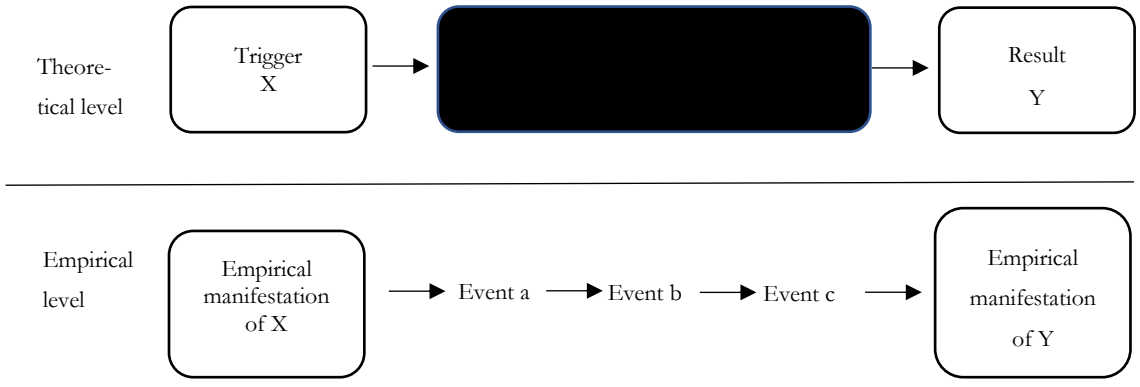
Table 1: Typology of Methodologies for Research in Social Sciences

		Scientific Ontology (Relationship between knowledge and what is observed)	
		Phenomenal (Based on variables)	**Transfactual** (Based on cases)
Philosophical Ontology (Relationship between knowledge and the observer)	**Dualist** (Explain)	Neo-positivism (Nomothetic, average causal effects)	Critical Realism (Mid-Range Theory Testing and Construction, Contingent Patterns)
	Monistic (Interprets)	Analyst (Ideal types, typologies)	Reflexivist (Transfactual analysis of unobservable data, ideographic)

Source: Jackson (2016); Fontaine, Medrano, and Narváez (2020); Carrasco (2020)

Causal mechanisms are composed of unobserved static elements that act sequentially within a given context to produce results. To understand the concept of causal mechanism, Beach and Pedersen (2019) adopt Glennan's definition, which characterizes it as 'a complex mechanism that produces a result through the interaction of a series of parts' (Glennan 1996). However, the literature lacks consensus on the definition of causal mechanisms, with up to a dozen definitions proposed (Hall 2012). Nonetheless, there is agreement that causal mechanisms do not consist of sets of variables (Hall 2012; Beach and Pedersen 2019; Blatter and Haverland 2014; Mahoney 2015). Figure 1 illustrates this scheme.

Figure 1: Causal mechanisms, theoretical and empirical level



Source: Beach y Pedersen (2019)

Blatter and Haverland (2014) suggest that causal mechanisms are a combination of factors that can lead to the same result through different causal pathways (equifinality) and that different combinations of factors can produce different results in different contexts (causal heterogeneity). Mahoney proposed that these configurations of conditions could be understood in terms of necessity and/or sufficiency. The necessary and sufficient conditions form a symmetrical causality, where the absence of X implies the absence of Y. Necessary, but not sufficient, conditions increase the probability of the result, but their elimination does not imply elimination of the result. While sufficient but unnecessary conditions confirm the result, their absence does not eliminate it. INUS conditions can also increase the probability of the result, but the relationship between the trigger and the result goes through different causal pathways. PT is based on sufficient or necessary conditions to refute or affirm causal inference in the evaluation of hypothesis tests, which can increase confidence in the pieces of evidence that each part of the causal mechanism has left. The application of these tests has powerful implications for rival hypotheses; each test can affirm the relevance of a test or confirm it but can also weaken or reject rival hypotheses. On the other hand, Beach and Pedersen (2019) evaluate the collected evidence in terms of 'certainty' and 'uniqueness.'

In their evaluation of evidence, Beach and Pedersen (2019) assess 'certainty' and 'uniqueness.' Theoretical certainty refers to the likelihood of finding evidence if a hypothesis is true, whereas theoretical uniqueness refers to the likelihood of finding evidence in the presence of alternative explanations. Theoretical certainty is associated with the disconfirming power of evidence and can also be considered a false negative rate. Conversely, theoretical uniqueness is associated with the confirmatory power of evidence and can also be considered a false positive rate. These elements, along with Bayesian logic, enable the evaluation of evidence and the expression of confidence in hypothetical causal mechanisms.

To design empirical tests for each part of the proposed causal mechanism, it is necessary to define a priori which pieces of evidence are expected to be found, and the expected empirical observations if the hypothetical causal mechanism is present. Each piece of evidence is then evaluated in terms of its probability index and theoretical prior, seeking its posterior probability or degree of confidence in the validity of the hypothesis on the existence of part of the causal mechanism after the evidence is collected. This can be expressed by the following formula:

Posterior probability:

$$p(h \mid e)=(p(h))/(p(h)+(p(e|"\sim h")")/"p(e|h)" *p("\sim h")")$$

where p(h) is the prior confidence in the existence of the hypothetical mechanism prior to collecting evidence, $p(e|\sim h)/p(e|h)$ is the probability index, and p(e|h) is the probability of finding the predicted evidence if the hypothesis is true. The aim of testing theory in PT is to maximize the inferential power of empirical tests to determine the existence of parts of a hypothetical causal mechanism.

The probability index, which consists of certainty (p(e|h)) and uniqueness ($p(e|\sim h)$), is a key element in the evaluation of evidence for the existence of a hypothetical causal mechanism. The posterior probability is calculated cumulatively for each part of the mechanism, with each piece of evidence increasing the value of the prior compared with the previous one.

Acemoglu, Johnson, and Robinson (2001) study of the colonial origins of economic development evaluates the relationship between settlers' mortality rates, per capita GDP in 1995, and protection against the risk of expropriation of per capita GDP in 1995. However, causal mechanisms underlying these relationships have only been theoretically proposed. Using theory testing, one can test whether the proposed variable-based mechanisms function as theorized. By identifying parts of the mechanism relative to the elements predicted by neo-institutional economic theory, specific cases of institutions can be tested to determine if they work as predicted by the theory.

A theoretical causal mechanism based on Huasipungo can be proposed to understand the causal mechanism linking institutions with long-term economic performance. This mechanism includes a trigger (colonial times) and subsequent extractive institutions that result in low economic performance due to the failure to take advantage of the opportunity to industrialize (see Figure 2).

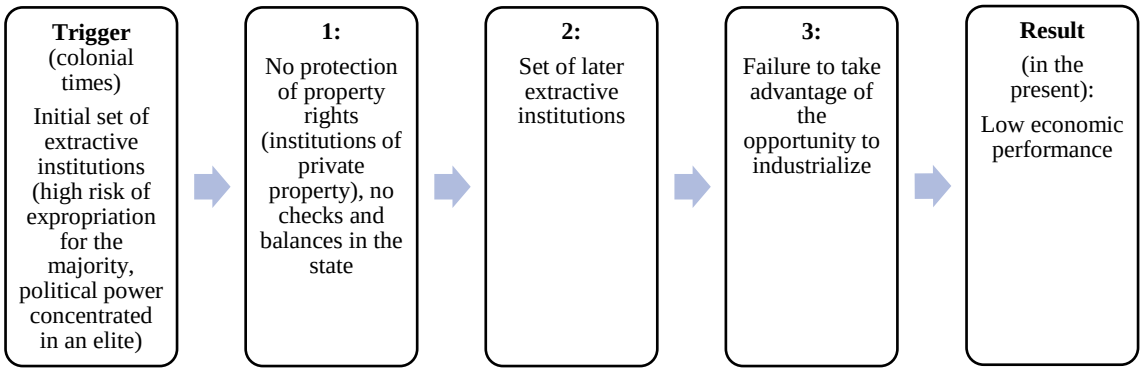


Figure 2: Theoretical prediction of causal mechanisms
Source: Acemoglu, Johnson, and Robinson (2001)

Huasipungo, roughly translated from Quechua as 'small plot of land next to the house' (huasi = house, pungo = patio or door), was a form of labor on the Andean estate in Ecuador that existed until it was abolished in 1964. Under this labor regime, an indigenous farmer would typically work for a landowner in exchange for a plot. To understand how entities respond to institutional incentives, Mechanistic PT, as defined by Beach and Pedersen, is more relevant; however, it is necessary to take a historical long-term perspective of path-dependency dynamics, as stated by Mahoney. Although the case of Huasipungo contains the elements necessary to test the theory using the proposed method, the causal mechanism presented by the theory is still too abstract to identify specific entities involved in the activities. Therefore, specific information about a case is needed to build a causal mechanism as concretely as possible. To illustrate this, a causal mechanism was proposed for Huasipungo (see Figure 3).

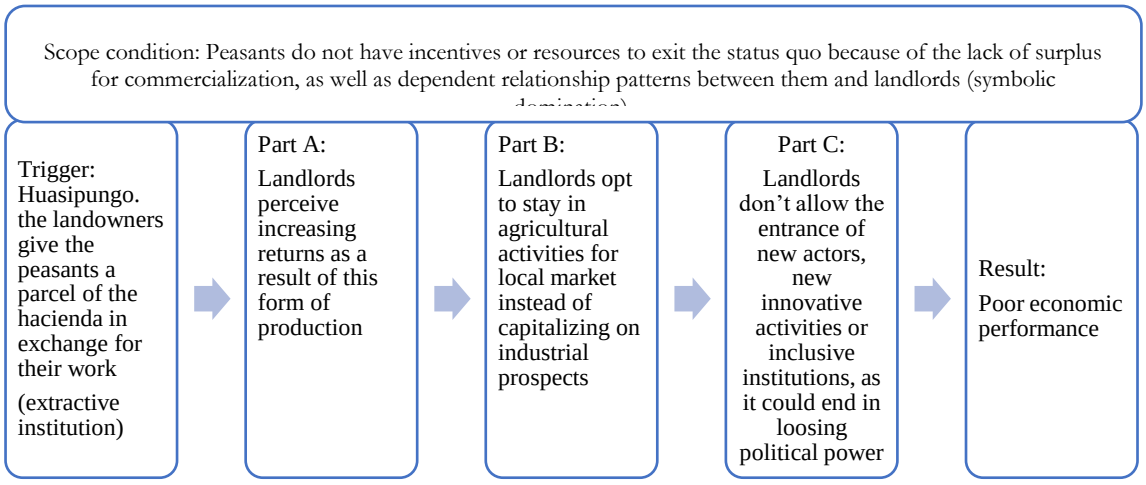


Figure 3: Theoretical causal mechanism linking extractive institutions with economic development.

Source: Own elaboration based on Coatsworth (2012); Acemoglu, Johnson, y Robinson (2001; 2002); Matthey Lange, Mahoney, y vom Hau (2006); Engerman y Sokoloff (2002)

RESULTS

The fieldwork produced pieces of evidence for each part of the proposed causal mechanism. These pieces of evidence are classified according to the test they underwent and are summarized in Table 2. The systematization produced 34 groups for 136 pieces of evidence, which were evaluated as follows**:**

Element	Straw in the wind	Hoop test	Smoking gun	Total
Scope condition	0	1	2	3
Trigger	0	1	2	3
Part A	2	1	2	5
Part B	2	4	0	6
Part C	3	4	4	11
Result	2	4	0	6
Total	9	15	10	34

By disaggregating the 136 pieces of evidence, systematization yields the following:

TEST PASSED	FRECUENCY	PERCENTAGE
HOOP TEST	65	47,79%
STRAW IN THE WIND	44	32,35%
SMOKING GUN	27	19,85%
TOTAL	136	

Approximately two-thirds of the evidence passed the hoop and smoking gun tests, thus providing confidence in the results. However, almost two-thirds of the tests failed the smoking gun test, making it difficult to reject the alternative hypothesis that Huasipungo did not affect the country's low economic performance. It is expected that only a low rate of evidence will meet the criteria of the smoking gun test and 'double decisive' tests (necessary and sufficient conditions) because of the inherent difficulties in Social Science research. Evidence was also evaluated based on certainty and uniqueness. Each element of the causal mechanism started with a prior value of 0.30, which was subsequently updated using the Bayesian formula mentioned in Section 2.

Table 2: Assessment of found evidence.

Code	Description (group)	Pieces of evidence	Test overcome	Certainty	Unity
Pd1	Number of hectares delivered in Huasipungo	3	Smoking gun	0,9	0,2
Pd2	Number of huasipungueros per canton	5	Smoking gun	0,9	0,2
Pd3	Historic dimension of Huasipungo	4	Hoop test	0,7	0,5
Pcc1	Low huasipungo yields and small margins for commercialization	8	Smoking gun	0,8	0,3
Pcc2	Shortage of labor to work the huasipungo and the need for 'apegados'	3	Smoking gun	0,8	0,3
Pcc3	Marked paternalism on the part of landowners	10	Hoop test	0,8	0,3
Pa1	Need for productive reconversion	10	Straw in the wind	0,6	0,4
Pa2	Changes in the export-agriculture for domestic use articulation	0	Hoop test	0,7	0,5
Pa3	Non-payment or underpayment of wages	9	Smoking gun	0,7	0,5
Pa4	Almost subversive nature among landowners of the payment of salaries to huasipungueros	3	Straw in the wind	0,7	0,4

Pa5	Table of salaries received by huasipungueros below what is stipulated by law	1	Smoking gun	0,8	0,3
Pb1	Decline in wheat production	5	Straw in the wind	0,7	0,5
Pb2	Credit composition of the financial system at that time	3	Hoop test	0,7	0,4
Pb3	In 1968, agriculture is in a terrible state, is it possible to think that this is the result of the elimination of Huasipungo?	1	Straw in the wind	0,7	0,5
Pb4	No change in the specialization pattern of the Ecuadorian economy	4	Hoop test	0,7	0,5
Pb5	Machinery import historic data	3	Hoop test	0,7	0,5
Pb6	Failure to take advantage of industrialization opportunities	12	Hoop test	0,7	0,4
Pc1	Blockage of Agrarian Reform Law and huasipungo abolition as part of this law	18	Straw in the wind	0,8	0,3
Pc2	Alliances between coast commercial elites and highland landlords to block new industrial elites	4	Hoop test	0,8	0,4
Pc3	Landlords in high public office	2	Smoking gun	0,8	0,3
Pc4	Attendance of authorities to the association meetings	1	Smoking gun	0,8	0,3
Pc5	Agenda setting powers in the executive branch (favorable policies) as well as in legislative (favorable laws)	4	Smoking gun	0,8	0,4
Pc6	Conformation of a 'Landlord State'	2	Smoking gun	0,7	0,4
Pc7	Pressure from the lobbies to the State for the protection of agriculture	3	Straw in the wind	0,7	0,5
Pc8	Little to no credit grow for industry, despite commercial credit that was the one that grew the most	2	Hoop test	0,7	0,4
Pc9	Breach of favorable laws to huasipungueros, that improved their earnings and labor benefits	2	Straw in the wind	0,7	0,5
Pc10	In the 1971 Agriculture Promotion Law the control of imports was handed to the private sector	1	Hoop test	0,8	0,4
Pc11	Labeling of the reform as 'communist'	3	Hoop test	0,7	0,4
Pr1	Low production and added value percentages in huasipunguero territories	1	Straw in the wind	0,8	0,3
Pr2	Agro-export booms economic dependency: cocoa, bananas, oil	1	Hoop test	0,8	0,3
Pr3	1965 is considered the year that the industrialization by imports substitution stage begun (Acosta 2006, 92)	1	Straw in the wind	0,6	0,5
Pr4	Role of Huasipungo in the economy specialization pattern	5	Hoop test	0,8	0,3
Pr5	Historic evolution of GDP	1	Hoop test	0,8	0,3
Pr6	Labor relationships modernization: mediation through salary	1	Hoop test	0,8	0,3

Table 3: Assessment of evidence using Bayesian formalization.

Groups of evidence	**p(h) Prior**	**p(e| ~h) Unity**	**p(e| h) Certainty**	**p(~h) Alternative hypothesis**	**p(e| ~h)/p(e| h) Probability index**	**p(h| e) Posterior**
Pd1	**0,30**	0,20	0,90	0,70	0,22	0,66
Pd2	0,66	0,20	0,90	0,34	0,22	0,90
Pd3	0,90	0,50	0,70	0,10	0,71	**0,92**
Pcc1	**0,30**	0,30	0,80	0,70	0,38	0,53
Pcc2	0,53	0,30	0,80	0,47	0,38	0,75
Pcc3	0,75	0,30	0,80	0,25	0,38	**0,89**
Pa1	**0,30**	0,40	0,60	0,70	0,67	0,39
Pa2	0,39	0,50	0,70	0,61	0,71	0,47
Pa3	0,47	0,50	0,70	0,53	0,71	0,56
Pa4	0,56	0,40	0,70	0,44	0,57	0,69

Pa5	0,69	0,30	0,80	0,31	0,38	0,85
Pb1	**0,30**	0,50	0,70	0,70	0,71	0,38
Pb2	0,38	0,40	0,70	0,63	0,57	0,51
Pb3	0,51	0,50	0,70	0,49	0,71	0,60
Pb4	0,60	0,50	0,70	0,40	0,71	0,67
Pb5	0,67	0,50	0,70	0,33	0,71	0,74
Pb6	0,74	0,40	0,70	0,26	0,57	**0,83**
Pc1	**0,30**	0,30	0,80	0,70	0,38	0,53
Pc2	0,53	0,40	0,80	0,47	0,50	0,70
Pc3	0,70	0,30	0,80	0,30	0,38	0,86
Pc4	0,86	0,30	0,80	0,14	0,38	0,94
Pc5	0,94	0,40	0,80	0,06	0,50	0,97
Pc6	0,97	0,40	0,70	0,03	0,57	0,98
Pc7	0,98	0,50	0,70	0,02	0,71	0,99
Pc8	0,99	0,40	0,70	0,01	0,57	0,99
Pc9	0,99	0,50	0,70	0,01	0,71	0,99
Pc10	0,99	0,40	0,80	0,01	0,50	1,00
Pc11	1,00	0,40	0,70	0,00	0,57	**1,00**
Pr1	**0,30**	0,30	0,80	0,70	0,38	0,53
Pr2	0,53	0,30	0,80	0,47	0,38	0,75
Pr3	0,75	0,50	0,60	0,25	0,83	0,79
Pr4	0,79	0,30	0,80	0,21	0,38	0,91
Pr5	0,91	0,30	0,80	0,09	0,38	0,96
Pr6	0,96	0,30	0,80	0,04	0,38	**0,99**

Therefore, found pieces of evidence substantially increase the previous knowledge (prior) available before its finding. The probability increase in each part of the causal mechanism is summarized in Table 4.

Table 4: comparative between priors and posteriors for each element of the causal mechanism

gg	**Prior**	**Posterior**
Scope condition	0,30	0,89
Trigger	0,30	0,92
Part A	0,30	0,85
Part B	0,30	0,83
Part C	0,30	1,00
Result	0,30	0,99

DISCUSSION

Regarding the pieces of evidence recollected during fieldwork, the discussion is as follows. First, I will address the scope condition of Huasipungo as assumed by indigenous peasants, its definition, and historical prevalence, and then address every element of the causal mechanism and its main evidence, trying to prove their existence.

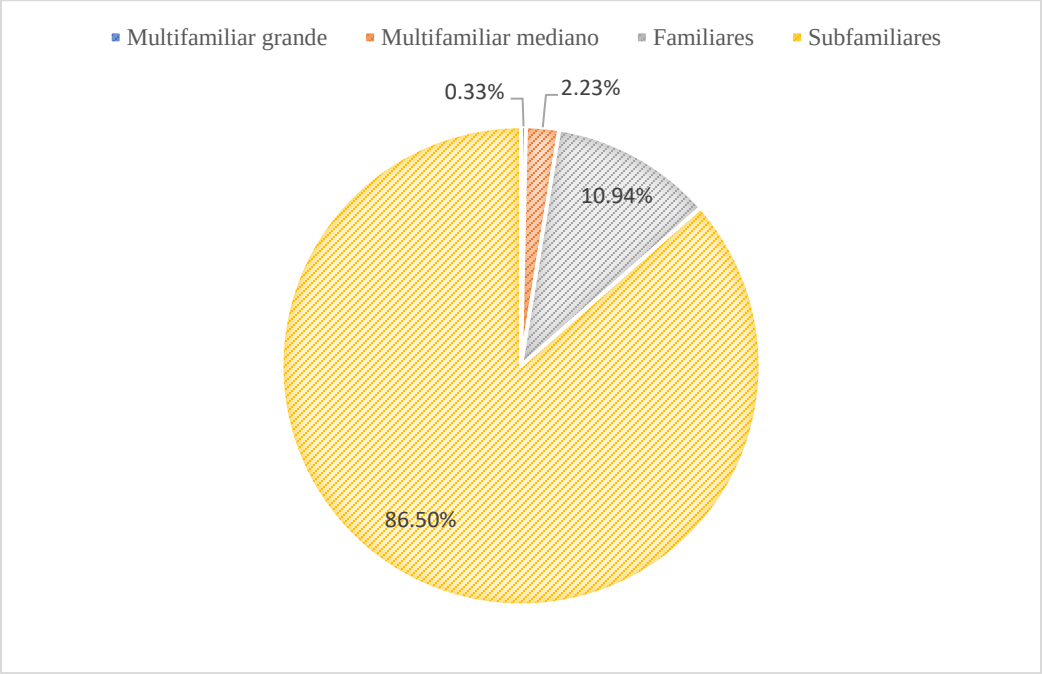
Scope Condition

As mentioned, there was a scope condition operating in the background of the theorized causal mechanism: peasants do not have incentives or resources to exit the status quo because of the lack of surplus for commercialization, as well as dependent relationship patterns between them and landlords. Regarding the first element of the scope condition, commercialization of the Huasipungo parcel product was precarious;

nevertheless, it was enough for the social reproduction of the family of the huasipunguero and generated some surplus that completed the peasant's revenue. One of the reasons for this low productivity was the habit of giving the worst land to the huasipungueros: 'there were hillside zones where they were located. The only flat part of the hacienda was the moorland. In almost all the highlands, properties were as follows: the flat part where the owners were and the hillsides where the huasipungos were' (interview with a landlord).

Apart from being on the hillsides, huasipungo parcels were too small; they were smallholdings (minifundios) of less than five hectares, which was not sufficient to provide full occupation for the peasant (see Figure 4).

Figure 4: Distribution of total agriculture population by tenure type



Source: CIDA (1965)

As shown in figure 4, 86,5% of the total agricultural population belonged to the sub-familiar type, that is, a type of parcel that cannot ensure the social reproduction of the family because of its dimensions. Consequently, the need for 'apegados' was essential; these were relatives of the peasant who worked on the parcel in place of the huasipunguero since the latter would be working for the hacienda. Another strategy was to contract free peasants to work for them in the hacienda.

The next element in the scope condition, the dependent relationship patterns between peasants and landlords impede peasants' freedom and exit status quo. Since Colonial times, landlords were in charge of providing public goods that the State could not do so:

Paternalism has its roots (…) in the lordly elements that define this sector since the nation's birth. The privilege of the 'Encomienda' invests the landlord of a classic authoritarian kind -paternalistic authority (…). The essence of paternalism is to replace, in practice, State functions through different powers: apply penalties, solve conjugal, family, or neighbor disputes, to make justice, watch public morale, to make practice religious cult, to determine the length of the journey, tasks and compensations, etc. (CIDA 1965, 81).

To this long list of State obligations exercised by the landlords, basic provisions such as health and education

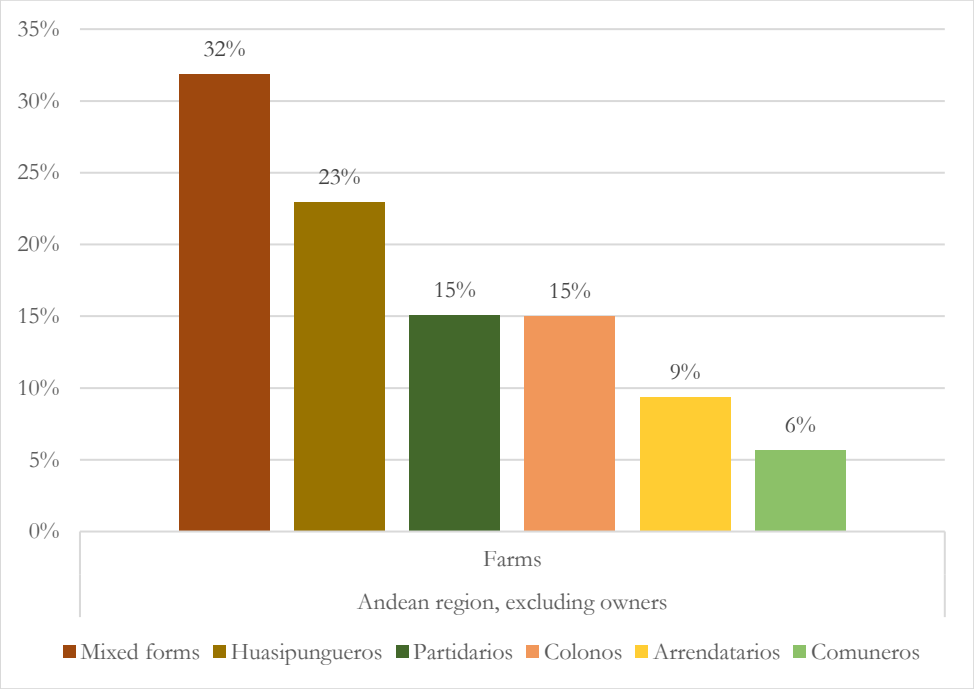
should be added; hence, it is to be expected that the landlord will build schools and medic facilities within the hacienda for the peasant population. On the other hand, the relationship between landlords and huasipunguero peasants was mediated by affections and symbolic relations of domination, marked by a 'non-equal reciprocity' between huasipungueros and landlords, an 'economic relationship tainted with affections' (Guerrero 1991).

Trigger: Huasipungo as an Extractive Institution

By 1954, slightly fewer than one in four parcels from peasants without land were working under the modality of Huasipungo in the Andean highlands of Ecuador; that is, 23%, as shown in Figure 5, was the more frequent form of precarious land tenure in the Andean highlands. Furthermore, the presence of Huasipungo was not homogeneous because it was present mostly in the center and north center of the Andean Highlands and practically nonexistent in the coastal region, as shown in Figure 6. Ten years later, in 1964, Huasipungo was abolished with the enact of the Agrarian Reform Law, created by the military regime that led a *coup d'état* a year before. This law was passed during the Cold War and was influenced by the Cuban Revolution and the response of the Kennedy administration, the 'Alianza para el Progreso,' to impede the advance of communism in the region. Among its policies, the United States regime promoted agrarian reforms in the continent that eased social pressure, which could lead to a very feared contagion effect.

Historically speaking, the institution of Huasipungo is one of several forms of labor contracts that existed in the Ecuadorian Andean Hacienda, whose origins may be tracked to Colony. It was brought by Spanish settlers as part of a late feudal regime that comprehended the big signorial property, taxes in favor of the landlords, and the exploitation of the indigenous population. When the Spanish settlers began the exploitation of better land for agriculture, which was in the hands of the indigenous population, they started to exploit them as a cheap workforce. In the beginning, indigenous people were taken as slaves and forced to work, but in the year 1500, slavery was forbidden because slavery was only justified if those taken as slaves were losers of a just and Cristian war, but Colonization of the Americas could not be considered because of the peaceful character of its inhabitants (Escobar Ohmstede 2014).

Figure 5: Farms by land tenure, excluding owners, Andean highlands (%, 1954)



Source: First Agriculture Census, 1954

The Encomienda, which replaced slavery, consisted of the delivery of groups of indigenous people to Spanish settlers for their conversion to Christianity and to get them away from vice. 'Encomenderos' were free in theory,

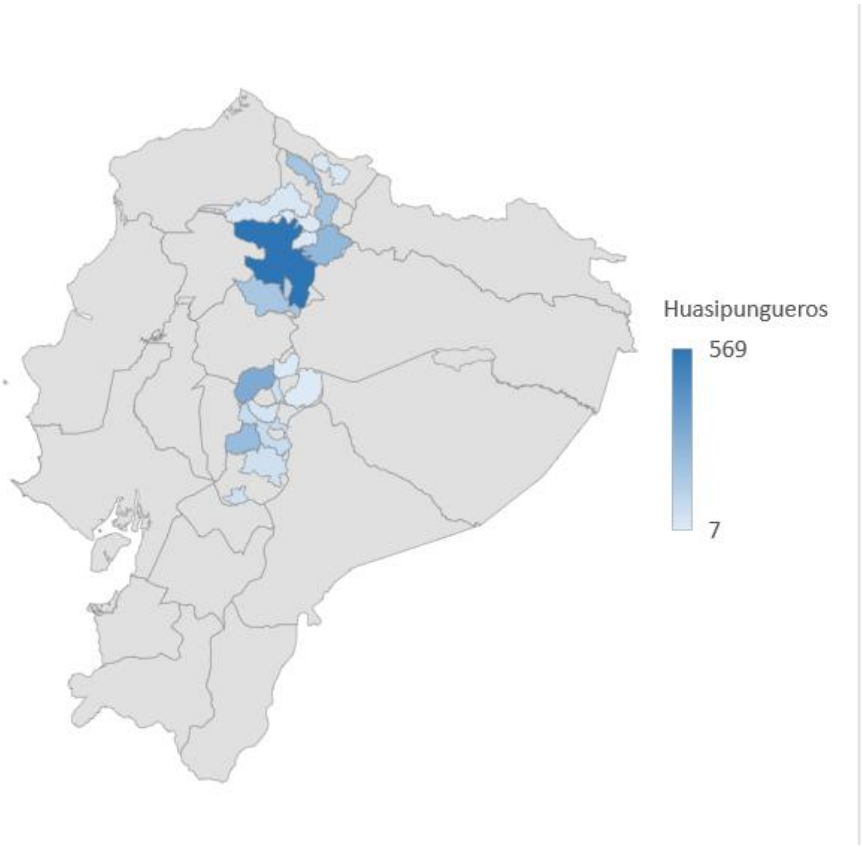
but in practice it became the new exploitation system. The Encomienda took charge of indigenous people for only two generations, which is why it started to decline in the XVI century. New forms of exploitation were then created as the Mita, of Inca origin, and applied specially in mining, or more subtle forms, such as work for debts (Concertaje) or land assignment (Huasipungo) (Escobar Ohmstede 2014). The Huasipungo period began with the abolition of prison for debt in 1918, which tacitly proscribed Concertaje as the more common form of contract in the Andean highlands (Costales 1962). The evolution of labor institutions is as follows:

Period	Years	Duration (years)	Institution
I	… - 1534	n/a	Undefined
II	1534 - 1816	282	Mita (mitayos)
III	1816 - 1918	102	Concertaje
IV	1918 - 1934	46	Huasipungo

Source: Costales (1962)

Costales considers Huasipungo historically one of many extractive institutions used since the pre-Hispanic period, usually as an adaptation of the abolish or forbidden ones. In 1938, the new Labor Code regulated the application of Huasipungo, fixing a minimal proportional extension of the parcel delivered to the peasant, the fixation of the salary, and the maximum time to accrue the parcel, obliging the landlord to pay a salary to the members of the Huasipunguero family group that worked in domestic service (Barsky 1984).

Figure 6: Number of huasipungueros by canton, 1954



Source: CIDA (1965)

Part A: Landlords perceive increasing returns as a result of this form of production

During the first half of the XX century, until its abolition in 1964, the Huasipungo was closely related to the political process of the enact of the Agrarian Reform Law; in fact, in every legal project before the actual law, the abolishment of Huasipungo was always part of it. An imminent agrarian reform took the landed elites to assume an, in principle, counterintuitive strategy: in 1952, landlords began to deliver Huasipungo parcels without being forced by law to do so, which aims to eliminate precarious labor but in the most favorable terms for the landlords (Murmis et al.1980). However, landed elites cannot be taken as homogenous actors; Barsky identifies at least four groups according to the size of their productive units, corporate organizations, and political and ideological expressions related to the elimination of precarious forms of labor or the agrarian reform (Murmis et al. 1980): radical modern landlords, those who had invested in technology, especially for dairy production; moderate modern landlords, those who had initiated as well their reconversion to dairy production, but their investments were lower than the latter group; 'hybrid' landlords, those who didn't have a unique position, going from those that were close to moderate modern landlords to those whose land hadn't the ecological facilities to apply in a fluid manner a productive reconversion, mostly because the size of the haciendas weren't enough to maintain a surplus level once precarious forms of labor were suppressed. Finally, landlords opposed the elimination of Huasipungo due to their intensive use of precarious forms of labor or their hacienda size (Murmis et al.1980).

Considering that two groups of landlords were interested in the abolition of Huasipungo, but in their own terms, what Guerrero called the 'political prevision effect,' the persistence of Huasipungo, which took 13 years to be abolished (the discussions around it began in 1951), suggests a Path Dependence effect due to a self-enforced dynamic related to increasing returns, that is, the probability of additional steps in a given path increases with every additional movement in the said path. Literature on Path Dependence could be useful in characterizing the proposed causal mechanism in a way that Huasipungo is conceived as a self-enforced sequency where institutional reproduction is given by the cost-benefit analysis made by the actors (utilitarian explanation), where the costs of institutional change are higher than their perceived benefits; the backing of the institution by the landed elites in power vis a vis a subordinated populational group (power explanation); in this case, the extractive institution is backed by the powerful landed elites, creating a power asymmetry that deprives the marginalized of any opportunity for political impact; and the beliefs of actors towards the institution as something morally just (legitimation explanation) (Mahoney 2000).

For the first interpretation, the costs of changing the institutional path configure a normative framework that encourages precarious contracts and impedes salary intermediation, implying the introduction of an important component in the production cost structure of traditional Andean hacienda. To test this, we used the daily book (libro diario) of Chiche Obraje, a hacienda located in the province of Pichincha, related to yearly income and expenses in 1926:

Estimate of the loss of profit if salaries were paid – hacienda Chiche Obraje, year 1926

Concept	Amount
Income	6.530,12
Expenses	1.099,12
Profit	5.431,00
Hypothetic payment for 60 peasants (3 sucres a day for 20 days)	3.600,00
Profit with hypothetic payment	1.831,00
Percentage of lost income if salaries were paid	66%

Source: Daily book (libro diario), hacienda Chiche Obraje, 1926, National Archive

The table suggests that if the landlords had to pay a salary to their workers, estimated at 60 peasants, three sucres per day, would cut profits by 66%. To complete the analysis, it is possible to take data from the

income of Huasipunguero peasants compared to the income of free peasants to demonstrate the potential gap (see Table 5).

Table 5: Average of salaries - huasipungueros and free peasants in the Andes – year 1959 (Sucres)

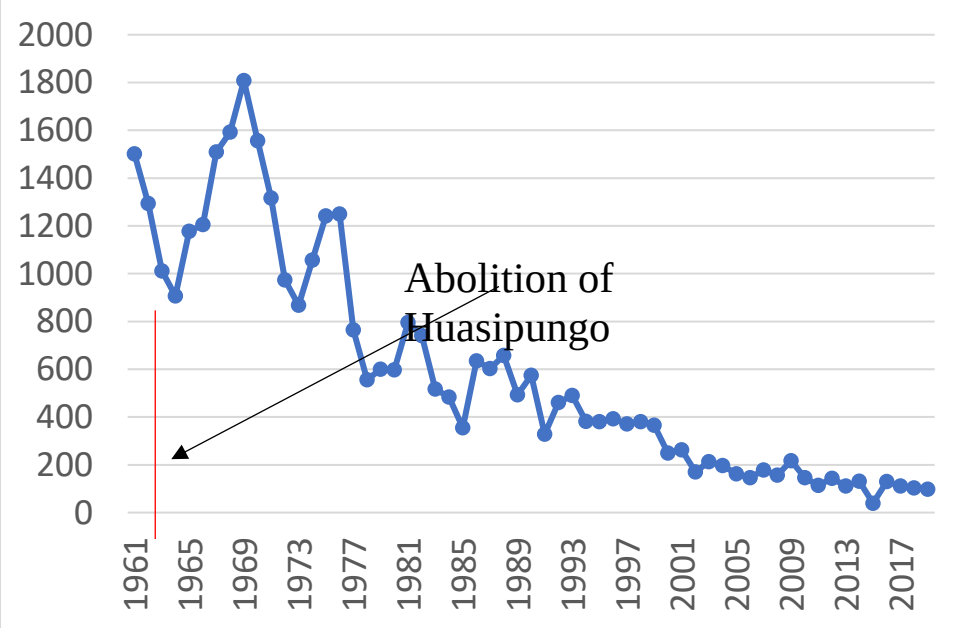
Province	Daily average huasipungueros	Daily average free peasants	Gap huasipungueros / free peasants
Azuay	3,40	4,45	1,05
Bolívar	7,47	6,11	-1,36
Cañar	3,44	4,10	0,66
Carchi	5,35	9,95	4,60
Cotopaxi	3,70	4,45	0,75
Chimborazo	4,10	4,15	0,05
Imbabura	4,30	5,25	0,95
Loja	5,45	6,60	1,15
Pichincha	4,20	5,60	1,40
Tungurahua	5,44	5,25	-0,19
AVERAGE	4,69	5,59	0,91

Source: Costales (1962, 27)

Part B: Landlords opt to stay in agricultural activities for the local market instead of capitalizing on industrial prospects.

The increasing returns phenomena in agricultural production in the Andean highlands of Ecuador, based mostly on the exploitation of precarious forms of labor, as Huasipungo explained in the last section as a Path Dependence dynamic, allowed suboptimal crop production such as wheat. This means that if landlords had to pay for labor, wheat production would not be profitable.

Figure 7: The case of wheat in Ecuador - Gross production index

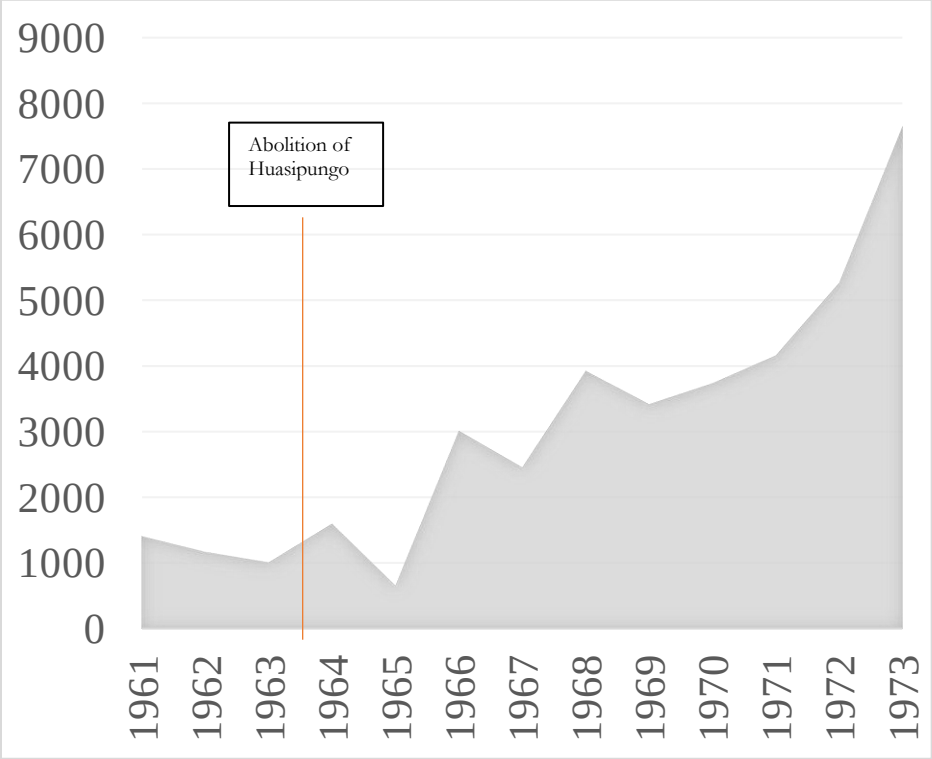


Source: Faostat

Figure 7 shows the decrease in the historical production of wheat in Ecuador from 1961 to 2019. An important fall in production can be seen between 1961 and 1964, the later year of the Huasipungo abolition, which could be explained by the expectation of agrarian reform. There was a new peak in 1969, another strong fall through 1973, a moderate recuperation in 1975, and a sustained fall until the end of the series. Wheat production behavior can be considered a hint or evidence of the 'straw in the wind' type, that is, a condition not necessary or sufficient to affirm causal inference but affirms the relevancy of the hypothesis, not confirming it, but somehow debilitating the alternative hypothesis.

Conversely, machinery investment while Huasipungo was in effect remained at low levels; this situation would change once it was abolished, and obligatory productive reconversion took place. Figure 8 suggests an important increase in machinery imports since 1964, the year of Huasipungo's abolition. From 1961 to 1964 machinery imports varied between 1.009 and 1.599 thousands of dollars, for the next year, this value drops to 659.000 but for the next year, that is 1966, it practically multiplies by five, reaching 3.016 thousands of dollars, value that since 1969 doesn't stop to increase, reaching to 7.652 thousands in 1973.

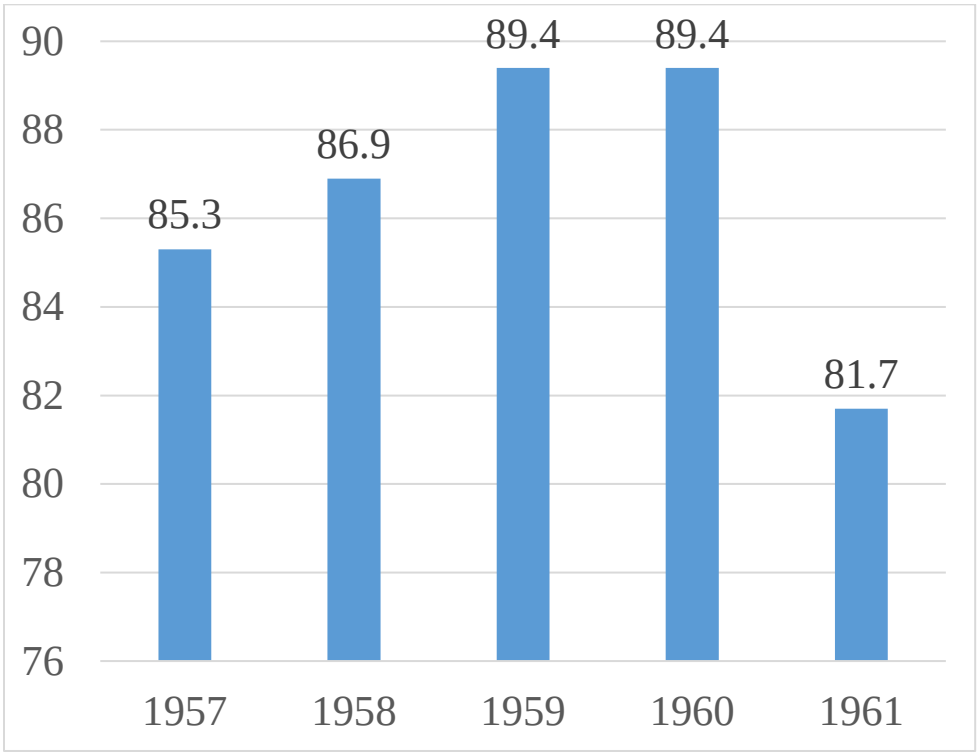
Figure 8: Machinery imports (thousands of US$)



Source: Faostat

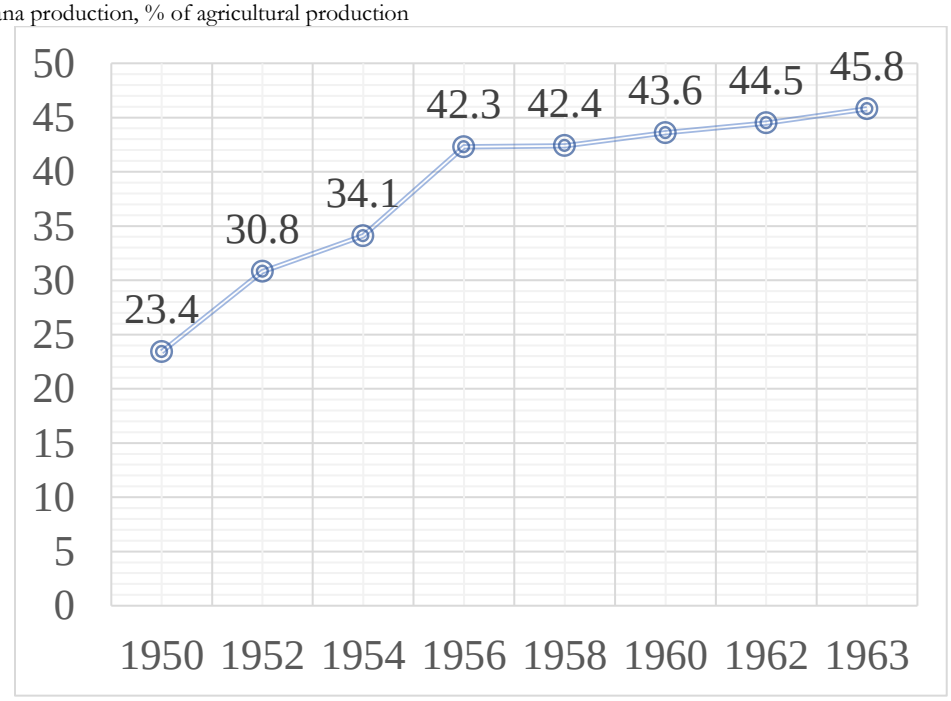
Furthermore, Huasipungo enabled the Ecuadorian economy to maintain its specialization pattern during the study period. Ecuador remained a net exporter of raw materials, mostly coffee, cocoa, and bananas, representing more than 80% of the total exports between 1957 and 1961. In fact, the concentration of the economy in the export of bananas is overwhelming: 8,17% of GDP for 1963, 45,8% of the total agricultural production, as seen in Figures 9 and 10.

Figure 9: Coffee, cocoa and bananas, percentage of exports



Source: Statistic agriculture compilation, Chamber of Agriculture, 1965

Figure 10: Banana production, % of agricultural production



Source: Statistic agriculture compilation, Chamber of Agriculture, 1965

The data suggest a strong Dutch disease in the Ecuadorian economy, in extreme dependent on banana exports, and therefore, extremely vulnerable to crises that could unfold in international markets. The role of Huasipungo in this system of production is to keep labor costs in Andean agriculture near zero; thus, cheap production of food for local markets allows the handling of low-salary structures on the coast, where export products are grown. Low labor costs allow low production costs of exportable goods, which keeps them competitive compared to producers in other countries (Larrea Maldonado 1985; Larrea, Espinosa, and Sylva Charvet 1987).

Part C: Landlords do not allow the entrance of new actors, new innovative activities, or inclusive institutions, as they could end up losing political power.

Incentive structure that presented Huasipungo for the Ecuadorian landed elites implied a 'winner' position in an economic level, due to the increasing returns attained by this form of production, that approached near to zero labor costs in agricultural production, however, it also provided landlords with a great deal of political power, given the strong relations that they had with political elites. This relation of landlords with formal political power, especially in Andean highlands, had the consequence that the agrarian elites were afraid of losing political power and that they developed blocking strategies for innovation, what Acemoglu and Robinson (2000; 2006) called 'political losers.'

Evidence of such political power of landed elites constitute the phenomena of 'revolving doors' as a state capture mechanism, where guild representatives also exercised high level posts in the government: The directors of the Chamber of Agriculture held the following positions: President, 4; legislators, 51; ministers, 21; supreme court justices, 3; ambassadors or consuls, 8; senior administrative positions, 14; members of subnational governments, 4 (CIDA, 1965, 108). The same source also identified that, for the year 1962, of 34 legislative deputies that represented Andean provinces, 28 were landlords (82 %), two were not, and there was no information from the remaining four. The closeness between landed elites and political power explains why several state authorities attended the Regional Assembly of Andean Highland Farmers of 1962, as evidenced by the chamber president's inaugural speech:

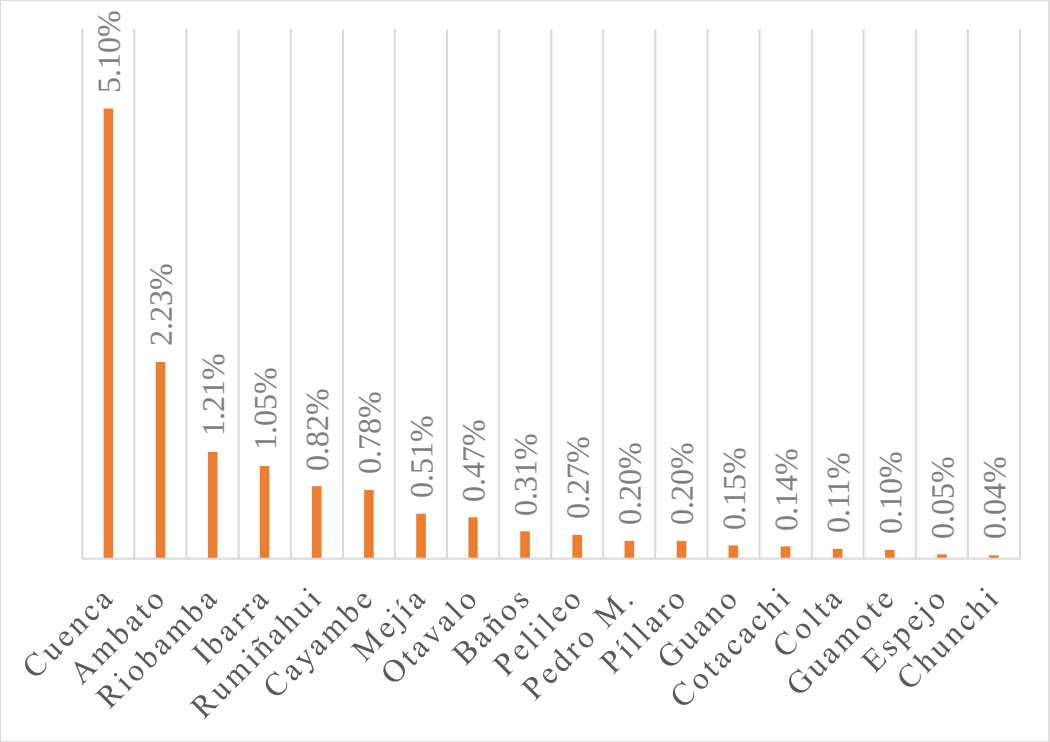
Distinguished farmers from the area honor us with their presence, among which we must mention the very valuable presence of distinguished former presidents of the Republic, to whom, with all fairness, we have conferred the distinction of honorary presidents of this great event (....). The assembly is important and transcendental because he has deigned to solemnize with his excellence. Mr. President of the Republic, Mr. Vice President and President of H. National Congress, the Minister of Production, and the highest authorities of the State (Regional Assembly of Farmers of the Sierra and Oriente, convened by the Chamber of Agriculture of the First Zone, January 19 -21, 1962).

The political power of landed elites is used to support their own interests, including the blockage of potential political competitors and pressure on the government to protect or incentivize agricultural activity. Certain findings suggest passive resistance, implicit, to agrarian reform and the abolition of Huasipungo due to the permanent demand of landlords that both elements were treated jointly. That is how landed elites delayed the abolition of Huasipungo and the Agrarian reform for 14 years by tying the abolition to the approval of the law as well as by bringing tacit resistance to it. The political power shown by landlords makes them capable of promoting laws to their favor and disrespecting enacted laws, such as legal protection and benefits for agricultural workers: affiliation to Social Security, legal agricultural wage of six sucres, reserve funds, literacy tax, obligation to teach reading and writing, housing, overtime pay, full weeks, vacations, assistance for illnesses, and maternity leave.

Result: poor economic performance

The final element of the proposed causal mechanism is the poor economic performance of the country, which is characterized by a raw material export economic specialization pattern, high poverty, low employment level, and high inequality. Huasipunguero territories show bad economic indicators years after the abolition, figure 11 shows the production in terms of GDP percentage of former cantons with Huasipungo in 2007.

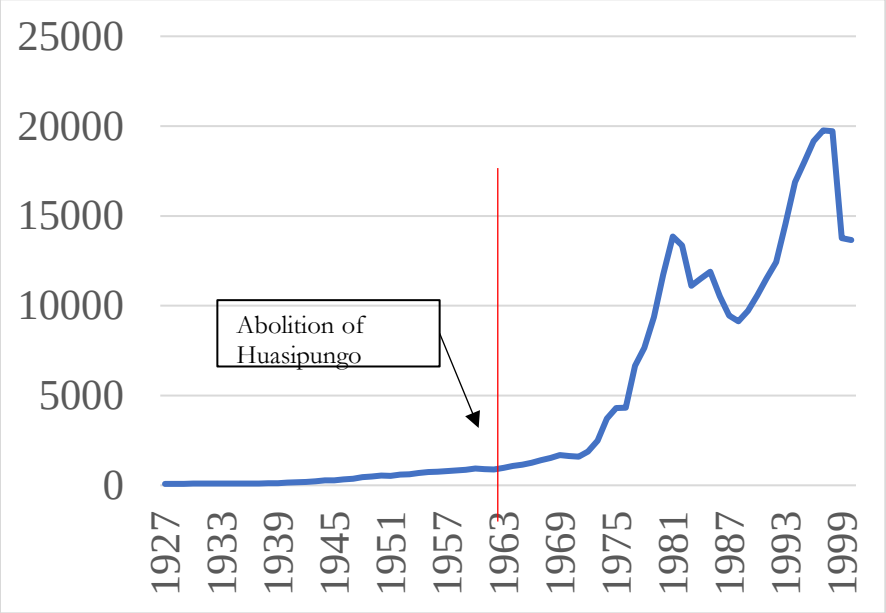
Figure 11: Production of former cantons with huasipungo in 2007 (% of GDP)



Source: CIDA (1965)

Data suggest that just 8,66% of the total production of the country was generated in cantons with a high prevalescence of Huasipungo by 2007, excluding Quito and Cuenca, cantons with major cities. In general terms, before the abolition of Huasipungo, the country had very modest GDP values, until the oil boom (see figure 12). At the beginning of the decade of 1950, the GDP was 535 million dollars, and for the next decade, it will increase to 938 mdd, 57% more, and will surpass 1.000 mdd in the year of abolition. Years after the abolition, GDP will see a sustained growth, going from 1.151 mdd in 1965 to 1.602 mdd in 1971; that is, 451 mdd more, an increase of 71,84%.

Figure 12: GDP of Ecuador during XX century (millions of USD)



Source: Acosta (2006), BCE

The abolition of Huasipungo would increase the prices of food and promote productive conversion towards dairy production, as evidenced by the behavior of raw material imports and intermediate and capital goods for agriculture, as seen in figure 8. The existing literature supports this hypothesis.

The import of raw materials, intermediate goods, and capital goods for agriculture, measured at constant prices, maintained a declining trend of 2.3% per year between 1957 and 1963, underwent a profound transformation, experiencing growth of 8.4% per year between 1963 and 1971 and 12.8% per year between 1972 and 1979. In particular, the number of agricultural tractors almost tripled between 1962 and 1974, and the use of fertilizers increased from 22,400 tons in 1963 to 171,200 tons in 1973. The credit of the national banking system destined for the agricultural sector (measured at constant prices) shows a similar evolution: it declined to 0.7% per year between 1960 and 1963, increased to 10% per year between 1963 and 1972, and increased to 8.3% per year between 1972 and 1980. While this interval represented approximately 9% of total credit, its share reached 14% around 1980. In contrast, the use of labor in the agricultural sector of the highlands declined between 1962 and 1974, including absolute values. Thus, the corresponding EAP went from 431,130 people to 426,231 in the years mentioned (Larrea Maldonado 1985, 69).
Thus, it is possible to consider a hoop test hint at the change in the incentive structure that the abolition of Huasipungo could have represented for the Andean landed elites, which were forced to invest to attain product reconversion from primary products for the local market towards more profitable goods with more added value and with higher technological components.

CONCLUSION

Such precarious forms of labor contracts, such as Huasipungo in Ecuador, Terrazgueros in Colombia, Inquilinos in Chile, and Yanacunas in Peru, share some elements such as near-zero salaries, dominant relations, persistence of a sub-optimal institution due to its short-term benefits, power asymmetry, and an apparent blockage to innovation and market institutions. These labor institutions in agriculture are different from the colonial systems of agricultural production in the U.S., where peasant family agriculture systems emerged as the

norm. This had several consequences: land distribution was more equative, because early settlers received land from inclusive institutions, that is, without exploitation privileges, power asymmetries, or large estates (latifundium), but also indigenous labor shortage configured a system where landowners were those who worked, avoiding resource extraction from one part of the population to the other. The resulting agricultural structure was more homogeneous; this difference, large estates versus small peasant agricultural properties, could have avoided great power asymmetries between landowners and indigenous populations, which resulted in a normative framework that did not favor one part of the population over the other, which did occur in Latin America.

It is pertinent now to resume the research question formulated in the introduction: What is the causal mechanism through which Huasipungo, as an extractive institution, negatively influences the long-term economic performance of Ecuador? The question was answered by the theorization of a causal mechanism, based on what specialized literature suggests, which was tested by the assessment of pieces of evidence that strongly suggest the presence of the parts of said mechanism, from an analysis of the incentives that the institution of Huasipungo presented for the landed economic and political elite. Costs structure in the agricultural production in Huasipunguero zones, with a labor cost near zero, influenced the landlords' behavior to maintain suboptimal institutional trajectories because of the cost of change, assuming a path dependence dynamic.

Considering the latter, this research shows strong hints that suggest that the initial hypothesis could be true, that is, that the institution of Huasipungo as an extractive institution negatively influenced the long-term economic performance of the country by incentivizing the permanence of landed elites in suboptimal activities; thus, industrialization opportunities were not profited, but also prevented landed elites from allowing the introduction of novel innovative activities as well as inclusive institutions such as agrarian reform and its land redistribution policies. This would condemn Huasipunguero zones to economic backwardness, which can be evidenced until now as the territories with a higher prevalence of Huasipungo, except for Pichincha, are the poorest, and present the worst social indicators and major social unrest, maintaining a populational structure mostly indigenous linked to subsistence agriculture.

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List of figures

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