Andre Schlueter (2014) *Institutions and small settler economies: a comparative study of New Zealand and Uruguay, 1870-2008*, New York: Palgrave Macmillan, 290 pp.

Reviewed by Geoff Bertram

Around 1900 New Zealand and Uruguay, along with the other white-settler economies (Canada, Australia, Argentina, USA and to a lesser extent, Chile and South Africa) were clustered in the top slice of the world income distribution. This convergence of the settler economies to a status of relative prosperity, driven by strong European demand for pastoral and agricultural products in a context of free trade, refrigeration, and radically-reduced costs of ocean transport, persisted for several decades until the Great Depression of the 1930s. After 1930 the locomotive force provided by demand in the core capitalist economies weakened and the settler economies embarked on a "great divergence" which by 2000 had radically widened the gap between the top and bottom of the settler economy group, leaving Uruguay at the bottom of the group and New Zealand roughly in the middle.

Because New Zealand and Uruguay are both pastoral-based export-led economies with very similar population, climate and land area, their contrasting economic performance over the past century invites comparative analysis. This book is the latest in a long series of theses, books, journal articles and conference presentations addressing the question of why New Zealand has out-performed Uruguay. Based on Schlueter's 2014 doctoral thesis at the University of Vienna, the book graphically illustrates two pitfalls of such research: the difficulty of applying ambitious big-picture growth theory to the detail of specific cases; and the problems for a young outside scholar of trying to gain a comprehensive understanding of the histories of two unfamiliar nations from reading the secondary historical literature. Both New Zealand and Uruguayan readers will often have difficulty recognising their own countries' realities in the potted summary histories that make up the core of the book. (To cite one example, Parihaka is characterised on page 66 as an "armed uprising" that challenged the state's monopoly of violence.)

Candidate explanations for the divergence of New Zealand from Uruguay abound in the literature. Cultural determinists argue that Uruguay's history as a Spanish colony, and the southern European origin of its nineteenth-century immigrant settlers, condemned it to perform less well than New Zealand with its British heritage and migrants. Technological explanations focus on issues such as the greater dynamism and industrialisation associated with New Zealand's forest-clearing and early move into dairy farming, compared to the open-pampas meat and wool pastoralism of Uruguay. Structural theories highlight the breakup of large estates and prevalence of small owner-occupied farms in early twentieth-century New Zealand, contrasted with the persistence of large estates and entrenched rural elites in Uruguay. World-systems stories suggest that the British Empire provided crucial preference for the exports of the former British colonies in the 1930s, as the Latin American settler economies lost their key export markets. All these theories suffer from the familiar problem that correlation is not causality: differences between Uruguay and New Zealand are easily described, but the inductive ascription of causality has an ad-hoc character.

To avoid the trap of simple induction, Schlueter's research strategy is to take a "deep causes" theory from the theoretical literature on long-run economic growth, and to try to systematically apply that theory to the evidence from Uruguay and New Zealand. The chosen theory is the new-institutional model of Douglass North, John Wallis and Barry Weingast (NWW), which lays out a "theory of social orders" emphasising the causal importance for economic growth of a set of institutional and organisational elements: secure private property rights, sanctity of contract, stable and democratically-accountable government, civilian control over the military, and so on. A distinction is drawn in the NWW model between "Limited Access Orders" (LAOs) and "Open Access Orders" (OAOs); the latter is associated with relative economic success, the former with relative backwardness. Within the LAO category there are degrees of maturity as a country moves up towards transition to OAO status. If Uruguay could be shown to be LAO whereas New Zealand is OAO, this might "explain" their different economic outcomes.

This superficially-attractive research design does not deliver the hoped-for insights for two reasons. The NWW theory itself is not very clearly or tightly specified, and suffers from longstanding gaps in North's work on economic growth: a bias towards anglo-saxon models of "open access" which makes the success of economies such as China and South Korea seem anomalous; and a closed-economy view of the growth process which largely excludes international forces. These and other weaknesses are acknowledged by Schlueter in two long and rather convoluted introductory chapters on the new institutionalism, but the problems they present are never resolved. Settler economies are, above all, open to the outside world and their dynamics are driven to a large extent from outside.

The aim of North's research was always to explain successful capitalist growth in the core of the world economy. The settler economies on the periphery were never central to that story; their growth dynamic was derived from their linkages to the locomotive of core capitalist growth, not from the endogenous creative forces of the NWW story. These are peripheral, trade-led economies with transplanted populations, cultures, and institutions. The endogenous political, social and economic dynamics of North's growth theory cannot run their course in this setting. Rather than seeking endogenous growth dynamics springing from the domestic social order, the researcher is confronted with external dynamics interacting with a local social order which is itself often externally-derived. To apply NWW's institutional ideas it is therefore necessary to articulate some clear model of economic performance on the global periphery, including the causal status to be ascribed to institutions. Here Schlueter's book disappoints; he moves directly from the exposition of NWW's work to the detailed historical material on his two settler economies, without building strong theoretical foundations to establish why and how the same institutional menu should apply to the periphery as to the core.

Perhaps even more challenging than the external-openness issue is the difficulty of identifying in practice whether any particular country is an "open-access order", or one of the sub-categories of limited-access orders, in terms of the NWW "theory of social orders". Generally Schlueter manages to reconcile his portrait of Uruguay with the concept of a "mature limited-access order", but he repeatedly struggles with the identification of New Zealand as an open-access order. To a New Zealand reader this seems to result mainly from the author's failure to read the nuances of our political history, but for the general reader of Schlueter's book it will be simply confusing.

Schlueter's potted comparative histories of his two case studies are arrayed in three chapters which occupy the core of the book. The first covers the "golden age" from 1870 to 1930 when Uruguay lagged New Zealand until

1920, then nearly caught up in a big growth spurt that ended with the Depression. The initial lag Schlueter correlates with less democracy, more military power, more entrenched rural elites, and less-literate migrants, while the late catch-up he sees as flowing from greater political openness and stability combined with the social welfare measures of "battlism". At the high point in 1930 Uruguay had reached over 80% of New Zealand's per capita income. This is the most coherent of the three chapters, partly because of the extensive previous literature on which Schlueter was able to draw, and partly because he does manage to get mileage out of the limited versus open access paradigm.

The second historical chapter covers the "great divergence" that followed. Schlueter's numbers show Uruguay's real per capita GDP falling from 87% of New Zealand's in 1930 to 40% by 1973. Given that after the Depression both countries introduced similar policies of social welfare, protection for import-substituting industry, and expansion of state agencies, their economic divergence might seem to provide "an extraordinary opportunity to examine core hypotheses of NWW's theory" (110). Schlueter focuses on Uruguay's oscillation between dictatorships and democracy, its greater military involvement in politics, and the declining enforceability of contracts as key explanatory factors. But as the chapter proceeds it becomes more and more difficult to discern critical differences between New Zealand and Uruguay that can be assigned clear causal status with respect to economic performance.

Large swathes of the chapter are devoted to laborious detail on fiscal management, welfare state policies, industrial promotion, monetary policy, constitutional evolution and "openness" of government, with almost completely inconclusive results. Similarities between the two economies seem greater than differences, apart from the prevalence of coups and political violence in Uruguay and the high inflation of the 1960s – both of which could be seen effects rather than causes of the divergence. At several points Schlueter further weakens the case for NWW by doubting whether New Zealand in fact qualifies as an OAO – on page 131, for example, he characterises the New Zealand welfare state as having "served specific political interests", thus aligning it with the Uruguayan pattern rather than differentiating it; and on page 148 he alleges that failure by New Zealand to "transform its external trade sector" conflicts with "OAO ideal type predictions".

Surely central to the divergence story is the fact that over the forty years, New Zealand's exports grew threefold while Uruguay's actually fell. Yet only one table and a couple of pages are devoted to this. The importance of differential market access in the 1930s Schlueter discounts without much supporting analysis, after which he resorts to long-familiar ad-hoc arguments about Uruguayan agriculture being less progressive than New Zealand's, Uruguay's agrarian structure being less egalitarian, and government support for agriculture being less. While familiar, these are not explanations at the level of "deep causes".

The third historical chapter, covering the period since 1970, is even more headlong and confused than the previous two, presenting a jumbled heap of often-conflicting impressions from a range of cited authors about policy changes in both countries and their effects. Since this was a period in which both New Zealand and Uruguay were falling behind the OECD economically, running on roughly parallel tracks in terms of changes in income per capita, the relevance of the NWW model is even less clear than in the convergence and divergence chapters. Nevertheless Schlueter confidently opens the chapter with the declaration that "this period provides a third case by which to examine the viability" of the NWW theory. If there is any proposition to be distilled, it seems to be that New Zealand and Uruguay were both in some sense limited-access orders and hence both unsuccessful economies, but this seemingly would require New Zealand to have undergone a downward "transition" in its "social order" after 1970, which immediately contravenes a key proposition of the NWW model. Schlueter's main stated conclusion is that the neoliberal policies pursued in both New Zealand and Uruguay from the 1980s were "not a promising recipe for successful modern economic development" (198), but this bears no relation to the NWW theory supposedly being tested.

In summary, the book is a disappointment. The choice of the NWW model as an organising framework has not paid off, and the historical chapters degenerate into shapeless recitals of mountains of detail gathered during the research. At the end of the day all that has been learnt is that settler economies don't fit neatly into a core-focused, anglo-centric model with no external dimension. This is not much reward for the effort put in by the author, let alone the hard slog required of the reader. It certainly does not justify the author's description of his work as "a structured application of the [NWW] institutional concept to the two small settler economies" (page 199).

The concluding chapter, indeed, is testimony to the difficulty of rescuing any clear message from the rubble. In a schematic table and chart a clear hypothetical distinction is shown between New Zealand as an OAO and Uruguay as an LAO. In the accompanying text New Zealand shifts repeatedly from one categorisation to the other, while the validity of key NWW propositions melts away on inspection. "Rule of law", "perpetually lived organisations", and "civilian control of the military" do not clearly emerge as key causal determinants of comparative performance.

One can readily agree that Uruguay would have been a better country with fewer coups, less violence, more democracy, more stability, and so on. But would such an alternative Uruguay have grown more rapidly? Ultimately in Schlueter's book the jury remains out on the crucial judgment whether Uruguay's convergence, then divergence, then parallellism vis-a-vis New Zealand should be attributed primarily to comparative institutions, or to the external forces operating on the two economies, or to something else entirely.