

# The Iron Law of Oligarchy: A Tale of 14 Islands \*

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## Abstract

The great puzzle of Caribbean history in the mid-19th century is that this was a time of radical institutional change – with all but one of the long-established Caribbean parliaments voting themselves out of existence inside a twenty-year window – despite very stable conditions in the (exogenous) terms-of-trade and in the (endogenous) local plantation economy. This paper argues that the post-slavery change of the planter elite into a more creole and colored composition did not change the incentives of the coercive Caribbean plantation economy, but that it did undermine the elite’s ability to dominate the political process within the given set of formal institutions, i.e. the locally elected parliaments. The new elite needed a new set of formal institutions to maintain the existing coercive institutional bundle. The first argument is a version of the “iron law of oligarchy” (Michels (1911)), the second a version of the “seesaw of de jure and de facto institutions” (Acemoglu and Robinson (2008)). Guided by a model of elite coherence and institutional choice, we explore our two arguments in a combination of very rich micro-data on islands’ parliamentary politics and sugar plantations, as well as colony-level regression analysis.

Keywords: Iron law of Oligarchy, Bankruptcy, de jure and de facto Institutions, Economic Development

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“If we want things to stay as they are, they will have to change.”

— Giuseppe di Lampedusa, *The Leopard*

“In few places does the dead hand of the past lie as heavily on the present as in the Caribbean.”

— Wallace (1977)

## 1 Introduction

Throughout the 18th century, the Caribbean sugar colonies generated vast riches, making the Caribbean plantation owners, in the words of Galloway (1989), the “wealthiest men in all of English America”. In the early 19th century, sugar’s profitability, built on slavery and high global prices, began to crumble. In 1807, British Parliament abolished the slave trade and 26 years later passed *An Act for the Abolition of Slavery* (1833), which came into effect in the entire Empire in 1838. The early years after abolition saw freed slaves leave the plantations in massive numbers and make for the hinterlands. This “flight off the estates” led to a rapid albeit temporary rise in production costs from 1838–1843 (Hall (1978), (Green, 1976, p. 198)). To make matters worse for the Caribbean planters, the early 1840s saw a 40% decline in world sugar prices, driven by new entrants such as Mauritius and the expansion of production in places such as Cuba and Brazil where slavery persisted.

From its nadir in 1843, the Caribbean plantation system went on to recover and stabilized for the next 40 years, sugar still constituting more than 65% of exports in eleven of the fourteen islands in 1883. This recovery was driven by several factors. First, planters re-exerted their control over local labor markets (Dippel, Greif and Trefler (2014)).<sup>1</sup> Second, in 1849 Britain repealed the *Navigation Act*, allowing Caribbean planters to sell their sugar directly to North American merchants. Third, the world sugar price recovered in the early 1850s and then remained stable until 1884 when German and French beet sugar subsidies triggered another 40% decline in the world sugar price.<sup>2</sup>

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<sup>1</sup>Dippel et al. (2014) investigate the effects of the global decline in sugar-prices on labor markets in the 14 British Caribbean sugar colonies. They find a market-based negative effect of the price decline on wages, but also a positive institutional effect because the erosion of the plantation system’s coercive power (figure 2) increased wages.

<sup>2</sup>Figure 1 shows global sugar prices from 1838 – 1914. Figure 2 shows that the dominance of sugar as the Caribbean’s main export crop remained largely unbroken by 1883.

The great puzzle of Caribbean history in this time period is that despite these stable conditions in the terms-of-trade and in the local plantation economy, the islands saw a flurry of important institutional changes (Will (1970)). The most striking of these institutional changes, and the one we focus our attention on, is that in a twenty-year window from 1855 to 1877 all but one of the long-established Caribbean parliaments called *assemblies* voted themselves out of existence and replaced their constitutions with *Crown Rule*, a system in which all branches of local government – including the legislature – were appointed by London, rather than being locally elected as before. This constituted a dramatic departure from the past, as for the previous 200 years Caribbean planter elites had “jealously guarded the assemblies against interference by the colonial administration” ((Wrong, 1923, p. 70)).

Why did these institutional changes happen and why did they happen when they did? During the 18th century, when sugar was king, many British planter families had attached encumbrances to their estates, regular monetary commitments to the wider family in England that were to be paid from the plantations’ revenues. As profits got squeezed by lower prices and higher labor costs, plantations continued largely to turn operational profits but could no longer cover the additional encumbrances. As obligations from encumbrances piled up, many plantations started their slide into bankruptcy. Because the legal tangle of encumbrance obligations was prohibitively expensive to resolve, many nominally bankrupt plantations continued operating while piling up debt with both the encumbrancers and the merchants that advanced them credit (Beachey (1978, ch.1), Cust (1859, pp.9–13)). This cumbersome bankruptcy law changed in 1854, when the *Caribbean Encumbered Estate Act* (EEA) passed in British Parliament. The innovation of the EEA was threefold: First, it allowed any of the plantations’ many potential encumbrancers and creditors to initiate bankruptcy proceedings; second, it established a clear legal hierarchy of creditor claims, and third, it instituted a specialized court in London with offshoots in the colonies that ensured that these claims were processed in a timely manner (Cust (1859, pp.5-7, 13-15), Sewell (1861, pp.82, 89)). As long-established planter families sold their estates and left the islands, the monolithic nature of the planter elite eroded. The EEA led to dramatic turnover in the ownership of sugar plantations throughout the Caribbean, most of the sold estates ending up in the hands of local merchants and former estate managers (Lowes (1994), Craig-James (2000)).<sup>3</sup> The EEA completely changed the na-

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<sup>3</sup>The EEA established priority among claimants of the merchant’s lien, which gave the merchants that financed the

ture of the planter elite which became much more creole, i.e. composed of members born, raised and resident on the islands, and colored, with many new planters who had parents or grandparents that had been slaves.

This paper's first argument is that the change in the nature of the planter elite, becoming more colored and creole, did not change the incentives of the elite. The Caribbean plantation economy remained as coercive as before because the economic incentives of the creole and colored planters were the same as those of the old British plantocracy. The second main argument of this paper is that the changing identity of the elite *did* undermine its political cohesiveness and its ability to dominate the political process within the given set of formal institutions, and therefore changed which formal institutions were best suited to maintain the status quo. The new planter elite was less able to stem the tide of rising political competition from smallholders within the framework of local elections and therefore chose a more powerful executive to which it enjoyed insider access, to ensure its interests (low taxes and a steady labor supply) dominated those of the population at large (public good provision and the development of domestic markets).

Our first argument is a version of the "iron law of oligarchy" (Michels (1911)): The reason for persistence is not persistence in the identity of those in power, but persistence of the economic and political incentives of whoever is in power. Our second argument is a version of the "seesaw of de jure and de facto institutions" (Acemoglu and Robinson (2008)): Changes in either formal or informal institutions may be offset and therefore rendered meaningless by changes in the other. It is the bundle of the de jure and the de facto institutions that matters.

## 2 Empirics

Guided by a formal model of elite coherence and institutional choice, we explore our two arguments in a combination of very micro-detailed case studies and regression analysis. Our detailed historical and statistical examination has these parts:

1. Using a collection of 76 plantation surveys of the 14 colonies at different times between 1815–1891, laboriously assembled from 48 separate sources, we show that turnover in plantation

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day-to-day plantation operation first call to take over the estates (Lowes (1994, ch.1, pp.19-22), Crossman and Baden-Powell (1884), Cust (1859, pp.5-7, 13-15)) When these merchants were local they often took over the estates they had hitherto financed. When the merchants were in London, they usually resold the estates to local interests.

ownership increased dramatically after the 1854 passing of the EEA.

2. Using a newly assembled complete dataset of all elected politicians in all 14 colonies from 1836 up to each assembly's abolition, we show that electoral turnover increased after 1854 and even more so in the immediate lead-up to each assembly's abolition. At the *parish* level, where the size of the dataset increases by an order of magnitude, higher electoral turnover is shown to correlate strongly with the expansion in the number of voters, which provides evidence that planters were losing control of the process of local voter registration (and gives credence to electoral turnover as a measure of political competition).
3. Combining the plantation data with the politician data, the paper further shows that (a) planters continued to completely dominate the assemblies in the early years after abolition, (b) that this dominance slowly declined thereafter, and (c) that the biggest change after 1854 was not a decline the planters' representation in the assemblies, but in their identity, as long-established planter families disappeared.
4. Using a complete history of Jamaica's parliament from 1640–1836, the only instance where consistent data exists on assembly membership before 1836, the paper shows that it was in particular the most established planter families that disappeared from Jamaican politics after 1854.
5. We then provide a detailed comparison between parliamentary politics in Jamaica and Barbados, the two economically most important islands, and the only two for which we observe parliamentarians' voting behavior in more than just fragments. This comparison is important because Barbados was the island where turnover in plantation ownership was lowest, and the only island that never abolished its parliament. We show that in both islands the voting network early on consisted of a single network, which largely voted in favor of planter issues. In Barbados this remained true after. In Jamaica by contrast, a second voting bloc emerged, which represented non-planter interests. In other words, the voting network in Jamaica became partisan, or characterized by 'homophily' in the language of the social network literature (Jackson (2010)).
6. For only Jamaica, we also know the race and profession of all parliamentarians. We show

that many of the colored new members of Jamaica's assembly – and all those colored members that were planters – voted consistently in the planter bloc against smallholder interest; i.e. it was economics and not race that determined voting behavior. Lastly, while the size of the planter faction declined only marginally after 1854, its voting coherence as a political bloc declined very markedly.

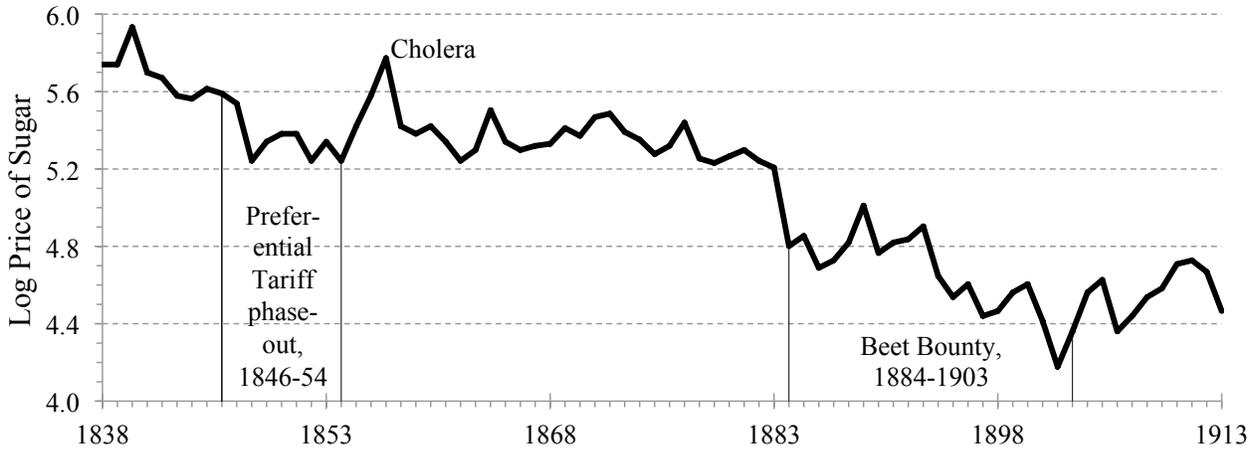
### 3 Background

After abolition, “the main fact of life in the free West Indies was that black laborers were unwilling to remain submissive and disciplined cane workers” (Green, 1976, p. 170). The planters' fortunes hinged primarily on their ability to use the state's legislative, judicial and executive arms to secure a steady supply of labor at a low cost. However, operating under the watchful eye of London Abolitionists, Caribbean planters could no longer take the law into their own hands. Instead of using the whip to raise workers' effort or lower wages, they had to rely on *legal coercion*. Planters could make it difficult for freed slaves to obtain legal title to un-alienated public Crown land or abandoned plantations. They could also make it difficult to retain land by imposing prohibitive land taxes (“quit rents”). Laws against vagrancy, trespassing and squatting made labor immobile across parishes and made it more difficult for plantation workers to strike out on their own.<sup>4</sup> All of these forms of legal coercion required coordination in the form of *collective action* among the entire planter elite in maintaining its collective capture of the islands' legal and judicial apparatus. The new planter elite that emerged after 1854 was less coherent, and therefore less able to collectively achieve the political dominance needed to use legal coercion to subdue its non-planter political rivals.

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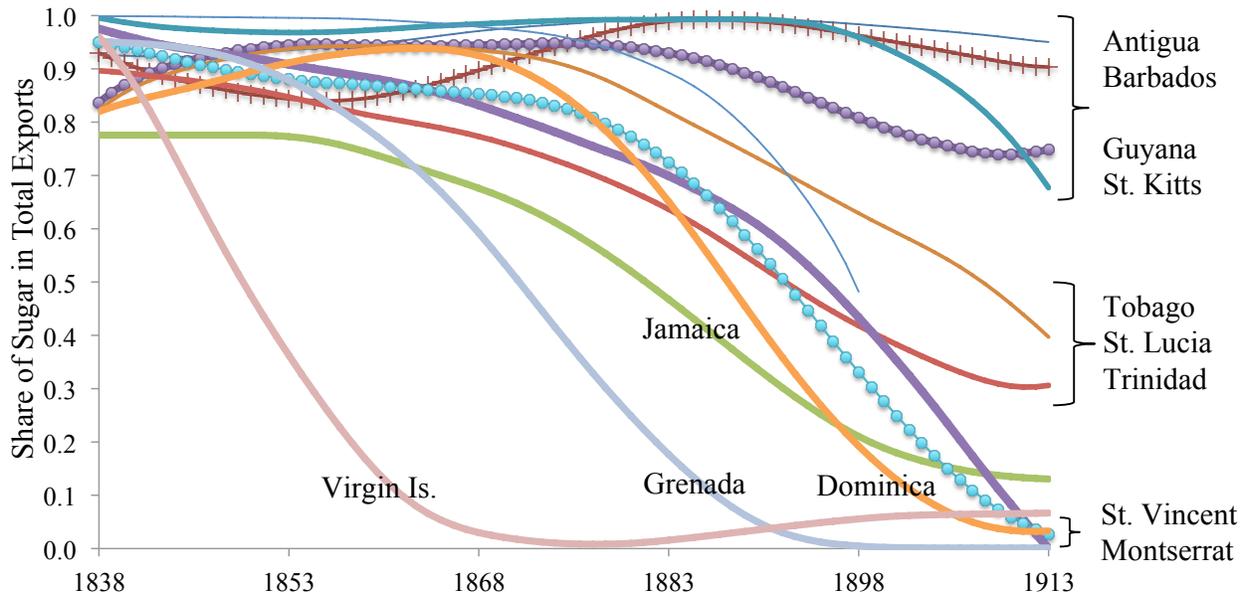
<sup>4</sup>In models of coercive labor markets, coercion of workers (using the whip) relaxes workers' incentive compatibility constraint. By contrast, reducing their outside option relaxes workers' participation constraint (Acemoglu and Wolitzky (2011), Naidu and Yuchtman (2013), Dippel et al. (2014)). The evidence collected in Dippel et al. (2014) shows that the latter form of coercion was by far the more important one in the post-slavery Caribbean.

Figure 1: The Secular Decline in Sugar Prices



Notes: This figure plots the log of the London price of sugar. Two events stand out. As part of the repeal of the Corn Laws and the move to Free Trade, Britain’s preferential tariff on West Indies sugar was phased out over the period 1846–54 (Curtin, 1954). Second, France and Germany subsidized domestic production of beet sugar during 1884–1903, which further drove down sugar prices.

Figure 2: The Share of Sugar in Total Exports and its Differential Decline



Notes: This figure reports the share of sugar in total exports. Nevis is not reported because it stayed between 0.95 and 1.00 throughout. Also, Nevis merged with larger St. Kitts in 1883 and Tobago merged with larger Trinidad in 1899. Each series is lowest smoothed. Data are from the *Colonial Blue Books*.

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