Informal Empire and Divergence:
Oil and the Economic Divide Between Colombia and Venezuela, 1900-1958

Angel Alvarado* Ivan Luzardo-Luna†

September 12, 2025

Abstract

This paper examines the divergent economic trajectories of Colombia and Venezuela during the first half of the twentieth century through the lens of informal empire and institutional development. While much of the institutionalist literature emphasizes endogenous state capacity and secure property rights as prerequisites for growth, this study highlights the role of external geopolitical influence in shaping domestic institutions. Focusing on the 1920s and the interwar period, we argue that Venezuela's integration into the U.S.-led international economy—via direct oil investment—contrasted sharply with Colombia's debt-based engagement. These differing modes of integration influenced each country's response to major external shocks such as the Great Depression and World War II, leading Venezuela to persist with an export-led model while Colombia shifted toward import-substitution industrialization during the 1930s. We provide empirical evidence of Venezuela's exceptional growth and explore how political settlements, elite alignments, and early twentieth-century military conflicts shaped state capacity and institutional outcomes. A calibrated model further illustrates how resource endowments and external leverage produced distinct strategies of fiscal governance, with Venezuela maintaining stability through oil rents and Colombia relying on riskier debt-financed development.

Venezuela, as all the countries of Latin America, is still a country for colonization."

— Letter from Carracciolo Parra Pérez, Former Minister of Foreign Affairs of Venezuela, to Nelson Rockefeller, 1947[1]

Introduction

Much of the economic literature, particularly within the institutionalist tradition, assumes that secure property rights, grounded in strong fiscal and state capacity, are essential preconditions for sustained

*University of Pennsylvania Email: angelalv@sas.upenn.edu . Address: Department of Economics, The Ronald O. Perelman Center for Political Science and Economics, 133 South 36th Street, Philadelphia, PA 19104, United States.

†University of Pennsylvania Email: luzardo@sas.upenn.edu. Address: Department of Economics, The Ronald O. Perelman Center for Political Science and Economics, 133 South 36th Street, Philadelphia, PA 19104, United States.

[1] Parra-Pérez (1947), *Letter*, Venezuela, 1946–1961, en *Nelson A. Rockefeller Personal Papers, Countries, Series E: Venezuela*, Rockefeller Archive Center, https://dimes.rockarch.org/objects/7xJ9cxRh7qt38BrrUFnGx9.

economic growth (North 1990; North and Thomas 1973; Hall and Jones 1999; Acemoglu et al. 2001; Acemoglu 2002; Acemoglu et al. 2005; Besley and Persson 2011) (Figure 1). This framework emphasizes endogenous institutional development, where the state's ability to tax, enforce contracts, and protect property emerges from internal political equilibrium. However, such an approach often overlooks cases in which an external power exerts significant influence over domestic elites, shaping institutional outcomes from the outside even outside a formal empire or direct rule. In these contexts, informal empires can impose or sustain property rights and investment regimes not through domestic state capacity but through geopolitical leverage and elite alignment. Under certain circumstances, informal empires can facilitate economic take-off in countries lacking appropriate institutional development, in a way similar to Gerschenkron's framework of substituting for the missing preconditions for economic growth (Figure 2).

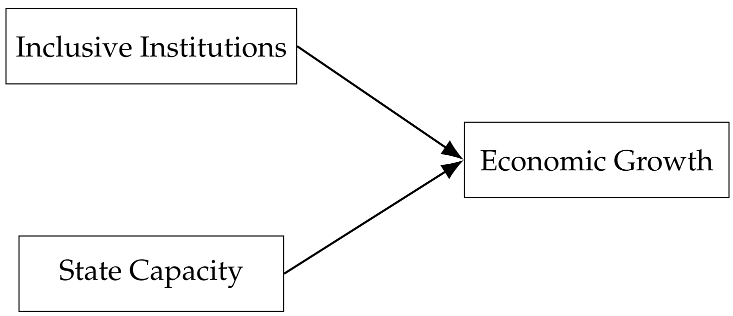

FIGURE 1: STANDARD INSTITUTIONAL MODEL.

Informal empires refer to arrangements in which a foreign power exercises significant control or influence over a sovereign state without formal colonization, often through economic, financial, or diplomatic channels. These empires can take multiple forms, ranging from financial supervision and debt dependency to direct foreign investment in key sectors, in all cases supported by local elites who align their interests with those of the external power. In the 1920s, Latin America presents a compelling case of informal empire, particularly as the United States first competed with Britain and Germany, and later replaced them as the main lender and investor.

By the early 1920s, Colombia and Venezuela had essentially the same income per capita. The two neighboring countries, which a century earlier had been part of the same nation under Gran Colombia, experienced a major divergence throughout the twentieth century. By the mid-1970s, Venezuela had more than double the per capita income of Colombia, a divergence largely related to the rise and consolidation of Venezuela's oil industry. This divergence, however, began in the interwar years and intensified after WWII. The countries' responses to the Great Depression and World War II largely shaped their economic

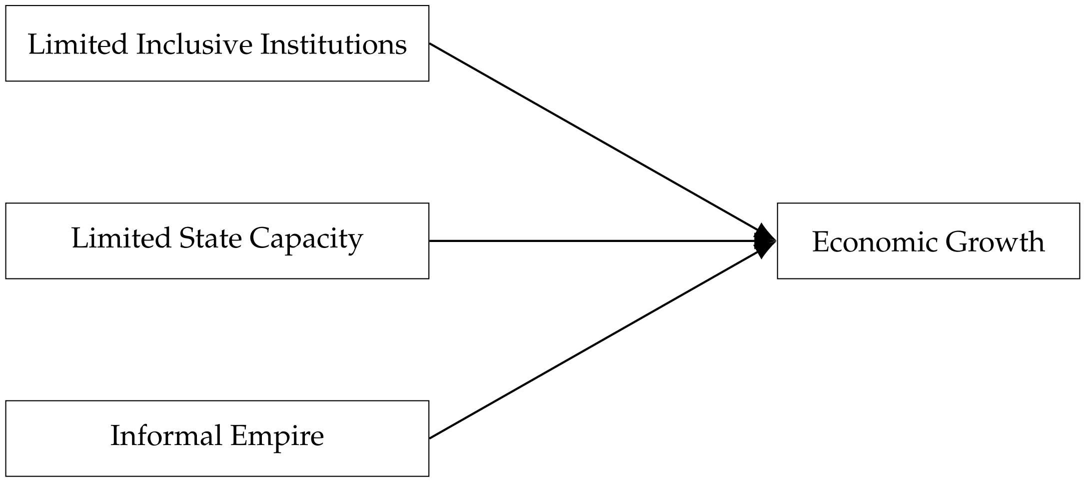

FIGURE 2: AN ALTERNATIVE MODEL.

performance over the rest of the twentieth century. Colombia and Venezuela diverged not only in their growth paths but also in the form and degree of their association with the United States.

While Colombia gradually moved toward an inward-looking model during the 1930s and adopted policies consistent with an import-substitution industrialization-ISI strategy, Venezuela, at least in general terms, continued with the export-led model characteristic of the late nineteenth century in Latin America. By opting for the industrialization-ISI policies, Colombia necessarily reduced its level of association with the world economy, and naturally with the United States. On the contrary, Venezuela maintained a strong economic connection with the United States around the oil industry. In this article, we not only present evidence that the economic divergence between the two countries is related to their level of association with the United States, but we also develop a political economy model that identifies the drivers of this association and the mechanisms behind it within an *informal empire* framework.

There are several mechanisms through which an informal empire can operate and influence economic growth—such as preferential trade arrangements, aid conditionality, and common-currency areas. In this article, however, we focus on capital flows, which take the form of either sovereign debt or direct foreign investment, given their role in the economic take-off and subsequent divergence of the two countries. We explore two mechanisms of how foreign direct investment under an informal empire can operate, *discipline* and *delegation*. The former mechanism, which we maintain was prevalent in Colombia, involves the informal empire conditioning access to capital on policy compliance, such as maintaining low fiscal deficits, monetary stability, and the rule of law. The latter, which we argue operated primarily in Venezuela, entails imperial firms controlling strategic sectors through local concessions, while the domestic elite retains autonomy to implement economic policies that do not interfere with those firms' interests

(3).

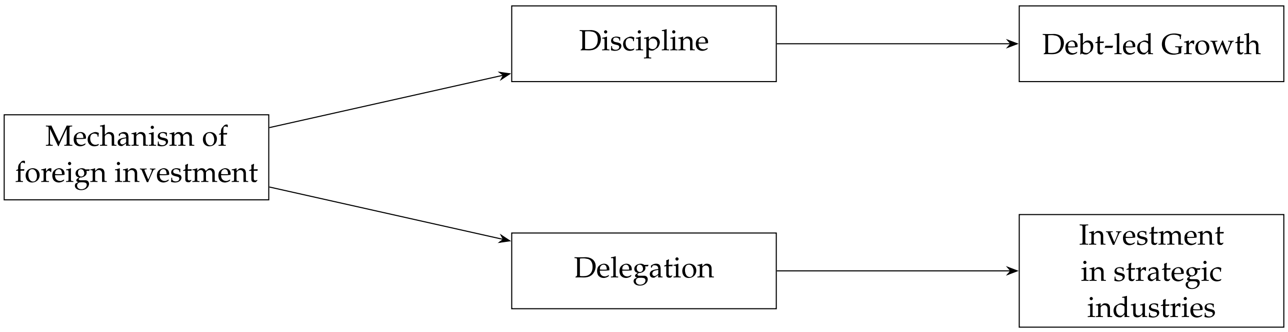

FIGURE 3: MECHANISMS OF INFORMAL EMPIRE VIA FOREIGN INVESTMENT

This article is composed of five sections, in addition to the current introduction. In the first section, we present a literature discussion on the impact of informal empires and their impact on economic growth. In the second section, we present the historical context of the economic take-off of both countries, Colombia and Venezuela, and their economic divergence around the oil industry. In this section, we also present a syntethic control model for Venezuela growth path, finding that Colombia had by far the highest weight among the donor pool, confirming that within Latin America it was the country within the group that exhibited the most similar growth path in the early twentieth century. In this section, we also discuss the origins of the oil industry in Venezuela, the role of foreign companies, and the political economy behind the persistence of the export-led growth after 1931 and 1945, when the rest of Latin America shifted to the import-substitution industrialization model. In the fourth section, we formalize those findings in a theoretical model, which summarizes the interactions between the foreign power and the local elite. Finally, we present the main conclusions.

1 Literature discussion on informal empires

One foundational precondition for the emergence of good institutions is state capacity. Besley and Persson (2011) defines state capacity as a cluster of institutions through which the state holds the monopoly on violence, enforces laws, raises tax revenues, and provides public goods. Numerous studies have documented the importance of state capacity for economic performance (e.g., Amsden 1989; Evans 1997; Evans and Rauch 1999; Rauch and Evans 2000; Besley and Persson 2009; Acemoglu et al. 2015, 2016; Acemoglu and Robinson 2019). Herbst (2000) and Centeno (2002) link the economic failure of African and Latin American nations to their limited state capacity. Gennaioli and Rainer (2007) provides empirical evidence supporting this hypothesis.

State capacity is necessary, though not sufficient, for the development of inclusive institutions. According to Robinson and Acemoglu (2012), state capacity must be combined with broadly distributed political power to create inclusive political institutions. Acemoglu et al. (2016) further argues that state capacity and the broad distribution of political power are interrelated and highly complementary. Huntington (1968) and Fukuyama (2011, 2014) view democracy as the final step in creating good institutions, cautioning that if democracy precedes state capacity, the movement toward good institutions may derail.

State centralization appears to be a critical prerequisite for establishing state capacity (Acemoglu et al. 2020). Within this framework, Rodríguez and Gomolin (2009) compares the income trajectories of Venezuela and Mexico. Unlike Venezuela, Mexico did not undertake a significant process of centralization and consolidation of national public finances at the beginning of the twentieth century. As a result, economic growth diverged between the two countries. We build on this argument by suggesting that, for a certain level of state centralization, informal empires played a crucial role in creating the conditions necessary for Venezuela's state-building and economic take-off.

This paper contributes to the literature by introducing the concept of the *informal empire* as a complementary framework for understanding institutions. The concept refers to a form of imperial influence exerted without direct territorial control, typically through economic, diplomatic, and cultural mechanisms. Originating in the work of (Gallagher and Robinson 1953), who argued that British imperialism often operated through "free trade" rather than formal colonization. (Gallagher and Robinson 1953), the idea has since been applied to various historical contexts, including U.S. influence in Latin America and French postcolonial relations in Africa. Informal empires rely on asymmetrical relationships, where dominant powers shape the political and economic trajectories of weaker states through financial leverage, strategic alliances, and ideological penetration.

A key contribution of the informal empire framework is its relevance to understanding the political economy of the resource curse. While much of the literature focuses on domestic institutions and state capacity, informal empire highlights how external actors, often powerful states or multinational corporations, can shape the institutional trajectories of resource-rich countries through indirect control. Crucially, informal empires tend to operate above a certain threshold of state centralization: they require a minimally functional state apparatus capable of enforcing contracts, maintaining basic order, and engaging in international relations. This condition enables external powers to exert influence without direct governance, often by co-opting local elites or leveraging economic dependencies. By embedding economic growth within a broader historical and geopolitical context, informal empire theory offers a valuable lens for analyzing how external influence can reinforce domestic institutional fragility and hinder inclusive development.

2 Take-off and Divergence

In the early twentieth century, neither Colombia nor Venezuela had yet begun their transition to modern economic growth. After a long period of instability and civil wars that characterized the nineteenth century, both countries finally achieved a minimum level of political centralization by the turn of the century and experienced their economic take-off in the 1920s.

Figure 4 shows Venezuela's GDP per capita relative to that of Colombia. Venezuela entered the twentieth century with a relatively higher income per capita. However, between 1900 and 1920, there was a gradual convergence between the two countries.

In other to identify structural changes in Venezuela's GDP relative to that of Colombia, we employed the Bai-Perron (2003) multiple structural break test. This method estimates the optimal number and location of breakpoints in a time series by minimizing the Residual Sum of Squares (RSS) while penalizing model complexity via the Bayesian Information Criterion (BIC). The results indicate multiple significant breakpoints in Venezuela's relative income over time. The best fitting model, as determined by the lowest BIC value, suggests five structural breaks occurring in 1915, 1932, 1944, 1956, and 1968. However, models with fewer breaks also indicate key turning points. Specifically, when the model is restricted to a single

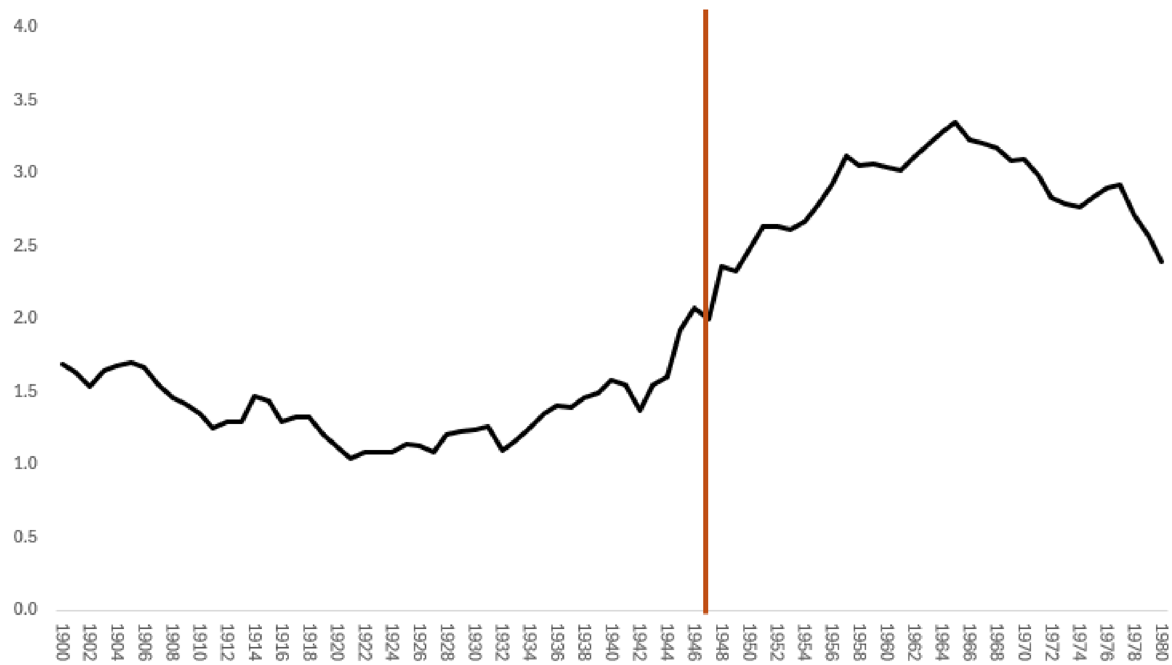

FIGURE 4: STRUCTURAL BREAK VENEZUELA GDP RELATIVE TO THAT OF COLOMBIA

break, it occurs in 1947, coinciding with Venezuela's transition to democracy, and the promulgation of the 1947 Constitution.

The five structural breaks identified in the estimation mark: the period of convergence acceleration in 1915 (Colombia's economic take-off); improved management of the Great Depression after 1932 (the origin of the divergence between the two countries); the acceleration of divergence after 1942 (the post-WWII period); the end of economic divergence in 1956 (towards the end of *Andean hegemony* in Venezuela); and the reversal in economic growth patterns after 1968 (when Colombia began to outperform Venezuela).

TABLE 1: STRUCTURAL BREAK TEST RESULTS FOR VENEZUELA INCOME RELATIVE TO THAT OF COLOMBIA

m	Breakpoints	RSS	BIC
1	1947	48.405	196.955
2	1944, 1956	5.337	27.146
3	1944, 1956, 1968	4.042	13.415
4	1911, 1944, 1956, 1968	3.391	7.995
5	1915, 1932, 1944, 1956, 1968	2.811	-2.322

The estimation identifies a *golden age* of economic growth in Venezuela between 1945 and 1956. Instead of implementing ISI in 1931 or 1945, as major Latin American economies did, Venezuela persisted with the export-led growth model centered on the oil industry until the mid-1950s. This extended duration of the export-led growth was the main reason behind Venezuela's positive divergence in the region.

Venezuela's unique economic growth within Latin America can be identified by contrasting it with Colombia's performance. However, the same break years are obtained when estimating Venezuela's GDP relative to the Latin American average, as presented in Table 2. The process of state centralization in early 20th-century Venezuela, along with its engagement with the informal empire in the 1920s, provides a key to understanding this performance.

TABLE 2: STRUCTURAL BREAK TEST RESULTS FOR VENEZUELA INCOME RELATIVE TO THAT OF LATIN AMERICA AVERAGE

m	Breakdates
1	1945
2	1934, 1947
3	1930, 1944, 1956
4	1930, 1944, 1956, 1968
5	1913, 1932, 1944, 1956, 1968

TABLE 3: RESIDUAL SUM OF SQUARES (RSS) AND BAYESIAN INFORMATION CRITERION (BIC)

m	0	1	2	3	4	5
RSS	39.129	4.326	1.969	1.332	1.151	1.128
BIC	179.723	10.139	-44.838	-67.699	-70.722	-63.572

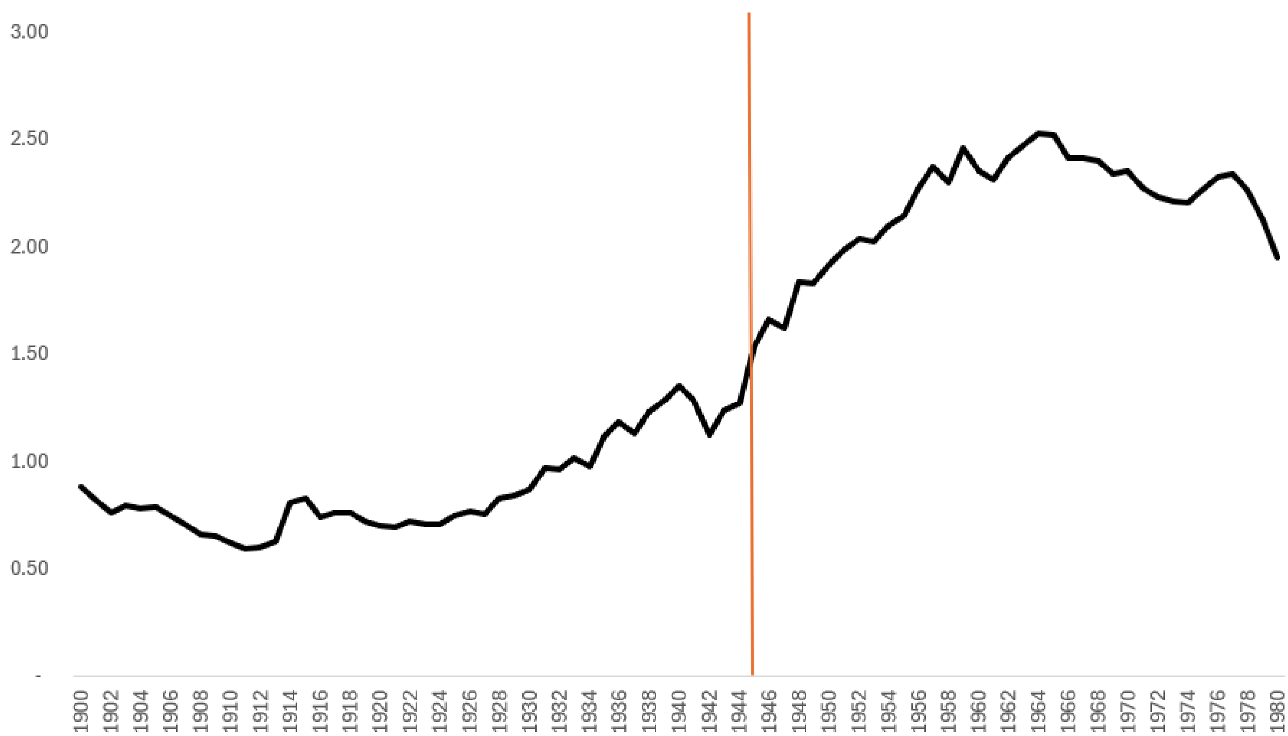

FIGURE 5: STRUCTURAL BREAK VENEZUELA GDP RELATIVE TO THAT OF LATIN AMERICA AVERAGE

2.1 Venezuela's *golden age* of economic growth

Structural break tests help identify when Venezuela's economic divergence occurred. We complement that analysis with a synthetic control model, which quantifies the impact of policy decisions. We present two models in which Venezuela is the treated unit, and nine other major Latin American economies compose the donor pool. The first model uses 1945 as the treatment year following the results of the structural break test. The second model uses 1931, when the Great Depression escalated from a crisis to a major depression following the Chicago stock market crash. In that year, several major economies in the region—such as Argentina, Brazil, and Colombia—implemented capital controls, and it is commonly regarded as the beginning of the ISI model in Latin America. Even though Mexico and Peru did not implement capital controls, Venezuela's situation was unique in Latin America, as the country did not carry the burden of external debt, which substantially conditioned Latin American policymakers decisions during the interwar period.

Figures 11 and 12 present the results of the synthetic control models with treatments in 1931 and 1945, respectively. Likewise, Table 4 present the weights and MSPE ratios.

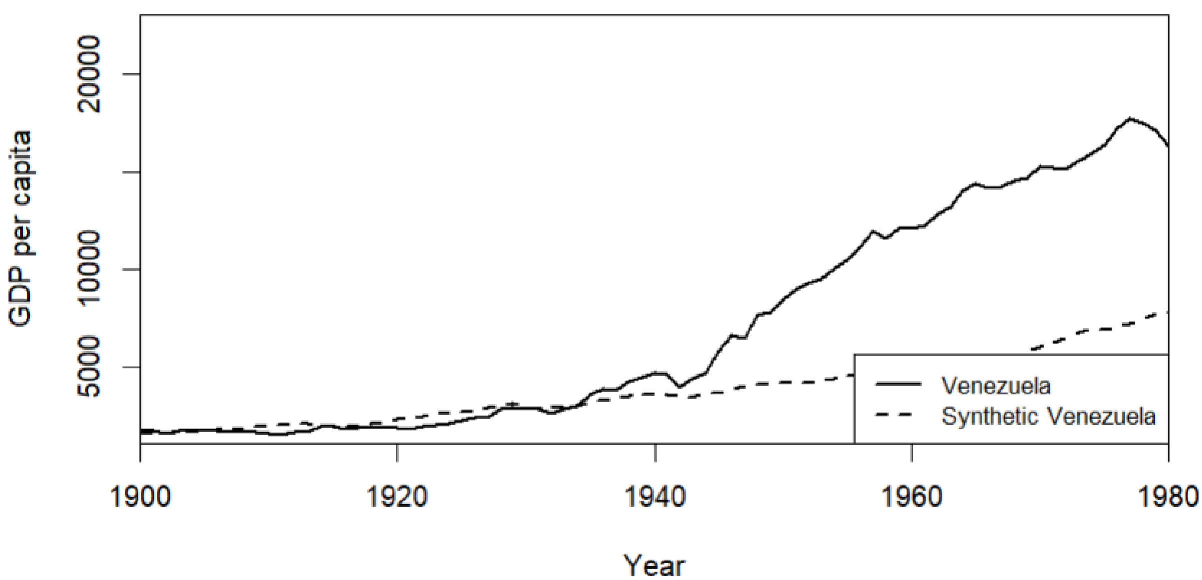

FIGURE 6: SYNTHETIC VENEZUELA 1931

The results presented in Table 4 show that both treatments had a significant impact; however, the MSPE ratio is higher when the treatment is set in 1931. This finding is consistent with the hypothesis of

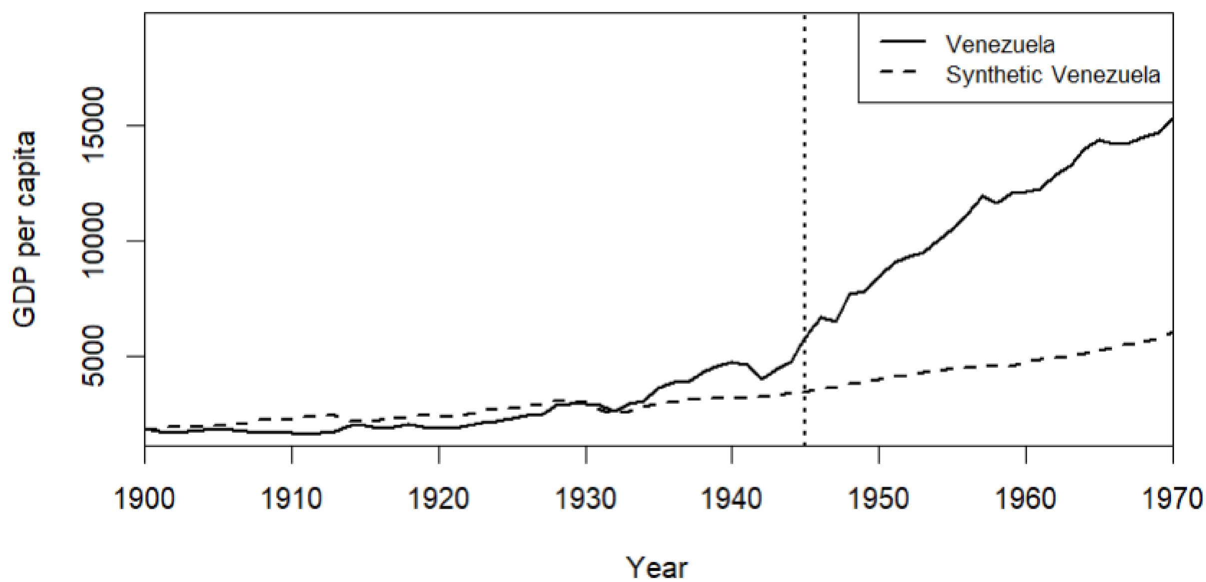

FIGURE 7: SYNTHETIC VENEZUELA 1945

Venezuela's unique position at the peak of the Great Depression. Without the pressure of external debt and the urgency for liquidity, Venezuelan policymakers were able to resist adopting the economic policies associated with the ISI model.

Figures 13 and 14 present the placebo test for both models. While the endogenous structural break test identifies 1945 as the turning point in Venezuela's relative GDP per capita, our synthetic control analysis finds the strongest divergence when treatment is assumed to occur in 1931. This suggests that the foundations of Venezuela's divergence may have been laid earlier. The policy decisions in the management of the Great Depression settled a latent pathway for economic divergence that fully materialized around 1945.

Table 4 shows that, regardless of whether the treatment year is 1931 or 1945, Colombia received the highest weight in the donor pool. This confirms that Colombia and Venezuela had similar economic performance prior to the Great Depression. When the treatment year is set to 1931, Colombia accounts for 52% of the synthetic Venezuela estimate; when the treatment is set to 1945, that weight increases to 83%. Following Venezuela's economic divergence in 1945, the synthetic results suggest that Colombia serves as a strong counterfactual for Venezuela.

Country	Treatment 1931	Treatment 1945
Argentina	0.01	0.17
Brazil	0.18	0.00
Bolivia	0.03	0.00
Chile	0.01	0.00
Colombia	0.52	0.83
Ecuador	0.05	0.00
Mexico	0.02	0.00
Peru	0.02	0.00
Uruguay	0.17	0.00
Pre-treatment MSPE	34,036	311,414
Post-treatment MSPE	46,887,847	59,117,355
MSPE Ratio	1,378	190

TABLE 4: SYNTHETIC CONTROL WEIGHTS AND MSPE METRICS FOR VENEZUELA UNDER TWO TREATMENT YEARS (1931 AND 1945).

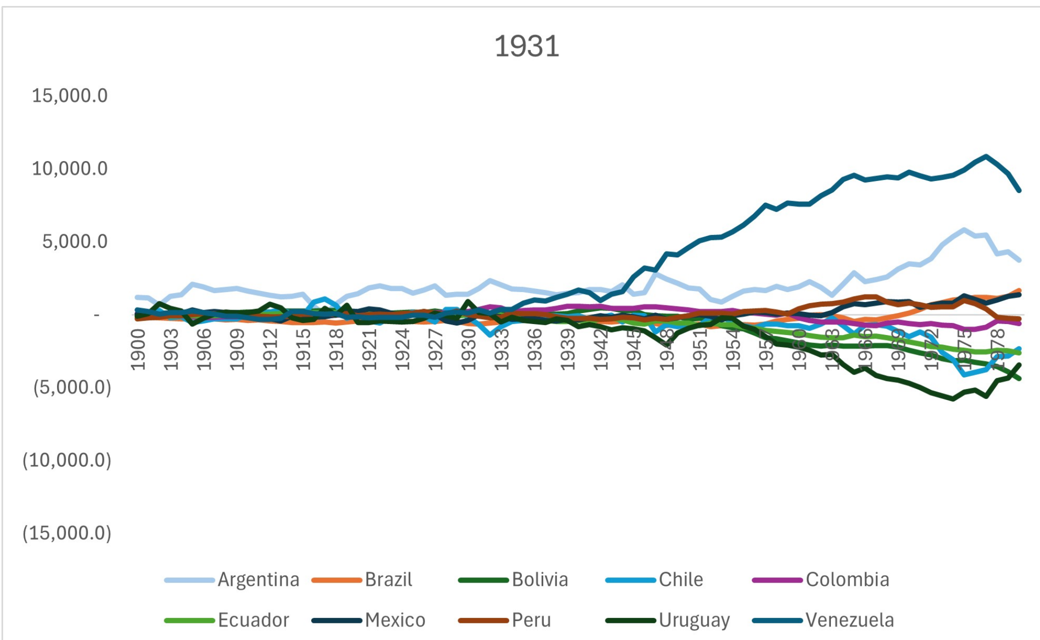

FIGURE 8: PLACEBO TEST WITH TREATMENT IN 1931

2.2 Oil Industry, economic take-off, and state capacity in Venezuela

In December 1902, Germany, Britain, and Italy launched a decisive naval blockade of Venezuela, marking a turning point in the nation's history. This intervention was prompted by the government's default on European-owned railroad companies and concerns over the safety and rights of European nationals residing in the country. A volunteer corps was formed through a government initiative to defend the territory, as President Cipriano Castro (1899-1908) planned to oppose the invaders with a war to the

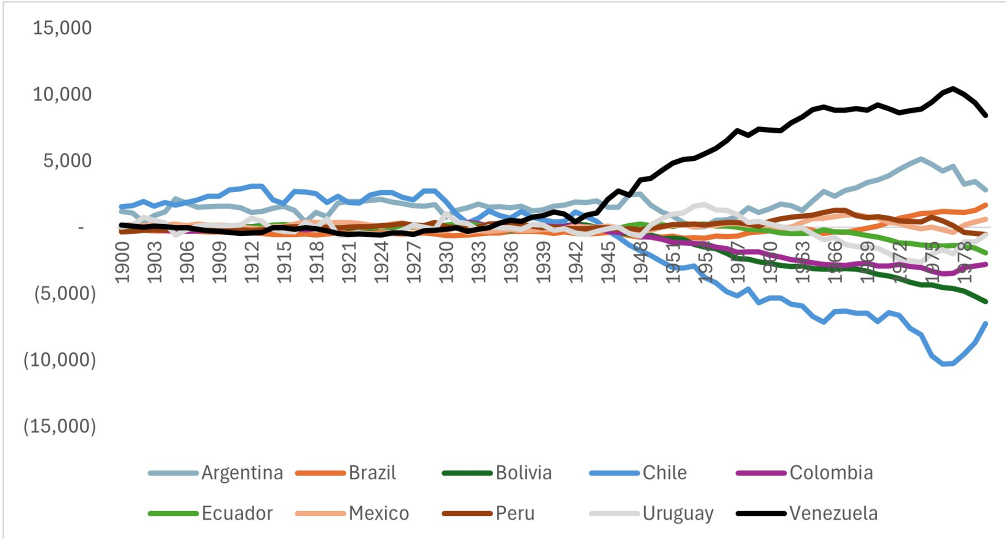

FIGURE 9: PLACEBO TEST WITH TREATMENT IN 1945

death.[2]

Venezuela served as the ”laboratory” in which Germany examined its drive toward the Caribbean basin—and its resulting clash with the self-appointed hemispheric guardian, the United States (Herwig 1986, p. 3). The United States stepped in as a mediator to resolve the crisis, and the involved parties signed the Washington Protocols, effectively lifting the naval blockade. Represented by the United States' Ambassador Herbert W. Bowen, Venezuela agreed to allocate 30% of its customs revenues to settle the claims of the European powers. These claims were fully resolved by January 1913, and by 1930, Venezuela had freed itself from external debt and the financial burdens inherited from the War of Independence in the early nineteenth century. The country completed the repayment of its external debt during the centenary of Simón Bolivar's death in 1930, while military expenditures reached 17.5% of the national budget McBeth (2002, p. 113).

At the time of the blockade, the Venezuelan government was also grappling with internal unrest: ´La Revolución Libertadora' —a civil war led by regional elites—posed a serious threat to national stability. The convergence of foreign pressure and domestic rebellion underscored Venezuela's fragility at the dawn of the twentieth century. However, the signing of the Washington Protocols marked a tipping point. With international tensions easing, internal opposition to President Cipriano Castro began to lose momentum. The rebellion was decisively crushed in July 1903 at the Battle of Ciudad Bolívar, following a siege led by General Juan Vicente Gómez. Peace exploded in Venezuela for the rest of the century Caballero (1998).

[2]”More than one hundred thousand Venezuelans went to the civil headquarters to seek weapons to join the patriotic army. Jewelry and money poured into the government's coffers. It is the largest army ever formed in the country.” Rangel (1974)

Due to the crisis, two significant doctrines emerged: the Roosevelt Corollary to the Monroe Doctrine and the Drago Doctrine. The former, articulated by President Theodore Roosevelt in his 1904 address to Congress, asserted the United States' right to intervene in the economic affairs of Caribbean and Central American nations that were unable to meet their international debt obligations. This policy aimed to prevent European powers from using force to collect debts, reinforcing U.S. hegemony in the Western Hemisphere. In contrast, the Drago Doctrine, formulated by Argentine Foreign Minister Luis Mara Drago, rejected the use of armed intervention by foreign powers to enforce the repayment of sovereign debt in the Americas.

This moment marked a pivotal moment in Venezuela's history, setting in motion a gradual transformation toward a more unified and modern state. This process would continue over the next four decades (McBeth 2001, p. 100). President Cipriano Castro and his ally Juan Vicente Gómez—often referred to as *Los Compadres* and originally from the same region of Tachira —devised a strategy to attract foreign investment by investing in infrastructure, establishing a professional military, and honoring Venezuela's foreign debt obligations. [3] These reforms not only stabilized the country's finances but also catalyzed a new political movement that ultimately facilitated Gómez's ascent to power McBeth (2001, p. 3)

As president, Juan Vicente Gómez (1908-1935) maintained cordial relations with foreign powers and international companies, aiming to prevent another blockade McBeth (2001, p.257). He recognized the strategic importance of the oil sector well before the industry was fully established in Venezuela, distributing informational pamphlets and engaging in confidential negotiations with foreign companies McBeth (2002, p 30). This proactive approach proved effective: oil companies were drawn not only by the promise of substantial petroleum reserves but also by Venezuela's favorable legal framework, relative political stability, and attractive contractual terms.

Under the rule of Juan Vicente Gómez, Venezuela became the world's second-largest oil producer, with exports increasing by an astonishing 790% between 1908 and 1929 McBeth (2002, pp. 1–4, 109). This oil boom significantly consolidated Gómez's political power, enabling him to maintain authoritarian control while enriching himself and his close associates Karl (1997a). Despite this dramatic growth in exports, oil accounted for only 4.6% of Venezuela's GDP by 1930, indicating that the country had yet to fully harness the broader economic potential of its petroleum wealth McBeth (2002, p. 129). Meanwhile, traditional exports declined in relative importance. For instance, by 1913 Colombia had surpassed Venezuela as the

[3]The majority of Venezuelan historians agree that the centralization of political power under the *Andean hegemony* was a process that temporally preceded the emergence of petroleum Rodríguez and Gomolin (2009)

world's second-largest coffee exporter McBeth (2002, p. 117).

A milestone to attract oil investments was the 1909 Mining Code, which was more liberal than the former 1904; taxes were reduced to 1% of gross production, and customs duties were exonerated, but at the same time increased government supervision of mining activities McBeth (2002, p. 7). The objective was ' to increase the number of firms established' (Lisandro Alvarado, President of the Senate).' Alvarado said the Law reflected Gómez´s economic aspirations for the country because it would open a new investment period, immigration, and roads. McBeth (2002, p. 7).

Colombia, which the oil fraternity viewed as a much more promising producer, found that the enactment of its 1919 Oil Law scared many prospective oil companies away. Venezuela was in an excellent position, offering favorable operating terms and the stability needed by oil companies McBeth (2002, p. 32).

The Compadres' decision to create state capacity manifested in a balanced budget policy and gold standard implementation. Román Cárdenas, the Ministry of Finance, pursued a balanced budget, eliminating the fiscal deficit and establishing two fundamental principles: budgetary balance and the prior existence of resources in the Treasury whenever it is necessary to agree on additional credit. The fiscal disorder in Venezuela ends Rangel (1974). Vicente Lecuna- Gómez an important financier, promoted a monetary reform in 1918, establishing the gold standard in Venezuela. The monetary unit was the bolivar, which was worth a certain number of grams of fine gold. No amount of silver will be minted without ordering the minting of an amount of gold twice as large Guerra (2021).

Geoeconomics also played a role as well in the development of the oil industry. Maracaibo is closer to New York than Tampico (México), and the Dutch Islands in the Caribbean Sea were a haven for the Oil Companies. Logistics production problems, such as near-sea transport, were far fewer than those in the Middle East. Thus, Venezuela became part of a global strategy to control and market petroleum, as well as to punish hostile, revolutionary governments in Russia and Mexico by shifting production elsewhere Karl (1997b). The international oil situation benefited Venezuela dramatically after the First World War, with both the British and American governments actively promoting their oil companies to seek new oil supplies McBeth (2002, p. 323).

World War II marked another turning point for Venezuela's oil industry, dramatically enhancing its strategic and economic importance. Venezuela emerged as a vital alternative supplier as the German navy disrupted oil supply routes from the Persian Gulf to Allied nations. During the war's most intense years, the country provided over 80% of Britain's fuel needs, with distribution facilitated through Shell Guerra (2021). This surge in global demand for Venezuelan oil translated into substantial fiscal gains.

By 1943, a new income tax was introduced, requiring oil companies to contribute a larger share of their profits to the National Treasury. As a result, government revenues nearly doubled—from Bs. 329 million in 1940 to Bs. 660 million in 1945. Remarkably, during this period, Venezuela avoided contracting external public loans, and by 1945, its internal debt stood at just Bs. 25 million—less than 4% of ordinary fiscal income. The war not only elevated Venezuela's geopolitical relevance but also laid the foundation for a more robust and self-sustaining national economy.

The Venezuelan government promoted the 50:50 law under the leadership of President Rómulo Gallegos (1948) and later implemented it during the administration of Carlos Delgado Chalbaud (1948-1950). This law marked a significant shift in Venezuela's oil policy, giving the country greater control over its resources and setting a precedent for other nations.

The 50:50 law established an equal profit-sharing model between the Venezuelan government and foreign oil companies. It was a groundbreaking move in the global oil industry, setting a precedent for other oil-producing nations. The law mandated that 50% of the profits from oil production would go to the Venezuelan government, while the oil companies would retain the remaining 50%. Additionally, foreign companies established export refineries in the country. It marked a shift in the balance of power, giving Venezuela greater control over its natural resources and increasing its revenue from oil exports, which boosted national income and fueled rapid internal economic growth.

This model inspired similar arrangements in other oil-producing countries, particularly in the Middle East. The 50:50 law was a stepping stone toward Venezuela's eventual nationalization of its oil industry in the 1970s. It also marked a defining moment in the oil strategy of Venezuela's first democratic government (1945–1948), setting a precedent for future resource governance in the democratic period (1958-1998) in which governments strongly advocated for the revision of existing oil concessions and contracts under the slogan "No More Concessions." [4]

The divergence in GDP performance between Venezuela and Colombia (4) became increasingly pronounced between 1945 and 1958, a period marked by Venezuela's first democratic experiment under Rómulo Gallegos and the end of Andean military hegemony under Marcos Pérez Jiménez. In contrast,

[4] The democratic parties viewed many of these agreements as detrimental to Venezuela's national interests, having been negotiated under authoritarian regimes with limited transparency—specifically during the dictatorships of Juan Vicente Gómez (1908–1935) and Marcos Pérez Jiménez (1952–1958). Both regimes were accused of pursuing oil policies that heavily favored foreign interests, particularly U.S. and European oil companies, granting them generous concessions with minimal state oversight.

greater economic convergence between the two countries is evident during the subsequent democratic period, when Venezuela finally adopted Import Substitution Industrialization (ISI) policies after 1958.[5]

2.3 The limited development of the oil Industry in Colombia and the consolidation of inward-looking model

The origins of the oil industry in Colombia can be traced back to the second half of the 19th century, when—inspired by the rise and consolidation of the oil industry in Pennsylvania—several adventurers explored the north of the country, albeit with limited success and with a significant production. The first steps in the development of the oil industry occurred in 1905 with the granting of two private concessions—de Mares and Barco—in the Santander region (east of Colombia), which borders Venezuela. This geographic proximity has led some observers to consider it an extension of the Venezuelan oil region around Lake Maracaibo.

The entrepreneurs behind those concessions were essentially middlemen without the financial resources to actually extract oil. They likely aimed to resell the concessions to foreign companies, which is precisely what happened in 1919 with de Mares concession, when the Tropical Oil Company- TOC, a branch of the Standard Oil Company—SOC, acquired it. The company initiated its activities in 1922 and began refining operations in 1923. In 1924, the Andean National Corporation, another subsidiary of the SOC, began constructing a pipeline to transport oil from Santander to Cartagena. It was inaugurated in 1926, thereby completing the necessary infrastructure to enable large-scale oil exports.

The geopolitics of the period played a significant role in the development of the oil industry, which foreign firms largely drove. In the late 1910s, Colombia was still grappling with the political and economic ramifications of Panama's secession in 1903, which the United States had supported. During the administration of President Marco Fidel Suárez (1918–1921), the Colombian government sought to restore diplomatic relations with the United States, culminating in the ratification of the Thomson-Urrutia Treaty in 1921, initiating a period of *informal empire*. The treaty, ratified by the United States Senate on 20 April 1921, provided Colombia with financial compensation of $25 million in reparation. Those resources were directed toward transportation infrastructure and broader modernization efforts, such as the establishment of the Banco de la República (Central Bank of Colombia) and the Superintendencia Bancaria

[5]The new political leadership in Venezuela set the country in a path of state-led, big push natural resource based heavy industrialization that focused in the development of state-owned enterprises in steel, aluminium, petrochemical, oil refining and hydroelectric power Di John (2009).

(Banking Regulatory Administration) in 1923, but also significantly enhanced Colombia's integration into international financial markets.

The relationship between the Thomson-Urrutia Treaty and the development of Colombia's oil industry has been extensively documented in the literature (Parks 1935; Lael 1987; Durán and Bucheli 2017). According to (Durán and Bucheli 2017), the Standard Oil Company (SOC) influenced the United States Senate's decision to ratify the Thomson-Urrutia Treaty due to its interest in Colombia's oil production prospects. These interests competed with those of the British, which is why SOC sought to influence the U.S. Department of State's decision to offer \$20 million in reparations to Colombia for the separation of Panama in 1913—an agreement that the U.S. Senate would not ratify until nearly a decade later.

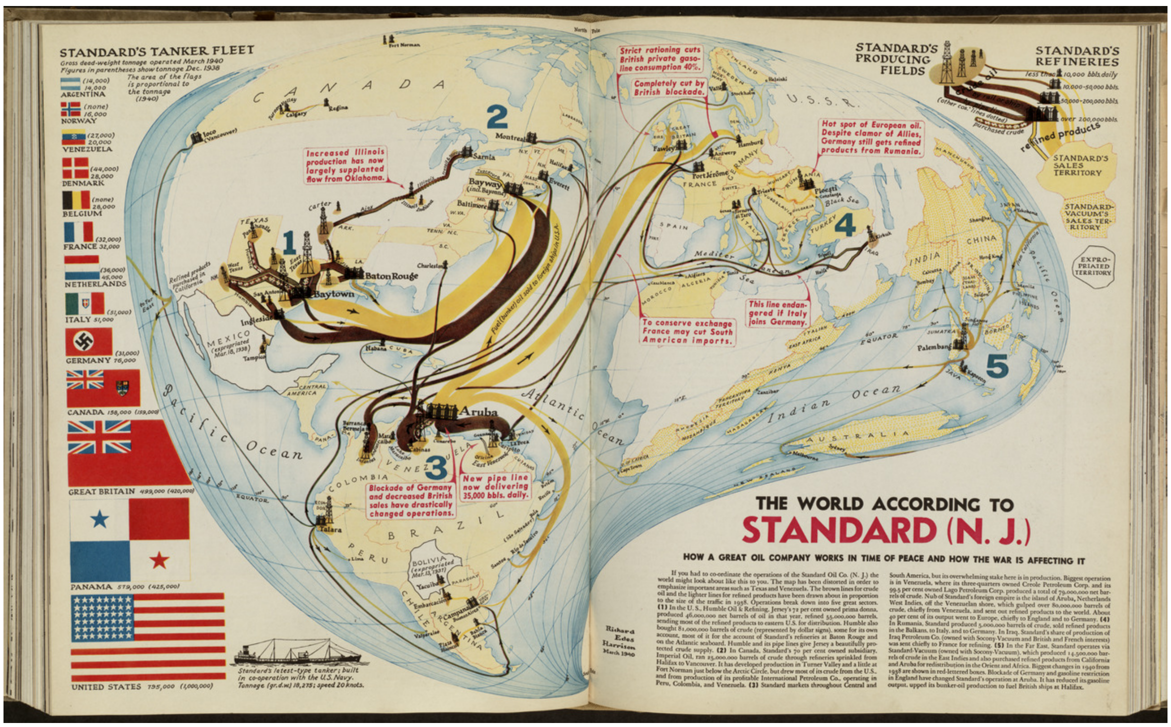

FIGURE 10: THE WORLD ACCORDING TO STANDARD (N.J.)
SOURCE: RICHARD HARRISON EDES. BOSTON PUBLIC LIBRARY

As shown in Figure 11, Colombia's oil production took off in 1926, when the Andean pipeline became operational. Important as this achievement was, Colombia's oil production stabilized in 1928 and, unlike the case of Venezuela, remained relatively constant in the following years. In fact, as shown in Figure 12, Colombia's oil production lagged far behind that of Venezuela during the initial decade of the industry in the region. This gap persisted throughout the remainder of the century and significantly contributed to the income disparity between the two countries.

Despite the SOC continued its operation until 1951, the development of the oil industry in Colombia underwent a major shift in 1931 with the enactment of Law 37, promulgated during the administration of President Enrique Olaya Herrera (1930–1934).

This law, inspired by the Mexico constitution of 1917 and until certain extent the end of *informal empire* relationship around oil, increased the government's role in the industry by declaring oil an activity of public utility and facilitating mechanisms for expropriation. It also established preferential hiring for Colombian workers, introduced taxation and royalties on exploration and production, and expanded government regulation of the industry. In addition to the growing trend towards natural resource nationalism in Latin America, the context of the Great Depression was an important driver behind Law 37. The Depression led to a sudden stop in capital inflows and significantly reduced the government's customs revenue. Oil emerged as one of the few plausible alternatives for increasing government income.

Law 37 reduced incentives for foreign companies, although did not eliminate them. This regulatory change marked the beginning of a gradual transition toward a state-controlled oil industry in the 1940s. In fact, in 1931, the other major player, Colombian Petroleum, a subsidiary of the Gulf Oil Corporation, took control of the Barco concession, but that presence did not last for many years. The final shift toward the consolidation of state control over the oil industry came in 1945 with the early reversion of the De Mares concession. This was followed by the promulgation of Law 165 in 1948, which, inspired by Mexico's oil nationalization in 1938, declared full government ownership of oil reserves and established exclusive rights for the state to manage and control extraction. In 1951, the Colombian government founded the Colombian Petroleum Corporation (ECOPETROL), which began operations over the reverted De Mares concession. After 1931, the SOC via the TOC remained as the dominant player in the oil industry in Colombia until 1951. The changes implemented in 1931, even than did not immediately led to the withdrawal of the TOC, certainly reduced the incentives for new players to arrive.

The Thomson-Urrutia Treaty and the consolidation of the TOC production not only placed Colombia on the global oil production map but also integrated the country into international capital markets, which experienced large capital inflows during the *Roaring Twenties*. Those flows came not only in the form of direct foreign investment, but also served to finance government debt. This was especially the case during the second half of the 1920s, when government foreign borrowing accelerated, as is presented in Figure 13. The increase in government debt coincided with the beginning of oil exports and its significant expansion. By 1928, Colombia was the world's eighth-largest oil producer (Durán and Bucheli 2017), and

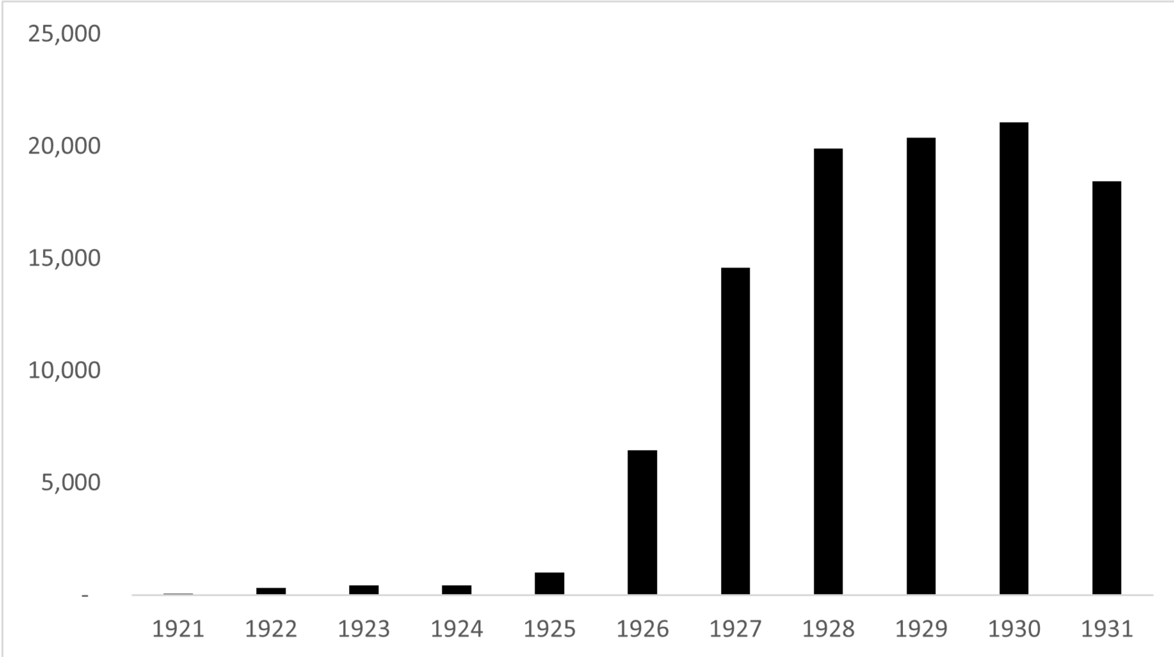

FIGURE 11: COLOMBIA OIL PRODUCTION (MILLION OF BARRELS)
SOURCE: ANUARIOS ESTADÍSTICOS DE COLOMBIA

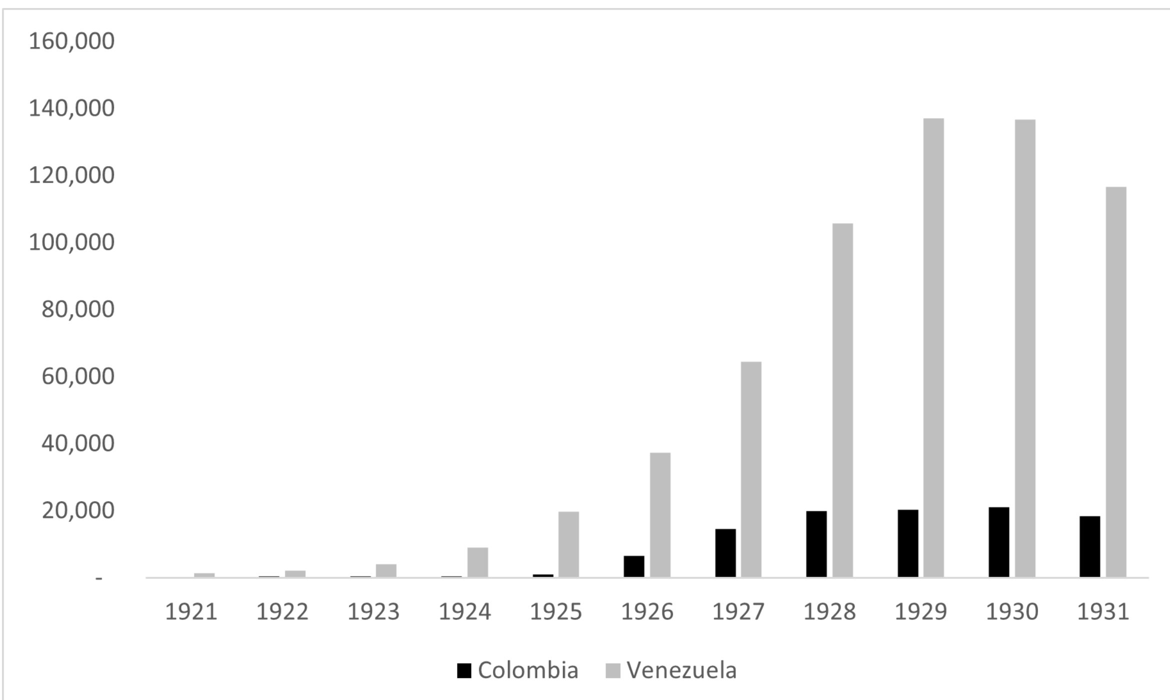

FIGURE 12: COLOMBIA AND VENEZUELA OIL PRODUCTION (MILLION OF BARRELS)
SOURCE: ANUARIOS ESTADÍSTICOS DE COLOMBIA

until 1951, when the Standard Oil Company's concession ended, nearly all oil produced and exported in Colombia was managed by SOC.

2.4 *Informal Empire* via debt and discipline

After World War I, U.S. bankers and investors rapidly moved to displace the relatively strong British position in Latin America, established in the late nineteenth century (Stallings 1987). In the context of this lending boom, Colombia benefited from U.S. capital exports, which financed not only direct foreign investment but also government debt. Colombia and Venezuela registered similar levels of external debt in 1924. Data for Venezuela in 1925 and 1926 are unavailable. However, by 1927, the gap in external debt had substantially increased, indicating a divergence in fiscal policy between the two countries. While Colombia's external debt accelerated between 1927 and 1928, Venezuela followed a sound fiscal policy, which allowed it to reduce and repay its external debt by 1930.

The integration of Latin American countries, including Colombia, into U.S. capital markets was facilitated by the so-called *Kemmerer Missions*, which was motivated by the influx of financial resources that followed the ratification of the Thomson-Urrutia Treaty. These were a series of financial advisory missions led by the influential American economist Edwin Kemmerer, aimed at modernizing monetary and financial systems in Latin America following an orthodox economic approach. By recommendation of the State Department, Kemmerer Mission was implemented in Colombia in 1923.

Similar missions were later implemented in countries such as Chile (1925), Ecuador (1926), Bolivia (1927), and Peru (1931); however, with the exception of Chile, their impact was considerably more limited. The Kemmerer missions, and the reforms they inspired, served as a *seal of approval* (Drake, 1989), intended to signal to international investors that Colombia was committed to credible and disciplined monetary and fiscal policies, thereby ensuring the country's capacity to repay its external debt. In other words, the Kemmerer missions can be seen as a *discipline* mechanism in the informal empire association.

The only Andean country where there was not a *Kemmerer Mission* was Venezuela. A combination of economic and institutional factors explains this fact. Under the authoritarian regimes of Juan Vicente Gómez (1908–1935) and his predecessor Cipriano Castro (1899–1908), political power was highly centralized, with both leaders exercising personal control over public finances. The Castro and Gómez regimes maintained a strong nationalist stance, which made a foreign advisory mission unviable. In line with this nationalism, oil revenues were utilized strategically to reduce foreign influence, including the limitation and repayment of external debt. In other words, Venezuela opted for a mechanism of *delegation* in its informal empire association.

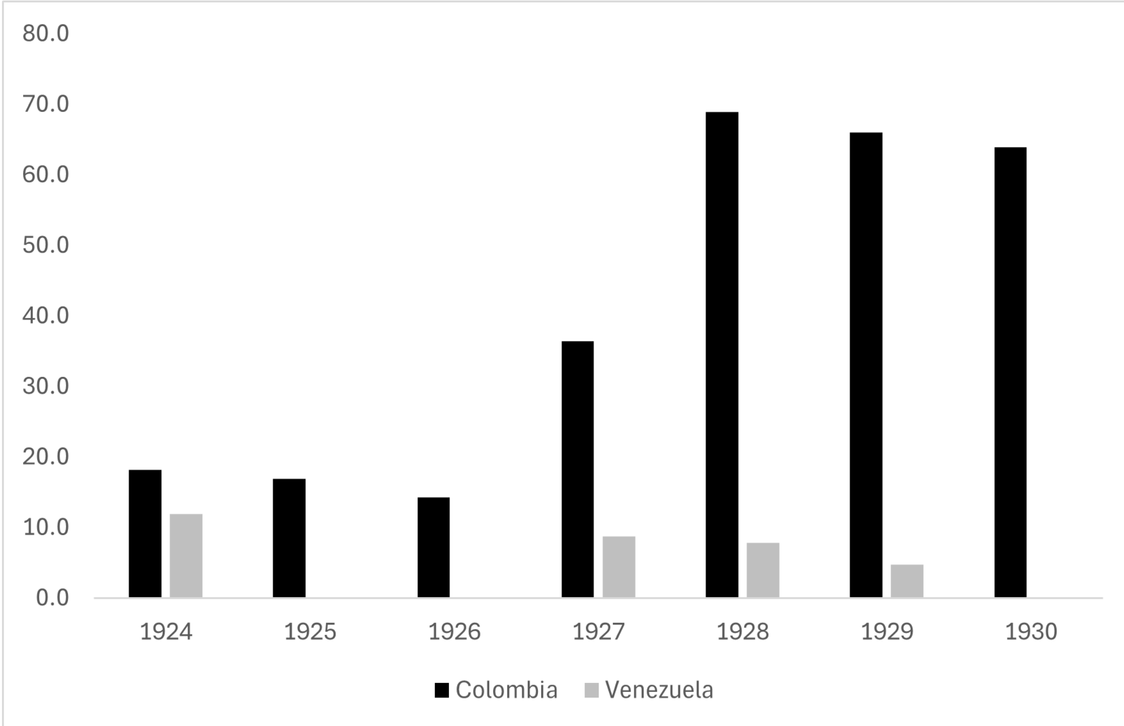

FIGURE 13: SOURCE: EXTERNAL DEBT COLOMBIA AND VENEZUELA (MILLION OF DOLLARS)
SOURCE: LEAGUE OF NATIONS

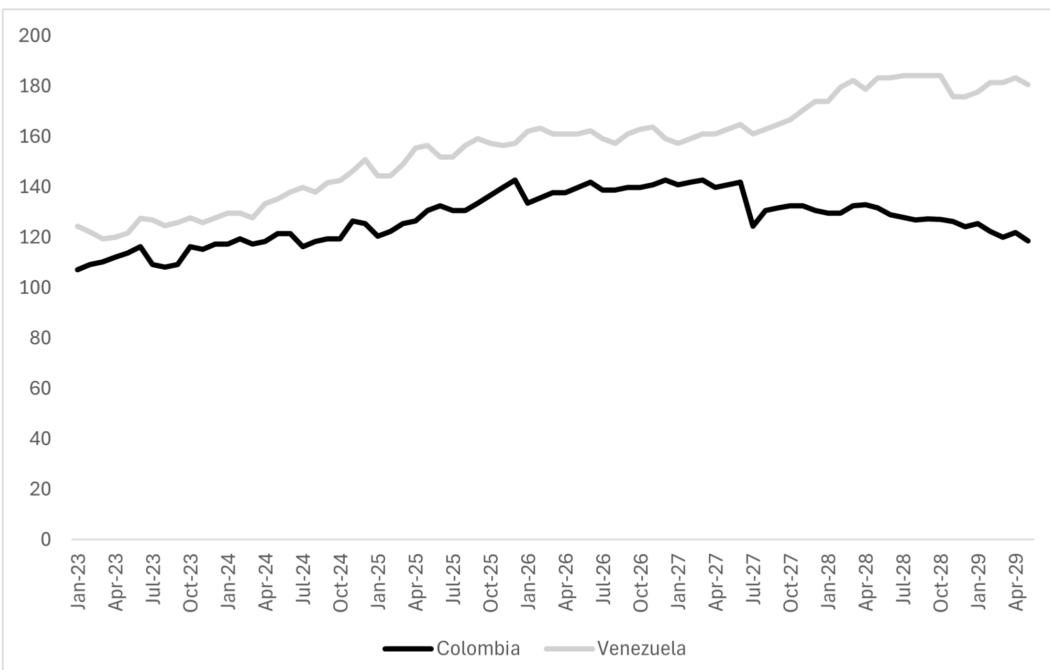

FIGURE 14: PRICE SOVEREIGN BOND, JANUARY 1923-MAY 1929
SOURCE: THE ECONOMIST.

While Venezuela responded to the U.S. capital inflow boom of the 1920s by facilitating oil investment and repaying external debt, Colombia increased its government borrowing, which, like much of the region, ended in default in the early 1930s following the shock of the Great Depression and finallizing the *informal empire* association around the *discipline* mechanism. After most major countries in the region after the Great Depression, Colombia shifts toward Import-Substitution Industrialization (ISI) policies, aimed at fostering domestic industry through tariffs, subsidies, and state-led planning.

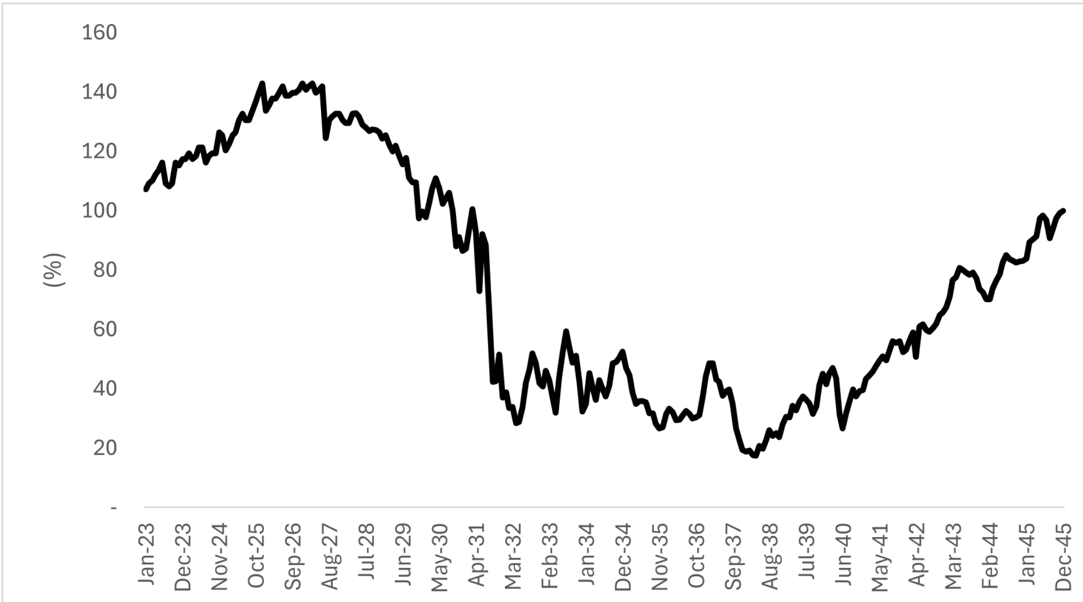

FIGURE 15: PRICE SOVEREIGN BOND COLOMBIA, JANUARY 1923-DECEMBER 1945
SOURCE: THE ECONOMIST.

However, Venezuela's relative insulation from the Depression's most severe financial consequences meant that it faced neither the same balance-of-payments pressures nor the same urgency to restructure its economic model. By avoiding the deep external shock that triggered policy overhauls elsewhere, Venezuela lacked the political and economic incentives to fully embrace ISI. Instead, it continued to pursue an export-led growth model centered on the booming oil sector, a strategy that remained largely intact through the 1940s and into the early 1950s. In this way, Venezuela's distinctive response to the interwar crises not only set it apart from its regional peers but also shaped the timing and nature of its eventual industrialization policies.

3 The Political Economy of an Informal Empire

The two-decade delay in adopting ISI policies largely explains the economic divergence between Colombia and Venezuela, as well as the mechanism by which they integrated into the new economic conditions or into a *informal empire*. This section presents a formal model to analyze how this engagement occurred.

The model is a sequential game, which incorporates two key agents: foreign power and the domestic elite. Foreign power and domestic elite interact over two main channels of international economic integration: *foreign debt (L)* and *foreign direct investment (FDI) in natural resources (R)*.

We define the objective function of the external power could be defined as follow:

$$\Pi_E(\theta, L) = \theta R + rL - \lambda\left(L, G, \psi\right) - \chi\left(R, G, \theta, \phi\right) \tag{1}$$

Where $\theta \in [0, 1]$ is the share of natural resource extracted by the external power, r is the interest rate applied to foreign loans L. $\lambda(L, G, \psi)$ is a *default risk*, which increases with the debt balance and public expenditure, G, but decrease with a *discipline* mechanism ψ. This *discipline* can be defined as a mechanism jointly agreed upon by the external power and the domestic elite to guarantee loan repayment, such as the implementation of sound fiscal policies, adherence to a common currency, or the granting of access to strategic resources.

We define the functional form of the default risk as

$$\lambda(L, G, \psi) = A \cdot L^{\alpha_1} \cdot G^{\beta_1} \cdot \psi^{-\gamma_1} \tag{2}$$

where α_1, β_1, and γ_1 are the respective elasticities.

The external power also faces an *expropriation* risk, which increases with the size of natural resources (R), the share of external power (θ), and public expenditure (R), but decreases with the degree of centralization of political power in the local government (ϕ). The rationale behind the assumption on external power share is that sharing rents functions as a form of joint venture with the domestic elite, thereby $(1 - \theta 1)$ reduces the potential gains from expropriation. In addition, ϕ represents the degree of political centralization, which is assumed to correlate positively with institutional development and the enforcement of property rights. Consequently, a higher ϕ lowers the expropriation risk.

We define the functional form of the expropriation risk as

$$\chi(R, G, \theta, \phi) = B \cdot R^{\alpha_2} \cdot G^{\beta_2} \cdot \left(\frac{\theta}{\phi^{\delta}}\right)^{\gamma_2} \tag{3}$$

where α_2, β_2, γ_2, and δ are the respective elasticities and are assumed as lower than 1.

Including the functional form of the default and expropiation risks yields

$$\Pi_E(\theta, L) = \underbrace{\theta R}_{\text{Resource revenue}} + \underbrace{rL}_{\text{Loan return}} - \underbrace{AL^{\alpha_1} G^{\beta_1} \psi^{-\gamma_1}}_{\text{Default risk}} - \underbrace{BR^{\alpha_2} G^{\beta_2} \left(\frac{\theta}{\phi^{\delta}}\right)^{\gamma_2}}_{\text{Expropriation risk}} \tag{4}$$

We define the objective function of the local elite could be defined as follow:

$$\Pi_D(\theta, L, G) = (1 - \theta)R + \mu L - p(\phi, G) - \psi L^{\eta} \tag{5}$$

Where $(1 - \theta)R$ is the share of the natural resources retained by the domestic elite. μ is the mark-up, defined as the difference between ρ, the rate of return on borrowed resources, and r, the interest rate and an idiosyncratic term: $\mu = \rho - r + \varepsilon$. $p(\phi, G)$ represents the probability of revolt. This probability decreases with both the degree of political centralization (ϕ) and the level of public expenditure (G). The rationale behind this formulation is that the government can respond to a revolt either through repression, contingent on the degree of political centralization, or through increased public spending to alleviate dissent. Finally, ψ is a *discipline cost*, which reflects the conditionality imposed by the external power in exchange for loans. This cost captures how the domestic elite perceive and evaluate that mechanism. For simplicity, ϕ is defined as *tax* on loans with η, which is higher than 1 as its elasticity. The elasticity parameter $\eta > 1$ captures the notion that the *marginal cost of discipline increases with the size of the loan*, as larger borrowing often entails deeper concessions and tighter external oversight. Additionally, *different governments may perceive discipline costs differently*, depending on their institutional strength, political priorities, or tolerance for foreign influence.

$$\Pi_D(\theta, L, G) = \underbrace{(1 - \theta)R}_{\text{Resource share}} + \underbrace{\mu L}_{\text{Loan markup return}} - \underbrace{C \cdot \phi^{-\nu} G^{-\xi}}_{\text{Revolt cost}} - \underbrace{\psi L^{\eta}}_{\text{Discipline cost}} \tag{6}$$

The local elite's budget constraint reflects the resources available for public goods provision. In the absence of taxation, public spending G must be financed through a combination of the markup of foreign loan (μ) and the share of natural resource rents not extracted by the external power, $(1 - \theta)R$. This gives rise to the constraint $G \leq (1 - \theta)R + \mu L$, which highlights the trade-off faced by the domestic elite: finance government expenditure joining the informal empire via θ, or μ.

$$G \leq (1-\theta)R + \mu L \tag{7}$$

For simplicity, the model excludes internal taxation. As presented in the introduction, informal empires worked as a susbtitute for fiscal capacity. The assumption of not taxation is plausible given that, during the early twentieth century, developing countries such as Colombia and Venezuela had very limited state capacity to levy and collect taxes effectively. In this context, the share of natural resources not extracted by the external power, $(1-\theta)R$, can be interpreted as a de facto *tax* on the foreign power. Without the presence and infrastructure of the external actor, the domestic elite would lack the means to extract and commercialize these resources independently.

The local elite aims to minimize the public expenditure, and use it only to remain in power. For this reason, the model incorporate a *political survival constraint*, which sets a maximum tolerable cost of revolt, $\bar{T}$.

$$C \cdot \phi^{-\nu} G^{-\xi} \leq \bar{T} \tag{8}$$

Finally, we include an interest rate cap, or debt market clearing condition. If this condition is not satisfied, the local elite will default on their debt obligations, and will leave, or not join into, the *informal empire*.

$$rL \leq (1-\theta)R + \mu L \tag{9}$$

3.1 Optimization

To solve the optimization problem, we implement a three-stages sequential game. In the first stage the domestic elite set the optimal G, and their θ_D^*, and L_D^*. In the second stage, the external power set their optimal θ_E^*, and L_E^*. In the third stages, the associating or matching occurs if $\theta_D^* \geq \theta_E^*$ or if $L_D^* \geq L_E^*$.

Appendix 1 presents the details of the optimization process.

The optimal public expenditure set by the domestic elite is:

$$G^* = \left(\frac{C}{\overline{\overline{T}}}\right)^{\frac{1}{\xi}} \cdot \phi^{-\frac{\nu}{\xi}} \tag{10}$$

The optimal level of public expenditure increases with higher expected revolt costs, lower political centralization, and a greater sensitivity of revolt probability to spending, indicating the domestic elite's strategic use of public goods to pacify unrest. This result highlights a trade-off: when repression is weak (low ϕ), the domestic elite must allocate more resources to public spending to prevent revolt, but doing so increases their reliance on external financing and makes them more vulnerable to conditionality, and even a default.

The domestic elite takes that optimal expenditure and sets the first order condition for the resource share:

$$\theta_D^* = 1 - \frac{1}{R}\left[\left(\frac{C}{\overline{\overline{T}}}\right)^{\frac{1}{\xi}} \cdot \phi^{-\frac{\nu}{\xi}} - \mu L\right] \tag{11}$$

The optimal domestic resource share decreases as political centralization increases Eibl and Hertog (2024) [6], since a more centralized regime requires less resource retention to deter revolt through repression. Additionally, higher loan profits (via mark-up revenues) reduce the need for resource control, allowing the domestic elite to relinquish a greater share to the external power.

$$L_D^* = \left(\frac{\mu}{\psi\eta}\right)^{\frac{1}{\eta-1}} \tag{12}$$

The optimal loan for the domestic elite L_D^* balances the benefits of accessing external resources with the costs imposed by foreign oversight. As long as the markup on loans, μ, exceeds the discipline cost, ψ, borrowing allows the elite to finance public spending while retaining a portion of the surplus. However, as the discipline cost increases, the net return from borrowing diminishes, leading the elite to reduce loan uptake to avoid eroding their overall gain. A higher elasticity parameter η reduces the optimal loan L_D^*, as it increases the marginal cost of borrowing by making discipline costs rise more sharply with loan size, and may reflect stronger nationalist preferences or greater institutional resistance to foreign oversight.

In their optimization, the external power set their demands. The optimal share of resources demanded by the external power, θ_E^*, reflects a trade-off between maximizing resource revenue and minimizing the

[6] Building on a case study of Oman in the 1960s and 1970s, they argue that anti-systemic subversive threats motivate ruling elites in oil states to use welfare as a tool of mass co-optation

risk of expropriation. As political centralization, ϕ, increases, the risk of expropriation declines, allowing the external power to accept a smaller share of resources while still maintaining its expected returns. However, in low-centralization environments, the external power demands a higher resource share to compensate for greater expropriation risk and weaker institutional protection.

$$\theta_E^* = \left(\frac{R}{BR^{\alpha_2} G^{\beta_2} \gamma_2} \right)^{\frac{1}{\gamma_2 - 1}} \cdot \phi^{\delta \cdot \frac{\gamma_2}{\gamma_2 - 1}} \tag{13}$$

Public expenditure G enters the expropriation risk positively, implying that higher levels of government spending increase the perceived risk faced by the external power. As a result, for a given level of political centralization, an increase in G raises the compensation required by the external power, leading to a higher optimal resource share θ_E^*. This formulation captures the notion that expansive public spending may amplify contestation or uncertainty around property rights in the absence of sufficient institutional safeguards.

Assuming that $\alpha_1 > 1$, the optimal loan for the external power balances the marginal return from lending, r, against the increasing marginal default risk. Higher public expenditure increases the default risk, while stronger discipline mechanisms reduce it. An increase in the discipline mechanism ψ reduces the perceived risk of default, allowing the external power to offer a higher level of loans without compromising its expected payoff.

$$L_E^* = \left(\frac{r \cdot \psi^{\gamma_1}}{A \alpha_1 G^{\beta_1}} \right)^{\frac{1}{\alpha_1 - 1}} \tag{14}$$

3.2 Threshold condition for matching/delegation

The matching inequality around θ reflects a strategic alignment, or the association within the informal empire. A match occurs if the domestic elite's offered resource share θ_D^* is greater than or equal to the external power's demanded share θ_E^*. This balance is governed by domestic political stability, which limits how much the elite can give up, and foreign risk tolerance, which determines how much the external actor requires to justify involvement.

To characterize the conditions for matching more precisely, we now simplify the inequality around the degree of political centralization, ϕ.

$$\theta_D^* \geq \theta_E^* \tag{15}$$

The relationship between θ_D^* and ϕ for the domestic elite can be plotted in the figure 18. When $\nu > \xi$ (repression-oriented regime), the domestic elite gain more from higher political centralization, as repression becomes increasingly effective. In contrast, when $\xi > \nu$ (expenditure-oriented regime), gains occur earlier but rise more slowly with centralization.

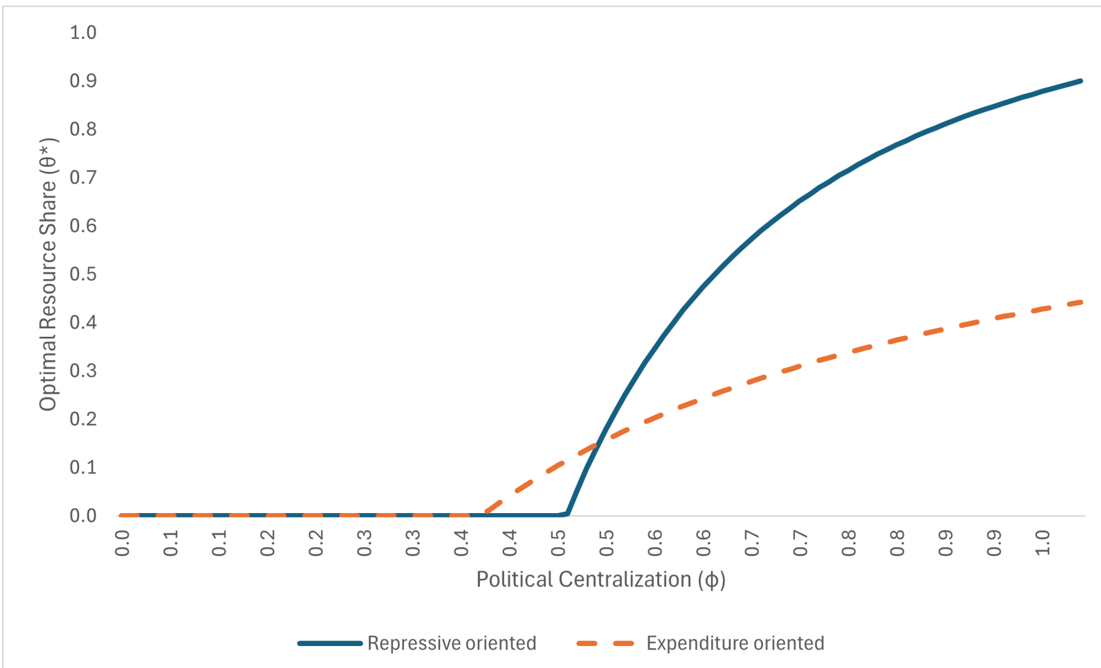

FIGURE 16: OPTIMAL DOMESTIC ELITE RESOURCE SHARE AND POLITICAL CENTRALIZATION

In the case of external power, When $\gamma_2 < 1$, the external power is relatively risk-averse and responds to increasing political centralization by lowering its optimal resource share, since higher ϕ reduces the expropriation risk. This decline in risk allows the external power to maintain acceptable returns even with a smaller share of resources, reducing the incentive for aggressive extraction.

As political centralization rises, the optimal resource share for the external power remains at its maximum until a critical point, reflecting the high returns under low domestic institutional control. Beyond this point, increased centralization reduces expropriation risk, lowering the external power's optimal share. The external power's resource share intercepts the repressive-oriented regime first because such regimes require lower public expenditure to diminish the risk of domestic revolt. Likewise, lower expenditure reduces the expropriation risk faced by the external power.

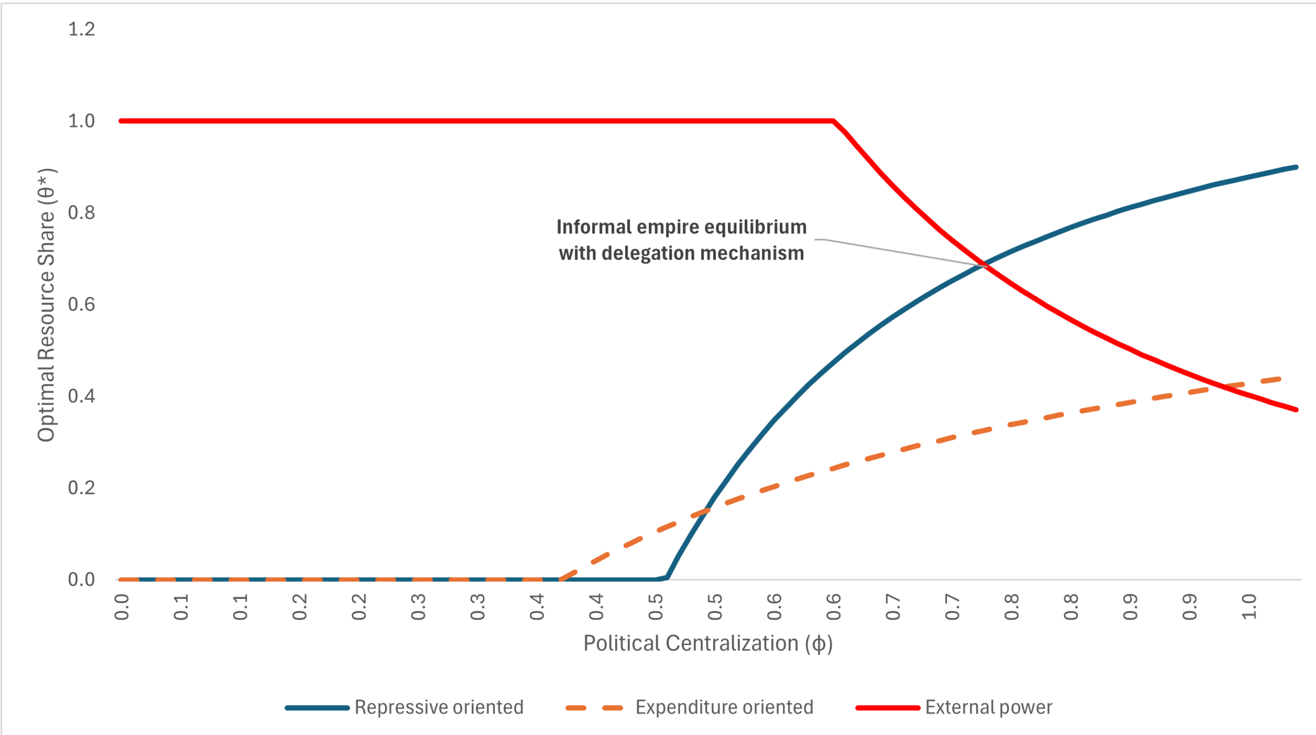

FIGURE 17: INFORMAL EMPIRE WITH DELEGATION MECHANISM

The matching condition formalizes the *delegation* mechanism as presented in Figure 17. Within the informal empire model, association only occurs if the domestic elite's resource offer and institutional capacity meet the external power's minimum requirements. Specifically, when political centralization ϕ exceeds a threshold, it enables the foreign power to govern indirectly by relying on a stable domestic elite.

3.3 Threshold condition for matching/discipline

The association around L only occurs if the loans demanded by the external elite match the loans offered by external power, $L_D^* \geq L_E^*$. This requires a interception of in the *discipline* mechanism ψ.

The model contrasts two domestic elite strategies within an informal empire: the "Comparative Accommodator" (Colombia), which pragmatically accepts foreign discipline in exchange for foreign debt (low η), and the "Autonomist" (Venezuela), which maintains engagement through resource cooperation but resists external conditionality, and therefore minimize foreign debt, to preserve national policy autonomy (high η).

In the case of the external power, there is a positive relationship between the willingness to lend and

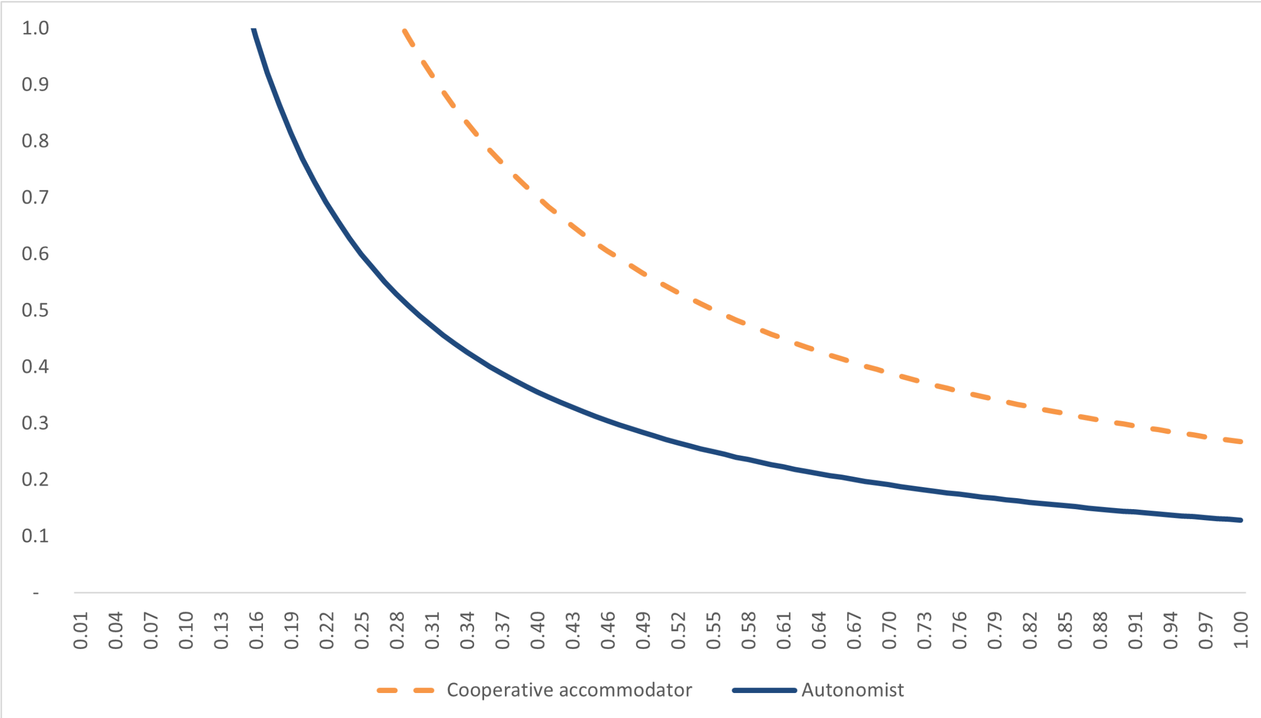

FIGURE 18: OPTIMAL DOMESTIC ELITE LOAN AND DISCIPLINE COST

the discipline cost, as the latter reduces the probability of default. For the cooperative accommodator country, the equilibrium for joining the informal empire under the discipline mechanism occurs at a point of high debt and high discipline cost.

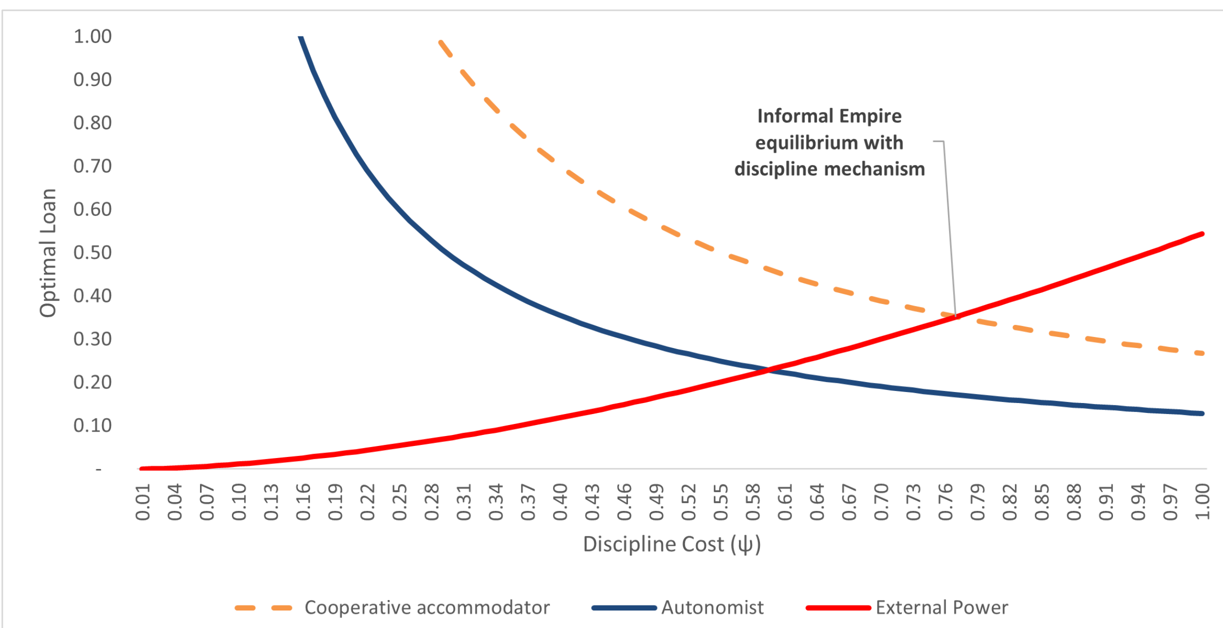

FIGURE 19: EQUILIBRIUM LOANS AND DISCIPLINE COST

3.4 Calibration

4 Conclusions

The contrasting development paths of Colombia and Venezuela underscore the significance of external influence and elite alignment in shaping institutional and economic outcomes. Venezuela's early integration into the global oil economy, supported by U.S. investment and reinforced by domestic political consolidation, enabled it to maintain an export-led growth model and avoid the debt traps that constrained Colombia. In contrast, Colombia's fragmented political landscape, limited resource base, and reliance on foreign loans led to a more vulnerable and debt-dependent development strategy. These differences were not merely the result of internal institutional dynamics but were deeply embedded in the broader geopolitical and economic structures of informal empire. The study highlights how external actors, through informal mechanisms of control, can shape the fiscal and institutional trajectories of sovereign states, with long-lasting consequences for development.

References

Acemoglu, D. (2002). Technical change, inequality, and the labor market. *Journal of economic literature*, 40(1):7–72.

Acemoglu, D., García-Jimeno, C., and Robinson, J. A. (2015). State capacity and economic development: A network approach. *American economic review*, 105(8):2364–2409.

Acemoglu, D., Johnson, S., and Robinson, J. A. (2001). The colonial origins of comparative development: An empirical investigation. *American economic review*, 91(5):1369–1401.

Acemoglu, D., Johnson, S., and Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of economic growth*, 1:385–472.

Acemoglu, D., Moscona, J., and Robinson, J. A. (2016). State capacity and american technology: evidence from the nineteenth century. *American Economic Review*, 106(5):61–67.

Acemoglu, D. and Robinson, J. A. (2019). *The Narrow Corridor: States, Societies, and the Fate of Liberty: Winners of the 2024 Nobel Prize in Economics*. Penguin UK.

Acemoglu, D., Robinson, J. A., and Torvik, R. (2020). The political agenda effect and state centralization. *Journal of Comparative Economics*, 48(4):749–778.

Amsden, A. H. (1989). *Asia's next giant: South Korea and late industrialization*. Oxford University Press.

Besley, T. and Persson, T. (2009). Repression or civil war? *American Economic Review*, 99(2):292–297.

Besley, T. and Persson, T. (2011). *Pillars of prosperity: The political economics of development clusters*. Princeton University Press.

Caballero, M. (1998). *Las crisis de la Venezuela contemporánea*. Monte Ávila Editores, Caracas.

Centeno, M. A. (2002). *Blood and Debt: War and the Nation-State in Latin America*. Penn State Press.

Di John, J. (2009). *From Windfall to Curse?: Oil and Industrialization in Venezuela, 1920 to the Present*. Penn State Press, University Park, PA.

Durán, X. and Bucheli, M. (2017). Holding up the empire: How colombian political elites formed the legal backbone of a commercial empire in the 1920s. *Business History Review*, 91(4):751–777.

Eibl, F. and Hertog, S. (2024). From rents to welfare: Why are some oil-rich states generous to their people? *American Political Science Review*, 118(3):1324–1343.

Evans, P. (1997). The eclipse of the state? reflections on stateness in an era of globalization. *World politics*, 50(1):62–87.

Evans, P. and Rauch, J. E. (1999). Bureaucracy and growth: a cross-national analysis of the effects of "weberian" state structures on economic growth. *American sociological review*, 64(5):748–765.

Fukuyama, F. (2011). *The origins of political order: From prehuman times to the French Revolution*. Profile books.

Fukuyama, F. (2014). *Political order and political decay: From the industrial revolution to the globalization of democracy*. Macmillan.

Gallagher, J. and Robinson, R. (1953). The imperialism of free trade. *The Economic History Review*, 6(1):1–15.

Gennaioli, N. and Rainer, I. (2007). The modern impact of precolonial centralization in africa. *Journal of Economic Growth*, 12:185–234.

Guerra, J. (2021). *Anatomía de una catástrofe: Las políticas económicas de los Gobiernos venezolanos 1920–2020*. Editorial Dahbar, Caracas.

Hall, R. E. and Jones, C. I. (1999). Why do some countries produce so much more output per worker than others? *The Quarterly Journal of Economics*, 114(1):83–116.

Herbst, J. (2000). Economic incentives, natural resources and conflict in africa. *Journal of African Economies*, 9(3):270–294.

Herwig, H. H. (1986). *Germany's Vision of Empire in Venezuela, 1871–1914*, volume 475. Princeton University Press.

Huntington, S. P. (1968). Political order in changing societies. *Yale University*.

Karl, T. L. (1997a). *The Paradox of Plenty: Oil Booms and Petro-States*, volume 26. University of California Press.

Karl, T. L. (1997b). *The paradox of plenty: Oil booms and petro-states*, volume 26. Univ of California Press.

Lael, R. L. (1987). Struggle for ratification: Wilson, lodge, and the thomson–urrutia treaty. *Diplomatic History*, 11(2):123–138.

McBeth, B. S. (2001). *Gunboats, Corruption, and Claims: Foreign Intervention in Venezuela, 1899–1908*. Greenwood Press, Westport, Conn.

McBeth, B. S. (2002). *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908–1935*, volume 43. Cambridge University Press.

North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Cambridge.

North, D. C. and Thomas, R. P. (1973). *The Rise of the Western World: A New Economic History*. Cambridge University Press, Cambridge.

Parks, T. (1935). *Colombia and the United States, 1765–1934*. Russell & Russell, New York.

Parra-Pérez, C. (1947). Carta. Venezuela, en *Nelson A. Rockefeller Personal Papers, Countries, Series E: Venezuela*, Rockefeller Archive Center.

Rangel, D. A. (1974). *Los andinos en el poder*. Vadell hermanos.

Rauch, J. E. and Evans, P. B. (2000). Bureaucratic structure and bureaucratic performance in less developed countries. *Journal of public economics*, 75(1):49–71.

Robinson, J. A. and Acemoglu, D. (2012). *Why nations fail: The origins of power, prosperity and poverty*. Profile London.

Rodríguez, F. and Gomolin, A. J. (2009). Anarchy, state, and dystopia: Venezuelan economic institutions before the advent of oil. *Bulletin of Latin American Research*, 28(1):102–121.

Stallings, B. (1987). *Banker to the Third World: U.S. Portfolio Investment in Latin America, 1900–1986*. University of California Press, Berkeley, CA.