



Between conquest and independence: Real wages and demographic change in Spanish America, 1530–1820

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ABSTRACT

On the basis of a newly constructed dataset, this paper presents long-term series of the price levels, nominal wages, and real wages in Spanish Latin America – more specifically in Mexico, Peru, Bolivia, Colombia, Chile, and Argentina – between ca. 1530 and ca. 1820. It synthesizes the work of scholars who have collected and published data on individual cities and periods, and presents comparable indices of real wages and prices in the colonial period that give a reasonable guide to trends in the long run. We show that nominal wages and prices were on average much higher than in Western Europe or in Asia, a reflection of the low value of silver that must have had consequences for competitiveness of the Latin American economies. Labour scarcity was the second salient feature of Spanish Latin America and resulted in real wages much above subsistence and in some cases (Mexico, Bolivia, Argentina) comparable to levels in Northwestern Europe. For Mexico, this was caused by the dramatic decline of the population after the Conquest. For Bolivia, the driving force was the boom in silver mining in Potosi that created a huge demand for labour. In the case of Argentina, low population density was a pre-colonial feature. Perhaps due to a different pattern of depopulation, the real wages of other regions (Peru, Colombia and Chile) were much lower, and only increased above subsistence during the first half of the 18th century. These results are consistent with independent evidence on biological standards of living and with estimates of GDP per capita at the beginning of the 19th century.

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Introduction

This paper presents series of long-term evolution of price levels, nominal wages, and real wages in Spanish Latin America – more specifically in Mexico, Peru, Bolivia, Chile, Colombia, and Argentina – between ca. 1530 and ca. 1820. These new series allow us to compare price and wage developments in Spanish Latin America with those in Europe in the early modern period. One of the key questions is the relative standard of living of the Latin American population in the centuries before the 19th century ‘Great Divergence’. The sources used provide useful, although imperfect, information to assess the state of colonial Latin American living standards. To make our results comparable with those of the rest of the world, we have used the methodology developed by Allen (2001) and Allen et al. (2011) to estimate standardized real wages expressed as ‘welfare ratios’. These welfare ratios measure the purchasing power of nominal wages in terms of a standardized basket of consumption goods, necessary for subsistence (known as the ‘bare-bones basket’). The value of this basket is then compared with a similar basket in Western Europe while the real wage is expressed as the number of bare-bones baskets a family of four could afford with the wage of an unskilled labourer. Using this standard methodology enables us to link developments in wages and prices in Latin America with those of the rest of the world.

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We focus on the long-term changes in the levels of prices and wages between the Conquest in the 1520s and 1530s and Independence in the 1810s and 1820s. Measuring real wages (as ‘welfare ratios’) for Latin America is the aim of this paper, but this also allows us to answer a number of related questions. How expensive was life in the Viceroyalties of New Spain and Peru in these three centuries? How did real wages react to the severe decline of the population during the 16th and early 17th centuries and to the partial recovery during the 18th century? Did real wages reflect these changes in the relative scarcity of labour, or did various forms of labour coercion keep them at an artificially low level? And how did real wages in Spanish Latin America compare with those in Western Europe?

We confirm the fact that living in colonial Latin America was costly. Prices were high throughout the region when compared to Europe. However, nominal wages were also high. As the region was the world’s most important producer of silver, and wages and prices were measured in terms of that commodity, this result is not surprising; silver was relatively cheap there. This effect was stronger for the Potosi region; seat of one the main silver mines in the Americas.

Our main findings are that real wages in Mexico (and probably elsewhere) reacted to the sharp decline of the population after the Conquest in a way rather similar to patterns found in Western Europe (for example England and Tuscany) after the Black Death of 1348. That is, real wages escalated in the very long run and reached levels well-above subsistence until the 18th century. It was then that population recovery started driving real wages down to subsistence levels in Mexico around 1800. The real wages upward trend was rather slow compared with Western Europe. The real wages were initially low due to the early stages of development of the labour market and the forms of labour coercion established by the Spaniards. In the Andes region (Peru, Colombia, and Chile) we do not find equally high real wages, and the rise above subsistence occurs later in the period suggesting continued labour scarcity during 18th century. In Potosi (Bolivia), the main silver mining centre in South America, wages were high, in particular for free labourers. However, a sizable share of the labour force was drafted from distant provinces. Finally, for the end of our period, the real wages for Argentina show a very high but declining welfare ratio. Our results are by and large consistent with biological standards of living studies and confirmed by tentative estimates of GDP per capita at the beginning of the nineteenth century. However, our data are in disagreement with Maddison’s (2001) earlier GDP estimations for the 1500–1800 period, suggesting we should reconsider the overall economic growth experience of early colonial Latin America.

The context

Explaining the origins of Latin America’s underdevelopment has been a popular topic. From structural and dependency theories to hypotheses about institutional persistence, scores of articles search for “the” explanatory factor that widened the gap between the region and the developed world.¹ They all argue however, in one form or another, that underdevelopment had its roots in the colonial period. To test those ideas, it is therefore pertinent to understand the performance of the colonial economy and compare it internationally. Thanks to numerous scholars, we have rough estimations of the growth performance of selected Latin American countries from the early 19th century onwards (see the overview in Prados de la Escosura, 2009). Yet, we lack a macro perspective of the living standards during colonial times (16th–18th century), which could offer a basis for a comparative analysis of Latin America’s economic performance in the colonial period. An integral reconstruction of the national accounts of the region is probably not feasible, but we can estimate the development of real wages in a systematic way, making it possible to compare with real wage trends in the rest of the world.

Research on Latin American prices and wages has been relative scarce compared with other regions, in particular Europe. Despite several studies on the topic, there was no consistent framework and no clear overview of the long-term trends in the development of wages and prices in Spanish America in this period. Scholars have repeatedly noted this void in the literature. Blanco and Romero Sotelo (2000) in their work on economic history of Mexico observe that inflation trajectory is still unknown with the data available.² In the *Oxford Handbook of Latin American History* (2011), Coatsworth and Summerhil (2011) note that the price history of early colonial Latin America is virtually nonexistent. They underline its relevance for fiscal accounts, agricultural production, mining, and living standards. Following the footsteps of research on other regions, we present a unified and coherent picture of real wages of five countries in the region: Argentina, Bolivia, Chile, Mexico, and Peru.³

The European encounter with the ‘New World’ involved the contact with and transformation of very diverse populations: from sophisticated civilizations to nomadic tribes. In the name of the crown and god, Europeans explored and settled this new continent changing the course of their native people forever. This vast extension of land was initially divided in two viceroyalties: New Spain (Mexico and Central America) and Peru (South America).⁴ Yet, the Europeans mainly concentrated their efforts in areas of sedentary indigenous settlement. Central Mexico and the central Andes became the pillars of Hispanic Latin America.⁵ The fringes of the Spanish empire in Latin America consisted of colonies of difficult access, distant, or of less value to the colonial enterprise (such as modern Argentina, Uruguay, and Chile).

This distinction between the central areas and fringes of Spanish domination is consequential in explaining the nature of the colonial operations. In the central areas, the Spaniards settled to secure the (initially) abundant indigenous labour base necessary

¹ A thorough discussion of all these theories is beyond the scope of this paper. Raul Prebisch is known as the creator of the structuralist theory and Celso Furtado (1976) is one of main voices behind dependency theory. Engerman and Sokoloff (1997), Acemoglu, Johnson, and Robinson (2001) claim that colonial institutional persistence deeply influences current economic outcomes.

² Blanco and Romero Sotelo (2000), p. 52.

³ For Europe, see van Zanden (1999) and Allen (2001); for China, see Allen et al. (2011); for the Ottoman Empire, see Özmucur and Pamuk (2002).

⁴ This political division changed over time leading to more viceroyalties.

⁵ See Lockhardt and Schwartz (1983) for a full discussion of types of indigenous settlements in pre-Columbian Latin America.

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