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Abstract

This note argues that the concept of labor institutions provides a better framework to understand the historical origins of inequality in Latin America and the diversity of experiences within the region than the contributions from the recent institutional literature. It identifies four types of labor institutions: (1) forms of subordination of Indian labor, which also gave rise to peasant economies once Indian reservations were divided; (2) slavery; (3) free and semi-free labor of different ethnic origins in urban centers, haciendas and mining; and (4) independent and wage labor involving whites of modest means. The greater equity that characterized the fourth of these institutions was a source of economic dynamism, but equity did not always lead to dynamism, as it was absent in the peasant economies that arose out of the first type of labor arrangements. The limits of subordination that characterized in diverse ways the first three forms was limited by the existence of an open agrarian frontier but, even more, by the opportunities generated by export activities and urbanization.

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1. Initial reflections on modern institutionalism

It was a step forward that modern institutionalism brought back "theorising on a grand scale", to use Coatsworth's (2008) words. For those of us who were brought up to the social sciences under the influence of the Latin American structuralist and dependency schools, this is a welcome phenomenon. It brought back, in particular, the focus on the historical roots of inequality in Latin America, a central theme of those traditional schools of thought.

However, the most influential contributions from institutional economics, associated to the work of Acemoglu, Johnson and Robinson (2001 and 2002), and Engerman and Sokoloff (2002), show fundamental problems, which have been underscored by Coatworth (2008), Dobado and Garcia (2010) and Bértola (2011), among others. Some of the major ones are associated to: (1) the insufficient attention to the large diversity of experiences *within* Latin America, including the analysis of institutions that were not "extractive" but rather more egalitarian; and (2) the lack of emphasis given to post-colonial developments, particularly to the painful process of state building after Independence and the forms of insertion into the world economy. Institutional development after Independence is relevant for, among other reasons, the effects of colonial arrangements was necessarily mediated by socio-political and economic development that took place later on and which certainly influenced outcomes in a "path dependent" way, determining in turn twentieth century developments. In this sense, the attempt to jump to determinants that are older –and, in this regard, thought to be "deeper-rooted"— may actually end up eliminating intermediate processes, which is where the influence of colonial institutions may have been strongest. To the two mentioned weaknesses, I should add the lack of attention on some aspects of development that played a critical role, particularly the development of an education/scientific network.

The institutionalists' emphasis on inequality is, of course, central to the history of Latin America, but it should not lead to naïve views about the relations between inequality and modern (i.e., capitalist) development. With some pockets of more equitable socio-economic relations, the countries that emerged as the most successful experiences of modern development were not paragons of equality, certainly not Great Britain, the champion of the first industrial revolution, and not even the United States, despite its pockets of equity –not least because it took a century for the US to apply the "self-evident" principle that "all men are created equal" and endowed with "inalienable Rights" to the slaves, and almost another century to give their descendants equal civil rights. This is a point made with strong emphasis in Coatsworth's aforementioned critique of new institutionalism. In this sense, the relevant historical question does *not* relate to the link between equity and development, but rather to how *different historical forms of inequalities* were more or less successful in making the transition to modern development. Some did (e.g., British, French, the US), but others did not. And the answer has, no doubt, many intermediate cases.

Finally, as a way of introduction, it is also important to emphasize that some of the traditional measures of international inequalities simply do not capture the nature of the disparities that existed in the early nineteenth century, when modern development finally took off in today's leading industrial nations. In fact, measures of per capita GDP, productivity in leading sectors (e.g., mining, sugar plantations) or even the standard of living of populations may not capture those "initial" disparities. Latin America may have actually been in a relatively good position in regards to most of these indicators (which are, in any case, measured with a large degree of imprecision). However, this does not mean that the industrial revolution was a real possibility for Latin America at that time. Some fundamental conditions were clearly missing. In particular, there were large gaps relative to the more advance countries in terms of the development of the educational and scientific network, crucial for the industrial revolution. There were huge gaps in the development of modern state apparatuses capable of providing public goods. The colonial state was probably better than those that emerged after independence, but still inadequate, as it proved to be for the development of both Spain and Portugal. To this, as I will argue in this paper, we should add the backward labor institutions that prevailed in most countries.

The fact that Latin America was not ready to jump in the group of the locomotives of modern development in the early nineteenth century had, of course, major historical implications. The most important is that it could only succeed later one by inserting itself as part of the periphery in what emerged as a strong center-periphery international economic system (to use Prebisch's terminology that history has vindicated, as reflected in its widespread use today to analyze the global financial system). In this regard, most Latin American economies *were* successful in inserting themselves early on as part of the successful periphery, as several countries of South, Central and Eastern Europe also were. But the degree to which different Latin American countries were able to integrate well and dynamically into the center-periphery system varied, because of diversity among them, generating divergence within the region that continue to affect Latin America until the present.

2. The central theme: diverging labor institutions

W. Arthur Lewis and Douglas North made essential contributions to our understanding of development by emphasizing the role of unlimited supplies of labor and property rights. However, by emphasizing these issues, they missed what may be an even more important point: that the critical issue in the transition to a modern capitalist economy is the development of a *mobile* labor force. In this sense, the most important institution of a modern economy is not the state or property rights (both of which are "ancient" institutions, which had nonetheless to be redesigned for modern capitalist development): it is a modern labor market, if we understand it as one in which *the labor force responds to market opportunities in a generalized way*. This is done through a modern wage labor market but also through many independent producers that respond to market opportunities. In contrast, pre-capitalist institutions are characterized by a significant amount of labor that is not integrated into the market, either directly or indirectly and, therefore, a significant (indeed, in some case, overwhelming) proportion of production never goes into the market. The two issues are closely linked, because the market only reaches its full development when labor is fully integrated into it.

It is, of course, to Karl Marx that we owe the observation that this is the distinguishing feature of modern capitalism, with his emphasis on the "proletarization" of the labor force, and more precisely, in his terms, to the fact that modern capitalism is the only system in which the "labor force" is itself a commodity. The weakness of his analysis was the inadequate attention to independent free labor as a substitute for wage labor in many economies, which is more important the less developed they are.

The close association between the extent of the market and labor institutions is probably best understood today in terms of those cases in which the market is not yet fully developed. The most important case is the household (and extended family networks), where production of goods and services takes places that does not generate market transactions, including the activities related to what is now known as the "care economy". Many of these goods and services can be mercantilized (take-home food, laundry services, daycare centers, etc.), but never fully so, and only at relatively high levels of income and when women have massively integrated into the labor market. This analogy is meant here to emphasize that a similar phenomenon is characteristic of pre-capitalist production systems: a very large share of production of goods and services take place outside the market, and therefore not following the logic of the market.

In this sense, Lewis' unlimited supply of labor is a late phenomenon, which only takes off when there is an advanced process of destruction of pre-capitalist institutions. Prior to that, the major problem is not the scarcity of labor as such, but the specific scarcity of *mobile* labor. What this means is that a large proportion of labor does not participate in the market, and is tied to economic relations in which large part of production does not go into the market. We owe to Witold Kula (1976) a brilliant analysis of the rationale (or logic) of this form of self-production in large Polish ("feudal") landholding from the seventeenth century, as well as the observation that under those conditions market prices do not adequately reflect economic values, as only a fraction of production really goes into the market. One of the explanations of this behavior is that when markets are marginal, they are also riskier, and it is thus safer to self-produce. This is also the logic of many peasant production units, which choose to self-produce their foodstuffs to avoid depending on their necessities from the volatile income provided by cash crops. The chairman of the Federation of Coffee Growers of Colombia explained this way why Colombian peasant coffee growers were able to endure the low prices of the 1930s (Ospina, 1934). And, along the line of Kula's analysis, self-production of necessities was also the logic of traditional Latin American haciendas, where the permanent workers (although there were different denominations and arrangements throughout the region, I will use the term *arrendatarios* to refer to them) where given a plot of land to grow their subsistence, a practice that was also quite common in production units using slave labor.

The links between the extent of the market and labor institutions is thus at the center of the functioning of pre-capitalist economic units and of the transition to full market development. Note that I refer to "labor institutions", not to "labor *market* institutions", because on many occasions labor institutions actually operate by trying to reduce the scope of market transactions.

In relation to property rights, it must be said that the protection of property rights is, of course, an essential element in the transition to a capitalist economy –although we can also say that, peculiarly, China has shown the limits of this view, by generating in recent decades the fastest rate of growth of any economy in history without a clear definition of property rights. In any case, it is important to emphasize that modern development is not only about protecting but equally about *limiting* property rights, by taxing property to guarantee the provision of public goods, constraining the abuse of monopoly positions, avoiding the generation of negative externalities, etc.

Since the pioneer work of North, many historians have taken as sort of a self-evident truth that the lack of modern development is due to restrictions on property rights. I failed to see this as such a fundamental issue in Latin American history. Property rights were not infrequently violated during civil wars or by caudillos (see Rodriguez, 2006 on Venezuela) and certainly those rights of smallholders occupying public lands were frequently violated (Sánchez *et al*., 2010 on Colombia). But more often than not the system was rather excessively generous at protecting and extending the property rights of the powerful, and rather poor at limiting those rights to guarantee basic collective objectives. It should be added that the protection private property rights very frequently implied the violation of collective rights, such as those of Indian communities over their reservations or of the urban dwellers over the urban communal lands (ejidos).

3. A typology of relevant labor institutions

A better understanding of patterns of historical inequality in Latin America can therefore be inferred from a careful analysis at labor institutions, in the sense that this term is used here. It is in the analysis of this issue that traditional Latin American schools of thought clearly surpass recent institutional approaches –and whose contributions modern institutionalists writing on Latin America have largely or entirely ignored. Based on Cardoso and Pérez Brignoli (1979), but also on other contributions (for example, Sunkel and Paz, 1970), this is the approach I have taken with my colleague Luis Bértola in our historical interpretation of Latin American economic history since Independence (Bértola and Ocampo, 2010). Following traditional Latin American structuralist thinking, the labor institutions interact with the patterns of international specialization. Although with one feature in common (commodity dependence), the latter have also been diverse in terms of the dominant commodity and the productive relations that prevailed in the export sectors. However, I will concentrate here on labor institutions as such and largely leave aside the issue of specialization patterns.

A possibly typology, which is useful to understand the inequalities that different labor institutions/relations generate, and their diverging economic dynamics, would include at least four types:

The first are the forms of subordination of Indian communities. As we know, forced labor was abolished early on, though remains of it kept propping up even in the twentieth century (e.g., Guatemala in the 1930s for public works), but the Indian tribute that subsisted (until abolished at different times after Independence) forced many Indians to sell their labor. Also, and through a long historical process, several Indians or the mestizo descendents ended up working as permanent laborers in the haciendas (arrendatarios). Equally important, however, the Spanish Crown adopted a policy of protecting the Indians, which included allocating to them reservations. The protection of this of communal property against borbonic and republican instincts that called for their division into private holding ended up being a controversial issue well into the twentieth century, where it came to play a fundamental role in the Mexican and Bolivian revolutions, among others. When they were divided, they gave rise to a peasant economy. So, the forms of subordination of the Indian communities gave birth to forms of inequality but also to fairly equitable peasant communities. Neither of them was, however, particularly dynamic in economic terms. For example, it is hard to think of any major nineteenth or twentieth century export development that had these forms of production at the center.

The second form of labor institutions, those using slave labor, did generate major export activities, notably in Brazil and Cuba well into the nineteenth century. With the end of the slave trade, coolie labor was also used, notably in Cuba. However, the two countries where slavery remained important into the nineteenth century were those where no Independence wars had been fought. In the rest, the institution was already in decay by the end of the colonial period or was totally disorganized by the wars of Independence, when both sides mobilized slaves to their cause by offering freedom, and when the wars themselves offered salved greater opportunities to run away. Furthermore, and most importantly, freedom came with economic stagnation or even negative economic growth, as exemplified by Caribbean history but also that of the mainland. One major reason is that freedom also meant for the slaves freedom from work, which was most remarkable in the case of women. This implied subsistence farming/fishing for those that had frontier lands to go, and low intensity work for those that remained as permanent labor in the haciendas. So, in economic terms production stagnated or fell because labor discipline, the major characteristic of slavery, was permanently lost. So, this highly unequal social institution did not generate at the end economic dynamism.

A third was associated with production units using free labor of different ethnical origins, but probably with mestizo and mulattos dominating. They had their most important relative presence in urban areas but also in myriad of other economic activities elsewhere in the economy (mining and transportation, for example). In some cases, they were some pockets of wage labor and some smallholders in rural areas, but also some arrendatarios in haciendas that were farther away from the original Indian communities. Indeed, the three forms of social relations probably evolved in rural areas into similar forms of labor relations. There were certainly some pockets of dynamism in this form of labor institutions, particularly when it intersected with the fourth.

The most dynamic was the fourth type of labor institution, associated with migration of what we can call “poor whites” (or, perhaps better, whites of modest means). They included some migrants who came late in the colonial period (e.g., since the early seventeenth century), when land grants and the distribution of Indian labor was already part of the past, and that evolved into pockets of small proprietors of different character. Although this form of labor relations was more common in the Southern Cone, there were pockets of it throughout Latin America –in Southern Brazil, Costa Rica, Antioquia and Santander in Colombia, the tobacco growing region of Cuba, and in the Venezuelan Andes, to mention an incomplete list—, mixed in different proportions with mestizo and mulatto communities. The dynamism that this form of labor relations exhibited exceeded those of the other three.

It is here that more equitable labor relations led to economic dynamism, and they were probably more open to institutional modernization, as Coatworth has emphasized. However, not all the regions were equally attractive to massive migration of the sort that took place in the late nineteenth and early twentieth century. It is only in those regions where these communities dominated that massive migration took place, as in those regions the competition with cheaper labor but, particularly, the weight of more hierarchical labor relations was weak. This is why Argentina and Uruguay were the major poles of attraction, with Chile and Southern Brazil as somewhat less desirable options, and São Paulo as the true limit (as other forms older forms of labor subordination coexisted there with free European labor in complex relations).

What this implies is that dynamism and (greater) equity tended to coincide in the fourth form of labor institutions. They also came with their own features, particularly the stronger forms of labor unions and the early rise of modern left political parties that they eventually generated. This conclusion coincides with the presumption of the new institutional literature, though through a different route of analysis and with a focus on the heterogeneity that characterizes Latin America. In turn, inequitable labor institutions did not generate enough dynamism in most cases, but equity did not always coincide with dynamism, as shown by the peasant economies that evolved out of the disintegration of Indian reservations.

Perhaps it is also useful to emphasize that different labor institutions tended to mix together in the formation of Latin American countries. Colombia was probably the most complex case, as all types of labor institutions were present in different parts of its territory. But it is frequent to find a mix of two or three of them in the same country. Where they mixed, dynamism was probably associated with either the third (e.g., the Ecuadorian coast vs. the interior) or the fourth form of labor relations (the Venezuelan Andes vs. the coast, or regions of Antioqueño migration in Colombia vs. the Caribbean coast). It is in this case that we can appreciate better the link between labor institutions and economic dynamism.

It is finally interesting to emphasize that each of these forms of labor relations were closely interlinked with other social relations and cultural values –with different logics of social reproduction, if we prefer this term—, but this issue is beyond the scope of this note.

4. The scope, limits and erosion of labor subordination

Subordination was the central feature of the first and second forms of labor relations, intermediate in the third and lowest in the fourth. The major limit to subordination was always the open agrarian frontier that existed in most Latin American countries. But this cannot be simply interpreted as a sign of labor scarcity, as some interpreters of nineteenth century history have done, or as comes repeatedly in the writings of Latin American elite in the nineteenth century. If this had been so, we would have experienced forces towards equality in Latin America that we do not observe.

What this means is that, in the presence of an open agrarian frontier, the elite had to create other mechanisms to guarantee labor subordination. They included notably land concentration and the use of extra-economic power to generate an adequate supply of labor for the elite: slavery and persecution of runaway slaves, use of local authorities to persecute arrendatarios that had fled without meeting their obligations, vagrancy laws, and intrusion into the territories of peasants (though the latter phenomenon was probably less common than usually argued). Land concentration also came with conflict, particular confrontation between holders of land titles and occupants of what they believed were state lands (baldios). Here the power structure generally supported the landowners, but not always so. The central coffee region of Colombia is possibly the best example of a case in which occupants were politically successful in getting land titles. But the economic logic of the system also helped to reinforce subordination: migrating to the frontier involved personal costs, not least isolation, lack of access to some necessities, inability to sell their products in the local markets (or high costs of doing so), and perhaps loss of personal security.

The existence of an open agrarian frontier imposed, in any case, limitation on subordination. Opportunities that came with economic development played an even stronger role. They were provided by export sectors, infrastructure investments, transportation services and urbanization. They all worked to gradually weaken the first three forms of labor institutions and to support the gradual rise of a modern labor market. One case in point is the lack of discipline that characterized the coffee haciendas near Bogotá, where the need to import labor and the opportunities created to sell their food crops or coffee in local markets (illegally in the latter case) led to the permanent lack of discipline of the arrendatarios, a process that Palacios (1983) has characterized as the rise of a peasant economy within the haciendas. The final result was revolt against the landowners that led to the first agrarian reform of Colombia in the 1930s, and the development of a peasant coffee-growing economy. Land reforms were generally limited in terms of the redistribution they generated (with partial exceptions, such as in Mexico and the highlands of Bolivia, for example), but they certainly helped erode old rural labor institutions.

However, the erosion of traditional rural relations did not help reduce inequalities for three basic reasons. First, some inequalities had already generated huge disadvantages for the weakest sectors of society. Secondly, they were replaced now by a Lewisian "unlimited supply of labor", which depressed unskilled labor incomes. So, as the process of decomposition of old labor institutions advanced, some forms of subordination were eliminated, but the labor market now took over in terms of generating unequalizing forces. Thirdly, the fact that economic development was weaker when the most backward form of labor institutions prevailed also meant that in those countries there was a weaker labor demand.

At the end, the force of labor institutions where subordination was strongest came to determine two forms of inequalities: domestic inequalities but also large divergence in income levels among Latin American countries. The colonial heritage did prevail, but through a process that was not detached from its own historical relevance (path dependence) and generating a large level of divergence within Latin America.

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