The Economic Costs of Independence

The 19th-century wars of independence had given birth to a free, postcolonial Latin America. However, liberty came with a cost; the human, economic, social, and political toll of these struggles did not end with independence. The collapse of European empire and the formation of new states posed dire challenges and brought both positive and negative changes. The creation of independent countries meant the collapse of the customs-union system enjoyed during colonial rule, which had allowed the member territories to trade with no tariffs being levied on goods travelling within the union. The disarticulation of the colonial fiscal system distorted the nations’ economies at the same time as it freed them from colonial taxes. Moreover, the coincidence of industrialization and the end of the trade monopolies brought numerous investors and large sums of capital into Latin America.

The Collapse of the Colonial Economy

European empires had imposed various taxation systems that heavily burdened the economies of their Latin American colonies. The continuous draining of wealth by these taxes meant that a large part of the total revenue generated in the colonies was sent to the Old Continent. In his article “Obstacles to Economic Growth in Nineteenth-Century Mexico,” in the American Historical Review, Professor John H. Coatsworth explains that in Mexico, colonial taxes represented nearly 5% of GDP by 1800. Independence did imply that the wealth would stay in the country; however, the benefits of emancipation from the colonial fiscal system were in some measure offset by the costs of freedom.

With independence also came the end of economic integration. Firstly, colonial empires had large and expensive administrations, but in the overall view, running an empire as a whole meant that the burden of the administration was shared, so it came at a smaller cost. During colonial times, the unification of trade policies between the different areas of the empire through customs union had led to great economic efficiency. The end of free trade within the former colonies meant that all newly formed nations had become separate customs territories, and formal arrangements and trade pacts needed to be negotiated and stabilized. Moreover, independent monetary policies meant that the new nations had to operate with multiple currencies when trading across countries, which brought exchange-rate volatility and an increase in transaction costs.

In addition, the effects of the wars of independence on the environment were as devastating as they were long lasting. Large areas of land were devastated, plantations were destroyed, and large amounts of valuable commodities were wiped out. Moreover, in many countries, armed violence festered long after the wars came to an end. Many men remained armed and criminality drastically increased. Violence challenged political stability, and hence economic growth.

Another factor that made economic recovery difficult and scared investors was uncertainty over property rights. In 1804, Haiti’s newly approved constitution forbade
whites from owning property or land in the country. Governor General Jean-Jacques Dessalines had authorized these measures in an attempt to create a “new” Haiti in which the colonial casta system would have no place. In fact, in most Latin American countries property ownership was weakly protected after independence; in many cases the newly formed governments often resorted to expropriation of assets within their jurisdiction.

On the whole, in the short run, the events following the collapse of colonial order led to a more disorganized Latin America, which headed for a half-century-long economic recession marked by a sharp decline in economic activity. However, in the long run, benefits included institutional modernization and sociopolitical growth. For the most part, independence led to a sustained period of inclusive growth in the second half of the 19th century.

Opening Up to International Trade and Capital

For centuries, the colonial trade monopoly system had injured Latin America by constraining economic growth. The colonial power and its licensed merchants controlled trading activity, and those two groups harvested all benefits. Independence finally allowed Latin America to legally trade with any country in the world; in other words, it gave her full access to international trade and capital.

During colonial times, foreign investment was strictly restricted and the trade monopoly kept colonial commodities at artificially inflated prices. While independence decreased the cost of overseas trade by reducing the international trade tariff, increased the volume traded, and made exchangeable commodities cheaper, each country’s integration into international trade and capital markets came to depend on many factors, notably geography and political stability.

The geography of each newly independent nation was a primary factor in its integration into the international trade system and its ability to attract foreign investment. Nations with ports on the oceanfront had an advantage over landlocked countries, such as Bolivia and Paraguay. Moreover, Atlantic nations were at the forefront of trade compared to those on the Pacific side of the continent. Even with the construction of the Panama Canal in the early 20th century, Pacific Rim countries had to pay higher costs for transport, including the canal’s toll. Other physical geographic features, such as the presence of mountain ranges and tropical forests, also strongly affected the development of the necessary infrastructure for economic growth.

Rather obviously, the possession of natural resources was an important driver of foreign investment. At the time of independence, the Industrial Revolution was in full swing in Europe and North America. The industrialized nations looked for raw materials and new markets overseas. Argentina is a prime example of how some Latin American countries became important suppliers of natural resources and commodities to industrialized nations. Argentina benefits from rich natural resources including fertile grasslands,
minerals, natural gas, and oil, which attracted considerable amounts of British capital. Argentina became an internationally competitive, advanced market economy, and by the end of the 19th century, it had become one of the fastest growing regions in the world economy.

All postcolonial Latin American countries, apart from Brazil, experienced political instability, civil wars, and large-scale violence. As history has proven time and again, political and economic weaknesses are directly related to one another. Disorder and caudillist governments—political-military dictatorships in which power is controlled by a charismatic populist leader—caused capital destruction, created barriers to trade and commerce, and scared away investors. According to Professors Richard and Linda Salvucci’s research, the Mexican Civil War (1810–1828) caused the gross national output of the country to decline by nearly fifty percent, which led to a decline in its export performance, and subsequently led Mexico—an export orientated economy—into a recession.

The economic history of Mexico also illustrates the effects of foreign loans and debt in Latin America. In the postindependence period, successive Mexican presidents, hoping to move the economy out of its depressed state and restore it to full health, had secured loans from foreign investors. In 1861, President Benito Juárez suspended repayments on external debt because of lack of national funds. Soon, French forces invaded Mexico to collect on their loans. France’s reaction to Mexico’s cancellation of payments was not abnormal. When payments were not made, foreign investors would appeal to their national governments for intervention—mostly diplomatic, but in some cases military. Another example is the Venezuelan Crisis of 1902–1903. In December 1902, a coalition formed by Germany, Italy, and Great Britain imposed a naval blockade against Venezuela, after President Cipriano Castro refused to pay foreign debts owed to citizens of their countries.

By the mid-19th century, it was clear that for Latin American countries, opening their economies to the world facilitated economic growth. Still, an accepted explanation for Latin America’s economic stagnation in the 20th century is its dependence on export specialization. Recently, a large body of literature focuses on the relationship between export-led growth, specialization, and economic stagnation. Nevertheless, in the 19th century, independence increased Latin America’s competitiveness in the international market, and became the foundation for increased welfare.