"Purchasing Power Disparity:
Who Could Consume More before 1914?"

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ABSTRACT

Economic historians' Divergence debates since 2000 have asked a different question from that asked by Angus Maddison using the growth debates of the late twentieth century. The issue has become "when did countries' contemporaneous purchasing powers diverge?", not "when did countries' productivity grow at different rates?" The two questions have answers that can differ greatly, especially before 1870. Using pre-1914 direct (contemporaneous) comparisons of real purchasing powers on five continents, this article sketches some historical geography of the departures of the indirect (backcasting) measures from the more relevant direct comparisons.

The underlying reason for the widening divergence between Angus Maddison's measuring growth back from 1990 and direct historical comparisons from long ago is that before the great 1870-1914 wave of trade globalization, consumer staples were not traded over great distances, and regions specialized in narrow luxury trade. Inter-continental price ratios of non-traded goods thus departed much further from purchasing-power parity than has been true since 1870.

The new direct measures open up new economic history of how cost-of-living movements depended on one's income class before 1914. Inter-continental divergences in purchasing power were very class-specific before the 1870-1914 globalization of trade in staple products. Between 1650 and 1870 regions generally differed even more in their abilities to consume luxuries and capital goods than in their abilities to consume what the masses needed. This finding needs to be incorporated into the history of inequality, which still focuses on nominal, rather than real, income inequality.