

DEPRESSION AND RECOVERY IN ARGENTINA

By Clarence H. Haring

THREE years ago Argentina displayed all the phenomena of the world depression: low commodity prices, unemployment, debtors faced with foreclosure, an unbalanced budget, declining foreign trade. Today she has emerged from the crisis to an extent beyond any other American country.

The depression reached its nadir in South America in the course of the year 1933. It made frightful ravages there because of the catastrophic declines in the price of basic raw materials on the export of which the continent chiefly depends. Recovery has been due to the combined action of a number of factors, some of them measures taken by local authorities, others of them world-wide in operation. The domestic measures grew out of the determination of governments to set their house in order, and comprised a variety of expedients, many of them inspired by the policies of the Roosevelt Administration in the United States. Of much greater importance has been the influence of two other factors in play since the beginning of 1934. One is the slight but substantial rise in world markets of the prices of most of South America's principal exports. The other is the depreciation of the national currencies, which enhanced the benefit of rising prices for the native producer. In most of these countries the currency is today more or less stabilized at from 30 to 90 percent below the gold parity of six years ago. And despite this depreciation, the cost of living has not risen in proportion, largely because these countries themselves produce the elements necessary for their subsistence.

In Argentina circumstances have been especially propitious. An agricultural and pastoral country of vast extent, she is developing a diversified range of exportable products. Thanks to her extremely fertile soil, her industrious white population, and a favorable climate, she is able to meet competition in the outside world with unusual success. Moreover she is fortunate in having a government which has conjured her economic ills with expertness and intelligence.

The management of the national finances is perhaps Argentina's most striking achievement—the work of the late Sec-

retary of the Treasury, Federico Pinedo, and of some of his associates. The budget is practically in a state of equilibrium; indeed, in December last, by virtue of an anticipated budgetary surplus of twenty million pesos, a reduction of the income tax was announced, as well as the abolition of certain license taxes bearing upon small tradesmen and professional men. The national government, moreover, almost alone among those of Latin America, has not defaulted on any of its foreign obligations.¹ Although in 1933 there was open talk in some quarters of the desirability of suspending the debt service, in 1934 and 1935 the public credit was so far consolidated that various foreign and domestic loans, both federal and provincial, were successfully converted from 6 percent to 5 percent and $4\frac{1}{2}$ percent.² The system of taxation has also been remodeled and simplified, the federal government assuming the entire responsibility of collecting most of the internal taxes formerly belonging to the provinces, and distributing the proceeds to them on a quota basis adjustable every ten years. This innovation, while emphasizing the tendency to federal encroachment upon provincial autonomy, should result in more efficient administration and largely increased revenues.

In the spring of 1935 Congress also enacted a thoroughgoing reform of the monetary and banking systems. A Central Bank has been created with an initial capital of 30,000,000 pesos. It is given the exclusive privilege of issuing bank notes,³ and must maintain a minimum reserve in gold, currency, or foreign exchange equivalent to 25 percent of its outstanding notes and other sight obligations. It has taken over the gold reserve of the former *Caja de Conversión* at the current market value instead of at the old value of the gold peso, which in effect cuts the gold value of the peso from 44 to $23\frac{1}{4}$ centavos, and permits a coverage of over 100 percent of the paper currency.

The Central Bank serves as the depository and financial agent of the government, and as adviser in foreign and domestic credit operations and in the issue and control of public loans. It becomes the new clearing house, exercises the function of rediscount, and may engage in open market operations by selling and buying

¹ This was not true of some of the provincial issues.

² The floating debt, which in 1930 amounted to over a billion pesos, has also been reduced, by repayment or consolidation, to 120 millions.

³ Subsidiary money will be printed or coined by the national government on the demand and under the control of the Central Bank, but in no case may the amount outstanding of subsidiary money exceed 20 pesos per inhabitant.

government securities; and it exercises general oversight of the banking system as a whole. At the same time the system is reformed by laws establishing compulsory reserve percentages in the Central Bank, restricting the investment of commercial bank funds in securities beyond two years, and providing for the strict supervision of all banks and banking operations at large. A Liquidation Institute has also been created to purchase the frozen assets of commercial banks with bonds or cash, such assets to be liquidated gradually by the Institute and applied to the redemption of the bonds given in payment. Whatever losses are incurred by the Institute will be met out of the profits realized by the Central Bank in the devaluation of the peso. The *Caja de Conversión* and the former rediscount and liquidation commissions of course disappear, and the old Bank of the Nation becomes a semi-official commercial bank, although retaining a few minor public accounts and sharing with the new bank its function of lending money to the government.

These reforms have long been a crying need in Argentina, and are without doubt the outstanding achievement of President Justo's administration, although they have aroused a surprising amount of criticism in some old fashioned quarters. They stabilize the peso at about its present international value, and offer no great danger of subsequent inflation. The situation of the private banks is considerably improved by the new control law, for some of them were very weak and reform was essential; and the Liquidation Institute has already permitted the reorganization and merging of several of the most important banks in the republic. The old system with its dispersion of functions among a number of autonomous institutions was incredibly clumsy, and the monetary system was about as inelastic as could be devised. By the Law of 1899 establishing the *Caja de Conversión*, any gold exports or imports as a result of fluctuations in the balance of international payments were immediately and automatically reflected in corresponding changes in the outstanding volume of notes of the *Caja*. The new legislation makes for centralization of control and for the more elastic currency essential in an exporting agricultural country.

In other respects the New Deal in its Argentine version has been remarkably successful in putting the country on the road to recovery. It has included control of grain prices and of foreign exchange, restriction of imports, increase of exports through

bilateral trade treaties, a mortgage moratorium, and a program of public works. It is true that fortune favored Argentina in the form of rising world prices for agricultural and pastoral products, due in large measure to the North American drought of 1934. But for much of the recovery the measures of the federal government must receive credit. Most of the cost has been met not by taxation, but by the profits from exchange control and by the blocking of remittances abroad; in other words, it has been put upon the importers and those who purchase their wares.

With declining exports foreign exchange became scarce. The government therefore had to act to protect the peso. It forbade remittances without special permit. The result was a large accumulation of funds representing the cost of imported merchandise and the profits of foreign corporations. This exchange problem, serious for the government as well as for the private interests affected, was solved by the government's offer to borrow the blocked funds for 20 years at 4 percent interest; and thereby it came into possession of some 300,000,000 pesos with which to help finance its domestic program, including the conversion of the public debt. In November 1933 it issued decrees depreciating the peso 20 percent, requiring virtually all export bills to be sold to the government at a fixed rate, and setting up an import rate which was higher but more or less subject to supply and demand. It also established minimum prices for grains, and created a Grain Board to maintain the Argentine market and to sell for export at whatever price the world market afforded. Largely because of lack of storage facilities, the Board sold its stocks to exporters as rapidly as possible without unduly depressing the local price. For months it operated at a loss. Only the North American drought saved it from serious consequences in 1934.⁴

The government's profits from exchange transactions, estimated by bankers at about 200,000,000 pesos,⁵ were used to finance the grain operations, and later for other purposes, such as subsidizing meat exports to Italy and paying bounties to the dairy farmers. Importers from countries with which Argentina had unfavorable trade balances were not permitted — as Americans know only too well — to bid for official exchange. They

⁴ On December 13, 1935 the Grain Board suddenly raised the minimum prices of 5.75 pesos for wheat and 11.50 pesos for linseed per 100 kilos to 10 and 14 pesos respectively, causing an immediate rise in the price of these grains in the world market.

⁵ The Exchange Commission, by selling some official exchange in the free market, also exercises a measure of control over the free rate.

had to buy their drafts in the free market, which made their goods cost from 20 percent to 30 percent more. At the same time, in order to increase exports the government has made trade agreements with Great Britain and other nations, under which she promises that the full amount of exchange arising from Argentine sales to these countries will be made available for remittances to them. More recently, in April 1935, the Minister of Finance issued an additional decree providing that merchandise imported through the free exchange market must pay a customs surcharge of 20 percent. The government's contention is that purchases of Argentine products by any country must provide exchange sufficient to cover Argentine debt payments to that country, before any exchange can be granted for the importation of merchandise from it. This policy has imposed the greatest hardship upon the trade of the United States, and has left the impression in some quarters, perhaps unjustified, that the present Argentine administration, or at least some of its ministers, were not too friendly to this country.⁶

Other boards have been set up from time to time: a foreign trade advisory board; two meat boards, one charged with finding new export markets for beef and mutton, the other to establish an Argentine-owned packing house to compete with British and American packers who monopolize the industry; also an unemployment board, a dairy industry board, a grain elevators construction board, a board for coördinating transportation, a fruit board, a foodstuffs board, and a colonization board. Under the auspices of the National Meat Board has been created a nationwide coöperative to which all cattle breeders must contribute one percent of their sales. Of the proceeds, 80 percent will be used as capital of the coöperative, each producer receiving one share in the organization for every ten pesos paid into the fund.⁷

The public works program of the administration includes the construction of motor highways. Argentina until very recently almost completely lacked modern, paved country roads, due in part to the absence of stone in the pampa, in part to the opposition of the British-owned railways. There is still everything to be done. The program also involves the building of grain elevators

⁶ Up to the end of September 1935 Argentina had a favorable trade balance for the year with the United States, but discrimination continued, the surcharge being reduced to 12.5 per cent.

⁷ In November 1935 retail butchers in Buenos Aires were reported to have declared a boycott against meat produced by the Coöperative, because it increased livestock prices by as much as 70 percent.

in the interior — long a crying need, until now unheeded largely because of the opposition of the large exporting interests in Buenos Aires, who have no desire to see the farmer protected by the easy availability of storage facilities. On these and other public works some 300,000,000 pesos are being spent over a period of three years, met largely by the issue of public works bonds.

The extreme nationalism evinced in the Argentine recovery program has occasioned, as in Chile and Brazil, a considerable expansion of native industry to supply articles formerly purchased abroad. Domestic industries have been promoted and protected in every possible way. During the past few years there has been an impressive growth along many lines: shoes, textiles, canned goods, toilet preparations, glass, furniture, pneumatic tires, etc. Argentine shoes already equal the British-made in quality and workmanship, and the development of textile manufactures is rapidly making the country independent of the foreigner. In fact, some New England textile interests, after steadily losing their export trade, have been transferring their plants entire to Buenos Aires.

In spite of Argentina's limited mineral resources, a considerable amount of industrialization is inevitable, given the large opportunities of the domestic market. Yet that market is not large enough to afford the cheapness, efficiency and good quality of really large-scale production. This is especially true because industry, as in most South American countries, is protected by a very high and uneconomical tariff. Under such conditions, foreign markets, even in the peripheral countries, are out of the question. Argentina's neighbors thus will probably find it more to their interest to continue to import from the United States and Europe. Industrialization, moreover, binds the nation to the policy of high protection, which means in the long run a higher cost of living than would otherwise be necessary. And high prices for manufactured goods do not contribute to the country's ability to produce agricultural crops at competitive prices for the world markets. Nevertheless, although further development of Argentine industry may be slow, the republic will never again import in quantity many articles which formerly came from abroad.

With good crops and rising prices, Argentina's foreign trade during the past two years has been expanding, as in the case of most other South American States. Exports in 1934 increased about 28 percent in value and 11 percent in volume over those of

the previous year, and the favorable trade balance rose from 223,000,000 pesos to over 300,000,000. During the first eleven months of 1935, exports increased again by 7.4 percent, to over 1,415,000,000 pesos, and the trade balance stood at 336,700,000. Although during the past year commerce with the United States has doubled, and that with Great Britain has somewhat declined, the latter country still holds the premier position in the markets of Argentina and purchases nearly a third of her exports. After the World War, when New York was for a time the world's financial capital, Argentine currency came to be tied to the American dollar; but since 1929, with the drying up of the American market for loans and the official depreciation of the dollar, Argentina seems again definitely to have aligned herself with the sterling bloc. It would perhaps be too much to say that Buenos Aires is the financial satellite of London. The government, however, is reported to be keeping a balance in London, in gold, of close to £60,000,000.

Argentina is also branching out into new lines, such as fruits and cotton. To the United States and Europe she is sending raisins, pears, apples and melons. Cotton acreage during the past decade has increased over 500 percent. In the northeastern areas — Chaco, Formosa and Corrientes — and in the neighboring provinces of Santiago del Estero and Santa Fé, future possibilities are said to be excellent. The rapid expansion of cotton production is due directly to official encouragement, and dates from the announcement of the cotton curtailment program of the United States Government. A vigorous "plant-more-cotton" campaign was begun, pioneers were provided with land and selected seed, the creation of standard types of fibre was accelerated, and in May 1935 a National Cotton Board was organized under the Ministry of Agriculture to supervise these manifold activities. The result was that in 1934 Argentina increased her production 34 percent, and exports rose to over 27,000 tons (about 120,000 bales), most of them sent to England and Germany. In 1935 production and exportation continued to expand at a startling rate. The acreage has been officially announced as 70 percent above that of the previous year, or over 800,000 acres, and exports as close to 200,000 bales. The government also plans to bring ten Texas and Mississippi cotton farming families to Argentina in 1936 to serve as "missionaries" among the Argentine planters.

The chief cotton problem for Argentina is to find an adequate labor supply. Most of the cotton is grown by small planters who are financed by various purchasing companies. Living conditions are very primitive, wages are low, and the climate of the Chaco (which at present produces 90 percent of the cotton) is distinctly hot and not conducive to labor by white colonists. Although since 1914 the population of the Chaco Territory has increased from 46,000 to over 200,000, it is a question whether sufficient numbers can be persuaded to settle in that area to make cotton the important source of national wealth which the government seems to have in mind. Nevertheless the possibility remains of producing considerable quantities for export on a competitive basis.

The economic crisis of the past six years, in Argentina as in many other countries, has been reflected in unsettled political conditions, including the threat of a conservative or fascist dictatorship. Although after the Revolution of September 6, 1930, the republic within a year returned to constitutional government, the political situation still remains somewhat obscure. In the September Revolution the conservative elements of the country (out of office since the Radical victory of 1916), in league with a group of the high command in the army, took advantage of the general discredit into which the Irigoyen administration had fallen to seize the government. The provisional régime of General José F. Uriburu which followed made the mistake of trying to use the situation to restore this conservative minority to permanent political control; and when finally forced to hold a general election in the autumn of 1931, it succeeded in keeping the Radical Party, the most powerful in the country, from participation.⁸ The resultant election of General Agustín P. Justo to the presidency was achieved by the votes of the conservatives and of some of the so-called *anti-personalista* foes of Hipólito Irigoyen. The only opposition candidate, Lisandro de la Torre, had the support of the socialists of the great city of Buenos Aires.⁹

In the previous decade the Radical Party had been split into two camps, the *anti-personalistas*, or followers of President Alvear (1922-28), and the *personalistas*, or followers of the party's remarkable chieftain, Irigoyen. General Justo, since the time he

⁸ By refusing to accept as candidates the only leaders whom the radicals would put up for election.

⁹ The socialists in Buenos Aires are very well organized under able and experienced leaders. Their representatives seem to be among the few men in Congress who make careful studies of social and economic problems, and they contribute largely to the enacting of constructive legislation.

served as minister of war under Alvear, had been identified with the anti-personalist group. But his administration has leaned heavily upon the conservatives (or National Democrats as they have called themselves since the 1930 revolution), although the government represents various shades of political opinion. Until recently the cabinet was divided into two antagonistic sectors: one, led by the Minister of the Interior, Leopoldo Melo, advocated democratic methods and the maintenance of popular control; the other, led by the Ministers of Finance and Agriculture, Federico Pinedo and Luis Duhau, seemed to incline toward arbitrary methods of government and control by the cultivated and well-to-do minority. The victory of the former would mean the assurance of free elections and the return to power of the Radicals; if the other should prevail, Argentina will revert to government by an oligarchy of the wealthy such as existed before 1916. Much, if not everything, depends upon the decision of the President. Melo and his associates, as former *anti-personalistas*, probably feel that the recovery of the Radicals will insure their own political future. The conservatives now in control wish to hold on for fear of what the Radicals will do to them if they regain the ascendancy.

Without doubt the most numerous and powerful party in Argentina is the Radical. Today it has no share in the national government, and it is questioned whether it will be allowed to win the national elections of 1937. Under the leadership of ex-president Alvear, internal dissensions seem to have disappeared, and the party is taking on renewed strength and vigor. In the Province of Tucumán early in 1935 the Radicals won the governorship against a conservative candidate, the first election in which the party has officially participated since 1931. And in several more recent contests, in the Federal District and in the Province of Cordoba, the government parties suffered defeat. The greatest attention, however, was focussed upon the Province of Buenos Aires in November 1935, where most people conceded that in a free election the Radical Party would win by a sweeping majority. Electioneering was of the bitterest sort, and the methods used by the conservative (governing) party were described by Buenos Aires newspapers as the most fraudulent, scandalous and violent in the country's history. In consequence of these methods the Radicals were overwhelmed, except in the capital, La Plata, where the polls were more fairly managed. Honorio Pueyrredon, former

ambassador in Washington, was the candidate for governor on the Radical ticket.

These events have given much comfort and encouragement to the rapidly growing fascist movement. There have been two national fascist organizations in the country, the *Guardia Argentina*, divided into some seven societies, and the *Legión Cívica*. The latter, the original fascist group and perhaps the largest, was organized in 1931 during the provisional presidency of General Uriburu, by the Minister of the Interior, Matías Sánchez Sorondo, as a private militia to protect the government against a Radical counter-revolution.¹⁰ The two groups were reported in November 1935 to have united as the National Party.

The fascists are scattered throughout all the provinces, with a small nucleus in every important center; but their total number is probably not large. They claim some 50,000 members in the city of Buenos Aires and 150,000 in the country at large, but these figures may be exaggerated. Their chief weakness seems to have been lack of central direction and of a prominent, outstanding leader. Their program apparently includes the abolition of the present political parties and of the national congress, a reduction in the size of the bureaucracy, the complete centralization of political power, and the creation of a legislature embodying corporate representation. On the economic side they propose to develop a planned economy which will eliminate the "parasitism" of the middleman and abolish the financial and commercial hegemony of the city of Buenos Aires, insuring a more equitable distribution of wealth and population throughout the provinces, and a fairer return to the producer for his labor. The conception of Buenos Aires as a gigantic and parasitic complex of bureaucrats, middlemen and lawyers, exploiting the producers and sucking the life-blood of the country, is shared by some of the extreme radicals, and is perhaps not without a basis of truth. In other words, in Argentina as elsewhere in the world, in their practical program extreme Right and extreme Left have much in common.

The success of the fascists, however, depends in the final analysis upon the army, for another coup d'état would be possible only with its support and coöperation. And as to the army, opinions

¹⁰ Sánchez Sorondo is now a senator from the Province of Buenos Aires. The commander-in-chief of the *Legión Cívica* is Colonel Emilio Kinkelín, a prominent member of the conspiracy which overthrew President Irigoyen in 1930, the man who unattended entered the Government House on September 6 and forced the resignation of Acting President Martínez.

differ. Traditionally the military services of Argentina have remained divorced from politics, and Argentine liberals believe that they will so remain. The fascists apparently think otherwise: in other words that the higher officers may again play an important rôle as in 1930. Under the provisional presidency of Uriburu they enjoyed an importance and prestige they had not known since the days of President Roca a half-century earlier. They were brought into contact with the best social circles, gaining experience and self-confidence and a consciousness of political and administrative capacity. This is the chain of fascist reasoning, and doubtless *sub rosa* they are endeavoring to make good the argument. But whether radical or conservative sympathies predominate among army and navy officers as a group, it is impossible to say.

Much seems to depend upon the course pursued by President Justo, himself a soldier by profession, to whom the bulk of the army is probably loyal. Without Justo's support the establishment of a fascist or conservative dictatorship is extremely unlikely. In spite of the reactionary tendencies observable in many spheres of administration, both national and in some of the provinces, the president's sympathies probably lie with the liberals. Moreover, he may be certain that a fascist coup would inevitably lead to his elimination from the government. There is also no question but that the opinion of the great mass of the citizens (and incidentally of the foreign residents) is opposed to the violation of constitutional practice and of democratic suffrage. Without the president, and with the bulk of the nation hostile, a coup d'état cannot be permanently successful.

There is however every indication that if the Radicals return to power there will be an intensification of the campaign against foreign capital, the beginnings of which were apparent in the congressional debates of 1935. A large section of the population believes that the country is being exploited by the railways, the *frigorificos* (cold-storage plants), the light and power companies, the telephone company, and the great grain exporting firms.

The *frigorifico* question is an old one. English and American packing companies have long been accused of maintaining a combination in restraint of trade, fixing arbitrarily the prices paid to the *estancieros* (ranch owners) and making profits not justified by industrial efficiency. This relates especially to the export trade with Great Britain, the principal consumer of Argentine beef

and mutton, in which the cold storage plants are closely connected with the maritime freight conference and with the wholesale and retail distributors. A system of quotas for export existed long before the London Treaty of 1933, for several of the firms possess packing houses in other countries, including the British Dominions. Their privileged position is due in part, it must be admitted, to the indifference of the Argentine ranch owners, who until recently have never seriously tried to enter into the business of preparing and marketing their cattle; they were content to enjoy the convenience of selling to the buyers at the ranches at prices which formerly gave them a handsome profit. Today, with lower prices and meagre profits and the threat of reduced markets abroad, the cattle-breeders are aroused; and although the position of the packers is not easily assailed, measures to break the foreign monopoly are not unlikely in the near future.¹¹

The livestock industry of Argentina faces a serious problem in the efforts of the British Dominions at the Ottawa Conference and since to exclude Argentine meat from the English market in the interest of "Empire trade." When the London Treaty comes up for revision this year, an attempt may be made to abolish the quota system and substitute an import duty. Such a duty, even if it gave some preference to the dominions, might be of advantage to Argentina, since it would enable her to bring into play the factor of low production costs. In any case, since from 75 to 80 percent of the country's entire livestock production is consumed at home, the outlook for the industry, in view of Argentina's increasing population, is not tragic.

Within the past few years the export trade in grain has come to be concentrated in the hands of two great export houses with world-wide connections, a circumstance which gives them more or less the same privileged, monopolistic position in relation to the producer which is charged against the packing companies. And it is not unlikely that, should fascists or Radicals come to rule the country, this situation will occupy the attention of the government.

¹¹ In November 1934 Mr. Richard Tootel, general manager of the British-owned Anglo-Packing Company, was arrested for refusing to answer questions of the Senate meat investigation committee. Later he was released, but was re-arrested when a midnight police raid on a steamer owned by the parent Vestey interests disclosed that the Anglo-Packing Company's books were being shipped to London in cases marked "canned beef". He was again released on the plea of ill health, and remained under police guard in his home, but eventually was allowed to retire to England.

The principal railways of Argentina are British-owned, and represent the largest single item of foreign capital investment in South America. They are beginning to feel the competition of motor traffic which has so seriously undermined the position of railways in other countries. Because of this and the circumstances of the depression, their income has declined from 185,000,000 pesos in 1928-29 to 48,000,000 in 1934-35. And with the federal government's extensive program of road building their troubles are going to increase. Their past financial policies have not aimed to build up large reserves, and they have done little to improve or modernize their equipment. Freight rates, too, have always been high; indeed, it is said that 40 percent of the export cost of Argentine grain is in transportation to the sea. Railway profits have meanwhile been concealed by the device of interlocking equipment companies. The future for motor trucking in a flat country like the Argentine pampas is obvious, and the fact that the railways in the past have consistently used their influence to oppose the building of adequate roads does not strengthen their position in public opinion. On the other hand, Argentina's most important foreign market is England; the spectre of "imperial preference" has not been exorcised; and the Argentine Government will perhaps hesitate to treat in cavalier fashion enterprises in which British capital is so heavily involved.

The electrical industry in Argentina is also beginning to come in for its share of public attention. At present over a billion pesos is invested in "light and power," represented by 471 companies maintaining 783 plants which distribute electrical energy to about 800 towns and cities.¹² The capital is mostly foreign (American and Foreign Power acquired a large stake in the industry before 1930). The light and power interests are accused of charging monopoly rates, in a country which has no public service commissions, and of obtaining or renewing their concessions, especially in the smaller towns, by irregular if not dishonest means. There has, as a matter of fact, been a widespread tendency to build municipal plants when the old concessions run out, and the circumstance that some of these plants charge half as much for current per kilowatt hour as do most of the private companies, whether justified on a strictly business basis or not, furnishes argument to the Radical politicians. Probably most of the small companies are over-capitalized. At any rate, the opening guns

¹² From a recent report of the Ministry of Agriculture.

of the anti-utilities campaign have already been fired in the national congress, and no one can tell what the future will bring forth.

That future hangs largely upon the outcome of the present conflict between oligarchy and democracy. In recent cabinet changes one may detect a growing tendency to recognize the strength of the Radical Party, although there may also be a desire for greater harmony in the national administration. The resignation in December 1935 of Manuel de Iriondo, Minister of Justice and Public Instruction, so as to be eligible as a candidate for the governorship of the Province of Santa Fé (in itself of no great significance) provided the occasion for the elimination of the two ultra-conservative ministers, Pinedo and Duhau. After the acrimonious debates in Congress last July, culminating in the assassination of Senator-elect Bordabehere, they had stood practically alone in the cabinet, and only the determination of the President to see consummated the plans for the Central Bank and the Liquidation Institute prevented a "crisis." The November provincial elections in Buenos Aires may have helped to bring it to a head. At any rate, on December 30 the whole cabinet offered their resignations; but only those of Messrs. Iriondo, Pinedo and Duhau were accepted.

The three ministers who replace them are moderate men. One is an anti-personalist Radical and two are conservatives. The change does not seem drastic. Nevertheless the general feeling prevails that President Justo is gradually swinging toward the Left. Within two or three years most of the provinces will be controlled directly or indirectly by the Radical Party, and the composition of Congress will be considerably altered. Nor will the fact that the conservatives, who came into power in 1930 with a demand for clean politics and honest administration, have almost everywhere behaved as badly as their predecessors be an obstacle to the recovery of power by the Radicals.

The contents of Foreign Affairs are protected by copyright. © 2004 Council on Foreign Relations, Inc., all rights reserved. To request permission to reproduce additional copies of the article(s) you will retrieve, please contact the Permissions and Licensing office of Foreign Affairs.



An Argentine View of the Problem of Exchange Restrictions

Guillermo E. Leguizamon

International Affairs (Royal Institute of International Affairs 1931-1939), Vol. 12, No. 4. (Jul., 1933), pp. 504-517.

Stable URL:

<http://links.jstor.org/sici?sici=1473-8104%28193307%2912%3A4%3C504%3AAA%3A%3E2.0.CO%3B2-F>

International Affairs (Royal Institute of International Affairs 1931-1939) is currently published by Royal Institute of International Affairs.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/riia.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

AN ARGENTINE VIEW OF THE PROBLEM OF EXCHANGE RESTRICTIONS¹

By DR. GUILLERMO E. LEGUIZAMON, K.B.E.

I. THE particular matter which I am going to discuss is one of the problems of Argentine finance which has lately assumed extraordinary importance in Great Britain : I refer to the official control of international monetary exchange which was established on October 10th, 1931, by decree of the Provisional Government of the Argentine Republic. If the full importance of this measure and the vital necessity for its adoption are to be appreciated, I must briefly summarise certain events in connection with it, which in fact brought about the situation ruling at that date.

On December 29th, 1929, the Argentine Republic unexpectedly abandoned the gold standard. The Executive Power, resorting to a procedure the legality of which is open to question, suspended the operations of the Conversion Office established in 1899, by which the Argentine gold peso, equivalent to 1.6129 grammes of gold, was made convertible into 2 pesos and 27 centavos paper of the fiduciary currency or vice versa. This conversion system was introduced in order to stabilise the paper currency, which during the financial crisis between 1889 and 1894 had become greatly depreciated in value. Its results have been very beneficial to the Argentine Republic, which in the thirty years of its operation has possessed in consequence a healthy currency of more or less stable value in relation to other currencies based on the gold standard.

To the question why we abandoned the gold standard which had given such favourable results, my answer is that money has always been a politico-economic instrument in the hands of governments. When a government feels it is being driven headlong by an economic crisis, like a vessel running before a tempest, its first concern is to alter course; and its currency is the sail which must be trimmed and set anew as required by such a manœuvre.

Such, in fact, were the circumstances which determined the abandonment of the system of conversion in 1929. Since the beginning of that year a considerable flight of capital from

¹ Paper read at Chatham House on May 16th, 1933, Mr. Follett Holt in the Chair.

the country was recorded in consequence of a lack of confidence in the Government, while our unfavourable balance of payments threatened a depreciation of Argentine currency.

The idea of closing temporarily the Conversion Office was suggested in various circles, but such an intention was denied by the Government on several occasions. Nevertheless, since banks and private persons continued to withdraw considerable quantities of gold from the Conversion Office against the deposit of paper currency, as established by law, grave fears arose that the circulation would be constricted to the point of causing a distinct increase in the purchasing power of the paper peso and also a rise in bankers' interest. Both these phenomena came about, as was clearly to be seen, and in increasing measure, due both to the above foreseen causes and to others into which I need not enter.

Midway through the year 1929 it was evident that a large amount of speculation was taking place by means of the purchase of gold and drafts upon foreign countries in the expectation of an inevitable fall in the exchange value of the paper peso.

The Executive Power issued the decree suspending the operation of the Conversion Office without consulting either the legal or financial advisers to the Government: nor was there any previous public discussion as to its desirability.

In judging the step as an historical fact, I maintain that it was the inevitable result of a situation of uncertainty, menaced by grave dangers. There is no doubt that its determining cause was the endeavours to safeguard the gold reserve against possible considerable withdrawal. In order to form further a more accurate judgment of the economic and financial phenomena which followed this step, I propose to examine them in three chronological divisions: first, the situation from the closure of the Conversion Office up to the establishment of the Exchange Control Commission; secondly, the mechanism of this institution from its inception, and thirdly, the result of its first eighteen months' working and the modifications ultimately introduced to assure its efficiency.

II. The immediate result of the closure of the Conversion Office in December 1929 was a depreciation of the paper peso in the Argentine Republic, though not to the extent which might have been expected in view of the unfavourable balance of payments, which during the year reached the figure of £40,000,000. This depreciation took place gradually and was subject to fluctuations, which caused some surprise, small rises being experienced,

to which has been attached greater importance than they in fact possessed.

Financial conditions in the Argentine Republic at the end of the year 1930 (that is to say, after the Conversion Office had been closed for twelve months) may be summarised as follows: there was an unfavourable balance of international payments of £30,000,000 sterling; gold had been withdrawn to the value of £1,500,000 sterling; revenue from import taxes had dropped by 18 per cent.; the internal debt had increased by £25,000,000; the value of exports had decreased very considerably, and a reduction of the currency in circulation from 1,415,000,000 to 1,273,000,000 pesos had caused a stringency in the money market, in spite of which a marked drop in the international exchange value of the peso was reflected; this last phenomenon being one of the many paradoxes produced by the world-wide loss of economic equilibrium.

In order to mitigate the effects of this restriction a short-term loan of £5,000,000 was raised in England, which was used for the payment of foreign obligations, thus avoiding the export of gold and a further consequent devaluation of the peso.

Before the close of the year 1930, however, the political situation of the Republic underwent a complete change. By a unanimous, though bloodless, demonstration of popular feeling the régime of President Irigoyen gave way to a Provisional Government. The new Government was faced by the necessity of fulfilling external obligations while gravely hampered by an abnormal depreciation of exchange, and elected to withdraw gold from the Conversion Office for transport abroad for the service and amortisation of the external debt. This perfectly legal step naturally reduced the circulation in proportion to the withdrawals of gold.

The year 1931 was without doubt the most difficult in the history of Argentine finance for the last thirty years. £34,000,000 were exported to maintain the credit of the country abroad; though our commercial balance was favourable, exports reaching a value of £128,000,000 against imports of £103,000,000, the circulation, on the other hand, was reduced to 1,245,000,000 pesos, the lowest recorded in the last twelve years. The gold backing dropped from 76 per cent. to 47 per cent., and the loss on exchange, which averaged 25 per cent. in the first six months of the year, was alarmingly accentuated during the following months, and in August and September 1931 reached 45 per cent. The constriction of the circulating medium determined the Government to

allow the Banco de la Nacion to have recourse to the rediscount of letters and commercial documents in the Conversion Office to the value of 300,000,000 pesos, thus making use for the first time of the emergency law passed in August 1914. Nevertheless, the normal rate for money assumed figures which had not been known for many years—from 8 up to 9·5 per cent. per annum.

The inevitable results of world-wide loss of economic equilibrium, coupled with the manœuvres of astute speculators, were highly disconcerting alike to the Government and to financiers, and combined to aggravate a state of uncertainty and lack of confidence which the country had not known since the Great War.

In such case the Provisional Government turned its thoughts towards establishing a control over exchange. Though at first sight this appeared difficult to do, yet there were no legal embarrassments to be overcome, since, no Congress being in existence at that time, the issue of a decree by the Provisional President was all that was required. The abandoning of the gold standard by England, though it cannot be considered as the cause of such a step, presented an opportunity for it to be taken.

Nations are not wont to pay their great Finance Ministers the homage which they so easily render to their statesmen and soldiers, and yet they owe much deeper gratitude to the former than to the latter, considering the benefits which their general national economy can derive from their acts. This was so in the case of Dr. Enrique Uriburu, Minister for Finance under the Provisional Government, to whose lot it fell to face and to solve the most intricate and fundamental financial problems with which our country has been confronted in the last forty years. The picture was really darker than I have just sketched, for reasons into which, for the sake of brevity, I will not enter. Suffice it to mention that in August, September and October, 1931, the depreciation of the peso against the dollar, franc, mark and lira was accentuated from 55 per cent. to 82 per cent.

The decree appointing the Exchange Control Commission, issued by the Provisional Government on October 10th, 1931, contained the following brief summary of reasons for its issue :

- (a) The abandoning of the gold standard by England has caused great uneasiness in the markets of the world, already hampered as they are by the prevailing crisis ;
- (b) Sales, especially of our cereal produce, have been paralysed, thereby bringing about an unusual scarcity of drafts upon foreign countries ;

- (c) Speculators have taken advantage of this temporary circumstance, and their manœuvres must be suppressed ;
- (d) Many countries have, in similar circumstances, had recourse to measures controlling exchange ;
- (e) It is imperative to replace the present state of ruinous anarchy prevailing in the market by a centralised system directed by those best qualified to do so.

The principal Articles of the decree established :

1. That there be created an Exchange Control Commission, under the Chairmanship of the Minister of Finance, which shall consist of the Chairman of the Banco de la Nacion Argentina and three other Members, appointed by the Executive Power through the Department of Finance, two of whom should be representatives of the Argentine Bankers' Association.
2. That after October 13th, 1931, all exchange operations should be subject to this Agreement and the Regulations pursuant thereto.
3. That all buying and selling of foreign exchange should be effected only through such Banks in the Federal Capital as should receive the authorisation of the Exchange Control Commission for this purpose, and that no person, firm or establishment might buy or sell exchange directly except through such Banks.
4. That the Exchange Control Commission should each day fix rates for the purchase and sale of exchange.

I myself must confess to a share of the responsibility for the imposition of these controlling measures upon exchange; and in so doing I will quote briefly from a lecture which I gave in the Buenos Aires Stock Exchange on March 5th, 1931. The ideas which I advanced then, and which I repeat to-day, are in my opinion fundamental to a proper understanding of the financial problems in question :

1. True, our monetary system can be described as too rigid, and ill-adapted to the fluctuating factors which vary the rhythm of the nation's economic life : but this would never justify the substitution of inconvertibility by way of an attempt to avoid greater evils.

It is well known that the monetary systems of the most advanced countries are imperfect, since no definite formulæ to ensure their efficient working at all times have yet been discovered ; but there can be no doubt that none is so far from perfection as the absence of any system at all—and this is what a permanent state of inconvertibility means. With a monetary system or organisation, a solution for the grave disorders of our internal economy can be reached ; without, the nation will be as a rudderless ship, drifting with the current and

carried hither and thither by the winds, till pure chance brings her safe to port or drives her to destruction upon the rocks.

2. It is, in my opinion, most hurtful to the Argentine Republic that no measures are taken to effect an adjustment between the internal value of the paper peso and its international, or exchange, value. As soon as the prices of imported merchandise cease to be subject to the exceptional economic influence of the present reduced consuming capacity; as soon as a part, or the whole, of the percentage of depreciation of the exchange is permanently reflected in the prices of exportable produce; then all other prices will follow the upward tendency and the process of readjustment will not end until a new general level of equilibrium has been reached. Meanwhile we shall have experienced all the critical effects of a depreciation of currency.

3. For this purpose I proposed the appointment of a special Committee of men of recognised capacity, under the Chairmanship of the Chairman of the Banco de la Nación Argentina, which could include representatives of British, American and French capital. This Commission would prepare a plan, to be approved by the Executive Power, which should serve as a basis on which to carry out the restoration of our legal currency, still permitting the Commission at a later date to point out what reforms they consider necessary, which would be duly submitted to Congress.

III. The first stage, which I will term the period of convulsions, was thus ended by the issue of this decree, which succeeded in tranquillising the general atmosphere. The credit which should be given to Dr. Uriburu, its author, can be judged from its subsequent effects.

The operation of the Exchange Control Commission in its early days was naturally subject to those fluctuations which are common to any organisation newly established for the purpose of imposing restrictions, for it is always difficult to determine the line of demarcation between tyranny and inefficiency.

The highest praise that can be given to the Commission is to say that it has fulfilled its duties with the conscientiousness and tact so necessary in the case of an official body with powers which would enable it autocratically to cause loss without any obligation to afford redress. After a year's working, all those who are interested in the buying and selling of drafts have had perforce to admit, publicly and privately, that notwithstanding the difficulties arising out of a balance of payments unfavourable to the Argentine Republic, the distribution of available exchange has been carried out in the manner best adapted to the most urgent requirements of the national economy.

The first and most delicate problem was to fix the rate of

exchange for foreign currencies based on the gold standard, the purchase and sale of which had to take place through the Exchange Control Commission. For the first month there was some hesitation because the dollar exchange was quoted at an 80 per cent. premium, but, since the pressure of applications for exchange did not influence the determination of the rate, it was shortly afterwards decided to grant only a 65 per cent. premium.

In fixing the rate of exchange for foreign currencies, the Exchange Control Commission adapted itself to the results experienced during a period of some three months. Then, as to-day, the rates fixed cannot be said to have been either arbitrary or real, since when the free market for the purchase and sale of drafts disappears, there remains no technical means of establishing what the true or real rate is.

It would perhaps be possible to arrive at a figure by means of the balance of payments, but since there are a variety of factors which this does not take into account—for example, the withdrawal of capital from the country—such a figure must always be arbitrary.

The following figures will enable the rate adopted by the Exchange Control Commission to be appreciated, as compared with par of exchange. At par the paper peso is equivalent to 0.4245 United States dollar; 20.9 pence, or 10.83 French francs. At the rate adopted by the Commission its value was reduced to 0.2581 United States dollar; 17.98 pence, or 6.6 French francs.

The mechanism of the Commission will be better explained by an analysis of the figures for its working during the year 1932. These show that the total exchange offered to the market was taken by four large groups of purchasers for the following purposes, in the order named :

1. Payment for imports.
2. National, Provincial and Municipal Government financial services.
3. Remittances to residents abroad and bankers' transfers.
4. Remittances of public service companies' balances.

Of the total available exchange, amounting to 1,357,325,000 pesos paper, 1,356,364,000 (that is to say, all except a negligible amount) was distributed under these headings in the following proportions :

	per cent.
1. To importers of raw materials and manufactured articles	53.64
2. To National, Provincial and Municipal financial services	15.73
3. To residents abroad and bankers' transfers	16.74
4. To public utility and private companies	13.89

It is clear that the Exchange Control Commission has given preferential treatment to imports from abroad, since their allocation was more than half the total exchange distributed. There are two reasons for this, namely :

1. The necessity of providing commercial houses with the necessary goods, and manufacturing activities with raw material, with the object of fighting a rise in prices, the results of which would be unfavourable to consumers.

2. The necessity of assuring the maintenance of revenue from customs duties. The manufacture and sale of articles of luxury has been restricted to a minimum.

I have mentioned that over 53 per cent. of the total available exchange during the year was allocated to commerce and industry to pay for imported goods and materials. Omitting items of relatively minor importance, this percentage was spread over the principal imported commodities as follows :

	per cent.
Agricultural and other machinery	5
Automobiles and accessories	2
Food-stuffs and beverages	6
Drugs and perfumes	3
Iron and other metals, and manufactures thereof	3
Paper, books, etc.	2·5
Shops and Stores	2·5
Textiles and manufactures thereof	13
Jute	2
Petrol and derived products	3·5
Jewels, clocks, etc.	·5
Tobacco	1

Increasing restrictions have been placed upon remittances to residents abroad, travellers' and bankers' transfers, and for this purpose the Commission endeavours to investigate each individual case, including those of immigrants remitting the smallest sums. Ten millions were allocated for the granting of permits to 53,000 applications, individual amounts up to 1,000 pesos; of these, 19,300 were monthly remittances not exceeding 100 pesos.

The financial remittances of public service companies and other private companies are those which have suffered most from the reduction of available exchange, and in consequence some of these companies have been unable to meet their obligations abroad, notwithstanding that they had earned enough to pay them.

The liquidation of these sums accumulated in the Argentine Republic is one of the problems which the Argentine Commercial

Mission has had to face and solve in its recent visit to Great Britain. There is every reason to hope that the solution adopted by the Agreement of May 1st last, about which I am going to speak later on, will be satisfactory to the interests concerned.

Exchange has been made available under four principal headings :

	per cent.
1. Sale of cereals and linseed	63
2. Meat and sub-products	16
3. Wool and hides	9
4. Dairy products	2

The remaining 10 per cent. has been allocated to the transference of funds from abroad, and to other products.

It will readily be appreciated that the Exchange Control Commission has carried out a very complex task, bearing in mind the necessity for adapting the limited possible supply of exchange to the needs of the economic life of the country. I will proceed to analyse the results obtained.

IV. I enter now upon my study of the third stage, that is to say, the period during which the mechanism of exchange control was readjusted in the light of a year and a half's experience.

In October 1932 the Executive Power decided to seek the assistance of a Financial Advisory Committee, consisting of representatives of the various branches of commerce and industrial activity in the country, and including also two professors from the University of Buenos Aires. I myself was among those who had the honour of appointment to this Committee, and this circumstance allows me to quote the report which the Committee made upon exchange control as an expression of my own personal opinions.

On November 23rd, 1932, the Advisory Committee reported to the Minister of Finance on the question of the Exchange system, to the following effect :

The Committee had limited its study to the effects of the system of exchange control, examining the question objectively from the point of view of the moment ; that is to say, it regarded the Control Commission as the result of a pre-existing system, without considering its legality or necessity, but solely what was advisable in view of the existing situation.

A Special Sub-Committee, of which I was a member, made a wide study of the various aspects of the matter, and after gathering opinions at length from representatives of the National and

Foreign Banks, Exporters and Producers, who chiefly deal with the sellers of bills of exchange, and representatives of commerce, of the leading industries, Importers and foreign Chambers of Commerce, produced a fully documented Report.

The Committee made a further careful analysis of the data, and submitted to His Excellency the Minister of Finance, the following unanimous conclusions based thereon :

1. That it was undoubtedly desirable that the established organisation of the Exchange Control Commission should be maintained, and its powers amplified concerning the purchase and sale of foreign money.
2. That the rate of stabilisation of 171 against the United States dollar should be maintained by reason of its evident advantage. In March of the present year (1933), however, this was abandoned, and the gold franc adopted in place of the United States dollar.
3. That circumstances rendered desirable the creation of a special fund to enable the State to acquire certain quantities of foreign currency and to avoid the export of gold, whether minted or not.
4. That in order to assure the fiscalisation of the exchange market it was desirable for the Exchange Control Commission strictly to ensure that no shipments should be made without its authorisation and knowledge.
5. That in order that the Control Commission should be properly advised, both as to invoice prices and as to the real necessities of the market, it was desirable that it should have two members representing respectively the Bolsa de Comercio and the Union Industrial Argentina.
6. That through the Commission there should be initiated a policy of commercial reciprocity with those countries which acquired Argentine exports; and that for this purpose the available exchange ought to be distributed, after satisfying the needs of the National and Provincial Governments, amongst the drawers of drafts according to the destination of remittances, in order that each foreign country should receive a quantity of exchange approximately proportionate to the amount of Argentine produce which it had received during the previous year.

The last conclusion contained in the Report which I have just read is sufficient in itself to explain the plan which was suggested to the Government for the establishment of a general rule for the distribution of available exchange on lines of fair reciprocity. Since there are many nations capable of satisfying the demands of the internal market, it is both just and logical to facilitate the

acquisition of the required manufactured goods or raw materials from countries which provide exchange by their purchases of Argentine products. For this reason the Committee advised the distribution of exchange in proportion to the amount supplied by each country by means of its imports from the Argentine during the previous year.

This rule has been adopted in the Agreement with Great Britain signed on May 1st, 1933, and is clearly above criticism, being based on fundamental principles of equity and mutual confidence.

Article 2, paragraph 1, of the Agreement runs thus :

“ Whenever any system of exchange control is in operation in Argentina, the conditions under which foreign currency shall be made available in any year shall be such as to secure that there shall be available, for the purpose of meeting applications for current remittances from Argentina to the United Kingdom, the full amount of the sterling exchange arising from the sale of Argentine products in the United Kingdom after deduction of a reasonable sum annually towards the payment of the service of the Argentine public external debts (national, provincial and municipal) payable in countries other than the United Kingdom.”

Equilibrium in the balance of payments is to-day the desideratum of those countries which have not closed their frontiers to the importation of foreign products. The Argentine Republic, an exporting country *par excellence*, in order to combat the difficulties arising from an unfavourable balance of payments, had no alternative but to establish the Exchange Control Commission and by its operation to secure relative stability for her currency, and to ensure justly reciprocal treatment for those countries which require her products.

I am certain that the opinion of economists in Great Britain will be favourable to the system we have adopted and to the modifications therein which experience teaches us to be worthy of adoption.

Summary of Discussion.

MR. VERNET, referring to the difficulty of dealing with the unevenness of the balance of payments, said that the price of the products produced in the Argentine Republic was a vital factor in evening out the balance which was so important to all countries.

The difficulty of meeting the interest and sinking fund charges on the previous excessive borrowings from the United States, which had not been altogether remuneratively employed, was one of the great difficulties in the way of exchange. The United States tariff policy

had led to the purchase of sterling exchange by the Argentine Republic in order to obtain remittances through London for payment of those charges, and this had been to the detriment of both Great Britain and the Argentine Republic.

An improvement was apparent within the last month in the price of wheat, quoted in April 1930 at 470 pesos and now, in May 1933, one peso higher.

COLONEL HARPER said that the Argentine Exchange Control Commission had proved an example for the British Government, which a year or two later had set up the Exchange Equalisation Account. The latter, however, was not strictly for the control of exchange transactions because it did not require people to produce their bills in order that they might receive exchange in proportion to purchases.

He asked why the Argentine peso was linked to the United States dollar at a price which, as the speaker had said, was neither arbitrary nor real. How was it maintained at that price? Why, being off gold themselves, did the Argentine Government link their currency to a gold standard and change to the franc when the United States went off gold? And what would they link to if the franc went off gold, as it quite possibly might?

LORD LUKE said that those interested in railways liked a high-priced peso, but the agriculturists and pastoralists for whom he spoke, having to sell linseed, maize and cattle, and wanting to get as many dollars as possible for them, would have liked the peso fixed at 36 pence or lower. Their goods were sold at world, not Argentine, prices, and their wage bills and other expenses remained the same, as imports from outside were not much used on the *estancias*.

There had been a similar position in Australia, and in order to help the agriculturists the Australian pound had been fixed at 130 to the pound sterling, with the result that producers received for their wool, meat, and wheat £130 whilst paying expenses on the basis of £100. Australian wages were fixed by the courts and therefore did not change. One of the great difficulties was overseas indebtedness, but Australia had a larger overseas debt than the Argentine Republic, and yet during the last year had been able to meet that debt and to renew loans at 4 per cent., a sure sign that Australia had turned the corner and was feeling more prosperous. The Argentine Republic had much greater resources, but had not yet begun to ascend the ladder.

He asked if the speaker would explain the endeavour to hold the peso as high as possible to an imaginary gold figure which might disappear.

SIR ARTHUR MAXWELL said the political control of currency and credit was open to danger and it should be regarded as an economic war-time expedient to be abandoned when there was again normality in international trade.

With regard to conditions in Australia, as Director of an Australian bank, he had some experience and did not think that pastoralists and agriculturists there, any more than elsewhere, were in a happy position.

There was danger of having too much regard to revenue on imports. The people inside were primarily responsible for contributing to the revenue, rather than the people outside.

An interesting feature was that for the first time exchange was to be given to a country in amounts proportionate to the trade done with it. Another point was emphasised in the Exchange Control Commission's circular for March 31st, 1933, that the balance in pesos due to banks, business firms and private individuals abroad must be covered within a period of thirty days. If exchange control was to be effective it must be done thoroughly, and it was most important that the countries concerned should do all they could to stop the "black exchange." Whether the amount at which the peso was pegged was right or not was a matter of question, but there could be no doubt that the Exchange Control Commission was the only means by which the Argentine Republic could have carried on in the existing state of economic warfare.

MR. J. M. EDDY asked whether, in the lecturer's opinion, the present critical situation in regard to the heavy accumulations of pesos waiting remittance might have been avoided if the policy with which Dr. Uriburu, the Minister of Finance, started Exchange Control had been continued, viz. to control exchange operations in order to prevent the illicit exportation of money from the Argentine Republic and a flight from the peso, and to allow the rate to vary in accordance with the demand and supply at the time.

The evils of a policy of valorisation had been amply demonstrated. Take, for example, coffee in Brazil, wheat in Canada and the United States. The position in the Argentine Republic as regards the exchange of currency could be placed on the same plane and had led to a curtailment of commercial activities and restriction of international trade due to the fact that importers could not obtain payment in foreign currency for their merchandise owing to the fixed rate of exchange.

DR. LEGUIZAMON said he proposed to give a general reply to the questions. With regard to the loans from the United States, the United States had offered money all round the world, and in proportion the Argentine Republic had taken less than any other country with a responsible government. The money had been chiefly employed in consolidating the internal debt dating from the War. The Argentine debt was less *per capita* and in proportion to the capacity of production than in any other country except Venezuela.

The Exchange Control Commission had fixed the peso at an amount which appeared to be arbitrary, but without the control of the Commission the money market would be in the hands of the small group of

exporters who had the supply of drafts and they could have sold pounds, marks, dollars, or francs at any price they liked. At the time the rate of exchange was fixed the quotation of the dollar according to demand and supply stood at 85 per cent. premium. A fixed exchange had to be within certain limits of the real exchange or there would be a margin for the black exchange. The limits might be 15 per cent. more or less but not as much as 25 per cent. Therefore the rate chosen of 171 approximated within the safe limit to the real exchange. The second part of the Exchange Control Commission's work was to fix limits to the balance of payments; if the balance was unfavourable, then buying must be stopped until there was more or less equilibrium. The Executive Power has taken steps to eliminate any form of black exchange.

With regard to the pressure from agriculturists for the devalorisation of the peso, the matter had been discussed from the point of view of sales and purchases in Europe, and it had been decided that the advantages that might be derived from internal depreciation of the peso would not balance the danger that would be incurred. There were two ways of depreciating currency; one was to increase the actual currency, as had been done in the United States; the other was to fix a low exchange *vis-à-vis* foreign currency. Both had been rejected in high political circles in the Argentine Republic, and it was thought better to keep currency stabilised and to wait until the world situation improved. Indirectly the internal purchasing power of the peso had been raised 20 per cent. by a reduction in the circulation. Externally the peso had lost about 25 per cent. in depreciation. The country was suffering from the process of readjustment but was definitely making progress, except for the enormous increase in taxes during the last five years. The purchasing power of the peso would be maintained in favour of the producers and the working class and the burden of taxes would be reduced as soon as it was possible to gain relief from the heavy burden of internal debt.



Argentine Foreign Exchange and Trade Since the Armistice

John H. Williams

The Review of Economic Statistics, Vol. 3, No. 3. (Mar., 1921), pp. 47-56.

Stable URL:

<http://links.jstor.org/sici?sici=0034-6535%28192103%293%3A3%3C47%3AAFEATS%3E2.0.CO%3B2-F>

The Review of Economic Statistics is currently published by The MIT Press.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/mitpress.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

ARGENTINE FOREIGN EXCHANGE AND TRADE SINCE THE ARMISTICE

JOHN H. WILLIAMS

THE pronounced fall of the Argentine peso in the past six months, particularly in terms of the dollar, and the consequent heavy cancellations of orders for American goods, have again called forcibly to our notice the predominant importance of foreign trade to the Latin-American countries. In no part of the world have the effects of the war been more strikingly revealed in the conditions of trade and exchange, or the result of trade fluctuations more immediately and clearly displayed in the general economic and financial condition than in these agricultural exporting countries. The war began with a near-panic in Buenos Aires and a general moratorium in Brazil. Its course was marked by a period of remarkable prosperity in Argentina, Chile, Uruguay, and most of the lesser countries, in consequence of the war demand for their food products and raw materials at rapidly rising prices; while conditions in Brazil, whose chief export was not a war commodity, presented a notable contrast. The series of changes which have occurred since the armistice have been fully as striking as those of the war period itself; and the purpose of the present paper will be to trace and analyze these changes for Argentina, with particular reference to the recent unfavorable exchange situation.¹

THE COURSE OF THE EXCHANGES

With the exception of a brief period in the middle of 1915 and again in the summer of 1916, both sterling and dollars (and most other currencies)² were at a discount in Buenos Aires throughout the war. Though the fluctuations of exchange were wider than would be possible in normal times, the discount did not become marked until the entry of the United States into the war in 1917 and the consequent embargo on gold shipments from New York to Buenos Aires, which previously had operated as a partial check upon exchange depreciation, both for sterling and for dollars. In December 1916 and February 1917 dollars reached a low point of 99.5 (a discount of 4 per cent) and sterling a low point of 50½ (a discount of 6 per cent). The following winter, with the cessation of gold movements from New York, both exchanges went to the lowest points reached

during the war period, dollars touching 94.10 (a discount of 9 per cent) and sterling reaching 53½³ (a depreciation of 11 per cent). In 1918, in consequence of credit advances by Argentina to the Allies and the United States, designed to stabilize exchange by taking a portion of the export bills out of the market, exchange showed some recovery and was fairly steady, dollars in the 1918 export season falling only to 97.68 (a discount of 6 per cent, in December) and sterling to 51⅞ (a discount of 8 per cent, in December).

Regarding the exchanges during the war period two facts are particularly worthy of note. In both dollars and sterling there was noticeable an annual wave movement, which reached its crest in the winter months (South American summer) and its trough in the summer months. This wave movement was due chiefly to the alternation of active and inactive seasons in the export trade. From October to May, approximately, the harvest comes to port and is shipped; there is consequently a flood of bills offered for sale by the exporters, and the rate moves downward, i. e., dollars and sterling go to a discount in pesos. From May to October this bill pressure is removed, and the rates move upward. The other fact to be noted is the close correspondence between the fluctuations of dollars and of sterling, the ups and downs of the one being almost identical in time and extent with the ups and downs of the other.

Since the beginning of 1919 this correspondence between the movements of the dollar rate and the sterling rate has entirely disappeared. Dollars rose steadily from December 1918 to August 1919, when they reached a high point of 104.53, or one per cent above par, a gain of 7 per cent in eight months. From July through October 1919 dollars were at par or better. Then came the usual seasonal swing downward, which terminated in March 1920, with dollars at a 2 per cent discount. Sterling, meanwhile, had been steadily depreciating, the downward movement becoming marked after June 1919. Sterling fell from 51⅞ in June 1919 to 69½ in February 1920, or 24 per cent, putting the sterling rate at the huge discount of 31 per cent.

In the late winter of 1920 there set in the final swing of the exchanges, which has resulted in recent months in the persistent reports of cancellations of imports from the United States. Dollars started upward in March 1920 and reached par in May. Since June 1920 the rise has been very rapid. By September dollars were at 119.71, a premium of 16 per cent. In the second week of November a new high mark was reached, dollars going to a premium of 22 per cent. From this extreme

¹ For an analysis of exchange and trade during the war period see John H. Williams, "Latin-American Foreign Exchange and International Balances during the War," *Quarterly Journal of Economics*, May, 1919, pp. 422-465.

² The only exceptions were Spanish pesetas and Swiss francs, which rose to a high premium in 1917 and 1918, but which since the unpegging of sterling in New York in March 1919 have gone to a pronounced discount.

³ The rates given are for cable transfers. The dollar parity is U. S. \$1.00 = Argentine gold \$1.0364. Dollar exchange is quoted in Buenos Aires in Argentine pesos. The sterling parity is \$1.00 Argentine gold = 47.62 pence. Sterling exchange is quoted in British pence.

point there has been some recession, but no tendency to a pronounced recovery, the rate for cable transfers showing a premium of 14 per cent in the second week of December, and 17.5 and 17.1 per cent premium, respectively, on corresponding dates in January and February. A similar rise has been experienced by sterling. Starting from the low point of 69 $\frac{5}{8}$ in February 1920 sterling rose to 56 $\frac{1}{8}$ by July 1920, when the discount on sterling was 16 per cent. This rate was approximately maintained through September, since when another pronounced upward movement has set in, as a result of which on February 16, 1921 the pound was quoted at par in Buenos Aires for the first time since August 1916.

To a remarkable degree the movements of the sterling rate in Buenos Aires, as just outlined, have resembled the movements of sterling in New York. The downward movement of sterling in New York during 1919 began with the unpegging of the exchange in March, the cessation of our government credit advances in June, and the lifting of our gold embargo that same month. The pronounced fall of sterling began in both markets in June 1919, and in both it reached its low point in February 1920. In both it was accompanied by a sympathetic fall, to much lower levels, by francs, lire, and other European exchanges. The correspondence between the movement of sterling and of other European exchanges in Buenos Aires is traceable also during most of 1920, though in that year it was not so close as in 1919. The downward movement in 1919 was experienced not only by the exchanges which during the war had been below par, but also by those — as Spanish pesetas and Swiss francs — which had been at a high premium. To what extent the fall of sterling in Buenos Aires was sympathetic to the movement in New York following the unpegging, and to what extent the similar movement of other European exchanges was a result of the unpegging of sterling is problematical. To some extent, the fall of the exchanges was undoubtedly the result of the release of sterling from artificial control; what it indicates is the close relationship and sensitiveness of the smaller exchange markets to the operations of the larger centers, and particularly to sterling. But this sympathetic relation should not be overstressed. As we shall later see, the facts of the Argentine situation are themselves sufficient to account for most of the important changes in the foreign exchange rates during the past two years.

THE ARGENTINE BALANCE OF INTERNATIONAL PAYMENTS

For the analysis of the major exchange movements in Buenos Aires down to the year 1920 we are fortunate in having the annual computations by Senor Carlos Alfredo Tornquist, the eminent Argentine banker, of the Argentine balance of international payments. These balances are for the economic year, October 1 to September 30. Below are given the summary figures for

1913-14 and 1916-17, and a more detailed statement of the most recent balance which Sr. Tornquist has published, that for 1918-19.

THE ARGENTINE BALANCE OF PAYMENTS, 1913-14

Unit: 1,000 gold pesos (peso = U. S. \$.965)

Credit			
1. Exports.....	404,250		
2. Capital invested *	114,000		
Total.....	—————	518,250	
Debit			
1. Imports	392,100		
2. Debt services	177,300		
Total.....	—————	569,400	
Balance	-51,150		
Reduction of gold stock in country ...	+32,600		
Net balance	—————	-18,550	

THE ARGENTINE BALANCE OF PAYMENTS, 1916-17

Unit: 1,000 gold pesos (peso = U. S. \$.965)

Credit			
1. Exports.....	599,300		
2. Capital invested	30,300		
Total.....	—————	629,600	
Debit			
1. Imports	357,500		
2. Debt services †	201,500		
3. Immigrants' remittances	19,000		
4. Tourists' expenditures	3,000		
5. Subscriptions to war loans	8,500		
Total.....	—————	580,500	
Balance	+49,100		
Increase in gold stock of country	-33,143		
Net balance	—————	+15,957	

* The separate items under "Capital Invested" are:

1. Two loans contracted by the national government, and one by the federal capital	\$46,200,000
2. Securities issued in Europe by railroad and other companies in Argentina	34,300,000
3. Bonds sold in Europe (cedulas, paving bonds, etc.)...	23,500,000
4. Interest reloaned by mortgage companies	5,000,000
5. Private mortgages and other investments	5,000,000
Total	\$114,000,000

† The separate items under "Debt Services" are:

1. Service of the public debt	\$49,800,000
2. Service of foreign mortgage investments in Argentina	16,800,000
3. Service of cedulas	9,900,000
4. Service of railway capital	40,000,000
5. Service of other foreign capital	32,000,000
6. Repayment of short-time public loans	53,000,000
Total	\$201,500,000

These tables indicate a reversal of the Argentine situation between the last year prior to the war and the year ending September 30, 1917. In 1913-14, notwithstanding a small excess of merchandise exports over imports of about \$12,000,000, and an inflow of capital from abroad amounting to \$114,000,000, these receipts were inadequate to meet the heavy interest charges on foreign capital invested in earlier years. The result was a large net outflow of gold amounting to \$32,600,000, and a net uncovered balance of indebted-

THE ARGENTINE BALANCE OF PAYMENTS, 1918-19

Unit: 1,000 gold pesos (peso = U. S. \$.965)

Credit		
Exports.....		900,150
Receipts from the following sources:		
1. Local loan issues purchased abroad	2,300	
2. New foreign capital invested in the country	19,600	
3. Sale of ships to foreign purchasers .	1,600	
4. Amortization of the debt of the French and British governments . .	57,400	
5. Interest on the loans to the French and British governments	7,300	
6. Interest received in the country on foreign bonds	1,100	
7. Expenditure by foreigners (travelers, commercial agents, etc.) in Argentina	4,200	93,500
Total		993,650
Debit		
Imports		599,350
Outgoings as follows:		
1. Service of the portion of the public debt held abroad	44,390	
2. Service of mortgage "cedulas" held abroad.....	5,000	
3. Service of mortgages constituted by foreign capital	20,100	
4. Dividends and interest on shares and debentures of foreign railway companies operating in the country	44,600	
5. Yield from other foreign capital invested in the country	43,210	
6. Savings of foreign residents and emigrants	49,200	
7. Expenditure of Argentines abroad .	20,000	
8. Remittances by subjects of belligerent countries for Red Cross and patriotic funds	1,500	
9. Sums remitted to Belgium, Germany and Austria-Hungary.....	15,000	243,000
Total		842,350
Balance.....	+151,300	
Increase in gold stock of country.....	- 11,904	
Net balance		+139,396

ness to other countries amounting to \$18,550,000. It is well known that the year 1913-14 witnessed a "near-panic" in Argentina; the unfavorable balance of payments, the consequent downward pressure on the peso in the foreign exchange market, and the large outflow of gold were important factors in that situation. With the war came a sudden reversal, resulting in a series of favorable balances of international payments. In the year to which the figures in the table belong, 1916-17, the excess of credits was \$49,100,000, the resulting inflow of gold (\$33,143,000) leaving a net uncovered excess of \$15,957,000. This balance, however, was moderate compared with that for the first year after the armistice. In 1918-19 Sr. Tornquist's computations reveal a net balance in favor of Argentina amounting to \$139,396,000. That foreign currencies experienced a moderate discount in 1916-17 and (except for dollars) a very marked depreciation in the first year after the war

was, of course, entirely in accordance with these changes in the Argentine balance of payments.

Further analysis of the tables indicates the character and relative importance of the various items entering into Argentina's dealings with the outside world and the nature of the factors operating upon the exchange market. Especially interesting are the financial items. Like the United States, Argentina before the war, though receiving a moderately heavy annual inflow of foreign capital in the form of investments in railroads, cedula bonds, mortgages, public utilities, and the like, had reached the stage where annual interest charges exceeded new annual borrowings, a fact indicated by the overturn of the trade balance from an excess of imports to an excess of exports ever since the Baring Panic of 1890-91.⁴ The capital and interest items in the balance for 1916-17 show that in consequence of the war the inflow of foreign investments had dwindled to a small figure, while interest payments continued gradually to increase. That the balance of payments showed nevertheless a net credit surplus was due to marked expansion of the merchandise exports. In the first year after the armistice the remittances of interest were only slightly larger than in 1916-17. The most interesting feature of the capital and interest account in the post-war period is the appearance on the credit side of the balance of several new items which indicate that since the war for the first time in its history Argentina has been receiving interest on capital which it has invested abroad. Interest received on foreign bonds and on credit advances to the French and British governments amounted to \$8,400,000, and the partial repayment of these government credit advances to \$57,400,000.

These items indicate that, as in the case of the United States, though to a much less degree, one effect of the war has been to reduce the international debtor position of Argentina. The marked depreciation of foreign currencies and the war needs of the Allies have resulted in a considerable export of Argentine capital; and there is little doubt that a considerable portion of the large uncovered credit balances which Sr. Tornquist's computations have shown in recent years has represented this outflow of Argentine capital to other countries. The powerful stimulus for such foreign investment afforded by the marked premium on the peso down to the summer of 1920 is too obvious to require detailed demonstration. In consequence of it there was a substantial repayment before maturity of mortgage bonds held in Europe, which were payable in the currencies of the countries in which they were held. Their cancellation in depreciated sterling and other foreign currencies represented important and unlooked-for profit to the debtors. Similarly, Argentine government external bonds and cedulas of the National Mortgage Bank were re-imported in large quantities, it being estimated that between October 1918 and May 1920, the period of most pronounced depreciation of the European currencies,

⁴ Similar to the overturn of the trade balance of the United States which occurred, from the same cause, with the panic of 1873.

the amount of these bonds returned to Argentina was over \$100,000,000 gold. The fall in the exchanges also constituted a powerful incentive to the subscription by Argentines to the French and Italian government loans. These subscriptions, according to the banks charged with their reception in Buenos Aires, amounted approximately to 200,000,000 francs and 1,000,000,000 lire.⁵

Another effect of the depreciated exchange upon the Argentina capital and interest account was to be found in the experiences of the British-owned railroads and other enterprises operating with foreign capital. The remittance of interest and dividends to England by the railroads brought profits on the exchange amounting in many instances, during the year 1919-20 (the year of heaviest exchange depreciation), to almost as much as the net earnings of the roads. For example, the report of the Buenos Aires Great Southern Railroad for the year ending June 30, 1920 showed that the road had earned a surplus available for dividend of £1,279,432 and that the profit on exchange had been £1,230,733. The average value of the Argentine gold peso in 1919-20 (July 1-June 30) was about 59*d.*, or about 11*d.* above par, which meant that for every penny that the peso stood above par the company got an exchange profit on its interest remittances of about £9,000 per month. It is apparent that profits of this magnitude, if added up for the various railroads and other companies operating with foreign capital, would run into very large figures. In the current year, the pronounced upward movement of sterling will thus mean a very considerable reduction of earnings, to which will be added the effects of the general slackening of activity attendant upon the depression of prices. It does not follow, however, that dividend payments will necessarily be reduced. To some extent expenses are falling also, particularly the cost of coal, which since early in the war period has been extremely expensive and difficult to obtain. Moreover, the exchange profits referred to have been of an abnormal character and by most companies have been treated as such and carried to reserves. The Great Southern, for example, has a reserve fund of £5,000,000, which was augmented by nearly £2,000,000 in 1919-20; so that it should experience no difficulty in maintaining its last year's dividend of 7 per cent.⁶

THE CREDIT ADVANCES

The most familiar form in which Argentine capital has been exported is the credit advances made in January 1918 to the Allies and the United States. Both the extension of these credits and the manner of their repayment since the armistice have exercised an important influence upon the exchanges. The credit granted to Great Britain and France by the terms of the "Grain Convention" was for \$200,000,000, to be used for the purchase of 2,500,000 tons of wheat of the 1917-18 harvest. The credit granted to the United States was for \$100,000,000. Primarily these credits were designed

to stabilize the exchanges and prevent further depreciation of the foreign currencies by relieving the bill pressure. For example, under this arrangement, a New York importer would settle by giving a check on his bank to the Federal Reserve Bank of New York, in return for an order for pesos payable in Buenos Aires. The Argentine government, through the Banco de la Nación, lent to our government the required pesos, delivered in Buenos Aires, to pay the bill to the Argentine exporter. The Federal Reserve Bank held the sums paid in by our importers for the account of the Argentine embassy; and the Banco de la Nación agreed not to draw on the Reserve Bank during the period of the exchange-stabilization arrangement.

The effect of these advances, as we have seen, was to steady the exchanges in 1918 and prevent further decline. Their repayment since the armistice has also had some bearing upon the exchange situation. By the terms of the original contract with Great Britain and France the \$200,000,000 credits were to be repaid within two years from January 14, 1918, repayment to be effected by means of bills to be drawn by the Argentine government against the British and French governments. It is obvious, however, that with gold movements still restricted under the European embargoes the drawing of these bills by Argentina in a market already depressed would have had the effect of driving the rates for sterling and francs still lower, so that the damage done in the repayment would have undone the benefits derived from the original advances. It was therefore provided that the bills should be drawn only when the rate of exchange did not exceed 50 pence on London and 5.60 francs on Paris. It has been possible for the Argentine government to reimburse itself in this manner for the greater part of the loan to France, but the fall of the British exchange until very recently made a similar procedure in respect to the loan to Great Britain impossible. In consequence, at the end of the two-year period (January 14, 1920) there still remained \$121,000,000 not paid off, for which amount the loan was renewed for one year. Under a subsequent agreement a gradual amortization of the debt has been effected through the payment by Great Britain, at its own option, of the interest on the Argentine foreign debt at the due dates. Similarly, Great Britain paid off to the United States for Argentine account the Baring-Morgan five-year loan⁷ of U. S. \$49,300,000, which matured May 15, 1920 — much to the relief of the Argentine government, which was carrying at the close of 1919 a floating debt of \$650,937,600⁸ paper (paper

⁵ See *Business Conditions in Argentina*, No. 148, p. 9, Ernesto Tornquist and Co., Ltd.

⁶ *South American Journal*, January 8, 1921, p. 31.

⁷ The Baring-Morgan loan (6 per cent Treasury bonds) was contracted in 1915 simultaneously in the United States (\$25,000,000) and in England (£5,000,000), but the British share was later transferred to the United States at the rate of 4.86.

⁸ Except for the Baring-Morgan loan this floating debt was entirely internal. In 1920 a considerable reduction of this debt was accomplished, and the total on October 31, exclusive of the Baring-Morgan loan cared for by Great Britain, was \$429,828,510 paper. This floating debt is mainly the result of a series of budgetary deficits such as were experienced during the

peso = U.S. \$.424 at par). By these means the amount of the credit advances outstanding was reduced by November 1, 1920 to \$67,900,000, and the rise of sterling left no impediment in the way of complete repayment at maturity.⁹

The net effect of the repayment of the Allied credits, therefore, has been to take out of the market a considerable part of the demand for bills by the Argentine government wherewith to make remittances of interest on the foreign debt and pay off the Baring-Morgan loan, factors which would have tended to sustain the rate for sterling and for dollars in the period since the armistice. It is not possible, however, to trace the effects of these repayments upon the exchanges. The pronounced fall of sterling occurred in 1919 and down to February 1920, but in that period, as has been shown, virtually no repayments were made by Great Britain. The bulk of the repayments have been effected since May 1920, but instead of sterling's being depressed thereby, as would be expected, the rate has risen steadily and has this month (February) reached par.

Especially interesting has been the history of the \$100,000,000 exchange-stabilization credit granted to the United States. The method of repayment of this loan was unusual; and because of the method followed the repayments appear to have been the result, rather than the cause, of exchange fluctuation. The lifting of our gold embargo in June 1919 was the signal for a heavy gold movement to Argentina to offset our adverse trade balance with that country. The gold shipments of June were \$30,460,000; and \$2,500,000 followed in July. Then the shipments ceased for two months, the dollar ruling between par and one per cent premium throughout the summer. In October, in consequence of renewed heavy buying from Argentina, exchange turned in favor of Buenos Aires and the dollar remained at a discount of one to two per cent down to May 1920. Heavy gold shipments from New York to Buenos Aires again set in. Between October 1919 and June 1920 the amount of gold shipped from New York to Buenos Aires was \$114,000,000. Though some portion of this was probably on British account, the greater part of it undoubtedly represented the defrayal of our own adverse trade balance, which had persisted since early in the war period. It is significant that the rise of the dollar in 1919, coincident with the pronounced fall in

sterling (whereas during the war they had moved together, and at a discount), dates from the unpegging of sterling in New York in March 1919 and the lifting of our gold embargo in June 1919. The fundamental explanation of the markedly different course of these exchanges in the post-war period is unquestionably the fact that since the dates mentioned the trade of the United States with Argentina has been conducted upon the gold standard, so far as our end of it is concerned. When the trade situation has demanded a flow of gold from New York to rectify the balance the outflow has occurred, and the exchange movement been kept within a narrow radius of par. Meantime British exchange, without gold shipments, has gone as low as 31 per cent discount and subsequently recovered, the movements of the rate being controlled chiefly by trade fluctuations.

These gold shipments from the United States did not, however, as has sometimes been stated, represent the repayment of the \$100,000,000 credit of 1918. On January 1, 1920 the Federal Reserve Bank of New York was still holding \$74,873,647 on deposit for the Banco de la Nación, and on June 1, 1920 the amount was still \$67,054,009.¹⁰ The bulk of the credit fund was paid off during the summer of 1920, and in this period there were no gold shipments to Argentina. On the contrary, the exchange situation was such as would call for gold shipments in the opposite direction. With the trade balance gradually changing adversely to Argentina the dollar went above par. The Argentine "Caja de Conversion," the office charged with the maintenance of the gold standard and the control of gold for that purpose, began a series of operations precisely the reverse of those carried out under the original exchange-stabilization agreement. Acting for the Caja, the Banco de la Nación transferred the \$75,000,000 (approximately) which it had on deposit at the Federal Reserve Bank in New York to Americans in payment of Argentine imports. At the same time Argentine importers (i. e., their local banks) were requested to deposit a corresponding amount in gold in the Caja de Conversion. In this way the stock of gold held by the banks in Buenos Aires was reduced from \$114,014,000 on May 31, 1920 to \$46,179,000 on October 31, 1920,¹¹ and the gold holdings of the Caja de Conversion increased from \$399,421,000 to \$466,477,000.¹² In other words, the method pursued in repayment of the credit fund worked as effectively as a means of exchange stabilization as had the original method of advancing the credit to the United States, only this time its influence was exerted to check the rise of the premium upon the dollar, whereas the original credit advance of 1918 was designed to check the rise of the premium on the peso. Put in other words, the repayment of this credit by the United States operated as a unique method of effecting a gold movement from Argentina to New York without actual release of gold from Buenos Aires. The Caja de Conversion released the gold it had on deposit in New York and took advantage of the operation to bring into its own vaults a corresponding amount of the gold holdings

war in a number of Latin-American countries. Various proposals have been suggested for its consolidation, among others a National Lottery Loan of \$600,000,000 paper, and a foreign loan. As yet, however, no satisfactory basis has been found for an external loan.

⁹ In the fall of 1919 and the spring of 1920 a second advance of \$200,000,000 to Great Britain, France, and Italy was proposed by the government to Congress. Great Britain, however, announced that she no longer needed such assistance; and when the unfavorable turn in Argentine conditions came in the spring of 1920, the proposal was tabled. A similar fate was met by the proposed \$100,000,000 credit to Germany.

¹⁰ Ernesto Tornquist & Co., *Business Conditions in Argentina*, No. 148, p. 16.

¹¹ The difference, \$67,835,000, corresponds with the amount of the credit fund paid out in New York. On May 31, 1920, as previously said, the amount of the fund in the Federal Reserve Bank in New York was \$67,054,009.

¹² The proportion of gold guarantee to paper money in circulation was 78.5 per cent.

of the local banks. Thus, from the removal of the gold embargo by the United States in June 1919 through the summer of 1920, gold was once again performing its normal function of regulator of the foreign exchanges, the movement being at first from the United States to Argentina and subsequently, in response to the altered state of the exchanges, from Argentina to the United States. In consequence, the dollar moved very closely about par through all this period, being never more than 2 per cent above or below; and this in striking contrast to all other exchanges in the Buenos Aires market.

But gold transfers by Argentina by this unique method could continue only so long as the Caja de Conversion had gold available in the United States, and so long as there was gold available in the Buenos Aires banks for delivery to the Caja. By October the credit fund in New York was exhausted, the trade balance was moving heavily against Argentina, and nothing could prevent depreciation of the peso but actual shipments of gold from Buenos Aires. Exportation of gold, however, is prohibited under an Argentine war-time decree. Hence the rapid rise of the dollar to the high premium of 22 per cent in November 1920.

From this analysis it is perhaps already clear that the fundamental factors governing Argentine exchange movements have been the fluctuations of merchandise trade and the presence or absence of gold movements. The influence of changes in the capital and interest account has been subordinate. In the war period the outflow of interest payments plus the credit advances to the Allies, the purchase of European government bonds, the return of Argentine securities, and the like, greatly exceeded the inflow of new capital; but this adverse balance was more than offset by the markedly favorable balance of trade, so that with gold movements suspended the peso ruled at an abnormal premium. In the post-war period the repayments of the credit advances might have been expected to result in a net inflow on capital account and to accentuate the premium on the peso; but these payments were in fact so effected as to produce a minimum of effect upon the exchange rates; and in the case of the dollar the whole exchange situation was normalized by gold movements down to the summer of 1920, when the refusal of Argentina to repeal the decree prohibiting gold exports once again permitted exchange to depart widely from par, this time in favor of the dollar.

THE FOREIGN TRADE

For the marked depreciation of sterling to February 1920 (and of all other exchanges except the dollar), therefore, and the pronounced upward movement of both sterling and dollars since that time, the foreign trade figures give the clearest explanation. Below are given the exports and imports and the balance of trade for the period 1910-20.

The effect of the war upon the Argentine trade balance is too familiar to require extensive comment. The

ARGENTINE FOREIGN TRADE, 1910-20

Unit: 1,000,000 gold pesos (peso = U. S. \$.965)

Calendar year	Exports	Imports	Balance
1910	389	379	+ 10
1911	342	405	- 63
1912	502	447	+ 55
1913	519	496	+ 23
1914	403	323	+ 80
1915	582	305	+277
1916	573	366	+207
1917	550	380	+170
1918	801	502	+299
1919	1031	656	+375
1920	1007	854	+153

average yearly balance of exports over imports in the five years 1909-13 was \$24,000,000, and in the five war years it was \$207,000,000. Beginning with 1918 the balance showed an extraordinary increase, reaching \$375,000,000, or 81 per cent above the average for the war period, in the first year after the armistice. In 1920 came a decided turn, the balance diminishing about 60 per cent to \$153,000,000, the smallest balance since 1914. In a general way the major movements of the exchanges — the comparatively moderate depreciation during the war, the marked fall in 1919, and the strong upward movement in 1920 — correspond with these changes in the balance of trade.

The table indicates how these changes were brought about. The first effect of the war was to reduce both exports and imports, but the decline of imports was the more marked. In 1915 exports experienced an extraordinary expansion, but imports continued to diminish. In the next two years there was a slight falling-off from the record export figures of 1915 and a slight recovery of imports, but during the whole period exports remained substantially above the pre-war level and imports below. In 1918 came the remarkable expansion of the foreign trade, in both exports and imports, exports increasing \$251,000,000 or 47 per cent over the previous year, and imports \$122,000,000 or 35 per cent. In 1919 this expansion continued, exports showing a further increase of \$230,000,000 and imports an increase of \$154,000,000. For the first time in Argentine history exports exceeded \$1,000,000,000. The result was the record trade balance of \$375,000,000, a figure which exceeded the total export trade of any year prior to 1909. In 1920 the expansion of the export trade came to an end, but the imports showed a total for the year of \$854,000,000, a further increase of \$198,000,000; this is reflected in the pronounced fall of the trade balance.

What these figures indicate is that during the war the abnormal demand for Argentine meat, wheat, wool, hides and other war products, combined with some falling-off in imports owing to war-time restrictions upon the movements of goods and of shipping, resulted in a remarkable increase of the trade balance in favor of Argentina; that in the first year after the armistice the demand for Argentine products showed no sign of abatement, but on the contrary increased to such a degree as

to more than offset a corresponding increase which had begun to show itself in the import trade; but that by 1920 the demand for exports had begun to slacken.

The total figure for exports in 1920, however, fails to show when the turn came, and gives a wholly misleading impression of its extent, since it shows a decline of only \$24,000,000. Below are given the exports, imports, and trade balances in 1920 by months and quarters. The Argentine official trade figures for the full year are ordinarily from six to nine months late. The following preliminary figures have been issued by Dr. A. E. Bunge, Director-General of Statistics, in response to a widespread demand for the data and in recognition of the unusual importance this year of timely information regarding the foreign trade.¹³

ARGENTINE FOREIGN TRADE IN 1920
Unit: 1,000,000 pesos (peso = U. S. \$.965)

Period	Exports	Imports	Balance *
Calendar year	1007	854	+153
First quarter	308	191	+117
Second quarter	291	209	+ 82
Third quarter	236	246	- 10
Fourth quarter	172	208	- 36
January	91	65	+ 26
February	97	53	+ 44
March	121	73	+ 48
April	110	74	+ 36
May	99	64	+ 35
June	82	72	+ 10
July	101	81	+ 20
August	78	77	+ 1
September	57	88	- 31
October	64	67	- 3
November	49	70	- 21
December	60	70	- 10

* The monthly balances, as here given, are slightly variant from the quarterly balances, because the exports and imports are taken only to the nearest million pesos.

This table shows the marked change in Argentine foreign trade in 1920, and indicates when it occurred.

¹³ The figures for the last quarter of the year are estimates, obtained from the statistics of customs revenue and import and export prices, as follows:—

The customs revenue results from the application of duties to prices listed in the official "Tarifa de Avalúos" (schedule of valuations). The official export valuations are based each year upon the current Buenos Aires market prices, but the import valuations still continue to be the Buenos Aires market prices of the year (1906) in which the Tarifa de Avalúos now in force was drawn up. From the customs revenue Dr. Bunge has calculated (a) for imports the proportion of duties to appraisements, and (b) for exports the proportion of duties to local (Argentine) market prices. From these he has calculated (a) the approximate "nominal" value of imports, and (b) the approximate actual value of exports. From the nominal value of the imports he has derived the approximate actual values, using as his index number for the whole twelve months the difference noted in the first quarter of the year between the nominal import values and the actual market prices for imports—variations from which during the rest of the year he states to have been insignificant. For more detailed explanation of his methods see Dr. Bunge's message to the Minister of Finance, December 17, 1920, extracts from which are given in the *Review of the River Plate*, December 24, 1920, pp. 1699 ff.

The figures of the first quarter of the year exceeded the quarterly averages for 1919. Exports and the balance of trade reached their peak in March. From the record figure of \$121,000,000 in that month exports have fallen off rapidly, so that the exports of the last quarter, despite the fact that these are normally active exporting months, were but little more than half those of the first quarter. The trade balance of the last half of the year was adverse to Argentina, the overturn first appearing in September. These figures indicate why the peso has been falling in foreign exchange this past fall and winter, why sterling has come back to par, and the dollar risen to a high premium. Below is given by quarters the trade with the United States in 1919 and 1920:

ARGENTINE TRADE WITH THE UNITED STATES BY QUARTERS, 1919 AND 1920
Unit: U. S. \$1,000,000

Quarters	Exports to U. S.	Imports from U. S.	Balance of trade *	Imports of gold from U. S.	Net balance *
1919, 1st	20	45	-25	none	-25
2d	39	31	+ 8	30	-22
3d	74	41	+33	3	+30
4th	67	38	+29	24	+ 5
1920, 1st	56	43	+13	60	-47
2d	62	46	+16	30	-14
3d	58	55	+ 3	none	+ 3
4th	33	71	-38	none	-38

* + Signifies favorable to Argentina.
- Signifies favorable to the United States.

The table shows that from the spring of 1919 to the fall of 1920 the balance of trade was favorable to Argentina and against the United States, and that in the spring of 1919 and throughout the first half of 1920 the result of this balance adverse to the United States was to cause gold shipments from New York to Buenos Aires. After the spring of 1920 the trade balance began to turn strongly against Argentina and in the final quarter exports from the United States exceeded imports from Argentina by \$38,000,000. The monthly figures given in the accompanying footnote ¹⁴ show that the overturn first appeared in October, and reached the maximum in

¹⁴ ARGENTINE TRADE WITH THE UNITED STATES BY MONTHS, 1920
Unit: \$1,000,000

Month	Exports to U. S.	Imports from U. S.	Balance of trade
January	21	14	+ 7
February	15	12	+ 3
March	19	17	+ 2
April	22	15	+ 7
May	23	17	+ 6
June	17	14	+ 3
July	19	16	+ 3
August	17	17	0
September	23	22	+ 1
October	15	22	- 7
November	8	26	-18
December	10	23	-13

November. This is the month in which the premium on the dollar reached its highest point, 22 per cent. It is also the month when total Argentine exports sank to their lowest point.

QUANTITY, VALUE, AND PRICE IN FOREIGN TRADE

The most significant feature of Argentine foreign trade since 1914 is that both in the expansion of exports up to March 1920 and the pronounced decline since that time the changes have been much more marked in the value figures of trade than in the physical volume. During the war, 1914-18, the yearly average quantity of exports showed an actual decline of 44 per cent compared with the yearly average of the preceding four years, while the yearly average value exported increased 28 per cent.

The accompanying table compares for both exports and imports the yearly changes in value, quantity, and price from 1910 through 1919. The index numbers of physical volume of trade and of export and import prices are those of Dr. Bunge, Director of National Statistics.¹⁵ The table shows a decrease in volume of both exports and imports during the war period. The decrease in quantity imported was particularly marked, and continued throughout the war, reaching an extremely low mark in 1918. The physical volume of exports reached its lowest point in 1917, when quantity exported was 20 per cent less than in 1910 and 41 per cent less than in 1913. In 1918 and 1919, when the value of exports reached the new high levels of \$801,000,000 and \$1,031,000,000, quantity of exports also increased, but not until 1919 did the physical volume

INDEX NUMBERS OF ARGENTINA EXPORTS AND IMPORTS, SHOWING VALUE, PHYSICAL VOLUME, AND PRICE, 1910-19

Years	EXPORTS			IMPORTS		
	Quantity	Price	Total value	Quantity	Price	Total value
1910.....	100	100	100	100	100	100
1911.....	89	99	88	104	103	107
1912.....	132	98	129	109	108	118
1913.....	136	98	133	120	110	131
1914.....	102	101	104	77	111	85
1915.....	129	116	150	65	127	81
1916.....	112	131	148	62	161	97
1917.....	80	176	142	52	198	100
1918.....	117	176	206	47	202	132
1919.....	137	194	265	65	185	173

reach the figure of 1913; and it is interesting to note that while the quantity exported in 1913 had a value of \$519,000,000, the same quantity exported in 1919 had a value of about twice that sum.

In other words, the expansion of Argentine exports and the large favorable trade balance down to March 1920 were entirely the result of rising prices for Argen-

tine products, coincident with a restriction of the import trade so severe that even though import prices had doubled by 1917, the total value figures did not reach the imports of 1913 until the last year of the war. The rise of export prices was continuous throughout the war, becoming especially pronounced in 1917. In 1919 there was a further rise, bringing the price level to about double that of the pre-war period.

Some further interesting light upon the comparative variations in value, quantity, and price is given by the statistics of the leading exports. Seven exports — frozen beef, canned meat, wool, ox hides, wheat, corn, and linseed — comprised 76 per cent of the total value of exports in 1913 and 80 per cent in 1918. Of these, corn and linseed were not war exports; and the total exports of these two products in the five war years 1914-18 decreased both in value and in quantity. The meat trade was the only major export industry to receive a substantial impetus from the war, there being a large increase in quantity as well as in value. The canned meat industry may be said to have originated during the war period, this export increasing from the insignificant figure of \$2,213,000 in 1913 to \$92,854,000 in 1918, when it was surpassed only by frozen beef, wheat, and wool. Frozen beef exports increased in volume 38 per cent and canned beef increased fivefold. The other war exports, wool, wheat, and hides, decreased in volume, the decline being 3 per cent in hides, 20 per cent in wheat, and 22 per cent in wool. But in consequence of rising prices wool showed a gain in total value exported of 35 per cent, hides a gain of 33 per cent, and wheat an increase of 8 per cent. In value per ton, all the five war exports mentioned showed a decided advance, the average increase being 66 per cent, canned meat, wool, and frozen beef leading with increases of 125, 73, and 62 per cent respectively.¹⁶ In other words, the increase in the total value of these major exports was mainly due to the extraordinary rise in their prices.

In the first year after the armistice most of the leading exports increased in quantity as well as in value. The table given above shows that the physical volume of exports in 1919 was 17 per cent greater than that of the preceding year, and that in that year for the first time the quantity exports of 1913 were slightly surpassed. The increase in quantity exports continued in the first

¹⁵ See *Anuario del Comercio Exterior de la Republica Argentina*, the official yearbook of trade.

¹⁶ QUANTITIES AND VALUES OF THE LEADING ARGENTINE EXPORTS COMPARED FOR THE PERIODS 1909-13 AND 1914-18

	VALUE (\$1,000,000 gold)				QUANTITY (1,000 metric tons)				AVERAGE VALUE PER TON (\$1.00 gold)			
	1909-13		1914-18		1909-13		1914-18		1909-13		1914-18	
	Abso- lute	%	Abso- lute	%	Abso- lute	%	Abso- lute	%	Abso- lute	%	Abso- lute	%
Wool	273	369	+ 96	+ 35	744	584	- 160	- 22	367	634	+267	+ 73
Ox hides ...	175	233	+ 58	+ 33	485	471	- 14	- 3	362	493	+131	+ 36
Wheat	459	494	+ 35	+ 8	12,125	9,719	-2406	- 20	39	51	+ 13	+ 34
Corn	343	301	- 42	- 12	14,701	12,305	-2396	- 16	23	25	+ 2	+ 5
Linseed ...	206	176	- 30	- 15	3,440	2,995	- 445	- 13	60	59	- 1	- 2
Frozen beef .	203	456	+253	+ 125	1,402	1,941	+ 539	+ 38	145	235	+ 90	+ 62
Canned meat	12	163	+151	+1334	64	381	+ 317	+495	190	427	+237	+125

half of 1920. The accompanying footnote¹⁷ gives a comparison of quantities of some of the principal exports in the post-war period down to June 1920 with quantities exported in the war years. It shows pronounced increases in wheat and corn, and substantial gains in hides and wool, though in these latter the gains were not maintained in the first half of 1920. Calfskins and sheepskins, which had fallen off markedly during the war, show important gains. With the cessation of war demand, exports of frozen beef fell off about one-sixth from the high point of 1918, but other meat exports were maintained or increased.

The most significant change in the first year and a half after the armistice was the extraordinary expansion of cereal exports; and particularly the exports of wheat in the first half of 1920, which amounted to 4,199,000 tons, or 944,000 tons more than in the whole year 1919 and more than double the average yearly export of the war period. So strong was the demand that by the end of June the stock available for export was reduced to 813,000 tons. Demand continued strong in spite of the fact that the price had risen to \$30 paper per 100 kilos, as against \$14.20 in January and \$22 in April. To this price had to be added the export tax of \$4 paper per 100 kilos.¹⁸ By decree of July 8 the government limited permission to export wheat to 500,000 tons. This quantity having been shipped in a few weeks, the government (by decree of August 1) prohibited the exportation of wheat and flour except for that authorized by permits to foreign governments with whom special agreements had been made.¹⁹

THE FALL OF PRICES IN 1920

To summarize the foreign trade situation from the armistice through the first half of 1920: The chief cause of the continued expansion of the export trade and of the favorable trade balance was the continued rise of export prices, which was combined with a considerable increase in the physical volume of exports. The abrupt decline of the export trade since the spring of 1920, resulting in the last half of the year in an unfavorable balance of trade, the first since 1911, was likewise the result of the price movement. Since the second quarter of 1920 prices of wool and hides have fallen violently. Cattle prices have been generally steady, and closed the year at approximately the same level as that ruling in the first quarter. Wheat prices, in response to the extraordinary demand described above, showed a strong upward tendency from January to June, from \$14 paper per 100 kilos in January to \$28 at the end of May, which price was approximately maintained until the fall quarter. But by the middle of December spot wheat for export had fallen to \$19 and February wheat to \$17.50.²⁰ The fall in wool and hides began in March, but was comparatively moderate until May. Since then the fall has been violent. Ox hides selling in February at \$14-\$20 paper per 10 kilos according to grade sold at \$12-\$18.50 in March, at \$10-\$14 in June, at \$8-\$12.50 in

September, and \$7.50-\$11 in November. Calfskins selling at \$23-\$24 in February sold \$21.50-\$22.50 in May, \$14-\$16 in June, \$13-\$14.50 in September, and \$9.50-\$10 in November. The fall in hides has thus been over 50 per cent.

Most serious in its effects upon trade has been the decline in wool prices. Prices for good to superior cross-breds, which ranged from \$13 to \$23 paper per 10 kilos according to grade at the end of January 1920, and at \$16-\$20 at the end of May, were selling at \$6.50-\$9.50 by October 1. On the same dates good to superior merinos sold at \$19-\$24, \$16-\$22, and \$12-\$16. Inferior crossbreds, which in November 1919 sold at \$13-\$17, were selling at \$7-\$10 in May 1920, and at \$4.50-\$5.50 in October. Since then the market has shown little tendency to recover, the prices ruling in the past few months being from 50 to 70 per cent under those of the early months of 1920.²¹

This violent fall in prices of wool and hides has in part been the result of a pronounced slackening of demand by other countries. Once the decline was well under way, however, it had the effect of withholding supplies from the market in hope of better prices. Particularly has this been the case with wool. On October 31, 1920 Tornquist and Co. estimated the total stock of wool in the country at 80,000,000 kilos, of which only 20,000,000 kilos had found its way into the Central Produce Market. Particularly significant are the statistics of wool entries into this principal wool market. From July 15 to November 15, 1920 total entries of wool were but 10,720,000 kilos, as against 26,961,000 kilos in the same period of 1919.²² The effect of the price drop upon exports of wool is shown by comparison

17 SOME LEADING ARGENTINE EXPORTS, 1914-20 *

Article	Unit	1914	1915	1916	1917	1918	1919	Jan.-June 1920
Wheat	1,000 metric tons	958	2449	2273	898	2929	3258	4199
Corn	1,000 metric tons	3512	4350	2864	896	648	2375	1918
Hides:								
Calfskins	Number	†	†	†	†	97	386	182
Ox hides	Number	3882	5785	5639	5014	4460	4975	1767
Horsehides	Number	58	84	76	172	40	532	123
Wool	1,000 metric tons	123	136	132	135	116	147	55
Meat:								
Frozen beef	Quarters	1182	3217	4811	4427	6195	5034	2464
Chilled beef	Quarters	3216	1113	815	620	24	75	102
Frozen mutton	Carcasses	1602	1176	1497	970	1238	1426	515
Frozen lamb	Carcasses	735	489	637	450	231	218	1203

* Bulletin of the Pan American Union, November, 1920, pp. 510-514.

† Figures were not given.

¹⁸ In effect from June 10 to November 30, 1920.

¹⁹ Under these agreements the Argentine government bought back 135,000 tons of wheat from the stocks held in the country by France, Belgium and Italy, at the relatively low price of \$20 paper per 100 kilos, with the object of endeavoring to reduce the price of "second quality" white bread to 30 centavos per kilo which would be 40 per cent under the price it had attained in October — with a still rising tendency. See Tornquist, *Business Conditions in Argentina*, No. 149, pp. 16, 17. Despite the restrictions, exports of wheat rose to 5,030,000 tons and of corn to 3,440,000 tons in the first ten months of 1920; figures never attained in previous years.

²⁰ *Boletín de la Bolsa*, December 24, 1920, p. 1126.

²¹ For detailed Buenos Aires price quotations see the *Boletín de la Bolsa* (bi-weekly bulletin published by Buenos Aires stock exchange); *Review of the River Plate*, Produce Market section, weekly quotations; and Tornquist, *Business Conditions in Argentina*, published at intervals of two to six months.

²² *Review of the River Plate*, Produce Market section.

with the figures for the preceding year. Total quantity exported in the wool season 1919-20 (October 1 to September 30) was 301,698 bales, as against 283,006 bales in 1918-19; but the increased quantity in 1919-20 was due to the heavy shipments during the early months, when prices were rising. From October 1, 1919 to May 27, 1920 wool shipments amounted to 239,603 bales, or about twice the amount shipped (123,180 bales) in the corresponding period of 1918-19. From May 27 to October 1, 1920 the shipments amounted to only 62,095 bales, or little more than one-third the shipments of the same period in 1919 (159,886 bales). Holders of wool made application to the national government for assistance in effecting export sales on long credit terms. The government submitted to Congress a bill authorizing Argentina to negotiate with foreign governments for the sale of wool to them on credit terms of up to two years. Congress rejected this proposal, but exempted exports of wool and hides from the export duties. In response to a petition by growers of coarse wool (who have been hardest hit by the fall of prices), several of the railroads have made a reduction of 25 per cent in wool freights.

CONCLUSION

It is unnecessary to continue further the analysis of the recent Argentine exchange situation. The fall of the exchanges in 1919 and down to February 1920 and the subsequent pronounced rise are entirely in accord with the changes in trade, and these have in turn been dominated by the changes in export prices. That the dollar did not share in the pronounced fall of the other exchanges in 1919 we have seen to be due to the fact that from the lifting of our gold embargo in June 1919 until the exhaustion of the Argentine credit fund in New York in the late summer of 1920 gold shipments were performing their traditional function of regulator of the foreign exchange rates between the two countries. When the credit fund was exhausted the trade balance, in consequence of falling prices in Argentina, was turning strongly against that country. As a means of normalizing the exchange it was proposed that the Argentine banks and the Caja de Conversion be authorized to

export gold. This could not be done without the repeal by the government of the decree prohibiting gold shipments. The repeal of the law was insistently demanded by the importers owing to the extraordinary rise in the cost of merchandise imported from the United States; but the government has declared itself opposed to this step and has stated that "it is more desirable to keep the gold in the country, in view of the present situation in Europe."²³ Hence the dollar has continued to rise to the present high premium, and sterling has returned to par.

How serious a situation has thus been created for American exporters is shown by the numerous and well authenticated reports of refusal by Argentine buyers to accept delivery of American goods²⁴ owing to the ruinously high price of the exchange. On October 20, 1920 leading Argentine importers of American goods met and adopted resolutions to limit to absolute necessities future importations from the United States.²⁵ Goods coming in are being left in the Custom House. This condition may be expected to continue until there is substantial improvement in the rate of exchange. A forecast as to when such improvement is to be expected would be particularly hazardous at the present time. A substantial revival of business activity in the United States this spring is the general expectation. That revival should be accompanied by a moderate recovery of our imports, as the depression of this past fall and winter was evidenced by a substantial decline in imports. Argentina and other raw materials markets may expect to feel some beneficial effects of our recovery. The present harvest year in Argentina is well up to the normal, and only the prices of wool and hides have been violently affected by the recent export depression. Raw materials markets are among the first to recover from, as they are usually the first to feel, a general world-wide decline of prices such as occurred in 1920. It should be remembered, too, that "young" countries, fundamentally dependent upon foreign markets for their agricultural products, react with astonishing quickness and to an extraordinarily marked degree to changes in the currents of trade. Recovery may occur as swiftly and suddenly as has the depression of the last nine or ten months. Never since the Baring panic of 1890 has the Argentine trade balance been unfavorable to that country for more than a single year at a time, and even that has occurred only twice, in 1893 and 1911.

²³ Tornquist, *Business Conditions in Argentina*, No. 149, p. 13.

²⁴ See *Review of the River Plate*, December 24, 1920, p. 1708.

²⁵ *New York Journal of Commerce*, Buenos Aires dispatch, October 20, 1920.

LINKED CITATIONS

- Page 1 of 1 -



You have printed the following article:

Argentine Foreign Exchange and Trade Since the Armistice

John H. Williams

The Review of Economic Statistics, Vol. 3, No. 3. (Mar., 1921), pp. 47-56.

Stable URL:

<http://links.jstor.org/sici?sici=0034-6535%28192103%293%3A3%3C47%3AAFEATS%3E2.0.CO%3B2-F>

This article references the following linked citations. If you are trying to access articles from an off-campus location, you may be required to first logon via your library web site to access JSTOR. Please visit your library's website or contact a librarian to learn about options for remote access to JSTOR.

[Footnotes]

¹ **Latin American Foreign Exchange and International Balances During the War**

John H. Williams

The Quarterly Journal of Economics, Vol. 33, No. 3. (May, 1919), pp. 422-465.

Stable URL:

<http://links.jstor.org/sici?sici=0033-5533%28191905%2933%3A3%3C422%3ALAFEAI%3E2.0.CO%3B2-B>



Capital Movement and Transportation: Britain and American Railway Development

Leland H. Jenks

The Journal of Economic History, Vol. 11, No. 4. (Autumn, 1951), pp. 375-388.

Stable URL:

<http://links.jstor.org/sici?sici=0022-0507%28195123%2911%3A4%3C375%3ACMATBA%3E2.0.CO%3B2-5>

The Journal of Economic History is currently published by Economic History Association.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/eha.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

Britain and American Railway Development

OUR task here is to inquire into the relations between two familiar sets of phenomena—the economic development of the Western Hemisphere and the involvement of British investors, financiers, engineers, contractors, and financial groups in railways in that area. As a matter of convenience we shall look chiefly at the United States and Argentina, and at the time span of three quarters of a century preceding the First World War. It is no secret that during that period both countries underwent rapid development, whose contours included such matters as the effective occupation of new areas of vast extent; the growth of population, partly fed by immigration; the effective application of technological improvements to the exploitation of natural resources; an increasing complexity of the division of labor; and a rise in productivity and real income per capita, participated in by large segments of the population. During the same period, the Western Hemisphere was normally the outlet for from 40 to 60 per cent of British foreign investment, the United States and the Argentine being two of the countries chiefly affected. We are familiar with estimates that British investments in the United States, on the eve of the First World War, amounted to over 4 billion dollars, approximately 3 billion of which were in railway securities, and that something like half as much was invested in Argentina, with a somewhat smaller percentage directly in rails. The British owned at least three fourths of the railway mileage of Argentina and had supplied capital for most of the rest. Their railroad holdings in the United States amounted to around 15 per cent of the railroad capitalization; at earlier periods, though the amount was less, the proportion may have been as high as one fourth.

We shall not labor the advantages of improved transportation in general or even with respect to the United States and Argentina in the nineteenth century. What we want to know is what difference it made that the British invested, or built, or operated, or did whatever they did, with respect to railways in the Americas. What difference did it make that something was done by men and resources and ways of thinking and acting from a presumably more highly developed area? We should be under no illusions that this is an easy question for his-

torians or economists to answer, or that we shall be able on this occasion to do more than explore some aspects of the problem.

Commencing with the United States, we observe that British investors bought and sold our railway securities over a period of eighty years in relatively significant amounts, and that the movement and aggregate holdings fluctuated sharply.

The London market first heard of United States railways in the Jackson period, when there appeared bonds for the construction of the Camden & Amboy, Philadelphia & Reading, and Baltimore & Ohio. In the fifties, a livelier movement took place. The Pennsylvania issued shares and bonds in London to finance its expansion westward from Pittsburgh. There was capital to complete the New York & Erie and to relieve American holders of a large proportion of its securities. There were parcels of bonds, sometimes accompanied by a pledge of shares, for dozens of other railroads, West and South, mostly negotiated for the purchase of rails from British manufacturers and not always marketed publicly. Several such transactions are known only from subsequent defaults. Most of the capital went into going concerns that needed resources for completion of what had been undertaken. But English and Dutch investors, in the ratio of 3:1, allured by the land-grant feature, were drawn in almost from the start on the financing of the Illinois Central and subscribed the bulk of shares and bonds for its initial lines. Some of the early railway bonds, notably those of the Philadelphia & Reading, were convertible and became the basis for substantial stock ownership in dividend-paying lines.

The large amount of foreign investment in the United States, following the Civil War, has received much comment. In origin, this movement was more German than British and was in unregistered 5-20's and the like rather than in rails. But, from 1869, British investment in railways made a considerable feature of the total movement and, perhaps facilitated by government bond redemptions, continued for a couple of years after the panic of 1873, despite the Erie scandals and the failure of Jay Cooke to market Northern Pacific bonds. A special section of the London Stock Exchange for American rails became an established feature with a dozen brokerage firms specializing in this field. Issues in multiples of \$10 millions became common, such as for the consolidation of the western part of the Pennsylvania system and its connection to Washington, for Reading's historic adventure in anthracite, and for the strategic expansion of other going concerns. Eventually recession in the United States precipitated defaults in a

large proportion of American railways, and there were a few years in which money could be raised in London only on short-term loans for the soundest companies.

But in the winter of 1879-1880 Morgan's marketed in London 350,000 of the Vanderbilt shares in New York Central. This opened a period of continuous, though fluctuating, purchase of our railway securities which lasted to the middle nineties. The movement followed closely the phases of the short business cycle and was of such proportions that it must have been an important factor in linking together fluctuations in the United States and Great Britain. The public issues of new bonds to finance extensions of the granger roads in the West, to promote new systems in the South, and to finance strategic developments elsewhere afford a highly incomplete picture of what went on during these years. A new feature was the introduction to the London Stock Exchange of the shares of twenty or thirty railroad systems and the disposal of large blocks of them in the open market by jobbers who brought them over from New York or the Continent. They were an attractive object of international speculative activity. In 1887, one half of all new securities listed in New York were listed almost at once in London. Without attempting to state maxima, I can say that foreign investors, mostly British, came during the period to own more than half the shares of Central Pacific, Chicago, Milwaukee & St. Paul, Louisville & Nashville, Wabash, and Norfolk & Western, two thirds of Denver & Rio Grande, two fifths of Pennsylvania, one third of Union Pacific, nearly all of Ohio & Mississippi and New York, Ontario & Western, besides the long-standing heavy interests in Erie and Reading and Illinois Central and a very short run stake in Sante Fe. Company-share registry lists are not likely to give us a more accurate measure of this movement. Much of it was in nondividend-paying companies, and it did not seem worth the trouble to register transfer of ownership. Large blocks of shares remained registered in the names of New York brokers.

In the course of the nineties, the London speculative market shifted its interest to gold mines in South Africa, and there was a considerable withdrawal from American rails. But active purchase of securities was renewed in the decade preceding the First World War, largely directly in New York, with relatively small offerings of sterling bonds. British war finance entailed the purchase by Americans of most of the foreign holdings in railway securities. And they played no substantial part in subsequent revivals of capital migration to the United States.

It is difficult to make any generalization about the quality or direc-

tion of these investments other than that, despite particular mishaps, they were highly profitable in the aggregate to the British investing public. Apart from New England and the far West, where large investments appear only in Central Pacific and Santa Fe, the British had a hand in several railways in every region. To a greater or less extent they had invested in all the competing trunk lines from the northern seaboard to Chicago, though perhaps least in New York Central. They were exceedingly active in coal roads like the Norfolk & Western and the unfortunate New York, Ontario & Western, and grain roads like the equally unfortunate Chicago & Great Western. London threw Gould out of Erie but, at later periods, was hospitable to Wabash and Union Pacific and even to M, K & T. There were heavy investments in sound dividend-paying companies like the Pennsylvania and Illinois Central and also in much more precarious conglomerations. The London market was catholic in its tastes.

The striking thing about all this purchase of railway securities is the small amount of British entrepreneurship, or business leadership, or control that was involved. Substantially all the British and, for that matter, other foreign investment in American railways was a supply of capital to private American companies, American promoters, American operators, and managers. Elsewhere the British have invested heavily in railways under operation of governments, as in Australia. But there is no comparable case, so far as I know, in the annals of foreign investment, of a class of entrepreneurs of one country making so continuous and successful an appeal to investors of another for a supply of capital on the unsupported credit of the prospects of companies which they, not the investors, were to control.

Now let us be clear about the nature of the point. Hundreds, if not thousands, of enterprises have been founded or operated or both by British individuals, partnerships, and companies during the century and a half of our national existence, exclusive of those assignable to British immigrants. But not railroads. Immigrants from the British Isles have of course been recruited for every kind of activity in connection with the construction and operation of those railroads. And among them there were individuals who developed careers in this country in finance, commerce, engineering, and so forth, which gave access to top management positions. But were such foreign-born railroad executives as George Coppel and John S. Kennedy, to whom foreign connections were advantageous, more creatures of those interests than Harriman who entered railroading as a representative director for the Dutch?

There are indications that fewer men of British birth rose to commanding positions in American railroads than their ratio to the general population would lead one to expect.

A list of perhaps a dozen small, local railways could be made up, which were, at one time or another, built or operated by British companies—all, I believe, in connection with land, timber, or mining interests. I can find only one railway system in the United States that was organized, operated, and expanded under the auspices of a British company. This was the Alabama Great Southern, the "Queen and Crescent" system, Cincinnati to New Orleans, put together in the late seventies under the leadership of Charles Schiff of the London house of Erlangers, who spent a few years in the United States as president. The system was disposed of piecemeal between 1800 and 1924 to the Morgan-promoted Southern and the Illinois Central. Heavy landholdings in Alabama and Louisiana were a matter of interest and profit in this connection. In this one case, British entrepreneurship played to the hilt, and fairly successfully, the role required in the American railway scene in its most hectic days.

I have found no comparable episode. The British were by no means wholly passive or mute with respect to other railway systems. From time to time they voiced attitudes and sought to make their will effective. But ownership even of a preponderant amount of stock did not carry control. In many cases shareholding was widely dispersed. There were 3,000 foreign shareholders in Erie in 1875, holding three fourths of the shares, mostly in lots of fifty or less. American managements and manipulators took full advantage of the peculiarities of share registration. Remarkably enough, American managements, despite chronic cries of dictatorship, abuse of power, and dishonesty, plain and fancy, occasionally captured an international following. So, Gowen of Reading, who was installed by McCalmont & Co.—the firm of the Scotch-Irish brothers who were Reading's leading stockholders and financial agents for forty-five years—appealed successfully for British proxies in 1882 when the McCalmonts tried to depose him.

It would be possible to catalogue a long list of activities by which British investors sought to make their will effective. There were public meetings of security holders, protective committees, selection of representative directors, missions of investigation, attempts to dictate financial policy, applications for receivership, purchase on foreclosure or reorganization, installation of management, participation in voting trusts, and there were also failures to do anything effective in each of these

respects. Hand-picked managements proceeded to act independently. The financial policies chronically clamored for—distribution of all net earnings as dividends, limitations of paying for improvements and extensions out of current earnings, or even from deficits—while frequently promised, were never satisfactorily realized. When the British clamored for perpetual debt, a compromise on hundred-year comprehensive mortgages developed. Over the years more adequate information as regards the operations began to accumulate; accounts became more standardized; and British interests achieved the innovation of independent audits by accounting firms, at the outset, British.

Short-lived financial groups were exceedingly active from 1875 to 1895 at the bedside of ailing companies. In the main their ministrations, as Brayer suggests in the case of Denver & Rio Grande, were not very satisfactory to the self-appointed physicians nor to the patients. It was the action of a London group that rid Erie of Jay Gould. But those foreign reformers had bought heavily for the rise and made it good and made reform pay handsomely for itself by paying dividends out of bond issues made ostensibly for improvements. A striking feature of reorganizations of this period in which foreign interests had a hand was the multiplication of classes of intermediate securities, whose principal function seemed to be to give investors a run for their money on the Stock Exchange without improving the ability of companies to meet their obligations or to confront financial emergencies.

In the main, these British activities were discontinuous and unconnected. That was their vice from the standpoint of entrepreneurship in going concerns. Hardly any one was sufficiently involved, or concerned, or competent to make more positive participation feasible. As time went on, however, there appeared specialists in London—a kind of professional general entrepreneur, in Cochran's terminology—who gave attention to the financial problems of several companies at once or in succession. Notably there was Robert Fleming, originally from Dundee and manager of several Scottish-American investment trusts. Fleming won the confidence of several financial groups by his sound judgment and intimate knowledge of American affairs. I have been told that he was personally responsible for the investment of more British money in the United States than any other individual.

Eventually foreign interests in American railways became so extensive and complex that they had to be consulted on every reorganization. But this situation, in fact, proved the end of their special activities regarding control. More permanent organizations than protective com-

mittees, voting trusts, and professional financial consultants were needed to pilot our railways through the treacherous shoals of conflicting and hopelessly scattered interests. Substantially, this was the opportunity for such New York investment houses as J. P. Morgan & Co., Kuhn, Loeb & Co., and Speyer & Co.—with the aid of their established foreign connections. They assumed *de facto* leadership of a cosmopolitan body of investors in which the British after 1890 became a still substantial, but not a distinctive, part.

Such ambivalent consequences for the financial position and practices of American railway companies virtually exhaust the impact of anything that can be remotely called British control upon American railway development. Systematic research may disclose qualifications. It has claimed for two different lines in the sixties that the introduction of the practice of running freight trains at night was a British suggestion. Healey has shown how early we established our own pattern of technological adjustments. For the main features of the layout, technology, and operative arrangements, I can find less British influence than our colleges and universities derived from the German and Scottish institutions.

The main British impact upon railway development in the United States, then, seems either highly obvious or remote. What is obvious is the supply of substantial quantities of capital goods, chiefly iron and steel rails to about 1890. In the aggregate, these amounted over the years to between 4 and 5 million tons. Without the latter, the pace of our railway construction could not have been maintained; each boom would have been smaller, and perhaps the total mileage would never have been realized.

It seems equally safe to say that, to maintain the pace of the capital-goods supply, a good deal of the capital flow was necessary. Without it there would have been, from time to time, strains upon our international means of payment and upon the internal disposal of our resources, which might have modified in a tangible way the historical contours of our growth. Altogether the aggregate transfer of capital was of such dimensions, amounting in some years to one half the new investment in railways construction, that it seems obvious that its stimulating effect upon the economy as a whole must have been considerable. It is true that the ratio of this movement and aggregate British holdings was low in comparison to the situation of a good many underdeveloped areas in the recent past and contemplated future. All foreign investment in the United States together could not have been more than 8 per

cent of our national wealth at its maximum point after the Civil War, and British investments in railways can never have been more than 3 per cent. We may think of our supply of capital in boom years being augmented by some 10 per cent by British railway investments. But since they were made in an industry whose growth had extensive leverage effects, we are encouraged by current trends in theory to suppose that they may have had effects that were disproportionately large. Along this line we may view the British contribution as considerable, both for the long as well as for the short run. For the latter, the case seems to be clear enough. The supply of British funds augmented the upward sweep of all the booms in which railway building figured prominently, intensified their effects for good or ill, intensified what Healey calls promotional building. Moreover, the periodic withdrawals of capital intensified the financial difficulties of recessions.

For the longer run, it seems to me that the case becomes more problematical in a number of ways. We must make a value judgment upon American development and particularly upon its pace. It could be argued that we have grown too fast, and that numerous problems of our community life, not to say the depredation of natural resources, have been aggravated by that fact. But the British did not invent the tempo of American life, our mobility, or the strains that heterogeneity have presented for the integration of our community and national life.

Indeed it would be possible to argue that the British relationship to our national growth was quite different. It could be argued that the availability of the London money market was a fact of which American promoters and entrepreneurs for decades took account as a condition, as an auspicious element in the calculation of their expectations. This, coupled with the facility with which bills on London could be drawn on short term, may have been of even more consequence than the actual capital flows.

But this availability needs in turn to be accounted for, and it cannot be done simply in terms of British superfluity. Quite early, moneyed men in London and the provinces came to expect a rapid pace for American development. And this was the solid ground for even their most speculative ventures among the Wall-Street menagerie. Can the historian safely venture down the one-way street of unilateral causation in this regard? Was not American growth as much a cause of British activity in American rails as the other way round? Was the input of British capital as autonomous and exogenous as in short-run perspective it might be taken to be?

In general, every fresh consideration of the matter has led me to the view that the relation of British effort to economic development, in the United States as elsewhere, was not automatic or certain. But I am persuaded that the relation of British investment to development was affected in the different areas in which it was applied by other institutional or, if you prefer, voluntaristic elements which must be taken into account, as well as inputs of capital, in considering consequences. For our purposes, and pending the emergence of more satisfactory theoretical analysis of these considerations, we may refer to these elements collectively as "the American scene" or the "American business environment."

We may specify descriptively some of the salient aspects of this scene: optimism as regards the long-run future; resiliency of adjustment to failure; a persistent tendency to utilize capital and credit resources to the full; a seemingly inexhaustible supply of willing entrepreneurs. Railway expansion itself was part and parcel of this scene just as were mass immigration, the conquest of the West, and the celebrated Yankee ingenuity that turned up in so many places outside of New England. For some decades British investors in American railways were alternately charmed and revolted by this scene, as creditors are always likely to be. But they were not as alien in a socioeconomic sense as nationalistic forms of problem stating tend to assume.

The Argentine episode lasted about as long as that of the United States. It did not terminate until 1947 when the eleven surviving British companies sold their local assets by negotiation to the Argentine Government for 150 million pounds—a price considerably better than the market had quoted for the securities for a decade, 38 million better than the market the week before, but about two thirds of nominal capitalization. The Argentine episode did not begin until the sixties. Then several British companies built their first sections—notably the Buenos Aires Great Southern and the Central Argentine. They built from Buenos Aires and Rosario, respectively, into the humid Pampa, an area in which several thousand British settlers, mostly Irish, had been operating *estancias* for a generation, despite the utter inadequacy of transportation for commercial exploitation of anything but wool and hides. Government, federal and provincial, also took a hand, especially in the seventies. There was also government aid variously in the way of land grants, profit guarantees, stock subscriptions, and tax exemptions. In all cases, engineers, contractors, materials, capital, and much of the labor were British.

The most rapid relative expansion came with the boom of the eighties which in its wreckage left the country with 12,000 to 14,000 kilometers of railways—about what the United States had in 1850. In the liquidations following the so-called “Baring” panic of 1890 nearly all the existing mileage, except for a couple of French-owned, narrow-gauge lines, passed into the hands of British companies, which commuted their remaining interest guarantees for down payments in government bonds. During the decade or so before the First World War there was another great wave of railway construction—this time largely by the unaided efforts of private companies. This, again, was a part of a more extensive foreign investment boom for Argentina, less disastrous than that of the eighties. The effects of its sudden termination by the war are disputed. Since that time railway expansion has been slow, with the government undertaking an increasing amount, especially in the sparsely populated regions of the far north and Patagonia. But Argentina still has scarcely more railway mileage than the United States achieved by 1870, although perhaps twice as much per capita. Substantially the British systems reached their peak just before 1914.

At that time the Argentine railway map was dominated by three British financial and management groups, which survived the collapse of the ambitious and more cosmopolitan Farquhar schemes. The pattern was long established. As early as 1890 boards of directors within and between the groups were “interlaced like Siamese twins,” according to a shrewd London journalist, who thought it “a peculiarly English idea.” The boards sat in London, discussed their mutual problems, made common decisions as regards wage policy, division of territory, and relations with the government, and bought the materials for new construction and maintenance. The weaker lines were salvaged without impairing the dividend-paying basis of the stronger. New financing typically took the form of issues of debentures to existing security holders without direct appeal to public channels. There were also stock dividends. But the securities were publicly listed, and considerable distribution took place. In 1947 there were 75,000 holders of the more than fifty classes of securities—not allowing for the unknown but certain duplications—who voted acceptance of the terms of the sale.

Not only all entrepreneurial decisions but the bulk of managerial opportunities were preferentially reserved for men of British nationality who found in the far-flung holdings of the dominant groups outside, as well as in, Argentina scope for careers leading for a few to seats on the boards. In 1890 we are told:

. . . the administration of nearly the whole railway system of the country is English. There are English stationmasters in all parts. . . . The engine-drivers are nearly all English, the companies' offices are filled with Englishmen, the chief officials are of the same nationality, the clearing-house is English, nearly the whole of the imported material . . . such as rails and pot sleepers, as also the rolling stock, is English.

The employment of local engineers as department heads was commented upon as a broad-minded novelty as recently as the First World War. There were at least four hundred British technical employees in Argentina in 1947, receiving more than 1,000 pesos a month apiece, who were guaranteed five-year contracts by the terms of the sale, besides an unknown number of other employees variously paid on other forms of tenure whose continued employment was also promised. Aside from subordinate workers, Argentinians with good connections found opportunity, until recently, chiefly as figureheads on local boards of directors or in the well-paid legal departments. Such employment figured in the careers of most Argentinian ministers of public works, not to say those of other individuals of political eminence.

Thus was cemented a high degree of solidarity between the British railways and the dominant Argentine stock-raising aristocracy. This solidarity had political consequences as recently as the administration of President Justo, and it negatively affected the position of the companies in the face of the rising nationalistic clamor for industrialization. But the relation was even closer than one of advantageous compromise. Families and firms like the Robertsons, Parishes, Fairs, and Drabbles, who founded the Buenos Aires Great Southern, were identified for more than a century with British trade to Buenos Aires and themselves possessed large *estancias*. In a special sense, they were part and parcel themselves of the Argentine social structure.

The interests of these people were not confined to railways. The same directing personnel turned up in land companies, mortgage companies, packing houses, warehouses, tramways, and docks. They were interested in interlocking equipment companies in England. The railway companies themselves became involved to at least 10 per cent of their purchase price in a great variety of subsidiary enterprises in Argentina, as well as in others at home and abroad not included in the sale of assets. Until very recently all big business in Argentina had been British big business, closely tied in, although not identical, with the railways.

The impact of such a business empire cannot fail to have been tre-

mendous. But it is not so easy to appraise this impact objectively or to determine the quality of its consequences. As for the railways' share, it is clear that they really made possible the commercial exploitation of the humid Pampa and determined settlement in a more basic sense than was true of our own railways in the Great Plains. For there were few waterways, and no roads were practicable until railway transportation was extended to supplies of crushed stone. Thus the entire agricultural development of Argentina in its modern form dates from the railway era. Of political and social as well as economic consequence was the reorientation of the interior provinces from connections with the west and north to their connection with Buenos Aires. The merits of the consequent centralization and concentration of population, industry, traffic routes, and all factors in social control have been much debated. The railways made them possible. The reproach made as regards Brazil and other Latin American countries that the location of railways worked against national unity is not fully justified here. It would seem easy to adopt the view that the British really brought everything about regardless of one's degree of admiration for the way in which Argentina has developed. It has been suggested that the high wages paid British employees have, by improving the conditions of workers generally, made for a more equal distribution of national income. Proponents of industrialization, by no means all of them Peronistas, have during the last generation been markedly dissatisfied with the development of their country. And they have not failed to denounce the British railway companies as the villains.

Such criticisms as the following have been common. The lines were so located that they did not facilitate communication between interior areas except by way of Buenos Aires. They were operated substantially as unregulated monopolies. Railway rates were high; they were unresponsive to local needs; they discriminated against nascent local industries and ruined existing competitors. They actively opposed highway construction, except for feeder purposes. Employees were indifferent to passengers and shippers. There was insufficient rolling stock to handle traffic expeditiously. The companies that received land grants did not use them to promote small homesteads but held them for disposal in large blocks at inflated prices. Above all, it has been contended that capital accounts were grossly overstated, that they included a large amount of water, that the lines were built in extravagant and inappropriate ways, that London office costs were excessive, and that the companies in numerous ways concealed the size of their earnings.

The ratio of capital to traffic seemed high in comparison with North American railways. Much of the British stake did not mean fresh inputs of capital but capitalization of the resources and earning power of the country.

Much of this will seem familiar to an American historian. Some of the details suggest ignorance of railway economics and the nature of the investment process. On the other hand, there are no indications of anything resembling financial candor on the part of the British companies, either to their own investors or to the Argentine Government, even when it came to sale and the "share-out." And the criticism of their capital accounts is justified, on principle at least, when the companies adopted as a basis for the "share-out" of the 150 million pounds neither their nominal capitalization, nor market valuation, but "recognized capital" as computed by the Argentine Government.

But what has all this to do with the possible retardation or distortion of Argentine economic development? The British railways came into being as an intrinsic part of a special kind of economic system in Argentina—of which large landholdings, an economy based upon exports of staple products, the British demand for chilled meat and wheat, the immigration of unskilled labor, and the orientation of all well-bred Argentinians and those who would emulate them toward professional and political careers as against business pursuits were major characteristics. It is this whole system, from the point of view of an industrialized economy, that has tended to limit and distort Argentine development. The British did not invent the system or its parts. They did not invent large land grants or the preference of Argentinians to invest in land, to abjure trade, or to spend conspicuously abroad. But they were not so horrified at this sort of thing as so many Americans tend to be when they venture abroad. Both by the railways and by introducing technological improvements into the production, processing, and shipment of agricultural products, British investors and entrepreneurs made it possible for this system to grow and to maintain itself with apparent success and with much gratification to its beneficiaries for a couple of generations.

In this survey we have taken, as given, certain over-all differences—in the dimensions and character of development, as between the United States and Argentina—many of which are attributable to differences in resources, the scale of the economy, and time. But we have noted that there were also important differences in the function of British enterprise in the railway development of the two countries. In the United

States, British capital was used as a convenience; in Argentina it came to dominate a considerable sector of the economy. This difference in pattern I would urge is not simply a matter of the British doing the things they liked in one place and not in the other. What we observe are British investors and entrepreneurs acting in two quite different situations. There has been an Argentine scene as well as an American scene, and until lately it quite lacked the resiliency, mobility, and the disposition to perceive business opportunity and to do something about it, which were so characteristic of the American case. In neither country did the British create the social structure they encountered. Their activity aided and abetted the tendencies that were already there, and, in the case of Argentina, seemed for a time to have given them renewed strength. In Argentina as in the United States the distinctive character of British activity, I suggest, was determined in part by the fact that it took place in Argentina in a particular phase of her development.

LELAND H. JENKS, *Wellesley College*



British Railways in Argentina

Julian S. Duncan

Political Science Quarterly, Vol. 52, No. 4. (Dec., 1937), pp. 559-582.

Stable URL:

<http://links.jstor.org/sici?sici=0032-3195%28193712%2952%3A4%3C559%3ABRIA%3E2.0.CO%3B2-P>

Political Science Quarterly is currently published by The Academy of Political Science.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/aps.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

BRITISH RAILWAYS IN ARGENTINA ¹

ARGENTINA is probably the most important country whose railway mileage is controlled in its major portion by foreign capital. The republic has a total mileage of approximately 40,000 kilometers of which British capital owns and operates 66 per cent.² In this paper I shall examine the railway policy of the country with the intention: first, of surveying the conditions under which the earlier railways were constructed and operated by British capital; second, of indicating the lessons to be derived from a study of Argentina's railway history for planning the future development of her transportation system and the nation's place in the world economy; third, of considering some of the social consequences of this migration of capital and management.

I

The most significant single step in the relationship between British railways and Argentina was the passage of the Mitre Law in 1907, which put the relationship of all foreign companies with the government on the same basis. It was a logical outgrowth of previous concessions granted by Argentina to individual companies.

The absence of iron ore and coal, as Professor Tannenbaum has pointed out, set the pattern of Argentina's economic con-

¹ I am under special obligation, in the preparation of this paper, to Dr. James A. Robertson, Managing Editor, *The Hispanic American Historical Review*; Dr. Fred W. Powell, The Brookings Institution; Senor Carlos Garcia-Mata of the Argentine Embassy; Mr. Charles L. Luedtke, formerly Agricultural Attaché to the American Embassy in Buenos Aires; Professor Richard Schofield, of St. John's College; and Miss Elizabeth Cullen of the Library of the Bureau of Railway Economics.

² *Estadística de los ferrocarriles en explotación, año 1933*, vol. XLII, Dirección General de Ferrocarriles, 1935, p. 48. Future citations will mention *Estadística* and the year to which the data refer. *Economic Mission to Argentina, Brazil, and Uruguay* (London, 1930), p. 23.

tacts with other countries.³ It was the basic factor which made it necessary in the beginning to offer generous bounties to foreign capital, because the process of capital formation proceeds at a much slower rate in countries which do not have iron and steel industries. Rolling stock, rails and fuel had to be imported. The level terrain made construction easy, but the nature of the soil necessitated the use of a large amount of rock ballast.⁴ Argentina began with a policy of subsidizing private companies, mainly British, for the construction of railroads, the subsidy usually taking the form of a guarantee of interest.⁵ A direct money grant was very rarely used. Argentina, as compared with the United States, made few gifts of land and there were only a few instances in which the national or provincial governments bought substantial portions of the company's stock. The national government pursued no fixed policy with regard to the inducement offered to foreign capitalists. It granted what it found necessary to secure the services of capital and management.

The first railway was built under the auspices of the provincial government of Buenos Aires and put into operation in 1857. The province contributed 39 per cent of the original paid-in capital of 3,300,000 paper pesos, and later renounced its rights to dividends until the remuneration to the other investors reached 9 per cent.⁶ The road was originally only 10 kilometers long. One of the reasons for mentioning it here is that its construction illustrates the lack of planning in early railway enterprise. An order was sent to London for a locomotive, and a secondhand one, part of the surplus material left

³ See Frank Tannenbaum, *Whither Latin America?* (New York, 1934), pp. 22-44, and H. Foster Bain and Thomas Thornton Read, *Ores and Industry in South America* (New York, 1935), pp. 189-93.

⁴ See Preston E. James, "Geographic Factors in the Development of Transportation in South America", *Economic Geography*, July 1925, pp. 252-55, and C. W. Ridge, Institute of Locomotive Engineers, South American Section, *Railway Gazette*, vol. 55, No. 14, October 2, 1931, p. 419.

⁵ The most complete account of the history of Argentine railways up to 1890 is probably that given by E. Rebuelto in a series of articles appearing in the *Boletín de Obras Públicas* from 1911 to 1913 under the title of "Historia del desarrollo de los ferrocarriles Argentinos".

⁶ *Ibid.*, vol. V, p. 137.

over from the Crimean War, was shipped. The track was wide gauge, 1.676 meters.⁷ Later roads, up to 1872, followed this accidental lead, as no one, apparently, was in a position to advise them that the wide gauge was not the most practicable for a large, thinly settled country.⁸ The mileage today is practically evenly divided between broad gauge (1.676 meters), medium gauge (1.435), and narrow gauge (1.00).⁹ The central government gave the *F. C. Central Argentino*, the first important railway constructed under its auspices, a 40-year 7 per cent guarantee of interest, payable in pounds sterling, and subscribed for 15,000 shares of stock, 19 per cent of the number of shares issued, at 20 pounds sterling each.¹⁰ All equipment was to be imported free of duty, and one league of land on each side of the right-of-way, excepting where it passed through cities, or towns, was granted.¹¹ In addition, the government financed the survey of the route, costing 40,000 gold pesos.¹²

The government retained the right to intervene in the fixing of rates if the earnings should exceed 15 per cent.¹³ The contract was approved by the national legislature on May 22, 1863. The entrepreneur was an American-born promoter of South American transportation companies, William Wheelwright;¹⁴ the capital, however, was British. The unsettled political conditions of the country were reflected in the provision that the company would be reimbursed for any damage to its property resulting from civil war.¹⁵ The government, of course, donated the land needed for stations and right-of-way, and the company was exempted from taxation for a period of forty

⁷ *Ibid.*, p. 136.

⁸ Juan José Castro, *Estudio sobre los ferrocarriles Sud-Americanos y las grandes líneas internacionales* (Montevideo, 1893), pp. 150-58.

⁹ *Estadística*, 1926, p. xv.

¹⁰ *Leyes, decretos, contratos sobre ferrocarriles nacionales, 1854-1880*, Dirección de Ferrocarriles Nacionales, B.A. 1891, vol. I, pp. 26, 37.

¹¹ *Ibid.*, p. 25.

¹² *Ibid.*, pp. 3, 23.

¹³ *Ibid.*, p. 27.

¹⁴ Juan B. Alberdi, *La vida y los trabajos industriales de William Wheelwright* (Paris, 1876).

¹⁵ *Leyes . . . sobre ferrocarriles nacionales*, vol. I, p. 7, Art. 15.

years. The stipulation that all financial transactions were to be computed in pounds sterling indicates the unstable nature of the national currency.¹⁶

The *Central Argentino* concession, however, was not a typical one. No other road received so much aid. The period prior to the Baring Panic in 1890 culminated, as the following table shows, in the great railway-building boom of the eighties. The United States, also, experienced a great expansion of railway mileage during this same decade.¹⁷ The rate of growth in Argentina was retarded during the decade following

RAILWAY MILEAGE ¹⁸					
(In kilometers)					
1860	39	1880	2,516	1900	16,563
1865	249	1885	4,502	1905	19,794
1870	732	1890	9,432	1910	23,994
1875	1,956	1895	14,116		

the Baring Panic, but it increased at the turn of the century. Although Argentina proclaimed its independence of Spain in 1816,¹⁹ its emergence as an important country dates from 1880. The effective union of all Argentine territory under the Argentine Confederation took place in 1862.²⁰ The war with Paraguay, however, in 1864-1870, necessitated large expenditures.²¹ A successful campaign against frontier Indians in 1879 and the selection of Buenos Aires as the national capital in 1880 made internal peace more certain.²²

The net immigration in the decade from 1857 to 1866 was 81,000; and this may be compared with a net immigration of 721,000 in the decade 1897-1906. The estimated population of the country in 1864 was 1,531,000; the census of 1895 showed a population of 3,955,000; and the estimate for 1906

¹⁶ See John H. Williams, *Argentine International Trade under Inconvertible Paper Money, 1880-1900* (Cambridge, 1920), pp. 27-36.

¹⁷ William Z. Ripley, *Railway Rates and Regulation* (New York, 1912), pp. 28-29.

¹⁸ *Estadística, 1933*, p. 320.

¹⁹ Williams, *op. cit.*, p. 27.

²⁰ William Spence Robertson, *History of the Latin American Nations* (New York, 1927), p. 240.

²¹ *Ibid.*, p. 278.

²² *Ibid.*, pp. 242-43.

was 5,524,000. Another index of the rapid economic development of the country in the period before the Mitre Law is found in the increase in foreign trade. The following table gives net immigration, and the value of exports and imports, by decades for the years 1857-1907:²³

<i>Period</i>	<i>Immigration</i> (Thousands)	<i>Exports</i> (Millions of gold pesos)	<i>Imports</i>
1857-1866	81	—	—
1867-1876	301	392	504
1877-1886	457	590	655
1887-1896	705	1,025	1,107
1897-1906	721	2,022	1,447

The last decade, it will be noted, shows a large excess of exports over imports.

Argentine currency, prior to 1881, was characterized by inconvertibility, inflation and lack of uniformity. Laws passed in 1881, 1883 and 1887 promoted uniformity but did not secure permanent convertibility into gold.²⁴ The law of 1899 fixed the ratio of the paper peso to the gold peso at 44 per cent and arranged a *Fondo de Conversión* of gold to assure free convertibility.²⁵ Argentina maintained convertibility into gold under this law, except for a brief period in the World War, until 1929. The favorable trade balance, mentioned above, made this currency stability possible. The gold peso was worth 30 paper pesos in 1880; the paper peso was converted in 1882 at the rate of 25 to 1; and in 1899 the gold peso was worth 2.25 converted paper pesos.²⁶ The stability of the peso in international exchange following the 1899 law was an index of economic and political progress which was to enable the country to get railways built under much easier terms.

²³ The net immigration figures were computed from: *Extracto estadístico*, Dirección General de Estadística de la Nación, 1915, p. 589. Census figures: *ibid.*, p. xiii, Estimates, *ibid.*, p. 3. Import and export figures, *ibid.*, p. 3.

²⁴ Williams, *op. cit.*, pp. 33-35, 57-59.

²⁵ Law No. 3871 of November 4, 1889. *Colección completa de leyes nacionales* (Buenos Aires, 1918), vol. XII, No. 1, pp. 236-38.

²⁶ *Extracto estadístico*, 1915, p. 296, and Juan Alvarez, *Temas de historia económica Argentino* (Buenos Aires, 1929), p. 100.

The writer has made a statistical analysis of the thirty important concessions prior to the Mitre Law. The results, however, are too detailed to be presented fully here. The provisions of these concessions led up to the Mitre Law, and that law was in fact a natural outgrowth of the provisions of concessions granted after 1890. Fifty per cent of the concessions, including the last nine prior to the Mitre Law, had no guarantee of interest. As for the remainder, the trend was to lower the interest guarantee. The earlier concessions provided for 7 per cent while the later ones stipulated 5 per cent interest. Twelve of the fifteen concessions having guarantees of interest provided that repayments to the government of amounts advanced by the state on account of guarantees of interest should begin, if, and when, the net income exceeded the rate of interest guaranteed. The guarantees were usually payable in gold pesos and the amounts guaranteed varied from 10,000 to 35,900 gold pesos per kilometer of line.

Sixteen of the thirty concessions provided that the government should have the right to fix tariffs, if receipts should exceed an agreed per cent. All contracts signed during the years just preceding the passage of the Mitre Law stipulated that the government would have the right to fix rates when gross receipts were in excess of a fixed percentage of recognized capital. The Mitre Law provides that the government shall have the right to prescribe rates when the gross income exceeds 17 per cent of the recognized capital.²⁷ The Mitre Law further sets up the standard of 60 per cent as the ratio of operating expenditures to receipts. This would give capital a return of 6.8 per cent.²⁸ Provisions, however, were made for exceptions to this rule, when conditions justified operating expenditures greater than 60 per cent of receipts.²⁹ The usual stipulation of the earlier concessions was that expenditures were not to exceed 50 per cent of receipts.

²⁷ Ley No. 5315, Sept. 30, 1907, *Colección completa de leyes nacionales*, vol. XIV, No. 1, p. 390, Art. 9.

²⁸ *Ibid.*

²⁹ *Ibid.*

Argentina, unlike the United States, gave only a limited amount of land to encourage railway building. Only six railways, including the *Central Argentino*, already mentioned, received such grants. The *Central Argentino* disposed of most of its holdings within twenty years.³⁰ The land, for the most part, was sold in small tracts of 20 to 40 *cuadras*.³¹ It was to the interest of the railway to have the land divided into small tracts. Large holdings were more often used for cattle raising, and livestock is not as profitable a freight commodity as wheat. Professor Miguel A. Cárcaño, who has written the best history of the land policy of Argentina, believes that the government might well have made a larger use of the railroads as a means of colonization.³² The land policy of Argentina did not encourage the small farmer to become a landholder.³³ Land grants to railroads in the United States totaled 129,000,000 acres, and Professor Hibbard concludes that these grants sometimes ended in large holdings.³⁴ He also believes, however, that the roads sought to "settle the country as rapidly as possible with actual farmers."³⁵ One Argentine railway purchased 15,000 acres for resale to small holders and another invited the large landholders along its right-of-way to take some united action looking to the increase of small holdings.³⁶ *Latifundia* is probably the major factor in retarding immigration to Argentina.

All the concessions before the Mitre Law stipulate that materials used in construction and operation, when not available in the country, are to be imported free of duty. This pro-

³⁰ Miguel A. Cárcaño, *Evolución histórica del régimen de la tierra pública* (Buenos Aires, 1925), p. 192.

³¹ One *cuadra* equals 4.17 acres.

³² Cárcaño, *op. cit.*, p. 192.

³³ *Ibid.*, p. 518. See also José P. Podestá, *La pequeña propiedad rural en la república Argentina* (Buenos Aires, 1923), p. 121.

³⁴ Benjamin H. Hibbard, *A History of the Public Land Policies* (New York, 1924), p. 264.

³⁵ *Ibid.*, pp. 259, 263.

³⁶ *Railway Gazette*, Sept. 20, 1929, vol. 51, No. 12, p. 440, and *Commerce Reports*, Dec. 29, 1915, p. 1219.

vision is also continued in the Mitre Law;³⁷ it is to expire, however, in 1947. Nine of the eleven provincial concessions before the Mitre Law specifically exempt the companies from all provincial and municipal taxation and twelve of the nineteen national concessions exempt the companies from all national taxation. The incentive which caused the companies to "accept" the Mitre Law—acceptance was voluntary—was that they were to be exempt, up to 1947, from all taxation—municipal, provincial and national—except a 3 per cent tax on net income.³⁸

One year after the passage of the Mitre Law the government began a policy of building and operating its own lines, in areas too sparsely settled to tempt unaided private capital, and gave no more guarantees of interest.³⁹ The reason was that Argentina did not find the guarantee of interest a satisfactory method of subsidizing railway construction. The amount of the guarantee payment is by nature uncertain and hence difficult to provide for in the budget. It is, moreover, easy to underestimate the sums which the guarantee will require. The company, knowing that its income is certain, has insufficient incentive to increase gross revenue or to decrease operating expenditures.⁴⁰ While the concessions usually called for repayment of the guarantee advanced, if, and when, company income exceeds the guaranteed per cent, it might not be diffi-

³⁷ *Colección completa de leyes nacionales*, vol. XIV, No. 1, p. 390, Art. 8.

³⁸ *Ibid.* The thirty concessions above referred to are given in: *Leyes, contratos y resoluciones referentes a los ferrocarriles y tranvías a tracción mecánica de la república Argentina*, Ministerio de Obras Públicas, Buenos Aires, 7 volumes, 1904-1913: vol. II, pp. 464-70; vol. IV, pp. 339-45; vol. IV, pp. 199-202; vol. II, 263-66; vol. IV, pp. 491-95; vol. III, pp. 339-41; vol. II, pp. 191-95; vol. III, pp. 257-266; vol. II, pp. 547-51; vol. III, pp. 65-67; vol. III, pp. 369-71; vol. III, pp. 5-7; vol. III, pp. 187-89; vol. III, pp. 341-44; vol. II, pp. 157-61; vol. II, pp. 341-43; vol. II, pp. 52-56; vol. III, pp. 120-24; vol. III, pp. 32-38; vol. IV, pp. 153-59; vol. III, pp. 177-78; vol. IV, pp. 479-81; vol. II, pp. 535-36; vol. III, pp. 212-32; vol. IV, pp. 275-78; vol. IV, pp. 182-84; vol. III, pp. 60-62; vol. IV, pp. 186-87; vol. VII, 370-74; vol. VI, pp. 626-28. The order is chronological.

³⁹ Ley No. 5559, August 28, 1908, *Colección completa de leyes nacionales*, vol. XIV, No. 1, pp. 536-41.

⁴⁰ See *Memoria del Ministro del Interior, 1895*, p. 64.

cult to arrange the accounting so that such excess does not occur.

The burden of the railway guarantee of interest payments helped bring on the Baring Panic of 1890, probably the most serious financial crisis in the history of Argentina. The burden had two aspects: first, there was the problem of raising by taxation the funds within the country and, second, there was the problem of securing the necessary amount of foreign exchange for the payable-in-gold interest guarantee. The two phases were closely related. If the paper peso is depreciating, more pesos are required to pay the guarantee. An important cause of a depreciating currency is failure to balance the budget and increasing obligations for the payment of interest guarantees help unbalance the budget. Argentina had been a heavy borrower abroad; she had been "paying" interest and amortization on her obligations by new loans inasmuch as her favorable merchandise balance had not been sufficient to pay the service charges on her foreign obligations. But in 1889 new loans were not enough (by 3,510,000 gold pesos) to meet the service charges on the government's foreign (British) obligations. The next year Argentina was not able to borrow anything abroad and the deficit in the national government's balance of borrowing was 14,316,000 gold pesos, 20 per cent of which was railway guarantee of interest obligations. The country, therefore, was compelled to declare a moratorium on its foreign obligations.⁴¹

A special commission was appointed in 1893 to study the whole question of the guarantees of interest.⁴² The government, in 1894, paid 2,000,000 gold pesos out of an annual amount due of 4,973,000 gold pesos⁴³ and in the following year it was able to announce settlements with seven of the leading companies.⁴⁴ Five companies took lump sum payments in rescission of the guarantees and two were bought outright.⁴⁵

⁴¹ Williams, *op. cit.*, pp. 94, 118.

⁴² *Memoria del Ministro del Interior, 1893*, p. 113.

⁴³ *Ibid.*, 1894, p. 80.

⁴⁴ *Ibid.*, 1895, p. 74.

⁴⁵ Payment was made in 4 per cent external gold bonds. See *ibid.*, 1895,

Brazil in a similar operation bought all the guaranteed interest lines.⁴⁶ The Argentine government was able by this means to reduce its annual railway guarantee of interest obligations by approximately one half.⁴⁷

The change from a system of private companies operating under interest guarantees to one of construction and operation by the government indicated dissatisfaction with the guarantee of interest as a *method of subsidy*, and confidence in the improved financial position of the government, rather than any decision concerning the relative merits of public and *unaided* private operation. The new policy of government construction and operation of railways in thinly populated areas did not materialize until the country had demonstrated its ability to maintain convertibility of the paper peso into gold.

II

The rapid growth in Argentina's agricultural exports, and the comparative stability of international economic relations in the period from the passage of the Mitre Law in 1907 to the outbreak of the World War, made this law a satisfactory basis for the regulation of the British lines during that period. The following table shows the growth of railway mileage from 1905 to 1934:⁴⁸

1905	.....	19,794 kilometers	1925	.....	36,055 kilometers
1910	.....	27,994 "	1930	.....	38,120 "
1915	.....	33,709 "	1934	.....	39,830 "
1920	.....	33,884 "			

Railways owned by the government increased from 2,546 kilometers in 1905 to 9,009 in 1933.⁴⁹ The increase of 76 per cent, in this thirty-year period, of privately owned mileage, mainly

p. 76, and *Memoria del Ministro de Obras Públicas, 1898*, p. 52. Control of railways was transferred in the interim from the Ministerio del Interior to the Ministerio de Obras Públicas.

⁴⁶ See Julian S. Duncan, *Public and Private Operation of Railways in Brazil* (New York, 1932), p. 50.

⁴⁷ *Memoria del Ministro del Interior, 1895*, p. 76.

⁴⁸ *Estadística, 1933*, p. 322.

⁴⁹ *Estadística, 1905*, p. ix, and *1933*, p. 48.

British, was effected without government subsidy; and the growth, particularly from 1905 to 1915, is further evidence that the Mitre Law was considered favorable by the British lines. The value of exports rose from 296 millions of gold pesos in 1907 to 519 millions in 1913.⁵⁰ The World War skyrocketed agricultural export prices but this period was characterized by disputes over wages, working conditions and freight rates. The rising prices increased the living costs of the railway workers and the costs of material to the lines. The heavy war demands on British industry made the problem of adequate maintenance a difficult one. The rise in prices which continued after the cessation of hostilities did not lighten the burdens of the railroads or their employees, and the depression of 1920-1921 occasioned fresh demands for reduced freight rates. These controversies, however, are relatively minor ones when compared with those which may be dated from the beginning of the 1929 world depression.

This depression brought into clear relief the problems of the decline in the value of exports and the rise of motor competition, which few foresaw in 1907. The decline in the gold value of exports (in millions of francs) was as follows:⁵¹

1928	.....	25,913	1932	.....	8,387
1929	.....	23,126	1933	.....	7,088
1930	.....	11,882	1934	.....	6,412
1931	.....	10,745			

The decline in the prices of agricultural products, which began in 1924, was obscured until 1929 by the rise in the volume of exports and by heavy borrowings and capital imports from abroad.⁵² After 1929 there was, however, little change in the volume of exports, the annual average for the period 1930-1934 being 14,872,000 metric tons as compared with 15,012,000 for the period 1925-1929. The volume of imports decreased from an annual average of 11,494,000 metric tons for the

⁵⁰ *El comercio exterior Argentina en 1932 y 1931*, pp. 6-7.

⁵¹ Computed from *El comercio exterior Argentino en 1934 y 1933*, pp. 9, 85-87.

⁵² See D. M. Phelps, "Industrial Expansion in Temperate South America", *American Economic Review*, June 1935, pp. 274-76.

period 1925-1929 to 8,497,000 for the period 1930-1934.⁵³ The following table gives ton and passenger kilometers, gross income, expenditures and net income of all Argentine railways for the periods 1924-1928 and 1929-1933:⁵⁴

Year	Ton kil.	Pas. kil.	Gross Income	Expenses	Net Income
	(In millions)		(In thousands of gold pesos)		
1924.....	11,722	3,791	263,181	175,937	87,244
1925.....	11,124	3,840	250,680	180,359	70,322
1926.....	11,585	3,909	262,060	186,496	75,563
1927.....	13,212	4,023	285,865	203,234	82,631
1928.....	13,594	4,187	289,619	208,701	80,919
An. Av.	12,247	3,950	270,281	190,945	79,335
1929.....	13,882	4,358	287,528	214,071	73,456
1930.....	11,250	4,344	241,504	191,969	49,534
1931.....	11,876	4,038	237,855	186,952	50,904
1932.....	10,543	3,719	211,193	170,770	40,423
1933.....	10,077	3,525	199,436	166,338	33,097
An. Av.	11,507	3,997	235,503	186,020	49,483

The indirect effects on the lines of the decline in the value of agricultural exports was almost equally disastrous. The fall in export values caused the nation to abandon convertibility of the paper peso into gold.⁵⁵ The official financial results of operations, as given in the preceding table, are in terms of gold pesos but passenger and freight tariffs are collected in paper pesos. The sterling income of the British railways, there having been no rate increase, is diminished by the difference between the nominal par of exchange and the actual buying rate. Recent fluctuations in pound sterling cable transfers (par is 11.45 paper pesos), in round numbers, have been as follows: 1934, 21 to 18 paper pesos; 1935, 19 to 18; 1936, 18 to 17. The most recent quotation, 16.53 (October 2, 1937), shows the effect of higher agricultural prices. It will be recalled that the fixed convertibility of the paper peso into gold after 1899 was one of the important factors enabling Argentina to get non-subsidized private capital for railway building. The twin effects of declining paper peso net income and ex-

⁵³ Computed from *El comercio exterior Argentina en 1934 y 1933*, pp. 42-43.

⁵⁴ *Estadística*, 1933, pp. 118-19, 128-29, 322-23.

⁵⁵ See Lawrence Smith, "Suspension of Gold Standard in Raw Material Exporting Countries", *American Economic Review*, Sept. 1934, p. 434.

change losses caused the quotation of the shares of the British companies on the London Stock Exchange to shrink to fractions of their former values.⁵⁶ The following table shows the latest available London Stock Exchange quotations (par £100) of the common stock of the major lines.⁵⁷

	1929	1934		1935		1936		Aug. 24, 1937 Approximate Closing Prices
	Average	High	Low	High	Low	High	Low	
Argentine Great								
Western	92.3	16.0	8.0	10.5	4.0	17.0	5.7	9.5 - 11.5
Buenos Aires Pacific	98.7	16.5	8.5	10.5	4.8	17.2	6.2	9.7 - 10.7
B. A. Gt. Southern	105.8	35.0	22.0	27.0	13.5	32.0	14.0	23.5 - 24.5
Central Argentina..	95.0	23.0	13.5	17.8	7.0	33.2	8.2	22.5 - 23.5
Entre Rios	93.9	21.0	12.0	15.0	6.5	17.5	6.0	10.0 - 11.0

The shares have declined more than the competition from other types of carriers, and the relative absence of overbuilding, would lead one to expect.

The second major factor altering the conditions of railway regulation has been the development of motor competition. Truck competition, while not so far advanced in Argentina as in other countries, because of the nation's lack of roads, has already taken a part of the traffic which is able to bear high freight rates. Bus transportation and the use of the privately owned automobile for transportation also have diminished passenger traffic. The road-building program, planned and in progress, will increase motor competition, and most of the roads are to be constructed in the regions which have the greatest railway mileage. The plans of the government call for an expenditure of 300,000,000 paper pesos on new construction for the period 1936-1942.

The plight of the railways became so serious that the President of Argentina in 1934 appointed a special commission (*Junta Honoraria*) to study the situation and make recom-

⁵⁶ See Carlos Garcia-Mata, "Las finanzas ferroviarias a traves de la cotizacion de las acciones", *Revista de Economia Argentina*, January 1935. I am indebted to the First National Bank of Boston for figures on London-Buenos Aires exchange rates.

⁵⁷ Figures for 1929 from Instituto de Estudios Economicos del Transporte (Buenos Aires); 1934, 1936, 1937 quotations from *Morning Post*, Aug. 25, 1937, and May 26, 1936.

mendations. The membership of this body included a former minister of foreign affairs, a former minister of public works, the director of government railways and the chairman of the manufacturers' association. The recommendations of the commission, except for the suggestion that the railroads be granted a lower exchange rate on their remittances than is granted to other non-governmental buyers of exchange, follow lines familiar to readers of transportation literature. It advised changes in rates, services and regulations governing working conditions, and it favored coördinated control of all forms of transportation.⁵⁸ The investigation would have been more fruitful, it seems to me, if its scope had been widened to include all forms of transportation, because the endorsing of a preferred position for the railroads in buying exchange is of such importance as to call for an analysis of the relative value and costs to the country of the various types of conveyance.

Legislation has been pending before the national legislature for the unified control of all forms of transportation since 1935, and an act was finally passed January 15, 1937. Article 10 of this measure, as originally proposed, could have been the means of coördinating the construction of new roads with existing means of transportation. It provided: "For the better coördination of transportation facilities, the executive power, in investing available funds in surfaced highways, will give preference to the construction of those converging on railway stations or ports." The bill as finally enacted into law is limited to the regulation of the services, responsibilities and rates of common carriers and is silent on the question of limiting the construction of motor highways which parallel railway lines. Students of transportation history in the United States will recall how little influence the railroads have had in preventing the building of trunk highways along their lines. The British lines will have even less influence because they are both owned and managed by foreign capital. It is also interesting to note that, according to the latest available information (August 1937), the act has not yet been put into operation.

⁵⁸ The full report, unfortunately, has not been published. References to its provisions are based on the summary published in *La Nación*, April 17, 1935.

Carriers with only one vehicle or vehicles belonging to either the buyer or the seller of the transported merchandise are specifically exempted from its provisions.⁵⁹

It needs to be stressed that the very fact that a utility in South America is owned by a foreign company puts it on the defensive in dealing with the public. This is particularly true in the case of a country of the size and international position of Argentina.⁶⁰ Newspapers that handle owners of large estates and native industrial capitalism gently show much less restraint in criticizing foreign companies; practicing politicians, moreover, fear the accusation of alliance with a foreign-owned utility. The result is that both shippers and workers are more apt to win disputes over rates, working conditions and wages than in conflicts where capital and management are domestic, and this happens in spite of the fact that the British lines are in a position to make substantial contributions to political organizations championing their cause. Argentina's control of the rate at which the British lines buy pounds sterling for their remittances to London is a not ineffective bargaining power; an example of its use is the 1936 reduction in the freight rates on corn as a *quid pro quo* for better exchange rates.

The records do not show any protests by Argentine officials against British diplomatic or governmental pressure in behalf of the railways. The British government's attitude, on the whole, has been one of friendship and coöperation.⁶¹ There can be no question about the British railways having played an important part in the economic development of Argentina. Their main function, of course, has been the provision of transportation facilities so that the fertile pampa could be opened for agricultural development. Passenger fares have been

⁵⁹ Article 3. I am indebted to Mr. W. Rodney Long of the Department of Commerce for a copy of the text of the bill.

⁶⁰ Argentina has had its independence protected by both the United States and Great Britain. Parker T. Moon, *Imperialism in World Politics* (New York, 1926), pp. 409-11.

⁶¹ On this point see Herbert Feis, *Europe, the World's Banker, 1870-1914* (New Haven, 1930), p. 85.

lower than in the United States while, as the following table shows, freight rates have been higher.

COMPARATIVE FREIGHT AND PASSENGER RATES
ARGENTINA AND THE UNITED STATES ⁶²

	<i>Per Ton Mile</i> (<i>In cents</i>)			<i>Per Passenger Mile</i> (<i>In cents</i>)		
	1926	1932	1933	1926	1932	1933
Argentine privately owned . . .	2.27	1.77	1.75	2.22	1.77	1.75
Argentine government	2.08	1.80	1.86	3.05	2.88	2.72
United States	1.09	1.05	1.01	2.94	2.22	2.01

Possible explanations of the higher Argentine freight rate per ton mile are: (1) the fact that the country, in contrast with the United States, has neither coal nor iron; (2) coal, which carries a very low rate, is a major part of the traffic in the United States, while little coal is hauled by Argentine railways; (3) part of the traffic of Argentine railways has been seasonal and one way (the export wheat movement, for example, has been concentrated in a few months of the year, and the limited purchases of the masses of agricultural workers and share croppers make the inward movement less than the outward); (4) the average length of haul is lower than in the United States; and (5) the traffic density is not as great. There is, however, no means of deciding how much weight should be given to these factors.

Nominal earnings of the British lines, judged by either Argentine government valuation figures, London Stock Exchange reports, American standards, or the interest the government has had to pay on its sterling loans, have been moderate, as the table on the following page indicates.⁶³ Professor Haring, however, has pointed out that the British lines have used the device of the interlocking equipment company to

⁶² I have followed the official reports in giving the rates in terms of the gold peso. It should be borne in mind, however, that since Argentina departed from the gold standard in 1929 this has been a nominal figure. This method is unquestionably valid for 1926 and the relations in 1932 and 1933 are much the same. Argentine figures computed from *Estadística, 1926*, pp. 261-62; *1932*, pp. 272-73; *1933*, pp. 272-73, and U. S. figures from *Statistics of Railways in the United States, 1933*, Statement 53.

⁶³ Argentine government, *Estadística, 1913, 1918, 1923-33*, Table 28. London

RATES OF RETURN

British Lines

	<i>Argentine Government Valuation</i>	<i>London Stock Exchange Valuation</i>	<i>U. S. Railways</i>	<i>Argentine Government Sterling Bonds</i>
1933	2.03	1.7	1.8	4.1
1932	2.65	1.9	1.3	4.2
1931	—	3.0	2.0	4.3
1930	3.25	4.7	3.3	4.4
1929	4.75	5.5	4.8	4.4
1928	—	5.5	4.7	4.4
1927	—	5.5	4.3	4.4
1926	5.55	5.3	5.0	4.4
1925	—	4.9	4.7	4.4
1924	6.51	4.9	4.2	4.4
1923	5.56	4.9	4.3	4.4
1918	3.39	3.0	3.3	4.4
1913	4.62	4.8	4.9	4.3

“conceal” the amount of their profits.⁶⁴ It is, therefore, not possible to ascertain with any degree of precision the returns on the capital invested. The lack of frankness, which the resort to this method of profits secrecy illustrates, is one of the factors explaining the indifference of large sections of informed Argentine public opinion to the present predicament of the British lines.

One of the knottiest points about freight rates in Argentina and elsewhere is occasioned by the problem of promptly adjusting them to changes in price levels and the rate of business activity. It is, however, difficult for the lines to reduce rates in periods of depression, if they have not accumulated a reserve for this purpose during periods of prosperity, for railway operating expenditures are relatively inflexible. Argentine exports are raw materials, which are particularly vulnerable to the movements of prices, and on the other hand the railway

Stock Exchange and rate of return on Argentine government, national and provincial, sterling bonds, *South American Journal*, June 23, 1934, pp. 621-23; U.S.A. rate of return on investment in road and equipment supplies and cash, Bureau of Railway Economics. The average rate of return on all British foreign investments for 1933 is estimated at 4.3 per cent.

⁶⁴ See Clarence H. Haring, “Depression and Recovery in Argentina”, *Foreign Affairs*, April 1936, p. 518.

equipment, which has to be imported from abroad, is subject to relatively minor price changes. The depreciated exchange rate is, of course, the result of this disproportionate fluctuation in the prices of agricultural and manufactured products, and, therefore, the factors making for inflexibility are multiplied.

The British lines, as a part of the business of transportation, have found it to their advantage to spend money in promoting better agricultural methods. The roads gain, if improved quality increases the foreign demand for Argentine beef, or if the growth of fruits commanding a ready sale abroad is encouraged. Demonstration farms, extension agents, nurseries for the sale of improved types of fruit trees, the distribution of seeds at cost, the establishment of fruit-growing subsidiaries and loans for irrigation projects are included in this work.

The fate of the British lines depends in part on British importation of Argentine products. The United Kingdom is Argentina's largest customer. The Ottawa Conference (1932), however, demonstrated to Argentina that she has no guarantee that this market will be always open to her. Recent technological changes in the method of preserving chilled beef for overseas shipment have robbed Argentina of its advantage of being closer to London than is New Zealand or Australia. Argentina, therefore, took the initiative in the negotiation of the Rocco Agreement by which Great Britain promised not to decrease her meat imports from Argentina more than 10 per cent below the 1931-1932 level without consulting with all meat-exporting nations. Argentina, in turn, agreed that all exchange arising out of the sale of Argentine products to Britain would, except for sums in payment of the Argentine public debt abroad, be available for British remittances, and that sterling bonds would be issued for the British peso balances in Argentina. The Rocco Agreement was in effect for three years, and the continuing treaty, to run until 1939, was signed December 1, 1936. It provides that reductions in quotas of chilled beef from Argentina shall not exceed 2 per cent of the 1935 imports for any one year and limits reduction within the three-year period to 5 per cent. His Majesty's government also bound itself to gradual reductions in the imports

of other Argentine meat products. The stipulations concerning exchange are similar to those in the original agreement.⁶⁵ Argentina, however, has no certainty that the pressure of Australia and New Zealand may not further curtail her exports of meat products to England. The fact that the favorable trade balances of New Zealand and Australia with Great Britain are proportionately less than that of Argentina with the United Kingdom, the extent of British investments in the Dominions, and the bonds of common membership in the British Commonwealth of Nations make such reduction logical. If this happens, and Argentina should not be able to make up the loss in other markets, the pressure on the peso would make remittances more difficult than they are at present. Argentine sales to Great Britain, however, have held up better, as a matter of fact, than to other countries.⁶⁶

Given a marked curtailment of United Kingdom purchases of Argentine products, the values of the securities of British-owned Argentine railways would decline further. A struggle might then ensue between the common stock owners and the holders of funded obligations, if the shrinkage in quotations convinced the bondholders that their equity might disappear. They probably would wish to exchange their bonds for the bonds of the Argentine government. The management of the lines would oppose such efforts to sell to Argentina, and His Majesty's government might be forced to decide which group it favored. (On November 3, 1937, the Argentine government issued a decree taking over the operation of the British line, *Central Cordoba*, for one year pending purchase. The explanation is that the nationally owned lines need an entry into the city of Buenos Aires.) An interesting aspect of the situation is that some Englishmen who hold large amounts of Argentine railway securities are vocal protectionists from the

⁶⁵ Convention between the Government of the United Kingdom and the Government of the Argentine Republic, May 1, 1933, *Sessional Papers*, 1932-1933, vol. 27, Articles I—III, VI; and *The Times* (London), Dec. 3, 1936.

⁶⁶ See Stanley G. Irving, *Economic Conditions in Argentina* (London, 1935), p. 23.

standpoint of both the British Isles and the Empire.⁶⁷ A gradual reduction of Argentine import quotas, as stipulated in the Rocco Agreements, will give the economy of the South American republic time to make the needed adjustments and will, therefore, be much less damaging to the British lines.

III

The existence of three types of gauge in Argentina has already been cited as an illustration of the lack of any systematic planning in the construction of railways. The government reports during the period of reflection following the Baring Panic call attention to the lack of any planning. The 1891 report of the *Ministro del Interior* calls for studies relating railway building to the existing centers of population.⁶⁸ Reports of 1892, 1893 and 1894 are in similar vein.⁶⁹ The 1893 report makes the specific charge that speculative considerations, rather than any scientific study of the needs of the country, controlled the building boom of the eighties.⁷⁰ Conditions in Argentina, however, were not very different from those in the United States. It will be remembered that both countries subsidized railroad building, Argentina by guarantees of interest mainly, and the United States by capital grants. One of the abuses in the United States was to build a road paralleling an existing line with a view to compelling the older line to purchase the new. A case in point is the building of the West Shore Road which ran parallel to the New York Central. It should not occasion surprise, therefore, that, as late as 1923, an Argentine government organ could declare that no plan existed for the building of government railways.⁷¹ Planning alone will not rescue the British railways from their present plight, but it can be the means of making more effective use of national transportation resources

⁶⁷ Editorial "Argentina and the Wheat Question", *South American Journal*, June 23, 1934, p. 609.

⁶⁸ *Memoria del Ministro del Interior*, 1891, p. 37.

⁶⁹ *Ibid.*, 1892, pp. 46-52; 1893, p. 108; 1894, p. 74.

⁷⁰ *Ibid.*, 1893, pp. 107-108; see also Ernesto J. Tissóne, *Legislación ferroviaria* (Buenos Aires, 1919), p. 127.

⁷¹ *Boletín de Obras Públicas*, 1923, pp. 855-61.

and curtailing the duplication of existing facilities. The following discussion will assume that the strategic factor is the *building* of roads and that the *regulation* of competing means of transportation is of secondary importance.

These principles, in my opinion, should guide the drafting of a plan: (1) The amount of transportation the country will require is dependent on the national land tenure policy. The system of *latifundia*, the emphasis on cattle raising on the large estates which makes the renting grain farmer a temporary incident in the preparation of ground for alfalfa sowing, and the difficulty of obtaining titles from the government are factors retarding the coming of larger numbers of immigrant settlers to Argentina. Argentina has (1931) 4.2 persons per square kilometer as compared with 15.9 for the United States, Italy's 133.7, and Japan's 171.4.⁷² The fertile farming areas and the salubrious climate of Argentina justify the assumption that a larger population could be supported. Long range transportation planning can have only a limited ameliorative value until this basic question is settled because transportation facilities adequate for the present pattern of land tenure would not suffice, if a policy of making it easier for tenants and selected immigrants to buy land were put into operation.⁷³

(2) The outlook for agricultural exports suggests the transportation plan should place a minimum reliance on foreign materials. The freeing of national economy from dependence on the import policies of other countries calls for the largest practicable development of native industries. Increasing indigenous manufactures acquire added importance when it is remembered that the raw materials which Argentina exports are subject to the widest variations in price while the prices of the manufactured goods which, up until 1929, constituted a major part of the nation's imports are relatively inflexible. The relative emphasis on railways would depend partly on the nature of the government's efforts to build a national steel

⁷² Computed from *Statistical Year-Book of the League of Nations, 1932-1933*, pp. 19-22.

⁷³ See Mark Jefferson, *Peopling the Argentine Pam̃a* (New York, 1926), pp. 174-78, 194-95.

industry on the use of scrap metal. The prohibition against the export of scrap iron and steel, which has been in force since 1929, may be the forerunner of such a policy. The experience of Italy and Japan shows that it is not impossible to base a moderately efficient steel industry on scrap metal. The fact that oil is found in Argentina points, of course, to a large proportionate use of motor transportation and greater reliance on the Diesel engine as a source of railway power. Both the nationally owned and British lines have recently (1937) made substantial purchases of Diesel railcars.

(3) The presence of adequate supplies of road-building rock in southern and western Argentina, plus the binder provided as a by-product of the national petroleum industry, indicates that emphasis should be placed on the macadam road. Argentina has sufficient limestone for making cement and there are several cement plants in the country, but the manufacture of cement requires fuel, and, therefore, the concrete road is relatively more expensive than in countries which have adequate supplies of coal. The modern methods of grading, draining and maintenance will make the new type of dirt road exceedingly useful in the less densely populated areas.⁷⁴

IV

It is too early to complete a balance sheet of benefits and losses, from the standpoint of the British economy, of this export of capital because it is impossible to determine now how much of the equity of its nationals will disappear. The question of the effects of capital export in domestic cyclical fluctuations has not been adequately explored; there is, for example, evidence which seems to indicate that loans to the Argentine government were one of the factors in the 1890-1894 depression in the British Isles. Loans to the Argentine government in the eighties caused the failure of the banking house of Baring Brothers. Commitments for railway construction were an important factor in the heavy borrowing by Argentina. The

⁷⁴ I am indebted for my information on recent developments in road transportation in Argentina to Mr. Henry Aaron of the U. S. Bureau of Public Roads who spent a year and a half as a resident engineer for the Argentine government.

bankruptcy of Baring Brothers was a link in the chain of the financial phenomena of the 1890-1894 depression.⁷⁵ The development of a cheap and abundant source of food can be put on the credit side in the British ledger. The cyclical swings in the expansion of domestic capital plant and loans abroad were based in part on a system of income distribution which gave a limited share to the working classes. It may be doubted if the British worker's gains from cheaper food compensated him for the "loss" of a larger proportion of the national income and for the depression phases of the business cycle, which bore more heavily upon him than upon capital. The British worker, however, gains from the continuing exports of British fuel, rails and rolling stock which ownership (and the absence of an Argentine steel industry) makes possible. The relative proportions of United Kingdom material used by the British lines, despite recent decreases in favor of products of Argentine manufacture, have not fallen below 60 per cent.

It is interesting, in the light of this analysis of the effects of this capital export on Britain, to note that not only was the Argentine economy as a whole the beneficiary of this import of capital but also that it has increased the Argentine worker's share of his country's national income. Argentine railway workers, in particular, and indirectly their brother laborers, in general, are able to get higher wages and better working conditions for the simple reason that the capital is foreign. It needs to be emphasized that the most important single factor in the enactment of labor legislation in South America has been the desire to curb foreign capital. The salaries paid to managers from Great Britain and the wages paid to skilled British workers also tended to raise native wages and working conditions.⁷⁶

⁷⁵ See Willard L. Thorp, *Business Annals* (New York, 1926), p. 173.

⁷⁶ The English, particularly in the beginning of the railway enterprise, had to import not only the managing personnel, but also many skilled workers. It was necessary to pay these workers more than they received at home in order to persuade them to leave. The pay received by the foreign worker was thus a lever in the hands of the native worker for higher wages. The descendants of some of these British workers, with only the status of Argentine citizens, are now employees and their presence probably tends to improve standards.

Equal significance attaches to the question of the economic position of the railways in the Argentine issues of *latifundia* and industrialization. They would benefit from the more intensive agriculture which would result from smaller holdings. The Creole landowners, who are the holders of large tracts, correspond to the nobility of Europe, and until the election of Hipolito Irigoyen in 1916 their control of government policies had not been seriously challenged.⁷⁷ The steep decline in agricultural prices which began with the 1929 depression forced Argentina to increase her manufactures and has thereby fostered the rapid growth of a powerful class whose economic interests do not coincide with those of the large landowners. A dynamic factor is thus brought into the process of social change. The drive for national industries will become more insistent, if Great Britain or other countries should decide to reduce still further their imports of Argentine products. It does not seem likely that the British railways as such will exert themselves to increase the imports of British manufactured products; for, if the growth of domestic (Argentine) industry brings a more stable rate of economic activity, they will gain.

⁷⁷ See Ernest Galarza, "Argentina's Revolution and Its Aftermath", *Foreign Policy Reports*, October 1931, p. 310.

JULIAN S. DUNCAN

BABSON INSTITUTE



Latin American Foreign Exchange and International Balances During the War

John H. Williams

The Quarterly Journal of Economics, Vol. 33, No. 3. (May, 1919), pp. 422-465.

Stable URL:

<http://links.jstor.org/sici?sici=0033-5533%28191905%2933%3A3%3C422%3ALAFEAI%3E2.0.CO%3B2-B>

The Quarterly Journal of Economics is currently published by The MIT Press.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/mitpress.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

LATIN AMERICAN FOREIGN EXCHANGE AND INTERNATIONAL BALANCES DURING THE WAR

SUMMARY

The credit-exchange arrangements, 422. — Comparison of the course of exchange in the four leading countries, 425. — Buenos Aires and Montevideo exchange, 428. — The Argentine balance of international payments, 431. — Quantity exports of meat and cereals, 436. — The Chilean trade balance, 438. — Nitrate, exports, production, prices, 439. — Exports of coffee, 443. — Interest payments, 443. — Chilean exchange a depreciated paper exchange, 445. — The fall of the rate since the armistice, 448. — The new exports and industries of Brazil, 449. — The fall of Brazilian exchange, 453. — The decline of exports (and prices) of coffee and rubber, 455. — Comparison of trade balances of Brazil, Argentina, and Chile, 459. — Foreign borrowings of Brazil, 460. — Budgetary deficits, 462. — Inconvertible paper money, 463. — Interest payments, 464.

I. THE EXCHANGE SITUATION

To the student of international trade the experiences of Latin America during the war offer interesting material for analysis. Especially interesting is the course of foreign exchange. Exchange has fluctuated with a violence that would be impossible in normal times; and the fluctuations have occurred in response to commercial and financial changes particularly significant for these "young countries," whose business of making a living consists chiefly in exchanging their raw produce for foreign manufactures, and whose capital is obtained almost entirely by foreign borrowings.

So abnormal did the exchange situation become in the later stages of the war that in some cases "credit-exchange" agreements were resorted to at the solicita-

tion of the United States and the Allies. In January, 1918, Argentina entered into a "Grain Convention" with Great Britain and France, whereby a credit of \$200,000,000 was granted to those nations to finance the purchase of 2,500,000 tons of Argentine wheat of the 1917-18 harvest. Shortly afterwards a similar credit fund was extended by Argentina to the United States, for \$40,000,000. In February, 1918 the Uruguayan congress sanctioned a credit of \$15,000,000 to Great Britain; and in July, one of \$20,000,000 to the United States.¹

These various "credit-exchange" conventions had as their main purpose the stabilization of exchange without resort to gold shipments. Their general character may be shown by a brief description of the arrangement between Argentina and the United States. By way of a beginning, we may recall the basic principle of the exchange mechanism as it operates in normal times: that, in response to the conditions of demand for and supply of bills of exchange (represented respectively by those who owe payments abroad, and those who receive payments from abroad), exchange fluctuates within the narrow limits of the "gold points," and cannot depart farther from par, for the reason that with the rate at specie point it becomes cheaper to make or receive payment (as the case may be) in gold, including cost of carriage overseas, than by bill of exchange. Gold thus flows out of or into the given country according as exchange is at the gold export point (unfavorable to importers and other debtors to the outside world) or at gold import point (unfavorable to exporters and other creditors of the outside world). Such, very baldly, is the mechanism in peace times. But the United States government was at war, and had placed an embargo on the

¹ A similar arrangement between the United States and Chile was under discussion last summer, but was not put into operation.

export of gold; so that the delicate mechanism of the gold points was upset. Thereafter, the fluctuations of the rate of exchange became much wider and more violent, being governed wholly by the conditions of supply of and demand for bills, without the possibility of gold movements to relieve the pressure on the rate. In the case of Argentina the rate had risen to a figure such that the peso was at a premium of about 13 per cent over the dollar; and this for the reason, as we shall see more fully later, that Argentina had a large balance of international payments due to her, and therefore an excessive supply of bills offered for sale in the Buenos Aires market. Further purchases of Argentine exports would increase that supply of bills, and drive the rate still higher. How relieve the pressure and force the rate back toward its normal level without resorting to gold shipments?

The following system was devised. The New York importer who bought goods in Argentina was permitted to settle by giving a check upon his New York bank to the Federal Reserve Bank, which sold him an order for pesos payable in Buenos Aires. The Argentine government, through the Banco de la Nación, lent to our government (i. e., to the Federal Reserve Bank) the required pesos, delivered in Buenos Aires, to pay the bill to the Argentine exporter. The Banco de la Nación agreed not to draw upon the Federal Reserve Bank during the period of the credit-exchange arrangement, but to content itself with allowing its credit to grow. This arrangement was to continue until the credit had grown to \$40,000,000 (later increased to \$100,000,000). Thus, the New York importer paid his debt (to the Federal Reserve Bank), the Argentine exporter received payment (in paper pesos issued to him by the Banco de la Nación); and no remittances, whether of gold or of

bills of exchange, took place between the two countries. But our government owed to the Argentine government a growing debt, to be paid off after the war, in gold or in goods; and to make that payment it had the sums received from our importers. In other words, for the duration of the agreement the whole process of paying for our Argentine imports ceased to be a foreign exchange transaction at all, or rather, as it has been commonly put, it became a "credit-exchange" transaction. Argentina exchanged that part of her exports which exceeded her imports for a credit, to be paid off at a future date. By this arrangement the excessive supply of exchange, represented by the exports, was withdrawn from the exchange market, which almost immediately fell markedly in the direction of the par rate.

Our present interest is not in the credit-exchange arrangements themselves, but in the abnormal situation which made them necessary. They have been described, very briefly, merely as a means of setting forth some aspects of that situation, and of the forces which underlay it. The purpose of this paper is to compare the course of foreign exchange in the four leading South American countries — Argentina, Brazil, Chile, and Uruguay — during the war; and to study some of the chief commercial and financial changes responsible therefor. The accompanying chart will serve as a starting point for the discussion.

The chart compares the course of exchange on 90-day sight sterling bills in the four countries named, for the period 1914–18. To render the fluctuations of the four curves comparable with each other, the actual quotations for each country, averaged for each month, are expressed in terms of their percentage deviations from the mint par of exchange between the gold currency unit of the country in question and British currency. In

Latin American countries sterling exchange is quoted in British pence, the par of exchange being 47.58*d.* per Argentine peso, 16*d.* per Brazilian milreis, and 51*d.* per Uruguayan peso. In the case of Chile, as will be described more fully later, the par of exchange, 18*d.*, is merely "nominal" since the law declaring the value of the peso to be 18*d.* is inoperative, the currency of the country being in fact depreciated inconvertible paper.

As an indication of the degree of abnormality of the exchange fluctuations, the "gold points," within whose limits the rates of exchange fluctuate in normal times, are drawn on either side of the par line. Since the margin between the par of exchange and the gold import and export points is not the same in any two countries, varying, among other factors, with the distance (and consequent freight costs) between the exchanging countries, ample margins have been allowed, + 2 per cent (premium) being taken as the gold import point, and - 2 per cent (discount) as the gold export point.¹

It is at once apparent that in all four countries exchange departed widely from the usual limits. The mechanism of gold points broke down completely. Even the Buenos Aires exchange, which shows the least violent dislocation, rose in December, 1918, to about 54*d.*, a premium of 13 per cent. Montevideo exchange rose as high as 65½*d.*, in May, 1918, a premium of 28 per cent. Brazilian exchange, on the other hand, depreciated, falling as low as 11½*d.* in October, 1914 (a discount of 31 per cent), and fluctuating since that date

¹ Throughout this paper the terms "premium" and "discount" have reference to the monetary units of the South American countries under discussion, and not to British currency. Exchange being quoted in British pence, a rise of the rate means that more pence must be offered for the peso, or the milreis as the case may be. In other words, a rise above par signifies a discount on sterling, and a premium on the peso. Contrariwise, a fall below par means a premium on sterling and a discount on the peso. The rise and fall of the Latin American sterling exchanges, therefore, are to be interpreted in just the contrary way from the rise and fall of sterling exchange in New York. Since the New York quotations are in United States currency, a rise signifies a discount on the dollar, and a fall a premium on the dollar.

between 12*d.* and 14*d.* (12½ per cent to 25 per cent discount). The Chilean exchange movement was unlike any of the others. It was by far the most striking. As in Argentina and Uruguay, the general trend was upward; but the upward sweep was of incomparably greater extent than in the case of either of those countries. On the other hand, notwithstanding the spectacular ascent of the rate, Chilean exchange at no point rose to the statutory par, but remained throughout a depreciated paper exchange. The Chilean situation, complicated as it is by the depreciated paper basis of the currency, must be left for later treatment.

Leaving out of account for the present, then, the complicating factor of depreciated paper currency in Chile, the outstanding facts shown by the chart are two:

1. The abnormality of the fluctuations of exchange in all countries, and
2. The striking difference, as regards the direction of the exchange movement, between Brazil on the one hand, where the rate has fallen markedly, and Argentina, Uruguay, and Chile on the other, where exchange has risen no less markedly. The explanation of this difference is the main purpose of this article.

The abnormality of the exchange fluctuations in itself requires no further comment. As we have seen, it was the inevitable consequence of the violent interruptions and alterations of commercial and financial international currents occasioned by the war, coupled with the reluctance of the countries at war to part with gold, and the consequent embargoes placed upon its export.

We shall proceed to the consideration of the second point, the comparison of the exchange movements in the several countries; and we shall discuss the changes in foreign trade and finance responsible for those move-

ments. Enough has been said, in the consideration of the Argentine credit-exchange arrangement, to indicate the general lines of the analysis. Since the rate of exchange fluctuates with the conditions of supply of and demand for bills, and since the supply and demand comprise all international transactions, the first originating in those transactions for which payment is due to the given country, and the second in those for which payment is demanded from the country by the outside world, our analysis of exchange movements resolves itself into a study of the balance of international payments in each country, an offsetting of "credits" against "debits." On the credit side of the balance are the exports, borrowings of foreign capital, interest receivable on capital invested in other lands, and other items for which payment is due to the country. On the debit side are the imports, interest owed on foreign capital invested in the country, immigrants' remittances, maritime freight charges, and other such items. Not all of the items are available for each country, but because of the striking character of the changes that occurred, it is possible to arrive, substantially, at definite conclusions regarding their effects. In addition to the balance of international payments, some attention must be given, briefly, to the monetary complications — so prevalent in South American countries — which affect the nature and course of the exchanges. We begin with Argentina.

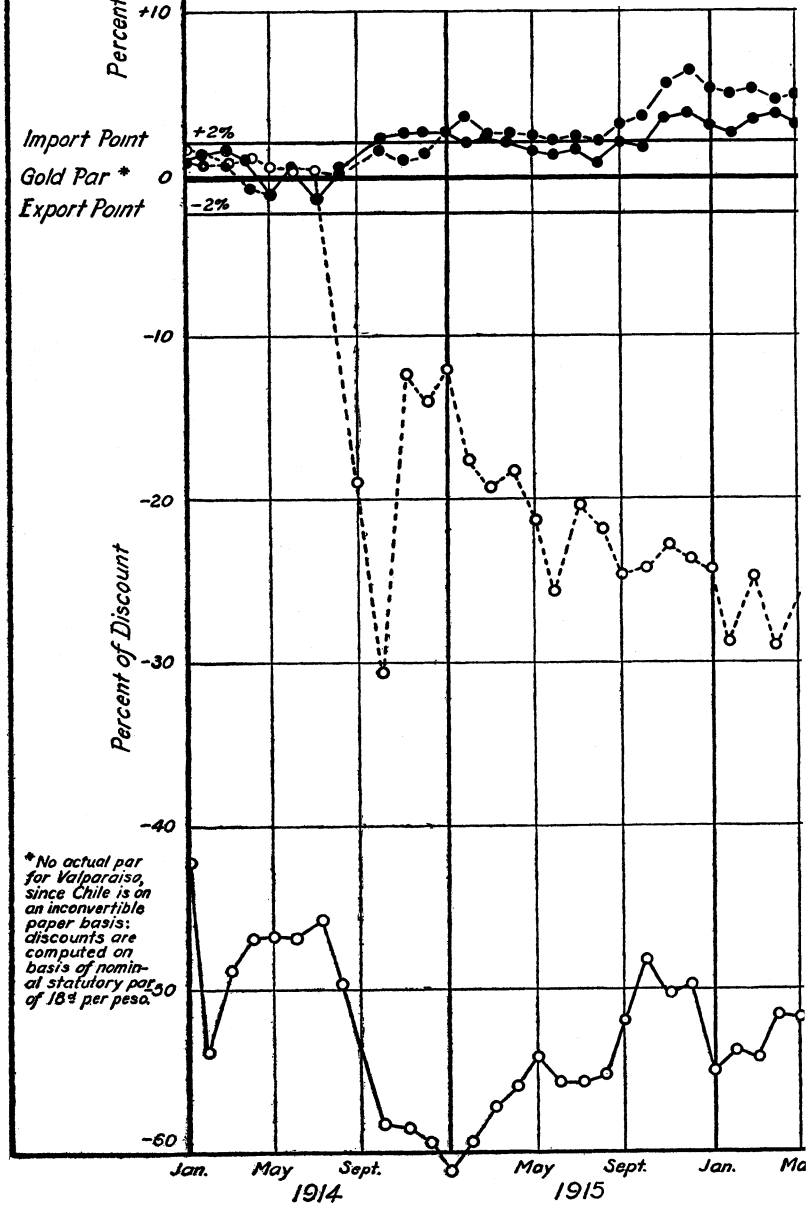
II. EXCHANGE AND THE BALANCE OF INTERNATIONAL PAYMENTS

1. *Argentina*

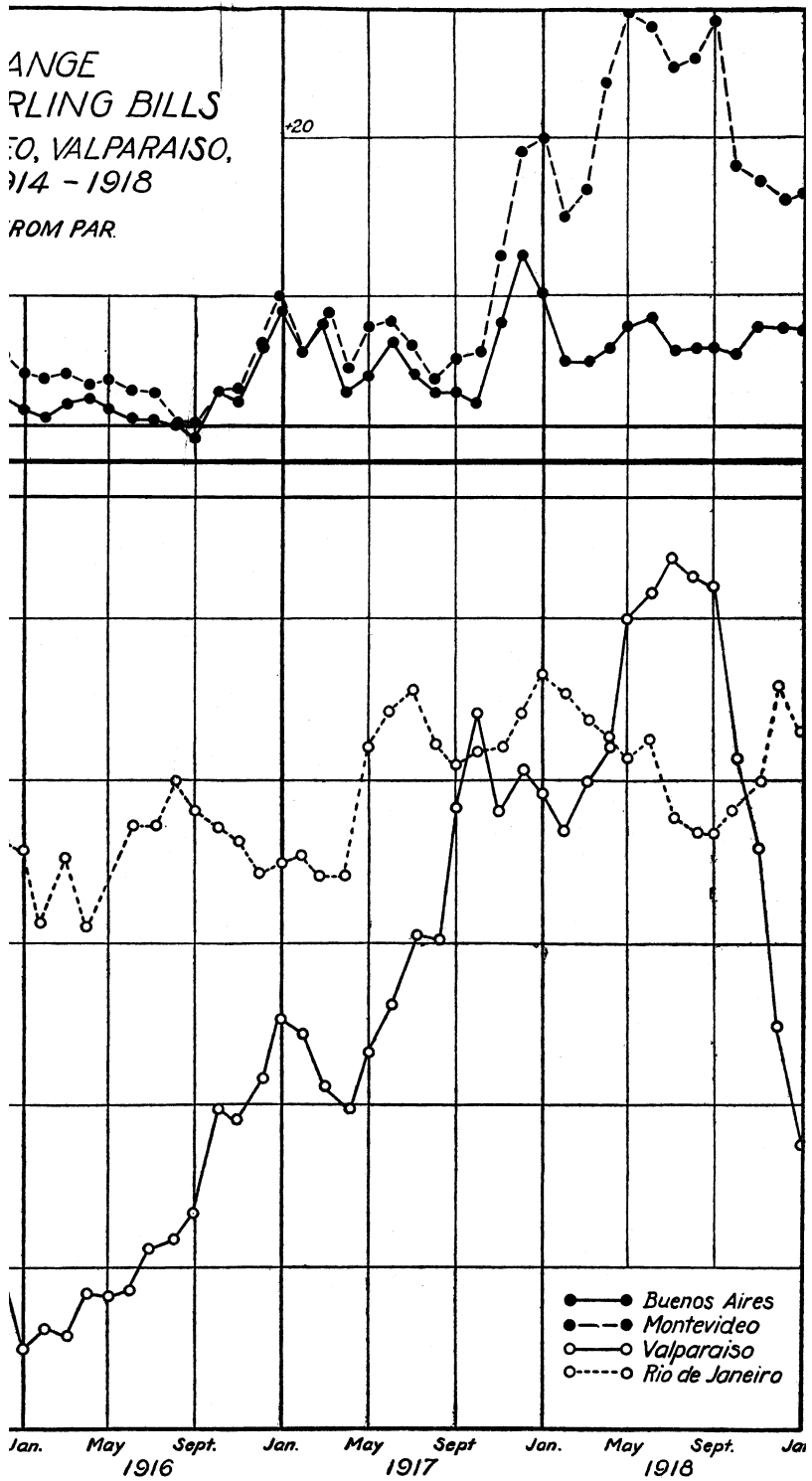
Buenos Aires exchange rests securely on a gold basis, the unit being the gold peso (= 47.58*d.*, or United States \$.965) created by the Monetary Law of 1881.

THE RATE OF EXCHANGE
ON 90 DAYS SIGHT STERLING
IN BUENOS AIRES, MONTEVIDEO, VALP
AND RIO DE JANEIRO. 1914 - 15

PERCENTAGE DEVIATIONS FROM PAR



ANGE
 PLING BILLS
 O, VALPARAISO,
 14 - 1918
 ROM PAR.



For two decades after the passage of this statute, however, the real currency of the country was depreciated inconvertible paper, the premium on gold fluctuating violently. During the Baring Panic of 1890-91, which was precipitated by extravagant borrowing of foreign capital and a consequent land and railroad boom, coincident with lavish issues of paper under the National Bank system, the premium reached a height of 364 per cent,¹ a figure probably not paralleled in any important country in the nineteenth century.

By 1899, however, largely in consequence of a succession of favorable balances of international payments, and a consequent inflow of gold, the premium on gold had fallen to 127 per cent, so that the paper peso was worth \$.44 of the gold peso of 1881. By the Conversion Law of 1899 the value of the paper peso was definitely stabilized at the existing rate, \$.44 gold, by means of a conversion fund for the free exchange of paper into gold and gold into paper at that rate. Since 1899, therefore, the paper currency, the only currency in use in the country, has maintained a stable value, resting securely upon a gold basis. The Uruguayan is also a gold exchange, the peso having a par value of 51*d.*, or United States \$1.034.

Turning now to the war period, our chart (p. 426) indicates that until August, 1914 Argentine exchange fluctuated within the specie points, the extreme fluctuations being $47\frac{1}{16}$ (July) and $48\frac{3}{8}$ (March), 1.9 per cent below par and 1.6 per cent above par respectively. In August and September, 1914, the exchange market was virtually inoperative, Buenos Aires being quoted as "nominal." Thereafter the fluctuations became wider, but did not depart far from the gold import point until

¹ In October, 1891. See Martinez and Lewandowski, *La Republica Argentina en el Siglo xx*, p. 479.

the fall and winter of 1916-17 (Argentine spring and summer), when the exchange rose to 52 (January, 1917), a premium of over 9 per cent. In the following winter exchange rose to $53\frac{1}{2}$ (December, 1917), a premium of 13 per cent.

Up to this point, the Argentine and Uruguayan exchanges were markedly in sympathy with each other. This correspondence was to be expected, since the two countries form, in many respects, a homogeneous trade area, buying and selling the same commodities, and financing their international transactions through the same hands. After January, 1918, however, the correspondence was lacking. Montevideo exchange ascended to $64\frac{3}{4}d.$ (27.9 per cent above par), while the Buenos Aires exchange, after an initial fall to $50\frac{1}{2}d.$, remained fairly stable. This lack of correspondence of the two exchanges is ascribable mainly to the credit-exchange arrangements which have been described. It will be recalled that the Argentine conventions went into effect early in 1918, the Uruguayan agreements not being completed until summer.

Throughout the course of both of these exchanges there is noticeable an annual wave movement, reaching its crest in the winter months (South American summer) and its trough in the summer months. This wave movement is due chiefly to the alternation of active and inactive seasons in the export trade. From October to May, approximately, the harvest comes to port and is shipped; there is consequently a flood of bills of exchange offered for sale by the exporters, and the rate moves upward. From May to October, the exchange market is less active.

The most important feature of the exchange movement is the marked rise, appearing first in the winter of 1916-17, and becoming still more striking in the winter

of 1917-18. This rise is to be explained by reference to the changes occurring in the balance of international payments.

For the analysis of these changes we are fortunate in having the computations of Dr. Alejandro E. Bunge, Director General of National Statistics of Argentina, and those of Señor Carlos Alfredo Tornquist, one of the most eminent bankers and financiers of Argentina.¹ Dr. Bunge has computed the Argentine balance of payments for 1916, and Sr. Tornquist has computed the balance for each year since 1913.²

For the purpose of this study it will be sufficient to present the summary figures of Sr. Tornquist's balances for 1913-14 and 1916-17. Sr. Tornquist makes his computations for the Argentine "economic year," October 1 to September 30. In the following tables these balances are given in summary form. The first gives the balance for the year 1913-14, the second for the year 1916-17.³

¹ Sr. Tornquist possesses the best financial and commercial library in Buenos Aires. His father, the late Sr. Ernesto Tornquist, was the intimate adviser of Presidents Pellegrini and Roca during the period following the Baring Panic (1890-91), and, with finance minister Dr. J. M. Rosa, the author of the Conversion Law of 1899.

² These balances were presented to the writer during a visit to Buenos Aires in 1917-18, as travelling fellow from Harvard University.

³ The reader will note the absence of the item of freight charges from the Argentine balances. This omission is intended. Freight charges do not constitute an item in the international payments of Argentina, by reason of the method followed in recording the statistics of foreign trade. "Value of Imports" is compiled by the use of an official list of import prices ("tarifa de avaluos") which serve as standards for the computation of custom duties. When originally drawn up this list represented the actual prices of imported commodities and thus included freight charges on imports. From lack of regular and accurate revision of the list, however, the "tarifa de avaluos" has for years past conformed very imperfectly to actual import prices, and Dr. Bunge, Director General of Statistics, has initiated the practice of correcting the import statistics compiled from this list, by reference to the actual market prices. Concerning freight charges on exports Dr. Bunge says: "The prices taken (as the basis for compiling 'Value of Exports') are those of our (the Buenos Aires) market. Maritime freights, which do not come into the country because all the shipping which carries our products is foreign, are not paid by us; they do not occasion either a credit or a debit of our country toward the outside world, and ought not to figure as an item of our foreign commerce." *El Intercambio Economico de la Republica Argentina en 1916*, p. 13.

THE ARGENTINE BALANCE OF PAYMENTS, 1913-14

(Thousand gold pesos (peso = \$.965))

CREDIT		
1. Exports	404,250	
2. Capital invested ¹	114,000	
Total	<hr/>	518,250
DEBIT		
1. Imports	392,100	
2. Debt Services	177,300	
Total	<hr/>	569,400
BALANCE	-51,150	
Reduction of Gold Stock in Country	+32,600	
NET BALANCE	<hr/>	-18,550

THE ARGENTINE BALANCE OF PAYMENTS, 1916-17

(Thousand gold pesos (peso = \$.965))

CREDIT		
1. Exports	599,300	
2. Capital invested	30,300	
Total	<hr/>	629,600
DEBIT		
1. Imports	357,500	
2. Debt Services ²	201,500	
3. Immigrant's Remittances	10,000	
4. Tourist's Expenditures	3,000	
5. Subscriptions to War Loans	8,500	
Total	<hr/>	580,500
BALANCE	+49,100	
Increase in Gold Stock of Country	-33,143	
NET BALANCE	<hr/>	+15,957

¹ The separate items under "Capital Invested" are:

1. Two loans contracted by the national government, and one by the federal capital	\$46,200,000
2. Securities issued in Europe by railroad and other companies in Argentina	34,300,000
3. Bonds sold in Europe (cedulas, paving bonds, etc.)	23,500,000
4. Interest reloaned by mortgage companies	5,000,000
5. Private mortgages and other investments	5,000,000
Total	<hr/>
	\$114,000,000

² The separate items under "Debt Services" are:

1. Service of the public debt	\$49,800,000
2. Service of foreign mortgage investments in Argentina	16,800,000
3. Service of cedula	9,900,000
4. Service of railway capital	40,000,000
5. Service of other foreign capital	32,000,000
6. Repayment of short-time public loans	53,000,000
Total	<hr/>
	\$201,500,000

These tables indicate a reversal of the Argentine international situation between the last year prior to the war and the year ending September 30, 1917. If we leave out of account, for the moment, the item relating to changes in the gold stock of the country, we find in 1913-14 that the balance was unfavorable to Argentina by \$51,150,000. It is well known that the year 1913-14 witnessed a "near-panic" in Argentina; the unfavorable balance of payments, the consequent downward pressure on exchange, and the large outflow of gold were important factors in that situation. Turning to 1916-17 we find a different situation. The balance of payments is favorable, the excess of the credit account over the debit account amounting to \$49,000,000.

But both of these figures were reduced by international gold movements; and since the interruption of gold movements forms an important part in the explanation of the abnormal state of the Latin American exchanges, the figures of the balance sheets relating to this item deserve separate attention. By virtue of the normal exchange mechanism, already reviewed, an excess of debits over credits drives exchange to a discount and induces an outflow of gold; and, contrariwise, an excess of credits over debits drives exchange to a premium and induces an inflow of gold. Gold movements, therefore, constitute the *balancing item*, so to speak, of international payments, by means of which credits and debits, and consequently the rate of exchange, tend toward a state of equilibrium. In view of this fact one would expect from the terms of the balance of 1913-14 to find a considerable outflow of gold. Such an outflow did occur, the net reduction of the gold stock of the country in that year being \$32,600,000. Subtracting this sum from the unfavorable balance of \$51,600,000, we obtain a net uncovered balance of \$18,550,000 "against" Argentina.

In the same way, in 1916-17, one would expect, normally, a considerable inflow of gold; and such an inflow did occur, the net addition to the country's stock of gold in that year being \$33,143,000. Subtracting this amount from the favorable balance of \$49,100,000, we have a net uncovered balance of \$15,957,000 "in favor of" Argentina. But in 1916-17 such a net inflow of gold appears at first glance surprising, since, as has been said, the nations at war had placed an embargo on the export of gold. The details of the gold movement in 1916-17 are therefore essential to an adequate understanding of the Argentine situation. Sr. Tornquist has given the figures of the gold movement by quarters; the net import in each quarter being as follows:

(000's omitted)

Last quarter of 1916.....	\$6,772
First quarter of 1917.....	24,021
Second quarter of 1917.....	2,301
Third quarter of 1917.....	49

It is seen that virtually all of the gold entered the country in the first two periods. The falling-off in the second quarter of 1917 is striking; and in the third quarter the gold movement is negligible. The heavy imports up to April, 1917, came from New York. They came in consequence of a balance of payments becoming increasingly favorable to Argentina. They served, in part and for the time, to meet that balance, and thus prevented the rate of exchange from rising so high as it would otherwise have risen. When the United States entered the war, the flow of gold from New York dwindled (as it had already done from the other countries at war), and soon ceased. The effect is seen in the next Argentine export season, the fall and winter of 1917, when the rate of exchange went much higher than in the preceding year, and made necessary the credit-exchange arrangements.

Further examination of the tables that have been given for 1913-14 and 1916-17 indicates in what manner the reversal of the balance of payments occurred. In the war period the flow of capital to Argentina, which in 1913-14 amounted to \$114,000,000, was virtually cut off. Interest charges and other financial payments meantime increased, mainly through the paying off in 1916-17 of \$53,000,000 of short-time public loans. These changes increased the net outgoings on all items of the balance except the foreign merchandise trade by \$129,400,000. This increase on the debit side of the balance, however, was much more than offset by the striking change in the balance of merchandise trade. Exports increased \$195,050,000; and at the same time imports decreased \$34,600,000; with the result that the merchandise balance in 1916-17 was favorable by \$241,800,000, a sum so large as to offset the net debit of \$129,400,000 incurred on all other items, and leave a surplus of \$49,100,000. Even after allowing for the "balancing item" of a net import of gold of \$33,143,000, we find a net uncovered balance in favor of Argentina of \$15,957,000 on all international transactions.

This striking alteration of the balance of merchandise trade is characteristic of all the Latin American countries. In all of them imports have been restricted, mainly by reason of the scarcity of shipping, the need for redistributing tonnage with a view to war requirements, and the desire on the part of the nations at war to conserve both tonnage and goods. In Argentina, Uruguay, and Chile, the shrinkage in imports has been accompanied by an extraordinary expansion of exports, in response to the war-stimulated demand of Europe and the United States for food stuffs and materials of war. It is this change in the merchandise balance which is mainly responsible, given foreign embargoes on gold, for the striking variation of foreign exchange.

Since the Argentine balances of payments have been presented with greater fullness and precision than is possible for the other countries, the simple presentation of the balances will suffice as an explanation of the rise of Buenos Aires exchange. There is not space for a detailed consideration of the merchandise trade by itself. The most important change therein, the great increase in value of exports, was due to the nature of the exports, of which meat, wool, and cereals are the chief. It is interesting to note, however, that the growth in value of exports was not wholly, or even chiefly, due to an increase in quantity exported. In 1917, the year we have studied, there was in fact a striking decrease in quantity, in the case of some of the chief exports. The following figures show the exports of meat and cereals from Argentina and Uruguay combined, for the period 1914-17.

EXPORTS OF MEAT AND CEREALS FROM ARGENTINA AND URUGUAY,
1914-17¹
(1000 tons)

	1914	1915	1916	1917
1. Meat:				
Carcasses of frozen sheep and lambs	2,845	2,246	2,165	1,609
Quarters of frozen beef	1,963	4,457	5,718	5,335
Quarters of chilled beef	3,398	1,309	933	670
2. Cereals:				
Wheat	958	2,449	2,245	898
Maize	3,512	4,331	2,827	896
Linseed	862	995	639	140
Oats	360	501	785	271
Barley	21	76	53	11

It will be seen that in these two, the most important branches of Argentine trade, quantity exports after a

¹ Data from the Argentine official *Anuarios del Comercio y de la Navegacion, and Business Conditions in the Argentine*, No. 40, Ernesto Tornquist and Co., Ltd., pp. 14-15.

rise in 1915 barely held their own in 1916, and in 1917 descended very considerably below the figures of 1914. The decrease of meat exports is ascribable to the increasing scarcity of shipping. The shrinkage of cereal exports, which is especially marked in every item, was due partly to shipping scarcity, but mainly to the drought and frost which in many districts ruined the 1916-17 harvest. It will be recalled that President Irigoyen placed an embargo on wheat for a time, and only consented to release wheat to Great Britain on condition that each shipment be replaced by an equal quantity of Australian wheat.

The increase of the value of exports, then, was mainly due to an extraordinary rise in export prices. Wheat selling at about \$10 per 100 kilos in July, 1914 sold for \$19 in June, 1917; corn rose in the same period from \$5.75 to \$13.50; linseed from \$14.60 to \$25. Wool selling at \$7-\$12 (paper) per 10 kilos, according to grade, in July, 1914, sold at \$8-\$18 in March, 1917, and at \$20-\$32 in January, 1918.¹ Similar increases, of from fifty to several hundred per cent, occurred in the other exported products; with the result that, notwithstanding considerable diminution in the quantities exported, the total value of exports showed marked expansion from the pre-war figures.

The Argentine situation, therefore, is sufficiently clear. The abnormal rise of foreign exchange was due mainly to the large favorable increase of the balance of merchandise trade. Let us compare with this situation that of Chile and of Brazil. In the case of these countries, since data concerning the "invisible" items of the balance of payments are meager and of uncertain reliability, we must treat mainly of the merchandise trade.

¹ Boletines de la Bolsa.

2. *Chile*

The following figures show the Chilean balance of merchandise trade from 1910 to 1917: ¹

CHILEAN BALANCE OF MERCHANDISE TRADE, 1910-17 ²(Thousand gold pesos (peso = 18*d.*, or U. S. \$.365.))

Year	Exports	Imports	Balance
1910	\$328,827	\$297,486	\$+31,341
1911	339,409	348,990	-9,581
1912	383,228	334,455	+48,773
1913	396,310	329,518	+66,792
1914	299,675	269,757	+29,918
1915	299,591	153,212	+146,918
1916	505,963	222,521	+283,442
1917	703,544	355,077	+348,467

One's attention is arrested by the extraordinary growth of the balance in favor of Chile since 1914. The surplus increased from about 30 million pesos in 1914 to about 147 millions in 1915 (a fivefold increase), 283 millions in 1916 (a tenfold increase), and 348 millions in 1917 (a favorable surplus almost twelve times as large as that of 1914). On the other hand it should be noticed that the balance of 1914 was below the average for pre-war years. The explanation of these changes in the balance is to be found in the first two columns of figures, which indicate the different effect of the war on Chilean trade at the beginning of the war and in later years. In 1914 there was a shrinkage both of exports and of imports, that in exports being particularly marked. In 1915 exports held their own but showed no increase, whereas imports decreased some 33 per cent from the 1914 figures. In 1916, the outstanding fact was the

¹ Anuario Estadístico, 1918, pp. 287-289.

² Some of the data and some portions of the text of the sections of this article devoted to Chile and Brazil are from a series of papers on Latin American trade balances and foreign exchange prepared by the writer for the Bureau of Foreign and Domestic Commerce, and distributed in typewritten form as "Latin American Circulars," in July and August, 1918.

enormous increase of exports, which gained almost 70 per cent in a single year, and set a new high-water mark in Chilean trade. In 1917 there was another large increase in exports. Imports also showed some gain, tho to a much less degree than did exports.¹ Broadly speaking, the figures indicate that the large favorable trade balance was due to the remarkable expansion of exports and to the shrinkage of imports.

The expansion of exports is ascribable chiefly to the growth of the nitrate trade to meet the war demand for explosives. Prior to the war about three-fourths of the exports of nitrate was for fertilizers, and about one-fourth for explosives. Under war conditions these proportions were reversed, only some 20 per cent of the exports being used for fertilizers and the rest for explosives and general chemical uses. The effect of the war upon exports of nitrate, and the importance of this product in the total trade of Chile is shown in the following table:

¹ In a study of the relation between the movements of foreign exchange and the balance of international payments, there should, in strictness, be included in the balance only those items which give rise to exchange operations. In much of the discussion of international balances this principle is overlooked. Merchandise trade figures, for example, are usually included in the balance in their entirety, as a matter of course. Yet it is by no means certain that all exports and all imports give rise to exchange transactions, or play any direct part in that chain of phenomena (exchange movements — gold movements — price changes — trade changes) so familiar to the reader of Mill or Cairnes. Without going into any detail, we may point out an important instance in the case of Chilean imports. In 1917 the exports of Chile to the United States were \$142,000,000; the imports were \$57,000,000, or about one-sixth of the total Chilean imports. These are the United States Department of Commerce figures. More than half of the so-called "imports" of \$57,000,000, however, was represented by shipments of construction material and supplies to the Braden Copper Co., the Chile Copper Co., the American Smelting and Refining Co., the Bethlehem Steel Co., and the Du Ponts. All of these companies are American. The supplies sent to them were paid for in New York, and did not, therefore, have any effect whatever on the exchange situation in Chile. For unlike true imports they did not "make" Chilean exchange. Analysis of the Chilean imports, then, shows that the surplus of exports over imports (and the consequent upward pressure upon the exchange rate) was even greater than that shown by the official trade statistics. See Hearings before the Committee on Banking and Currency, United States Senate, Sixty-fifth Congress, Second Session, on S. 3928, statement by Mr. Leopold Frederick (treasurer of the first three companies named above, and formerly manager of the foreign exchange department of the National Bank of Commerce in New York).

EXPORTS OF NITRATE FROM CHILE, 1910-17¹
(000's omitted)

Year	Quantity (tons)	Value in gold pesos of 18 <i>d.</i>	Per cent of total exports
1910	2,336	232,426	71
1911	2,449	262,003	77
1912	2,493	286,704	75
1913	2,738	314,909	80
1914	1,847	212,380	70
1915	2,023	232,679	78
1916	2,967	338,529	67
1917	2,798	475,819	68

As regards the quantity exported, the notable facts are the marked shrinkage in 1914 and the even more remarkable expansion in 1916 and 1917. At the beginning of the war, in view of the anticipated decline in the demand for nitrate for fertilizing purposes, many of the oficinas of nitrate-producing companies in Chile were closed, and by the end of 1914 out of a total of 170 only 43 were producing. By March, 1915 the number had fallen to 36.

Since the nitrate industry, as has been shown, represents some three-fourths of the total export trade of the country, and since, moreover, the government derives over 50 per cent of its revenues from the export duty on nitrates, the temporary cutting-off of the foreign market for this product represented a veritable calamity for Chile. The government took immediate steps to induce the producers to keep up operations. The President was authorized to make advances to producers of nitrate of three pesos for each quintal mined, and four pesos for each quintal ready for shipment, provided the producers should agree to keep up production. Authority was given to emit treasury bills, both for the purpose of granting assistance to the nitrate industry,

¹ Extracto Estadístico de la República de Chile, 1917, p. 139, and Anuario Estadístico, 1918, p. 185.

as above indicated, and also in order to make rediscounts for banks. These rediscounts paid an interest of 3 per cent less than the current rate charged by the banks, and were secured by mortgage bonds. About 21,000,000 pesos of these treasury bills were issued up to December 31, 1914 to nitrate producers, and 9,000,000 pesos to banks.

As a result of these measures, combined with the growing demand of the Allies for nitrate for explosive purposes, the corner was turned after March, 1915, and the number of oficinas in operation began to grow rapidly. At the beginning of 1916 we find 116 at work, out of a total of 172. In January, 1917, 118 were producing, and by September the total had increased to 124. Production therefore showed a substantial recovery:

(Thousand quintals¹)

	1914	1915	1916	1917
Production.....	53,500	38,200	63,300	65,100
Exports.....	40,000	44,000	65,000	60,800

Attention is called to the changing ratio between production and export. In 1914, only four-fifths of the amount produced was exported. In 1915 and 1916 the exports exceeded the amount produced within those years. In other words, at the outset of the war nitrate was not moved off as fast as it was produced. This was also the situation in 1917, owing to a scarcity of shipping. The result is seen in the course of nitrate prices in Chile. Tho nitrate prices abroad rose markedly, the price in Chile, in consequence of the surplus stock awaiting shipment, failed to respond in anything like the same degree.

It will be noted that down through 1916 the war demand for nitrate, in view of the circumstances cited

¹ Pan American Union, Bulletin of April, 1918, p. 537.

AVERAGE YEARLY PRICE OF NITRATE PER SPANISH QUINTAL,¹
1910-16²

Years	Shillings
1910.....	6s. 11 $\frac{3}{4}$ d.
1911.....	7s. 0 $\frac{3}{4}$ d.
1912.....	8s.
1913.....	7s. 10d.
1914.....	6s. 11 $\frac{1}{2}$ d.
1915.....	7s. 4 $\frac{1}{4}$ d.
1916.....	7s. 8d.
1917.....	9s. to 11s.

above, had virtually no effect on nitrate prices in Chile. In fact, the 1913 price was higher than that of any of the three following years. In the production year 1916-17 (July to June), however, nitrate rose to 9 shillings the quintal. In the last half of 1917, particularly from August on, speculation ran the price up from about 10 shillings to 16 shillings the quintal. It does not appear that there was any sound basis for this rise, and the purchase by the United States government of 200,000 tons of German nitrate which had been lying idle in Chile, served to bring down selling prices to some extent. From the fall of 1917 for the remainder of the war, virtually all of the selling was to the British and United States governments at an officially controlled price. In the summer of 1918 the British government contracted for the purchase of 15,000,000 quintals (about 1,500,000 tons) at the price of 13s. for ordinary nitrate and 13s. 6d. for refined nitrate. Our chart, p. 426, shows that exchange reached its highest point (about 17d., a rise of about 120 per cent above the rate ruling in 1914) while this contract was being made, and indicates strikingly the sympathy between the nitrate market and the exchange market.

¹ Quintal = 101.41 lbs.

² *Extracto Estadístico*, 1917, p. 119; and *South American Journal*, January 5, 1918, and April 6, 1918.

The other important Chilean export is copper. This, too, experienced a remarkable growth under war conditions. The following table shows the exports of copper from 1910 to 1917:

EXPORTS OF COPPER FROM CHILE, 1910-17 ¹

Year	Quantity (tons)	Value (pesos of 18d.)
1910.....	37,804	26,630,704
1911.....	34,587	20,501,183
1912.....	40,897	33,550,041
1913.....	41,323	30,894,566
1914.....	45,227	31,891,726
1915.....	53,587	45,409,745
1916.....	71,904	86,639,941
1917.....	78,183	104,413

Nitrate and copper represent the great bulk of Chilean exports. Other exports, such as cereals, wool, hides and skins, iodine, etc., are too small to exercise any influence on the major changes of the balance of trade. The shrinkage of imports, then, occasioned by the need of conserving tonnage, and the extraordinary expansion of the exports of nitrate and copper sufficiently explain the large and growing favorable balance of trade.

Such was the merchandise trade situation. As regards the "invisible" items of the balance of payments the data are meager and of uncertain worth. For the most important of these items, however, the payments of interest on foreign capital, there are fairly reliable figures. The following is a summary of the interest payments made in 1916: ²

¹ Extracto Estadístico, 1917, p. 140, and Anuario Estadístico, 1918, p. 184.

² Compiled from Extracto Estadístico, 1917, pp. 63-78; and F. M. Halsey, Investments in Latin America and the British West Indies, No. 169 of Special Agents Series, Bureau of Foreign and Domestic Commerce.

INTEREST ON FOREIGN CAPITAL IN CHILE, 1916

(Thousand gold pesos (peso = 18*d.*, or U. S. \$.365))

1. Interest and amortization on government foreign debt (429,620,600 pesos, Dec. 31, 1916)	29,973
2. Interest and amortization on railroad guarantees	10,866
3. Interest computed at 6 per cent on mortgage bonds of the Banco Hipotecario de Chile held abroad (total issue 112,000,000 pesos; part held abroad 67,803,000 pesos) . . .	4,068
4. Interest computed at 5 per cent on all other private in- vestment (1,463,472,000 pesos)	73,174
	<hr/>
Total interest charge	118,081

Below is drawn up a rough balance of payments for 1916, showing the exports set off against the imports plus the interest payments:

	Thousand gold pesos of 18 <i>d.</i>
Exports	505,963
Imports plus interest payments	340,615
	<hr/>
Balance	+165,348

It is seen that exports alone exceeded imports and interest payments combined by over 165 million pesos. If there was any investment of private capital from abroad in 1916 (and some there was certainly, as is proved, for instance, by the sale of nitrate lands at auction by the government) the surplus in favor of Chile would be increased thereby.

There can be no doubt of the fact, then, that considering the total incomings and outgoings of Chile during the war, the balance was favorable to Chile by a wide margin. The effect of this large favorable surplus upon the rate of exchange was extraordinary. Comparing the rate at the outbreak of war, 7-8*d.*, with the rate ruling in the summer of 1918, 16-17*d.*, we find a rise of about 120 per cent, by far the most extraordinary alteration of exchange in any Latin American country.

This spectacular movement of the Chilean exchange was not due merely to the alteration of the balance of

payments. The changes in the Argentine balance were in the same direction, and scarcely less marked. Yet the movement of Buenos Aires exchange, as shown by our chart, appears insignificant as compared with that of Valparaiso exchange. The maximum rise of Buenos Aires exchange was but 13 per cent. As has been intimated in an earlier place, the reason for this marked difference in the movements of these two exchanges is to be found in the different character of their monetary bases. The Buenos Aires exchange is a gold exchange; that of Chile is a paper exchange. The currency of Chile is depreciated inconvertible paper. There is no specie in circulation, and no specie basis for foreign exchange transactions.

In a comparative summary of South American exchange conditions it is impossible to consider adequately the peculiarities of the paper exchange mechanism, or the forces which govern its operation. In Chile foreign exchange is bought with and sold for paper pesos. The value of the peso, and hence the rate of exchange of bills, depends on a number of highly unstable factors — on the quantity of paper in circulation relative to the domestic demand for money, on rumors as to the probability of the conversion of paper money into specie at some fixed date, on the degree of confidence reposed in the government, and hence on political changes, political gossip or scandal, a controversy in Congress, a political attack in the press. In a country like Chile, whose economic life (and public revenues) depend so largely upon foreign trade and foreign capital, the best single measure of the value of the paper peso is the rate of foreign exchange, which indicates what the peso is worth in terms of foreign gold moneys.¹ Anything which

¹ In other words, the rate of foreign exchange of a depreciated paper currency is substantially identical in meaning with a statement of the value of the depreciated currency in terms of a premium on gold.

affects, or is likely to affect, the conditions of supply of and demand for bills of exchange, will exercise a powerful influence on the (gold) value of the currency, or in other words, on the rate of foreign exchange. If a strike is threatened in the nitrate fields, down goes exchange, for there is danger that the supply of exchange will be reduced by reason of a reduction of exports of nitrate. If there is a rumor that the Chilean government intends to buy submarines in the United States, down goes the exchange again, for the purchase will increase the demand for bills of exchange, and thus drive down the rate.¹

This condition of unstable currency goes back into the nineteenth century. The present system began with the law of July 31, 1898, which authorized the emission of 50,000,000 paper pesos. At the same time all bank notes previously issued were taken over by the government. Since 1898 the quantity of paper in circulation has been increased to 159,840,119 pesos (December 31, 1916), of which 150,000,000 have been emitted under the act of 1898.² The law of 1898 provided for a conversion fund, by means of which the conversion of the paper money into gold at the rate of 18*d.* per paper peso was to begin January 1, 1902. Conversion was postponed, however, until 1905; and before that date was reached a further postponement to 1910 was announced, and then to 1915. Meantime, the gold value of the paper peso, as indicated by the rate of foreign exchange, after maintaining a relatively high level through 1904 (about 16.5*d.*), declined gradually, and for the period 1908–13 ranged between 9.6*d.* (the average for 1908) to 10.8*d.* (the average for 1910). On the outbreak of war, exchange fell still lower, reaching 7 $\frac{1}{32}$ *d.* in January, 1915,

¹ Sterling exchange in Valparaiso, it will be remembered, as well as everywhere else in South America, is expressed in terms of British pence.

² Extracto Estadístico, p. 65.

a depreciation of 61 per cent from the statutory par. Conversion was again postponed to January 1, 1917, and then to January 1, 1919. In the summer of 1918, with exchange at 16–17*d.*, there appeared to be a strong prospect that specie payments would this time be attempted, at the par rate of 18*d.* named in the law of 1898. This prospect was strengthened by the considerable inflow of gold in 1917. Notwithstanding the reluctance of the nations at war to part with gold, Chile secured their consent to considerable shipments of specie, especially from the United States, as a condition of the sale of nitrate.¹ The following figures show the specie movement for the years 1914–17.

CHILEAN IMPORTS AND EXPORTS OF SPECIE, 1914–17 ²
(Gold pesos of 18*d.*)

Year	Export	Import
1914.....	15,671	3,686,884
1915.....	40,357	1,035,724
1916.....	34,958	30,543
1917.....	522,507	16,446,805

In addition to these gold imports the Chilean government had collected (prior to the war) a gold fund with which to undertake the conversion of the 160 millions of paper pesos in circulation. At the end of 1916 this fund amounted to 87,759,702 pesos (gold), and was deposited in banks of foreign countries, as follows:

¹ Most of the gold imports of 1917 were in connection with the purchase by the United States government in the fall of 1917 of 200,000 tons of nitrate which had belonged to German firms (see above, p. 442). This sale had a double purpose. The United States wanted nitrate; Chile wanted to secure the portion of the Conversion Fund (see text) which was in Germany — about \$10,000,000 — and have it transferred to Chile. A three-cornered arrangement was therefore made. The United States bought the 200,000 tons of German nitrate; the United States instructed the Federal Reserve Board to allow the shipment of the equivalent in gold to Chile; the German government arranged the payment in Germany to the former owners of the nitrate (probably in government bonds).

² Extracto Estadístico, 1917, p. 64; and Pan American Union, Bulletin of April, 1918, p. 537.

	(Gold pesos of 18d.)
In England	48,765,770
In Germany	22,225,687
In United States	3,124,605
	<hr/>
	87,759,702

By March, 1918, the conversion fund had grown to 94,000,000 pesos (gold).¹

But since the signing of the armistice, there has been a complete reversal of the Chilean exchange situation. The chart at p. 426, shows the fall of Valparaiso exchange in the closing months of 1918. From $16\frac{5}{8}d.$, the rate for September, we have a fall to $9\frac{3}{4}d.$ by December 24. In other words, in a space of three months, the rate of exchange returned approximately to the pre-war level. Nothing could indicate more strikingly the fact that the rise of Chilean exchange was purely a phenomenon of war, the consequence of the abnormal demand for nitrate. With the armistice the large purchases of nitrate ceased. The correspondent of the *South American Journal*, writing in January, 1919, stated that "there have been practically no sales at all since October," tho the stocks in Chile were very large; and he estimated that the quantity still in the hands of the British government for sale amounted to 600,000 tons. The price had fallen to about 9s. per quintal, and the oficinas had cut down to about half their normal production.²

3. *Brazil*

The experiences of Brazil during the war present a rather striking paradox. Apparently she was the hardest hit and at the same time perhaps the most benefited, in a material sense, of all the Latin American

¹ The Economist (London), January 18, 1919, p. 70.

² South American Journal, January 11, 1919, p. 77.

countries. The effect of the war upon Brazilian finance, upon the currency, the course of foreign exchange, the foreign trade, has been distinctly less favorable than in the case of the other leading countries.

On the other hand, the serious dislocation of trade occasioned in virtually all Latin American countries by the war has in the case of Brazil brought about industrial and commercial changes which appear to mark the beginning of a new period in its economic life. Much attention has been devoted to cattle raising in southern Brazil.¹ Great packing plants, financed chiefly with American capital, have been built. There has also been a marked increase in the production of cotton and of cane sugar, for which the soil of Brazil, in the long coastal belt stretching from São Paulo to the Amazon, is preëminently fitted. By an arrangement with the Japanese government several thousand Japanese colonists have been brought to Brazil to teach the Brazilians how to grow rice that is cheap and of good quality. Equally significant is the development of Brazilian minerals, of which the state of Minas Geraes, just north of Rio de Janeiro, has a rich and varied supply. The iron deposits, among the largest in the world, had lain dormant before the war; but under the stimulus of war and the difficulty of importing metal products, smelting operations and the manufacture of high grade steel products have been undertaken. The mineral which the war has done most to develop in Brazil is manganese. The chief sources of supply prior to the war were Burma and Russia. The Russian supply was cut off during the war; that of Burma has about doubled since 1913. Brazil, meantime, has come forward as the principal source of manganese.

¹ According to the latest official figures Brazil has 30,000,000 head of cattle, about the same number as Argentina, but of poorer quality.

It is impossible in a paper like the present to describe the other changes that have occurred in Brazil, the rapidly growing exportation of lumber, the new developments in dye stuffs and pharmaceutical products, the really remarkable expansion in the manufacture of textiles¹ and shoes.² These latter industries were fairly well established, thanks to very high tariff protection, before the war. Whether they, and the other industries mentioned, will continue to develop without the stimulus of high prices, and under normal conditions of trade, remains to be seen.³ Our purpose in the present paper is to consider the darker side of the Brazilian war-time condition, and to summarize the chief factors bearing upon the foreign exchange movement.

The striking fact is the marked fall of exchange, as contrasted with the rise in all the other countries studied. Up to July, 1914, exchange fluctuated closely

¹ In 1917 Brazil exported cotton textiles to France. More than half of the home needs in cotton textiles are supplied by Brazilian manufacture.

² The output of footwear is now about 20,000,000 pairs a year, over half being produced in the state of São Paulo.

³ SOME NEW BRAZILIAN EXPORTS

Date	Quantity (tons)	Value (£1,000)	Date	Quantity (tons)	Value (£1,000)
<i>Refrigerated Meat</i>			<i>Sugar</i>		
1913	0	0	1913	5,367	65
1914	0	0	1914	31,860	373
1915	8,514	310	1915	59,074	756
1916	33,661	1,414	1916	53,824	1,286
1917	66,452	3,134	1917	131,509	3,624
<i>Kidney Beans</i>			<i>Rice</i>		
1913	4	0	1913	49	2
1914	4	0	1914	3	0
1915	276	5	1915	3	0
1916	45,594	686	1916	1,124	24
1917	93,428	2,150	1917	42,590	1,262
<i>Manganese</i>					
1913	122,300	181			
1914	183,630	278			
1915	288,671	536			
1916	503,130	1,478			
1917	532,855	3,062			

about par, 16*d.* per milreis. Our chart shows what occurred thereafter. With the outbreak of war the rate broke so sharply as to compel the closing of the exchange. A bank holiday of fifteen days was declared. In October exchange was quoted at the very low figure of 11½*d.* In other words, the value of the Brazilian milreis had depreciated about 31 per cent from the rate ruling in July. In November there was a partial recovery, to 14*d.* Then followed another, more gradual, drop to 11–12*d.* in 1916. Since 1916 the rate, tho somewhat higher than in the earlier years, has shown no sign of a return to the pre-war level, but has fluctuated between 12*d.* and 14*d.* (25 per cent and 12½ per cent below par).

As with the other countries, explanation of the exchange movement is sought in the balance of international payments. We begin with the merchandise trade. The following table shows the exports and imports of Brazil for the period 1910–17, and strikes the balance:

EXPORTS AND IMPORTS OF BRAZIL 1910–17¹
(U. S. \$1,000)

Year	Exports	Imports	Balance
1910	303,000	230,000	\$+73,000
1911	321,000	253,000	+68,000
1912	362,246	307,865	+54,381
1913	313,628	326,026	- 12,397
1914	221,539	165,747	+55,792
1915	255,659	145,749	+109,910
1916	265,802	194,582	+71,310
1917	290,993	216,319	+74,674

The important fact to be gathered from the preceding table is that *both* imports and exports were at a lower level in the war years than in the pre-war period. The diminution of imports requires no comment. It is a characteristic of the trade of all Latin American coun-

¹ From the Brazilian annual commerce reports, *Estatística Comercial*.

tries during the war, the result of the conservation of tonnage and goods for war uses. The falling off in exports, however, is significant. Here again the Brazilian experience is strikingly different from that of the other leading South American republics. The war caused a marked increase of demand for Argentine wheat, meat, and wool, and for Chilean nitrate and copper; and since these products represent the bulk of the exports of those countries, their total exports expanded remarkably. Meantime, Brazilian exports were below the pre-war level. The following table compares the exports of Brazil, Argentina, and Chile for the period 1911-17:

EXPORTS OF BRAZIL, ARGENTINA, AND CHILE, 1911-17
(Absolute figures, in U. S. dollars; 000's omitted)

Year	Argentina	Chile	Brazil
1911	\$330,336	\$123,884	\$321,000
1912	484,109	139,878	362,246
1913	500,986	144,653	313,628
1914	389,022	109,381	221,539
1915	561,803	109,350	255,659
1916	552,945	184,676	265,802
1917	530,914	256,768	290,993

In the following table the exports of these three leading Latin American countries are reduced to relative numbers. In the case of each country the average of the pre-war years 1911-13 is taken as the base (100 per cent) and the index number for each year is computed:

EXPORTS OF BRAZIL, ARGENTINA, AND CHILE, 1911-17
(Index numbers)

Year	Argentina	Chile	Brazil
1911	75	91	97
1912	111	103	109
1913	114	107	95
1914	89	73	67
1915	128	73	77
1916	126	136	80
1917	121	189	88

The index numbers enable one to see more readily than do the absolute figures given in the preceding table just what occurred in the export trade of the three countries. Argentine exports were particularly large in 1915. Chilean exports in 1915 were below the pre-war level. In 1916, however, the growing demand for nitrate and copper manifested its effects, producing an astonishing increase (to far beyond the pre-war level) in Chilean exports of that year; in 1917 the expansion continued. Brazilian exports, meanwhile, were distinctly below the level of the pre-war period.

The reasons for this difference between the experience of Brazil and that of other countries are several. In the first place, it should be said that the decline in Brazilian exports was not a decline in the *quantity* exported. In fact, tonnage of exports in 1916 and 1917 considerably exceeded that of 1912 and 1913. What has happened in Brazil is that the *mean value* of Brazilian export tonnage has constantly decreased. In other words, while prices of exports in other South American countries were rising, export prices in Brazil were actually declining during the war. The mean value per ton of Brazilian exports was \$237 in 1913, \$179 in 1914, \$148.5 in 1915, and \$148 in 1916. These figures demonstrate the relatively high value of Brazilian produce to its weight in pre-war years, under normal circumstances, and the striking decline in value per ton during the war.

This question of export prices has, perhaps, a direct connection with the course of foreign exchange. An exporter of wheat in Buenos Aires, for example, in quoting a price to the foreign buyer, would base his quotation upon three factors, the price of wheat in the Buenos Aires market, the maritime freight rate, and the current rate of exchange. With the abnormally high

rate of exchange ruling during the war, the exporter having for sale a foreign bill of exchange received in payment of produce sold, was obliged to sell it at a ruinous loss, owing to the existing depreciation of foreign moneys in terms of the Argentine or Uruguayan peso. To protect himself against loss, the exporter had to raise the price of his goods to a figure sufficient to offset the difference on exchange. In Brazil, as we have seen, exchange was not above normal, but decidedly below it. The bearing of this fact on prices is apparent. Foreign moneys being at a premium, the exporter who had sold abroad Brazilian goods and received a foreign bill of exchange in payment therefor, could cash his bill at a premium. In consequence, he could afford to sell at a lower, rather than a higher, price than in former years.

This statement of the connection between exchange and price, however, is put forth merely as a suggestion of one factor, and probably a minor one, in the explanation of the different course of export prices in Argentina and Chile on the one hand, and Brazil on the other. It is a commonplace that in peace times South American exports, except for coffee and nitrate, constitute too small a proportion of the world stock to control the world price. Rather, South American export prices are dominated by the prices ruling in the principal markets to which the exports are sold. Much more was this the case during the war. Export prices, total value of exports, foreign exchange, rose in Argentina and Chile as the direct consequence of war demand for Chilean nitrate and Argentine meat, wheat, wool, and hides. It is at this point that one finds the explanation of the difference between the Brazilian experience and that of the other countries. The exports of Brazil did not expand for the reason that they were not the sort of prod-

ucts for which there was a war demand. At least, this is true of the pre-war Brazilian staple exports.

The bulk of the exports of Brazil has for years consisted of two products, coffee and rubber. For example, out of total exports of \$313,628,000¹ in 1913, rubber and coffee comprised \$248,579,000, or about four-fifths of the total. By far the most important single export is coffee, which in 1913 amounted to \$198,157,000, or over 63 per cent of the total exports. Coffee is not a war commodity. The Allied powers therefore restricted its import. Even more serious is the fact that the large demand from Central Europe, amounting normally to about 4,000,000 bags a year, was cut off. In consequence, the United States was the only unrestricted market for Brazilian coffee, taking about one-half the total exports. Added to these pronounced restrictions of the demand for coffee is the fact that the Brazilian supply during the war was somewhat above the pre-war normal. The result was that Brazil had on its hands an increasing stock of coffee which it could not hope to dispose of until after the war.

This situation became acute almost immediately upon the outbreak of war, and led in 1915 to the reestablishment of a valorization system, along somewhat different lines from the famous plan of 1907-08. The federal government by a law of 1915 authorized the issue of 350,000,000 paper milreis, of which a part was to be used for carrying out a new plan of coffee valorization. The paper money was lent by the federal government to the state of São Paulo, which has been conducting the valorization operations. The original plan was to prohibit the export of coffee above 6,000,000 bags a year; the 4,000,000 bags which in normal times went to Germany, Austria, etc., to be held in Brazil, the state of

¹ Figures are given in United States dollars.

São Paulo lending, in paper money, up to 60 per cent of a value to be fixed on a basis of past averages to coffee growers who deposited their coffee in warehouses; the warehouse receipts to be handed over by the state government to the federal government as collateral for the issue by the latter of the paper money. This loan feature was dropped, however, and instead the state of São Paulo undertook to purchase at an official price so much of the annual coffee crop as might appear sufficient to maintain prices, or, failing in that, so much as it might be able to purchase with the paper money funds supplied to it by the federal government under the laws above mentioned.

In 1918 the São Paulo government bought large quantities of coffee at the price of 4\$900¹ per 10 kilos (i.e., about \$1.24 for 22.4 lbs.). The ordinary market price, however, was lower, between 4\$600 and 4\$500. Interior shippers and planters demanded that their coffee be sold to the government, and the coffee Associação of Santos presented a memorial to the government requesting a further issue of 300,000,000 milreis of paper money for additional valorization purchases.

The statement on page 457 indicates the coffee position up to May, 1918. The table indicates that of a total crop of 17,000,000 bags, about 13½ million actually came to market; of this quantity somewhat more than 7 million bags were exported, leaving the enormous quantity of 5,939,291 bags of the 1917-18 crop, and 1,100,000 bags of the 1916-17 crop — a total of virtually 7,000,000 bags, or as much as the total 1917-18 exports — in storage in Brazil and unable to find an outlet. The state of São Paulo, it is seen, was itself holding almost 2,800,000 bags, or almost 40 per cent of the total amount in storage.

¹ I. e., 4 milreis, 900 reis.

THE COFFEE POSITION, 1917-18 CROP¹

	Bags
In hands of São Paulo government, April 30, 1918.	2,788,875
In hands of commissarios and exporters, inclusive of 600,000 bags bought by São Paulo government.	4,150,416
Shipped coastwise.	281,000
Exported up to April 25, 1918.	7,325,665
Total.	14,545,956
Less stock on June 30, 1917.	1,100,000
Net total.	13,445,956
To come down to complete estimated crop.	3,554,044
Total crop.	17,000,000

The fact is that the supply of Brazilian coffee was hopelessly in excess of the demand. The result was that in spite of the large purchases by the government, the price of coffee in Brazil went steadily downward. Meantime, as a result of rising freight and insurance rates (which are, moreover, additional causes of the diminution of exports) foreign coffee prices rose. The following table shows the price of Brazilian coffee in London and in Santos for the period 1911-18:

PRICE OF COFFEE, 1911-18¹

Date	LONDON Shillings cwt.	SANTOS Paper Milreis 10 kilos = 22.4 lbs.
Oct. 16, 1911	66s. 9d.	8\$600
March 26, 1911	62s. 3d.	7\$900
“ 1913	52s. 9d.	6\$250
“ 1914	41s. 3d.	4\$750
“ 1915	43s.	5\$150
“ 1916	44s. 6d.	4\$900
“ 1917	53s. 6d.	5\$500
“ 21, 1918	66s. 9d.	4\$100

¹ Data on the “ coffee position ” and on prices from Wileman's Brazilian Review for May and June, 1918.

By midsummer of 1918 the purchases of coffee by the state of São Paulo amounted to 4,500,000 bags. The congestion was further relieved by an arrangement made with the French government by which 2,000,000 were purchased on behalf of France. The 1918-19 crop, at first estimated at 10,500,000 to 12,000,000 bags, was considerably reduced by a severe frost in São Paulo on July 9, 1918. See Fielding Provost, “ The Brazilian Coffee Situation,” Pan American Magazine, September, 1918, pp. 225 et seq. On September 6, 1918 there were 6,351,000 bags of coffee on hand in Santos and 884,000 in Rio de Janeiro, as compared with 2,825,000 bags in both places combined on the same date in 1917. Bulletin of the Pan American Union, October, 1918, p. 604.

The different course of Brazilian and foreign prices is apparent. After the initial fall to 41s. 3*d.* in 1914 provoked by the liquidation of speculative accounts that followed the Balkan war, London quotations moved upward with the increasing charges for freight and insurance. The course of prices in Brazil was just the contrary. Since October, 1911, when owing to reckless speculation prices reached the maximum in both the Brazilian and the London market, prices in Brazil, with the exception of a slight reaction in 1915, due to extraordinary activity in the trade with Scandinavia and the United States, dropped continuously, until at 4\$100 per 10 kilos it is doubtful if they sufficed even to cover the cost of production.

The facts that have been presented — the restriction of markets, the decline of prices, the abnormal accumulation of stocks in Brazil — find their most convenient expression in the figures of coffee exports. The following table shows the exports of coffee for the years 1913–17. Both quantity and value figures are given:

EXPORTS OF COFFEE FROM BRAZIL, 1913–17

Year	Quantity (1,000 bags ¹)	Value (U. S. \$1,000)
1913.....	13,267	\$198,157
1914.....	11,270	131,220
1915.....	17,061	156,443
1916.....	13,039	138,296
1917.....	10,605	112,033

Except for the reaction in 1915, it is seen that the trend of coffee exports, both in quantity and in value, was pretty steadily downward. The increased quantity exports of 1915, almost 4,000,000 bags greater than in 1913, is noteworthy. But because of reduced prices, the value figures of the 1915 exports were more than \$40,-

¹ Bag = 132 lbs.

000,000 less than in 1913. After 1915 the decline in both categories is striking. The year 1917 was the low water mark. Quantity exported fell almost 6,500,000 bags below 1915, and the value fell over \$44,000,000 below the 1915 figures, and over \$86,000,000 below the 1913 figures, a decrease of 45 per cent. It ought to be said, too, that 1913 was by no means a normal year, exports of coffee being \$28,114,880 below the 1912 figure.

A close second to the falling-off in coffee was the decline in exports of rubber, the other major export. The following table gives the quantity and value of rubber exported in the years 1913-17.

EXPORTS OF RUBBER FROM BRAZIL, 1913-17

Year	Quantity (Million tons)	Value (U. S. \$1,000)
1913.....	36,232	43,223
1914.....	33,531	34,326
1915.....	35,165	34,214
1916.....	31,495	36,431
1917.....	33,980	36,435

Rubber exports show a decrease of 2,252,000 tons and \$6,788,000, or about 16 per cent. The table indicates, however, that the decline took place in 1914; in later years the trade slightly improved.

The discussion of coffee and rubber indicates sufficiently the reasons for the failure of the Brazilian export trade to expand during the war; and in consequence, explains why, while the trade balances of Argentina and Chile have been rising phenomenally, the Brazilian balance has undergone but little change. The table on the next page compares the trade balances of Brazil, Argentina, and Chile for the years 1910-17.

The difference between the Brazilian situation and that of Argentina and Chile is apparent at a glance. Except for the year 1913, a year of unusually large im-

COMPARISON OF THE TRADE BALANCES OF BRAZIL, ARGENTINA AND CHILE, 1910-17

(U. S. \$1,000)

Year	Brazil	Argentina	Chile
1910	\$+73,000	\$+20,125	\$+11,439
1911	+68,000	-40,539	-3,497
1912	+54,381	+92,194	+17,881
1913	-12,397	+59,977	+24,379
1914	+55,792	+74,726	+10,920
1915	+109,910	+278,789	+53,625
1916	+71,310	+199,630	+103,456
1917	+74,674	+169,849	+127,178

ports, the Brazilian balance was favorable. Except for the year 1915, however, the balance in favor of Brazil in the war years was about of the same size as in pre-war years. Meantime the balances in favor of Argentina and Chile show a large increase. Relating these facts to the course of foreign exchange, it is not surprising that in Argentina and Chile, by reason of the great excess of supply of exchange, representing the exports, over the demand for exchange, to pay for imports, exchange experienced a phenomenal rise; whereas in Brazil, where there was no such change in the trade balance, there was no such rise of exchange.

What in fact occurred, as we have seen, was a pronounced fall of exchange; and the balance of merchandise trade, by itself, does not provide an explanation of the fall. As in the case of Chile, there are but few data on the other items of the balance of payments; but for what are by far the most important items, foreign borrowings and interest payments, a fairly trustworthy computation can be made.

Financially, Brazil fared worse than any of the other South American republics during the war. The outbreak of war produced an acute situation, the reasons for which go back a considerable space into the pre-war period. Brazil had for long been accustomed to a large

inflow of foreign capital. The six year period 1908-13, in particular, witnessed a program of heavy borrowing, both by the federal and the state governments, and by private enterprise. The following figures show the amount of new foreign capital annually invested in Brazil during the period 1908-16:

AMOUNT OF NEW CAPITAL IN BRAZIL, 1908-16¹
(U. S. \$1,000)

1908.....	140,000	1913.....	202,727
1909.....	101,386	1914.....	.....
1910.....	163,936	1915.....	.....
1911.....	188,305	1916.....	5,500 ²
1912.....	123,773		

The easy acquisition of foreign capital led the governments and private individuals into extravagances — into unusually large military and naval expenditure, into railway and other public projects which could yield a return only after some years of waiting. According to official statements, the revenues of Brazil for the five years 1910-14 totaled 2,762,008 contos (paper), while expenditures amounted to 3,514,155 contos, leaving the enormous deficit of 752,147 contos, or \$238,123,000. During the first four years, 1910-13, the deficit was \$159,123,000, or an average of \$39,781,000 per year. In 1914 it was nearly double that sum. Owing to the war, the revenue decreased to 375,098 contos, while expenditures, tho considerably lower than in the preceding year, amounted to 636,781 contos, thus leaving a deficit of 261,683 contos, or \$78,902,000.

The outbreak of war did more than cut down government revenue. It shut off the inflow of foreign capital which was at the bottom of the extravagant expenditure. The sudden cessation of investment in 1914, moreover,

¹ Translation in the Pan American Magazine, November, 1918, pp. 16 et seq., of an official statement by Elyσιο de Carvalho.

² \$5,500,000 lent to the municipality of São Paulo by United States banks.

came after some rather trying experiences in 1913. Brazil was seriously affected by the stringency in foreign money markets which followed the outbreak of the Balkan War. The year 1913, moreover, witnessed a slump in coffee and rubber prices. The value of coffee and rubber exported in 1913 was nearly \$56,000,000 less, altho the exports of coffee were over a million bags larger, than in 1912. Total exports declined from over \$362,000,000 in 1912 to less than \$314,000,000 in 1913. At the same time imports increased from about \$308,000,000 to \$326,000,000. The result was that in that year the balance of trade was unfavorable by about \$12,000,000.

In consequence gold began to flow out of Brazil, and the exchange rate was threatened. In 1912 there was a net inflow of gold amounting to \$17,500,000. In 1913, on the other hand, there was a net export of gold of over \$23,000,000. Brazilian exchange would have fallen in 1913 from the high level of the 1910-12 period had it not been for the important service performed by the Conversion Office, which issued gold freely to maintain exchange, its gold holdings falling in consequence from 386.7 to 276 million milreis during 1913.¹

When the war broke, the federal government was negotiating for a loan in London. The failure of the negotiations made it impossible for the government to pay interest on its foreign obligations. In October, 1914, an agreement was made with the foreign bondholders, represented by the Rothschilds, for a funding loan of £15,000,000.¹ The interest on the foreign debt was paid in the bonds of this loan up to August, 1917, when interest payments were resumed. Amortization of the foreign debt was suspended for thirteen years (until 1927). The effect of the funding loan was to take

¹ South American Journal, January 18, 1919, p. 37.

the weight of the foreign interest payments off the exchange market, temporarily, thus preventing a fall of exchange much more serious than that which actually did occur.

As it was, exports of gold increased to the high figure of \$40,144,000 in 1914; and the stock of gold in the Conversion Office was reduced to 138.5 million milreis by the end of the year. In December, 1914, the President was authorized to suspend the redemption of notes until December, 1915, the suspension being subsequently extended. The government resorted to issues of paper money. The first issue, authorized by law of August 24, 1914, was for 250,000,000 milreis. A second issue, of 350,000,000 milreis, was authorized by law of August 28, 1915. By June 30, 1918, the total quantity of inconvertible paper in circulation was 1,534,252,000 milreis, representing an increase of 945,000,000 milreis since August 26, 1914.¹

In other words, throughout the war Brazil has been on an inconvertible paper money basis; and the foreign exchanges have been subject to all of the fluctuation and unsteadiness which is inherent in every inconvertible paper situation, and of which the most interesting instance today is Chile. Large emissions of paper, moreover, have precisely the same effect on the rate of exchange as does an unfavorable trade balance. They affect unfavorably the ratio between the domestic paper and foreign gold moneys, by increasing the supply of the former relatively to the demand for it, and thus cause its depreciation in terms of foreign gold. Here, then, is undoubtedly one of the causes of the present low rate of Brazilian exchange.

¹ South American Journal, January 18, 1919, p. 37. At the end of 1918, the quantity of paper in circulation was stated to be about 2,000,000,000 milreis. *Revista de Economia y Finanzas*, pp. 609, 610.

Another cause is contained in the borrowing program which we have reviewed. The heavy borrowings have given rise to an increasingly heavy interest charge. According to Sr. Elysio de Carvalho, whose figures of new annual borrowings were given above, p. 461, the total foreign capital invested in Brazil was in 1917, \$2,000,000,000.¹ Of this sum \$577,240,000 is the foreign debt of the federal government (December 31, 1917), and \$301,116,376, the foreign indebtedness of the individual states and municipalities (December 31, 1916); the remainder, or \$1,122,000,000, representing private investment. The annual interest charge on the federal foreign debt is about \$30,000,000, but owing to the funding agreement, which did not end until August, 1917, only \$11,993,506 was paid in 1917. Interest on all other foreign capital (\$1,423,000,000) at 5 per cent equals \$71,150,000; the total interest charge in 1917 was thus about \$83,144,000. When this sum is added to the imports (\$216,319,000), we have a total of outgoings from Brazil of about \$299,463,000, as against \$290,993,000 of exports. The favorable trade balance of \$74,674,000 (shown on p. 460) is thus converted into a deficit of \$8,470,000. Had the full interest charge on the federal foreign debt been paid, the balance would have been much more unfavorable.

To sum up the discussion of Brazilian exchange, the suspension of specie payments by the act of December, 1914, the large emissions of inconvertible paper money since that date, the sudden shutting-off of the large annual inflow of foreign capital by the outbreak of war, which brought upon Brazil the full burden of the interest charge — these factors, combined with the serious shrinkage of the exports of coffee and rubber and the

¹ Of the total amount \$1,750,000,000 is European. Of this \$705,000,000 is English, and \$600,000,000 French. Pan American Magazine, November, 1918, pp. 20 et seq.

consequent failure of the export trade to expand, as it has done in other countries, brought it about that whereas in the other countries exchange rose remarkably, in Brazil the level of exchange during the war was considerably below the level of pre-war years.

JOHN H. WILLIAMS.

HARVARD UNIVERSITY.



Rural Unrest and Agrarian Policy in Argentina, 1912-1930

Carl Solberg

Journal of Interamerican Studies and World Affairs, Vol. 13, No. 1. (Jan., 1971), pp. 18-52.

Stable URL:

<http://links.jstor.org/sici?sici=0022-1937%28197101%2913%3A1%3C18%3ARUA-API%3E2.0.CO%3B2-5>

Journal of Interamerican Studies and World Affairs is currently published by School of International Studies, University of Miami.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/miami.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

The JSTOR Archive is a trusted digital repository providing for long-term preservation and access to leading academic journals and scholarly literature from around the world. The Archive is supported by libraries, scholarly societies, publishers, and foundations. It is an initiative of JSTOR, a not-for-profit organization with a mission to help the scholarly community take advantage of advances in technology. For more information regarding JSTOR, please contact support@jstor.org.

CARL SOLBERG
Department of History
University of Washington
Seattle, Washington

RURAL UNREST AND AGRARIAN POLICY IN ARGENTINA, 1912-1930*

From 1912 until the late 1920s Argentina faced an agrarian social and economic crisis of proportions unprecedented in the republic's history. Trapped between unstable prices and the exactions of landlords, thousands of tenant farmers organized, went on strike, and at times sabotaged agricultural production. This unrest swept across the cereal belt, a 160,000,000-acre zone of extremely fertile soil in the provinces of Santa Fe, Entre Ríos, Córdoba, and Buenos Aires, and in the national territory of La Pampa. After 1919, rural unrest acquired new complexity when tens of thousands of landless workers employed by the tenant farmers began strike movements of their own. The purpose of the present article is to analyze the origins and characteristics of this rural upheaval and then to examine the responses to it formulated by the republic's national political leaders.

The disorganization of the international economic system that began with the outbreak of the Balkan War and lasted until the early 1920s largely explains the outburst of agrarian unrest in Argentina during the same period. Exports, primarily to the rapidly industrializing countries of Europe, had absorbed the bulk of national production and had expanded from 150 million gold pesos in value in 1900 to nearly 500 million in 1913. During this same period, the most rapid economic expansion in Argentine history, area under cultivation of cereals and flax increased

* Financial assistance from the National Endowment for the Humanities and from the University of Washington Graduate School Research Fund made possible the research for this article.

from 4.7 million hectares to 14.1 million.¹ Argentina became the world's leading exporter of corn, oats, and flaxseed and the third or fourth major exporter of wheat.² Comparisons between the agricultural exports of the United States and those of Argentina demonstrate the heavy reliance of the latter country's agriculture on the world market. (See Table 1.) When the international trading economy failed to function smoothly, Argentina's farmers were bound to suffer.

TABLE 1
PROPORTION OF AGRICULTURAL PRODUCTION EXPORTED
THE UNITED STATES AND ARGENTINA, 1911-1913 AVERAGE

<i>Crop</i>	<i>U.S. Exported Proportion</i>	<i>Argentine Exported Proportion</i>
Corn	1.7%	77.1%
Wheat	17.5%	60.6%
Oats	1.1%	82.4%
Flaxseed	.04%	81.8%

Source: Laurel Duvall, "The Production and Handling of Grain in Argentina," *Yearbook of the Department of Agriculture* (Washington: U.S. Department of Agriculture, 1915), pp. 285-286.

The economic prosperity of Argentine farmers was particularly vulnerable because they seldom owned the land they worked. A small and exclusive group of upper-class families had held secure ownership over most of the best land in the cereal belt since the mid-nineteenth century. The ownership pattern in the key province of Buenos Aires was typical. In 1928, only 1041 estates occupied one-third the area of the vast province and included much of its best grazing and farm land.³ After 1880,

¹ The value of the gold peso until 1933 was US \$.9648. An excellent source of agricultural statistics is Juan L. Tenembaum, *Orientación económica de la agricultura argentina* (Buenos Aires: Editorial Losada, 1946). Data on area under cultivation is on pp. 21-22. Another important statistical source is Ernesto Tornquist & Cía. Ltda., *El desarrollo económico de la República Argentina en los últimos cincuenta años* (Buenos Aires: Ernesto Tornquist & Cía. Ltda., 1920). Export statistics are on pp. 133-134.

² Vernon L. Phelps, *The International Economic Position of Argentina* (Philadelphia: University of Pennsylvania Press, 1938), p. 141; Laurel Duvall, "The Production and Handling of Grain in Argentina," in *Yearbook of the Department of Agriculture* (Washington: U.S. Department of Agriculture, 1915), pp. 284-285.

³ Jacinto Oddone, *La burguesía terrateniente argentina*, 3rd ed. (Buenos Aires: Ediciones Populares Argentinas, 1956), pp. 182-185. The standard historical study of Argentina land policy and of the concentration of ownership is Miguel A. Cárcano, *Evolución histórica del régimen de la tierra pública, 1810-1916* (Buenos Aires: Librería Mendeky, 1917). An important recent treatment of the

mushrooming demand for agricultural export crops and for alfalfa to use as cattle feed quickly valorized land in the cereal belt and made owners reluctant to sell their properties. In the rich southern departments of Santa Fe, for example, the price of agricultural land rose from 30.4 gold pesos per hectare in 1887 to 60 in 1905 and to 102.8 in 1912.⁴ Landowners in the agricultural regions of neighboring Córdoba enjoyed increases from 36.8 gold pesos per hectare in 1906 to 109 in 1912.⁵

With land values rising so rapidly and in the absence of any workable-land distribution laws, the Italian and Spanish immigrants who flocked to the cereal belt generally could not buy land and instead had to rent it for money payments or for shares of the crop. In 1912 at least two-thirds of the farmers in the cereal belt were renters who operated plots generally between 150 and 200 hectares in size.⁶ Prior to 1921 no tenancy laws existed to protect farmers from undue exploitation or to regulate rental contracts. These were short-term, usually for two or three years, which not only permitted owners to renegotiate rents frequently but also enabled them to shift land between agriculture and cattle as market circumstances dictated. Landowners often rented plots to "colonists," as tenant farmers were called, in order to prepare land for alfalfa. When

evolution of the land tenure system is James R. Scobie, *Revolution on the Pampas: A Social History of Argentine Wheat, 1860-1910* (Austin: University of Texas Press, 1964).

⁴ Ezequiel Gallo (h), "Santa Fe en la segunda mitad del siglo XIX. Transformaciones en su estructura regional," in Rosario, Universidad Nacional del Litoral, Facultad de Filosofía y Letras, *Anuario del Instituto de Investigaciones Históricas* 7 (1964): 150.

⁵ M. E. Greffier, "La propiedad rural en la Provincia de Córdoba," *Revista de Ciencias Económicas* 13 (August 1919): 113. For data on the valorization of rural property in the cereal zone between 1886 and 1929, see José Boglich, *El problema agrario y la crisis actual* (Buenos Aires: Ediciones Aras, 1933), p. 154. Boglich's data are reproduced in the standard economic history of Argentina, Ricardo M. Ortiz, *Historia económica de la Argentina, 1850-1930*, 2 vols. (Buenos Aires: Editorial Raigal, 1964), 2:106.

⁶ In 1911 68 percent of farmers were tenants in Buenos Aires; 62 percent were tenants in Santa Fe and Entre Ríos, and 72 percent were tenants in Córdoba. See Aaron Pavlovsky, *La cuestión agraria* (Buenos Aires: Talleres de la Casa Jacobo Peuser, 1913), p. 27. This work by a well-known agronomist carefully outlines the land tenure situation in the cereal provinces. In La Pampa, 68 percent of farmers were tenants. For statistics on land tenure in the territories, see Argentine Republic, Ministerio del Interior, Asesoría Letrada de Territorios Nacionales, *Censo general de los territorios nacionales. República Argentina. 1920*. 2 vols. (Buenos Aires: Establecimiento Gráfico A. de Martino, 1923), 2: 22. Ortiz, *Historia económica de la Argentina*, 2: 112-118, presents data on the size of farms in the cereal belt. In 1914, 96.5 percent of farms were less than 500 hectares and, of these, the average size was 176 hectares.

such contracts expired, colonists had to pack up and move elsewhere.⁷ The impermanence of tenure that characterized rural Argentina prompted observers to liken the farmer both to the "agricultural Arab" and the "wandering Jew."⁸

Rental contracts imposed a number of heavy burdens on the farmer. Generally he was responsible for transporting the owner's share of the crop to the railroad station in bags which the colonist had to purchase at his own expense, frequently from the owner. Farmers used bags because almost no grain elevators or agricultural cooperatives existed in Argentina to help store and market the harvest.⁹ The lack of elevators cost the farmers dearly, for they were unable to provide buyers with a uniform quality of wheat. Furthermore, much grain was exposed to the weather, became damp and deteriorated, and could only be sold at heavy discounts.¹⁰ The intermediaries or "colonization companies" with whom tenant farmers often had to deal constituted perhaps the heaviest burden of all upon the cereal belt's producers. Landowners, wishing to reside in Buenos Aires or Paris, frequently rented huge tracts to these intermediaries, who in turn subrented plots of a few hundred hectares to tenants. Some companies controlled hundreds of thousands of hectares and made profits up to 80 percent a year. Contracts usually required renters to buy hail insurance, to rent threshing machinery, and to purchase bags only from intermediaries, who also operated local stores. To obtain credit, farmers had to guarantee payment with the harvest and had to sell the

⁷ Mark Jefferson, *Peopling the Argentine Pampa* (New York, 1930), p. 142; Daniel Slutzky, "Aspectos sociales del desarrollo rural en la pampa húmeda argentina," *Desarrollo Económico* 8 (April-June 1968): 97; Curto Érico Hotschewer, *Evolución de la agricultura en la Provincia de Santa Fe* (Santa Fe: Ministerio de Hacienda, Economía e Industrias, 1953), p. 198. Large landowners also hesitated to sell because land ownership conferred social prestige. See Leon M. Estabrook, *Agricultural Survey of South America: Argentina and Paraguay* (Washington: Government Printing Office, 1926), p. 60.

⁸ Herbert Gibson, *The Land We Live On* (Buenos Aires: R. Grant & Co., Printers, 1914), p. 17; Emilio A. Coni, "Cuestiones agrarias," *Revista de Ciencias Económicas* 26 (June 1926): 371.

⁹ In 1913 there were thirty-four agricultural cooperatives in Argentina with 13,371 members. Almost all were in Entre Ríos Province. Juan B. Tobar, "Las cooperativas agrícolas," *Revista de Ciencias Económicas* 1 (July 1913): 57. The first cooperative grain elevator in Argentina was inaugurated at Leones, Córdoba, in July 1930. See *La Prensa*, 13 July 1930, p. 13. At that time there were only twenty-three grain elevators in the entire republic, with a total capacity of 400,000 tons. For analyses of rental contract provisions, see Pavlovsky, *La cuestión agraria*, p. 27; and the work of another agronomist, Roberto Campolieti, *La chacra argentina* (Buenos Aires: privately printed, 1914), pp. 50-51.

¹⁰ Duvall, "The Production and Handling of Grain in Argentina," p. 296.

entire crop to these storekeepers.¹¹ The subrenting system, concluded a government inspector after visiting strife-ridden La Pampa in 1912, "constitutes the most odious extreme of absentee ownership."¹²

Since landowners did not pay indemnification for improvements, farmers seldom built decent housing. The colonist's house "is, at best, an enlarged sardine tin," wrote landowner Herbert Gibson in 1914. Many farmers lived in rude mud huts with dirt floors and zinc roofs.¹³ Under such conditions, wrote one agronomist, "hygiene is unknown, even by sight." Rural education was deficient, and children of tenant farmers frequently grew up illiterate.¹⁴

Isolation imposed by bad roads aggravated the harsh life of Argentine farmers. As late as 1925, only 1273 kilometers of all-weather roads existed in the entire republic. In rural areas, as one agronomy professor complained, roads were "a succession of mud-holes," and a constant travail for farmers.¹⁵ Primitive rural transport was an expensive burden;

¹¹ For contemporary analyses of the intermediary system, see *La Prensa*, 8 July 1912, p. 13; Hugo Miatello, *Investigación agrícola en la Provincia de Santa Fe* (Buenos Aires: Compañía Sud-Americana de Billetes de Banco, 1904), pp. 279-280; Juan B. Justo, *La cuestión agraria* (Buenos Aires: Tip. "La Vanguardia," 1917), p. 22; and W. P. Rutter, *Wheat-Growing in Canada, the United States and the Argentine* (London: Adam and Charles Black, 1911), pp. 133-134 and passim. A recent evaluation by a distinguished Argentine scholar is Gastón Gori, *El pan nuestro: panorama social de las regiones cerealistas argentinas* (Buenos Aires: Ediciones Galatea-Nueva Visión, 1958), p. 113.

¹² Julio B. Lezama, an inspector of the Departamento Nacional del Trabajo, made this report to Minister of the Interior Indalecio Gómez. It was published in Argentine Republic, Ministerio del Interior, *Memoria del Ministerio del Interior presentada al Honorable Congreso Nacional, 1912-1913* (Buenos Aires: Talleres Gráficos de la Penitenciaría Nacional, 1913), p. 519.

¹³ Gibson, *The Land We Live On*, p. 16. This pamphlet is a fascinating critique of the land tenure system by a wealthy English-born landowner. Also, Scobie, *Revolution on the Pampas*, p. 65.

¹⁴ Hugo Miatello, "El hogar agrícola," *Boletín del Museo Social Argentino* 3 (1914): 565. Mariano Vélez, a teacher at Alta Italia in La Pampa, made a local education census in 1931 which revealed that the bulk of rural children were not attending school and that many could not read or write. See his *La situación agrícola de La Pampa* (Buenos Aires: Imprenta "La Vanguardia," 1934), p. 119. As late as 1943, reports Carl C. Taylor in *Rural Life in Argentina* (Baton Rouge: Louisiana State University Press, 1948), p. 316, in Buenos Aires province 15.9 percent of the children between the ages of 6 and 13 never had attached school. Percentages for Santa Fe were 11.8, for La Pampa 12.7, for Córdoba 14.4, and for Entre Ríos 20.7. Taylor's work is a useful study of farm life in the mid-1940s but does not analyze the period under consideration in the present study.

¹⁵ Statistics on road mileage are in Alejandro E. Bunge, *La economía argentina*, 4 vols. (Buenos Aires: Agencia General de Librerías y Publicaciones, 1928-1930), 4: 85. See also Guillermo Garbarini Islas, "Consideraciones sobre el estado de nuestro régimen agrario," *Revista de Economía Argentina* 21 (September 1928): 212; and Rutter, *Wheat-Growing in Canada, the United States, and the Argentine*, pp. 133-134 and passim.

in a rainy year, estimated a Rosario businessman, Santa Fe farmers spent 10 percent of their income to transport crops from farms to railway stations.¹⁶

During the final decades of the nineteenth century and the opening years of the twentieth, farmers were willing to accept their onerous contracts and their often harsh living conditions because they were small-scale entrepreneurs who gambled on the possibility of rapid enrichment through agriculture. If market prices were high, if the weather were favorable, and if the grasshoppers stayed away, a farmer could reap substantial profits. With the hopes of striking it rich, colonists tended to rent as much land as possible and to plant extensively. Agriculture became, as a careful observer pointed out, a "game of chance."¹⁷

But by 1912 a combination of factors began to frustrate these ambitious small capitalists. Several consecutive years of high prices had encouraged farmers to expand their plantings and to bid up land rents to excessive levels.¹⁸ Rentals in southern Sante Fe had risen from 18 or 20 percent of the crop in 1904 to at least 35 percent by 1912. Then, crop failures and low prices left many farmers unable to meet these rising obligations. In 1911 the corn harvest was ruined by drought and totalled only 713,000 tons—compared with almost 4.5 million the previous year—and the linseed harvest also was poor. The following year the corn harvest was superb and totalled 7.5 million tons, a quantity so great that it sharply depressed the world market price. Unable to obtain credit or pay rents, tenant farmers faced eviction from their lands, while small businessmen in the farming communities went bankrupt.¹⁹

¹⁶ I. Bustos, "Caminos, transportes y elevadores de granos," *Revista de Derecho, Historia y Letras* 43 (October 1912): 223. The Argentine national government did almost nothing to promote road construction. In Congress, organic highway laws were proposed in 1912, 1913, 1915, 1916, 1922, 1923, 1924, and 1925. But no concerted action on highway improvement occurred until the Justo administration of the 1930s. See *The Review of the River Plate* 64 (2 November 1928): 9.

¹⁷ Juan Bialeto Massé, *Informe sobre el estado de las clases obreras en el interior de la República*, 3 vols. (Buenos Aires: Imprenta y Casa Editora de Adolfo Grau, 1904), 1: 120.

¹⁸ A number of observers pointed to the speculative character of Argentine agriculture. See, for example, the socialist author Antonio Borrás, *Nuestra cuestión agraria: en defensa de la producción y del productor* (Buenos Aires: Editorial "La Vanguardia," 1932), p. 37. Also, *La Prensa*, 21 June 1912, p. 13; and the perceptive French traveller Pierre Denis, *The Argentine Republic: Its Development and Progress*, trans. Joseph McCabe (London: T. Fisher Unwin Ltd., 1922), p. 201.

¹⁹ Corn, quoted in Buenos Aires at 11.35 pesos per 100 quintals in January 1912, fetched 6.65 five months later. For background to the 1912 farmers' strike, see Plácido Grela, *El grito de Alcorta* (Rosario: Tierra Nuestra, 1958), pp. 46–47. Grela's work, the only significant secondary source on tenant farmer discontent, contains useful information despite its disorganization and despite the author's

Faced with expulsion, tenants fought back with the first large-scale rural strike in Argentine history. The strike movement began in the Santa Fe town of Alcorta, center of a rich corn-producing area farmed mostly by Italians. On 25 June 1912 two thousand farmers gathered in Alcorta to demand rent reductions and longer-term contracts and to pledge to strike until these demands were met. Led by Francisco Netri, a Rosario intellectual well acquainted with peasant protest movements in his native Italy, and supported by local small businessmen and rural newspapers, the strike quickly caught on and spread through central and southern Santa Fe, into neighboring Córdoba and Buenos Aires, and finally into La Pampa territory. In some localities, Italian priests sided with their parishioners' cause, declared the strike a "holy crusade," and urged emigration to Tripolitania if satisfactory settlements were not reached.²⁰ The 1912 strike, although generally nonviolent, effectively halted farm work for two months.²¹

A significant result of the 1912 movement was the formation of Argentina's first and most important farmers' confederation, the *Federación Agraria Argentina* (FAA). Led by Netri, delegates from Santa Fe province met at Rosario on 1 August and within two weeks announced the foundation of the organization, which began to publish a weekly newspaper, *La Tierra*, and to recruit membership throughout the republic. From the beginning until at least 1930, Italian and Spanish tenant farmers formed the bulk of the membership. Landless laborers were not invited to join. After an early power struggle in which a moderate group headed by Netri triumphed over a radical faction favoring violent action, the fundamentally conservative character of the FAA was clearly estab-

interpretation of the events of 1912 from the viewpoint of the Argentine Communist party in 1958. Other useful background sources include Lázaro Nemirovsky, *Estructura económica y orientación política de la agricultura en la República Argentina* (Buenos Aires: Librería y Casa Editora de Jesús Menéndez, 1933), pp. 216-218; Damián M. Torino, *El problema del inmigrante y el problema agrario argentino* (Buenos Aires: privately published, 1912), pp. 145, 252; and Jorge Abelardo Ramos, *Revolución y contrarrevolución en la Argentina*, 2 vols. (Buenos Aires: Editorial Plus Ultra, 1957), 2: 155-156.

²⁰ *La Prensa*, 24 March 1913, p. 12; Grela, *El grito de Alcorta*, pp. 18-19.

²¹ Tomás García Serrano, a Rosario historian who took part in the events of 1912, sets the number of strikers at 100,000. See his *Esteban Piacenza: Apuntes biográficos*, 2nd ed. (Rosario: Librería y Editorial Ruiz, 1967), p. 40. A recent study by Juan Carlos Grosso accepts this figure. See "Los problemas económicos y sociales y la repuesta radical en el gobierno," in Luis Alberto Romero et al., *El radicalismo* (Buenos Aires, 1968), p. 313. Grela, *El grito de Alcorta*, p. 14, estimates that there were 120,000 strikers. A good brief summary of the 1912 agitation is Silvio Spangenberg, "El conflicto agrario del sud de Santa Fe," *Boletín Mensual del Museo Social Argentino* 1 (1912): 522-531.

lished. The organization became primarily a pressure group dedicated to advancing the interests of its petit bourgeois rural members.²²

Despite the essential moderation of the organized farmers movement, the agrarian conflict of 1912 posed serious political problems, especially in Santa Fe. In that province, the Radical party, a moderate movement emphasizing political reform, led primarily by middle-class urbanites and appealing largely to the native-born masses, had been elected only a few months before and was anxious to end the strike.²³ Continued agitation or a turn towards violence would give the national administration, headed by oligarchic enemies of the Radicals, an excuse to "intervene," as provided by the federal constitution, and to call new elections. Adopting a conciliatory policy, the provincial governor appointed a committee of three Radical leaders to study the agrarian crisis and to make recommendations. Moving with alacrity, the committee travelled widely and interviewed scores of farmers. Its report, issued 21 July 1912, openly favored the tenants and urged reductions in rents, minimum three-year contracts, and restrictions on intermediaries.²⁴ The provincial government used the publicity generated by this report to pressure landowners to negotiate compromise contracts with their tenants. By mid-August, Santa Fe farmers began returning to work, soon followed by those in neighboring provinces.

In contrast with the position of the Santa Fe Radicals, disdain towards the problems of the tenants characterized the national government of President Roque Sáenz Peña. This government's principal base of support was the landed elite, and a number of powerful landowners held high national office. Vice President Victoriano de la Plaza, who on Sáenz Peña's death in 1914 was to serve as president until 1916, was one

²² *La Tierra*, 1 August 1914, p. 1. The formation of the FAA and the struggle to define its direction are outlined in Grela, *El grito de Alcorta*, pp. 366-376. Also see *La Vanguardia*, 23 August 1912, p. 1.

²³ For analysis of the heterogeneous composition of the Radical party, see Peter H. Smith, *Politics and Beef in Argentina: Patterns of Conflict and Change* (New York: Columbia University Press, 1969), p. 23; Ezequiel Gallo (h) and Silvia Sigal, "La formación de los partidos políticos contemporáneos: La U.C.R. (1890-1916)," in Torcuato S. di Tella et al., *Argentina, sociedad de masas* (Buenos Aires: Editorial Universitaria de Buenos Aires, 1965), pp. 136-137, 152, 163; and Ramos, *Revolución y contrarrevolución en la Argentina*, 2: 59-60.

²⁴ Members of the committee were Ricardo Caballero, J. Daniel Infante, and Toribio Sánchez. Infante reviewed the committee's work and the provincial government's desire to reach a settlement in a pamphlet, *El problema agrario* (Rosario: Establecimiento B. Tamburini y Cía., 1912), see especially pp. 3, 50, 63, 71. Grela, *El grito de Alcorta*, pp. 132-133, 140-141, quotes important sections of the committee's report. Also see *La Prensa*, 16 July 1912, p. 12; and 23 July 1912, p. 13.

of the largest landowners in Córdoba province. In 1912 he adamantly refused to compromise with his tenants in arrears and instead had the provincial police expel them.²⁵ Sáenz Peña defended his government's inaction during the agrarian strike by claiming that the state lacked authority to intervene in what legally was a private contractual dispute. The minister of agriculture, who charged in front of the Chamber of Deputies that outside agitators were the main cause of the strike, further reflected the administration's position.²⁶ The ministry sent investigators to the provinces, but the government did not implement their advice, which urged the formation of special arbitration tribunals to settle contract disputes.²⁷ Newspapers and intellectuals alike sharply criticized the government's inaction as damaging to agriculture and to national prosperity.²⁸

Economic depression, touched off by the Balkan War crisis in Europe and intensified by a marked reduction of European capital flow to Argentina, settled over the republic in 1913 and heightened social tension in the cereal belt.²⁹ Landowners failed to carry out rent reductions promised the previous year, and tenant farmers again responded with a strike.³⁰ The movement in Santa Fe, Córdoba, and Buenos Aires was generally peaceful, but serious violence and crop destruction hit La Pampa. In response, the territorial police, directly under command of the national government, intimidated striking colonists while evicting dozens of families whose rent was in arrears.³¹ Compromise settlements again

²⁵ *La Prensa*, 16 August 1912, p. 18; interview with Antonio Diecidue, librarian of the Federación Agraria Argentina, Rosario, 2 August 1969.

²⁶ Argentine Republic, Cámara de Diputados, *Diario de sesiones de la Cámara de Diputados*, sesiones ordinarias, I (29 July 1912): 815-832. (Hereafter this source will be referred to as *Diputados*). In his opening message to Congress on 6 May 1913 Sáenz Peña attempted to justify his government's policy by claiming it lacked authority to intervene. See Roque Sáenz Peña, *Escritos y discursos*, 2 vols. (Buenos Aires: Casa Jacobo Peuser Ltda., Editores, 1935), 2: 567.

²⁷ Emilio Lahitte, the Director of Rural Statistics in the Ministry of Agriculture, investigated the conflict and then recommended the formation of arbitration committees. *The Review of the River Plate* 38 (9 August 1912): 335; Emilio Lahitte, *La cuestión agraria* (Buenos Aires: Ministerio de Agricultura, 1912), p. 5; *La Prensa*, 4 July 1912, p. 16.

²⁸ In a series of editorials, *La Prensa* attacked the president's lack of intervention as unjustifiable: 12 July 1912, p. 7; 1 December 1912, p. 11. See also Cárcano, *Evolución histórica del régimen de la tierra pública, 1810-1916*, p. 477.

²⁹ For analysis of the impact of the Balkan War on the Argentine economy, see Phelps, *The International Economic Position of Argentina*, pp. 22-25.

³⁰ Netri emphasized the farmers' bitterness over the rent question in an interview with *La Prensa*, 6 March 1913, p. 16. Also see *The Review of the River Plate* 39 (14 March 1913): 655; and Abel Bengolea, *Conflictos agrarios* (Buenos Aires: Dirección General de Agricultura y Defensa Agrícola, 1913), pp. 2-3.

³¹ *La Vanguardia*, 15 January 1913, p. 1; *La Prensa*, 7 February 1913, p. 13; 20 February 1913, p. 14; W. Jaime Molins, *La Pampa* (Buenos Aires, 1918), pp. 354-355.

were reached, but the basic structure of the land tenure system remained unchanged.

The contrast between the conciliatory policy the Santa Fe Radicals had adopted during the 1912 strike and the hostile attitudes of conservative politicians raised hopes among farmers that a Radical national government might support agrarian interests. But after the 1916 election it became clear that these hopes were misplaced. The victorious presidential candidate was the long-time Radical leader Hipólito Yrigoyen, a powerful figure who dominated twentieth-century Argentine politics as no other leader before Perón. Once in office, however, Yrigoyen took little interest in the problems of the tenant farmers.

Several factors help explain the Radical administration's indifference to agrarian questions. For one thing, large landed interests held powerful influence in the party and within the Yrigoyen government. The president himself, although urban born, had become a landowner and a stock raiser. Several cabinet ministers, including his first minister of agriculture, were members of the *Sociedad Rural*, the powerful, exclusive, and aristocratic cattleman's association. Yrigoyen's policies, particularly during his first term, favored cattle raising interests.³²

Yrigoyen's social philosophy, nurtured by his reading of the ethical and spiritualistic writings of the nineteenth-century German philosopher Karl Christian Friedrich Krause, also influenced his government's agrarian policies.³³ The president claimed that he was "predestined by God" to lead a "political apostolate" in which he would govern paternalistically in the interests of all classes and interest groups. Because Yrigoyen was convinced that he alone was equipped to decide policy and to find the right answers in each case, he came down hard on dissidents and viewed those who preached class organization or who led strikes as dangerous agitators out to destroy the alleged unity of Argentine society. The government's social role, according to this viewpoint, was to curb such threats

³² A vast polemical literature exists on Yrigoyen, but as yet there is no scholarly biography. The most informative study, by Manuel Gálvez, bears the significant title, *Vida de Hipólito Yrigoyen, hombre del misterio* (Buenos Aires: Kraft, 1937). On Yrigoyen's landholdings and his addiction to rural life, see Luis V. Sommi, *Hipólito Yrigoyen: su época y su vida* (Buenos Aires: Editorial Montegudo, 1947), pp. 292-295; Félix Luna, *Yrigoyen* (Buenos Aires: Editorial Desarrollo, 1964), pp. 57-59. Smith's *Politics and Beef in Argentina* carefully analyzes Yrigoyen's relationships with the *Sociedad Rural* and his policies towards the cattle industry. See especially pp. 48-50, 71-88, 129-136.

³³ For evaluation of the impact of *krausismo* on Yrigoyen, see Sommi, *Hipólito Yrigoyen*, pp. 286-288; and José Landa, *Hipólito Yrigoyen visto por uno de sus médicos* (Buenos Aires: Macland S.R.L., 1958), pp. 254-257.

to the system and to use strong moral suasion to harmonize groups in conflict.³⁴ "My one dream," wrote the Radical leader, "is to make the Argentine nation a synthesis of the welfare of all classes."³⁵

Despite his mystical philosophy, Yrigoyen was a skillful practical politician, and the fact that most farmers lacked the suffrage probably influenced his government's agrarian policies. According to the national census of 1914, 72,995 of the 102,881 farmers in the agricultural provinces were unnaturalized immigrants. (See Table 2.) During the 1930s, Argentine-born sons of immigrant farmers tended to abandon the countryside and move to the cities, and the bulk of the farmers remained citizens of Spain or Italy until their death.³⁶ In the entire republic, only 33,219 immigrants, or 2.25 percent of the foreign-born male adult population, had become citizens by 1914, and over half of these lived in the national capital.³⁷ The farmers' miniscule rate of naturalization reflected their lack of identification with Argentine values and institutions, and this lack of identification in turn probably was rooted in Argentina's failure to give them a stake in national life by establishing a workable homestead act or land distribution program.

³⁴ Yrigoyen was not a systematic writer and one must glean his social philosophy from his speeches and messages. Particularly revealing is a 1923 manuscript left unpublished until 1957 in which Yrigoyen justifies and rationalizes his "spiritual leadership." See Hipólito Yrigoyen, *Mi vida y mi doctrina* (Buenos Aires: Editorial Raigal, 1957), pp. 46-47, 56-57 and passim. For sympathetic analysis of his social thought, see Gabriel del Mazo, *El radicalismo: ensayo sobre su historia y doctrina*, 3 vols. (Buenos Aires: Ediciones Gure, 1957), 2: 209, 228-229.

³⁵ Quoted in T. R. Ybarra, "Mystery Man of Argentina," *World's Work* 59 (March, 1930): 88.

³⁶ Roberto Campolieti, *La organización de la agricultura argentina (Ensayo de política agraria)* (Buenos Aires: Pedro M. Aquino & Cía., 1929), p. 11; *La Tierra*, 22 September 1930, p. 1. The 1937 agricultural census revealed that 38.1 percent of "agricultural producers" in the four agricultural provinces and La Pampa territory were unnaturalized immigrants. Since "agricultural producers" included landless laborers, most of whom were native-born, and cattle raisers, most of whom also were nationals, the proportion of immigrant farmers was probably considerably higher. See Argentine Republic, Comisión Nacional del Censo Agropecuario, *Censo nacional agropecuario, Año 1937*, 4 vols. (Buenos Aires: Guillermo Kraft, Ltda., 1939-1940), 2: 3.

³⁷ Statistics on naturalization are found in Argentine Republic, *Tercer censo nacional, levantado el 1° de junio de 1914*, 10 vols. (Buenos Aires, 1915-1917), 2: 403-417. Also see Alfredo L. Spinetto, *Ciudadanía conferida a los extranjeros* (Buenos Aires: Tip. "La Vanguardia," 1917), p. 23. The distribution of naturalized immigrants by provinces, based on Ministry of the Interior statistics, is found in *La Vanguardia*, 19 April 1913, p. 1. There were 3981 in Buenos Aires province, 1875 in Santa Fe, 633 in Entre Ríos, 104 in Córdoba, and 27 in La Pampa.

TABLE 2
 NATIONALITY OF FARMERS IN THE ARGENTINE CEREAL BELT, 1914

Province	Argentines	Foreigners	Total	Percentage of Foreigners
Buenos Aires	13,017	28,841	41,858	69.0
Santa Fe	5,626	22,278	27,904	79.8
Entre Ríos	4,612	6,599	11,211	58.8
Córdoba	6,116	11,794	17,910	65.8
La Pampa	515	3,483	3,998	87.0
Totals	29,886	72,995	102,881	71.0

Source: Sergio Bagú, "Evolución histórica de la estratificación social en la Argentina," mimeographed (Buenos Aires: Departamento de Sociología, Universidad de Buenos Aires, 1961), pp. 108–111. [Bagú's data are drawn from the 1914 national census.]

Virtually excluded from land ownership, many immigrants remained alienated from Argentina and desired to return to their homeland after enriching themselves. As Esteban Piacenza, president of the FAA between 1916 and 1947 put it, the farmers "have migrated to this country . . . to work a few years, as few as possible, to make some money, and then to return. . . . No one has come here from his homeland with the thought of remaining."³⁸ Actually many farmers did stay in Argentina and eventually did decide to apply for citizenship. But they found that the national government had erected complicated bureaucratic barriers that discouraged citizenship applicants and slowed the rate of naturalization to a trickle.³⁹

The Radical party captured the presidency at a time when European conditions again were subjecting Argentine farmers to a cost-price squeeze and bringing on an agrarian crisis. World War I caused a severe shipping shortage, raised the price of essential farm items such as machinery and bags, and ended immigration, thus creating harvest labor shortages. Farm prices, which had risen in 1914 and 1915, fell throughout 1916 because of bumper crops in the United States and Canada. There was almost no

³⁸ Quoted in García Serrano, *Esteban Piacenza*, p. 51. In the editorial columns of *La Tierra*, Piacenza strongly opposed the tendency of immigrant farmers to remain unnaturalized and repeatedly urged farmers to apply for citizenship. *La Tierra*, 17 May 1918, p. 1; 28 March 1922, p. 1; 17 February 1923, p. 1.

³⁹ The point is discussed more fully in Carl Solberg, *Immigration and Nationalism: Argentina and Chile, 1890–1914* (Austin: University of Texas Press, 1970), pp. 124–125. Also Adolfo Dickmann, *Los argentinos naturalizados en la política* (Buenos Aires: Talleres Gráficos Juan Perrotti, 1915), p. 23; *La Vanguardia*, 2 August 1920, p. 2; and *La Época*, 8 September 1928, p. 2.

external market for Argentina's 1917 corn crop, which rotted on the ground or was used to fire the republic's power plants, stricken by a shortage of imported coal.⁴⁰

As in 1912, the deteriorating economic situation fostered a strike among tenant farmers which broke out in April 1917 and which spread across Santa Fe, Córdoba, and Buenos Aires. As the strike continued, landlords expelled hundreds of tenants for nonpayment of rents, and Piacenza telegraphed Yrigoyen to ask for a rent moratorium.⁴¹ The administration intervened, not in the manner Piacenza had desired, but with repressive force. Yrigoyen's allies, the Radical governors of Santa Fe and Buenos Aires, ordered the police to arrest striking farmers, to harass the FAA, and to apply the 1910 Social Defense Law, which permitted summary deportation of foreigners suspected of anarchism or labor agitation.⁴² Repression on the one hand and rising agricultural prices on the other ended the strike by late June.

While it was acting to put down agrarian unrest, the Yrigoyen government also was formulating policies for the Ministry of Agriculture, the principal administrative link between the national government and individual farmers. The parsimonious budgetary support which the ministry received between 1916 and 1922 hindered its operations and reflected the administration's lack of concern for agrarian problems. As Table 3 demonstrates, during the first Yrigoyen administration budgeting of the agricultural divisions of the Ministry of Agriculture plunged to the lowest amounts, in both absolute and relative terms, of the entire 1912-1930 period. The cuts were partly made in response to a financial crisis brought on by World War I, but when finances eased in 1920 the government did not restore the ministry's budget to its former levels. Although the president's party remained a minority in the Senate throughout his term and

⁴⁰ The use of corn for fuel for locomotives and power plants is discussed in V. L. Havens, "Fuel in Argentina," *Power* 52 (26 October 1920): 649-650. For background to the 1917 agrarian strike, see *La Prensa*, 12 May 1917, p. 12; and *The Review of the River Plate* 45 (16 June 1916): 1309. Sources for the impact of World War I on farm prices and production in Argentina include Guido di Tella and Manuel Zymelman, *Las etapas del desarrollo económico argentino* (Buenos Aires: Editorial Universitaria de Buenos Aires, 1967), especially pp. 299, 301; Simon G. Hanson, *Argentine Meat and the British Market* (Stanford, 1938), pp. 199, 255; and L. Brewster Smith, Harry T. Collings, and Elizabeth Murphey, *The Economic Position of Argentina During the War* (Washington: Bureau of Foreign and Domestic Commerce, Miscellaneous Series, no. 88, 1920), p. 85 and *passim*.

⁴¹ *La Prensa*, 1 May 1917, p. 14; 8 May 1917, p. 13; 9 May 1917, p. 14; 10 May 1917, p. 13. Also *La Vanguardia*, 8 May 1917, p. 1; 11 May 1917, p. 1.

⁴² *La Prensa*, 28 May 1917, p. 13; *La Vanguardia*, 25 May 1917, p. 1; *Diputados*, sesiones ordinarias, I (22 May 1917): 159-160.

did not hold a majority in the Chamber until 1920, analysis of the budget debates reveals that the incentive for the reductions came not from the opposition in Congress but from the executive branch. Yrigoyen's minister of agriculture proposed the austere agricultural budgets and Congress approved them, generally with little discussion.⁴³ This lack of financial support kept total government spending on agriculture, at both national and provincial levels, at only one peso per capita of the Argentine population in 1921, compared with expenditure of 2.55 pesos per capita in the United States and 3.22 in Canada.⁴⁴

TABLE 3
PROPORTION OF THE ARGENTINE GOVERNMENT BUDGET
DEVOTED TO AGRICULTURE, 1912-1930

A	B	C	D	E
Year	President	Total Operating Budget (pesos)	Amount of Ministry of Agriculture Budget Specifically Related to Agriculture	Percentage of Total Operating Budget Spent on Agriculture
1912	Sáenz Peña	278,674,285	13,087,756	4.7
1913	Sáenz Peña	323,159,964	13,243,857	4.1
1914	Sáenz Peña	346,573,187	13,242,397	3.8
1915	de la Plaza	322,178,805	9,599,576	2.9
1916	de la Plaza	302,767,145	10,009,362	3.3
1917	Yrigoyen	331,238,910	8,151,483	2.4
1918	Yrigoyen	379,896,079	7,311,860	1.9
1919	Yrigoyen	379,896,079	7,311,860	1.9
1920	Yrigoyen	459,171,586	7,562,362	1.6
1921	Yrigoyen	457,477,475	7,562,362	1.6
1922	Yrigoyen	457,477,475	7,562,362	1.6
1923	Alvear	650,033,600	14,708,860	2.3
1924	Alvear	650,033,600	14,708,860	2.3
1925	Alvear	650,033,600	14,708,860	2.3
1926	Alvear	650,033,600	14,708,860	2.3
1927	Alvear	646,795,428	14,351,840	2.2
1928	Alvear	646,795,428	14,351,840	2.2
1929	Yrigoyen	704,724,847	17,707,568	2.5
1930	Yrigoyen	704,724,847	17,707,568	2.5

⁴³ For description of the government's budget procedures during this period, see H. E. Peters, *The Foreign Debt of the Argentine Republic* (Baltimore: The Johns Hopkins Press, 1934), pp. 107-111. Debate on the 1918 agricultural budget is in *Diputados*, sesiones extraordinarias, VIII (24 January 1918): 318-319, 688. Debate on the 1920 budget is in *Diputados*, sesiones extraordinarias, VII (27 January 1920): 441.

⁴⁴ Ricardo Videla, "La cuestión agraria argentina," *Revista de Economía Argentina* 8 (March 1922): 201.

Note: The Divisions of the Ministry of Agriculture included in Column D as "specifically related to agriculture" are the following: (1) Secretariat, (2) Agricultural Statistics, (3) Agricultural Defense, (4) Agricultural Education, (5) Meteorology, (6) General Land Office, (7) Agricultural and Cattle Research Laboratories, (8) Agricultural and Cattle Register.

Other Divisions of the Ministry, not included as "specifically related to agriculture," were (1) Cattle Raising, (2) Mines, Geology, and Hydrology, (3) Commerce and Industry, (4) Patents and Trademarks, (5) Immigration.

Sources: Budgets of 1912–1915, 1917–1918, 1920, 1923, 1927, 1929: Argentine Republic, *Ley de presupuesto general de la República Argentina* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura, 1912–1915, 1917–1918, 1920, 1923, 1927, 1929). Budget of 1916: Argentine Republic, *Boletín Oficial de la República Argentina* 24 (4 February 1916): 73. Budget of 1919: Law 10,653. See also: Augusto da Rocha, comp., *Colección completa de leyes nacionales sancionadas por el Honorable Congreso durante los años 1852 a 1933*, 27 vols. (Buenos Aires: Librería "La Facultad" de Juan Roldán & Cía., 1918–1933), 20: 10–18. Budget of 1921: Argentine Republic, *Ley No. 11.178 sobre presupuesto general de gastos de la administración y leyes impositivas para el ejercicio de 1921* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1921). Budget of 1922: Law 11,188, in Da Rocha, comp., *Colección completa de leyes nacionales*, 22: 12. Budgets of 1924–1926, Law 11,319 (1924), in *ibid.*, 22: 23–25. Law 11,319 (1925), in *ibid.*, 23: 23–25. Law 11,333 (1926), in *ibid.*, 24: 14. Budget of 1928: in *ibid.*, 24: 164. Budget of 1930: in Argentine Republic, *Boletín Oficial de la República Argentina* 38 (20 February 1930): 705.

Moreover, a number of observers raised doubts that the ministry was devoting its scanty resources to the most pressing needs of agriculture. The FAA in 1921 complained that the ministry had become a "nullity" which "does not even serve as a source of information."⁴⁵ In the previous year, the national government had employed thirty-five field agronomists, scattered over all the republic's expanse. Only two served the province of Santa Fe. The ministry's central bureaucracy, added the respected scholar Miguel Ángel Cárcano, was overstuffed and graft-ridden.⁴⁶ Corruption became particularly severe in the Division of Agricultural Defense (*Defensa Agrícola*), whose task was to combat rural pests, especially locusts. Although *Defensa Agrícola* had never been free from corruption, President Yrigoyen greatly increased its budgetary allocations, not to fight insect invasions but to create hundreds of new inspectorships for rural political allies. Between 1917 and 1921, invasions

⁴⁵ *La Tierra*, 15 April 1921, p. 1.

⁴⁶ Miguel Ángel Cárcano, "Organización de la producción: la pequeña propiedad y el crédito agrícola," *Revista de Economía Argentina* 1 (1918): 524. The number of agronomists employed by the Ministry of Agriculture may be found in Argentine Republic, Ministerio de Agricultura de la Nación, *Memoria presentada al Congreso por el Ministro de Agricultura Ing. Alfredo Demarchi, 1920* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1921), p. 64.

of locusts and other pests fell to the lowest point in over a decade while the budget of *Defensa Agrícola* rose from 1.87 million pesos in 1917 to 2.95 million in 1920. In 1919 the Division absorbed 39 percent of all the ministry's agricultural funds.⁴⁷ Meanwhile, the newly-created inspectorships became the basis of a rural electoral machine, particularly in Buenos Aires and Córdoba provinces.⁴⁸

While lavishly financing *Defensa Agrícola*, the government slashed the budgets of some of the Ministry of Agriculture's most important activities, particularly agricultural education. In spite of the fact that almost all observers of Argentine rural problems agreed that the low technical and cultural levels of most tenant farmers made agricultural education a pressing necessity, the Yrigoyen administration steadily reduced its financial support.⁴⁹ Budget allotments for the republic's twelve agricultural schools, five agronomical institutes, and nine experimental stations fell from a high of 2.9 million pesos in 1912 to 2.2 million in 1916 and to 928,000 in 1920, an amount so low that several institutions closed.⁵⁰ The number of students in government agricultural schools declined from a high of 634 in 1914 to 397 in 1920 and to 276 in 1921.⁵¹

The Ministry of Agriculture came under sharp attack in 1917 and 1918 as a result of its failure to ease the severe shortage of grain bags from which Argentine farmers were suffering. The grain bag was essential

⁴⁷ The creation and early years of *Defensa Agrícola* are discussed in Scobie, *Revolution on the Pampas*, pp. 145–147. Statistics on invasions of insect pests in Argentina are found in Vicente J. Libonati, *La langosta: su historia en la Argentina (Stenosis)* (Buenos Aires: Editores Casartelli y Fiol, 1927), pp. 37, 78–123 passim.

⁴⁸ *La Prensa*, 24 April 1930, p. 15; Guillermo Garbarini Islas, *Derecho rural argentino* (Buenos Aires: Librería de Derecho y Jurisprudencia Restoy & Doeste, 1925), p. 281. The most thorough denunciation of Yrigoyen's use of *Defensa Agrícola* was made by Conservative Senator Matías Sánchez Sorondo. See his *Historia de seis años* (Buenos Aires: Agencia General de Librería, 1922), pp. 355–359. The farmers themselves were well aware of the corruption. The Second National Agricultural Congress, meeting at Rio IV, Córdoba, in 1919, passed a resolution to the effect that *Defensa Agrícola* served no useful purpose and ought to be suppressed. See *Diputados, sesiones ordinarias*, I (3 June 1919): 331–332. The president's use of *Defensa Agrícola* for political purposes also became a theme in Argentine literature. See Arturo Cancela's widely acclaimed short story, "El cocabacilo," in his *Tres relatos porteños*, 2nd ed. (Madrid: Calpe, 1923), pp. 15–115.

⁴⁹ A convenient summary of the history and achievements of Argentine agricultural education is Tomás Amadeo, *La enseñanza y la experimentación agrícolas* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1916), especially pp. 53–59.

⁵⁰ Budgets for agricultural education between 1898 and 1929 are summarized conveniently in Rodolfo Allen, *Enseñanza agrícola: documentos orgánicos* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1929), p. 30.

⁵¹ *Ibid.*, p. 106.

to the republic's agriculture, and the cost of bags was becoming exorbitant. In Buenos Aires the average unit price rose from 35 centavos during the 1916–1917 harvest to 1.2 pesos the following year.⁵² Meanwhile, the press revealed that Argentine bag manufacturers, which simply sewed together hessians imported from India, were making annual profits of 100 percent.⁵³ When farmers demanded government action to remedy the shortage, the Ministry of Agriculture attempted to solve the bag question quickly by allowing the Royal Commission on Wheat Supplies, housed in the British consulate at Buenos Aires, to import and sell bags directly to farmers at 75 centavos each for the 1918–1919 harvest. However, the government's failure to control distribution undermined the scheme's effectiveness. In practice, to obtain bags colonists had to pay cash in advance.⁵⁴ Small farmers who lacked cash had to deal with intermediaries on extortionate terms. Despite assurances that the Royal Commission would supply all the bags Argentina required, German submarines, labor problems in India, and port strikes in Argentina combined to create serious shortages. By late 1918, the Royal Commission filled orders so tardily that some crops rotted on the ground.⁵⁵ The farmers furiously denounced the government's inability to supply sacking at reasonable prices.⁵⁶

To attempt to remedy the bag shortage, in 1919 the government severed its agreement with the Royal Commission and entered the bag business itself. Congress passed legislation authorizing the executive branch to spend 25 million pesos to acquire bags and twine, which the Ministry of Agriculture would sell to farmers at cost plus ten percent.⁵⁷ But serious

⁵² Statistics on prices of bags in the provinces are in Argentine Republic, Ministerio de Agricultura, *Memoria del Ministerio de Agricultura. Aplicación de la Ley N° 10.777* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1921), pp. 73, 75.

⁵³ *The Review of the River Plate* 50 (18 October 1918): 977.

⁵⁴ A report of the terms of the agreement with the Royal Commission and a defense of the latter's policies appears in "Report on the Supply of Bags by the Royal Commission on Wheat Supplies for the Grain Crop of 1918–1919," *The Review of the River Plate* 51 (11 April 1919): 855–861.

⁵⁵ *La Prensa* gave the bag shortage and the Royal Commission's performance close scrutiny. See 9 January 1919, pp. 11–12; 25 January 1919, p. 9; 29 January 1919, p. 7. Also, *The Review of the River Plate* 50 (18 October 1918): 977; 50 (20 December 1918): 1551. The influential socialist congressman Nicolás Repetto, who was also a Córdoba farmer, describes the difficulties and expense of obtaining bags in *Mi paso por la agricultura* (Buenos Aires: Santiago Rueda Editor, 1959), p. 179.

⁵⁶ *La Prensa*, 5 January 1919, p. 9.

⁵⁷ *Diputados*, sesiones ordinarias, III (6 August 1919): 367–368, 401–417; also Argentine Republic, Congreso Nacional, *Diario de sesiones de la Cámara de Senadores*, sesiones ordinarias, I (16 September 1919): 585, 625 (hereafter this source is referred to as *Senadores*).

flaws weakened this scheme. On the one hand, the government did not acquire the bags in time for the 1919–1920 harvest.⁵⁸ On the other hand, bags which government agents did purchase were twenty-five percent smaller than ordinary. Since by 1920 the world shortage of sacking was over and prices were falling, farmers turned to the private market rather than to the government's undersized bags, and the ministry found itself with an inventory of 29 million unsold grain bags. To the government's further embarrassment, the press and a congressional investigation uncovered evidence that ministerial corruption had accompanied purchase of the sacking.⁵⁹

Another Yrigoyen policy that alarmed and alienated agricultural producers was the tax on exports that the government, beset by falling receipts from customs duties, levied in 1918. This levy was meant as a temporary emergency measure but was not repealed. The impact of the tax, of course, fell upon rural producers.⁶⁰

While raising the farmers' tax burden, the government gave a low priority to agrarian reform legislation. The opposition parties undoubtedly made the Radical president's legislative task more difficult. At the same time, between 1916 and 1919, Yrigoyen proposed little agrarian legislation and did not encourage Congress to make rural reforms. The one significant piece of agrarian legislation proposed during the first three years of Yrigoyen's term was the "Ley del Hogar" or the "Ley Homestead," as it was frequently called. Sanctioned on 25 September 1917, this law provided for grants of public land to farmers. It was projected as a means of populating the interior, of easing agrarian unrest, and of reliev-

⁵⁸ In an article entitled "Las bolsas del gobierno nacional," *Cooperación Agrícola*, the newspaper of the Entre Ríos cooperative farmers, complained that the law was useless for the 1919–1920 harvest, 1 (November 1919): 268.

⁵⁹ *La Vanguardia*, 12 December 1919, p. 2; *La Prensa*, 27 September 1921, p. 10. The congressional investigating committee's efforts were frustrated by the refusal of the executive branch to cooperate and by the opposition of the Radical majority in the Chamber of Deputies. For information of the committee see *Diputados*, sesiones ordinarias, II (21 July 1921): 216; (3 August 1921): 408; III (1 September 1921): 272. The committee reported to the Chamber on 27 September 1921, sesiones ordinarias, IV: 341–349. Charging lack of cooperation by the president and by his Radical party followers in Congress, Conservative Matías Sánchez Sorondo and Socialist Antonio de Tomaso, the committee's two most prominent members, resigned 21 July 1922. See *Diputados*, sesiones ordinarias, III (21 July 1922): 291. The government attempted to defend its actions in a report, Argentine Republic, Ministerio de Agricultura, *Memoria del Ministerio de Agricultura. Aplicación de la Ley N° 10.777*, especially pp. 3, 8, 9, 12, 16.

⁶⁰ For analysis of the 1918 export tax, see Alejandro E. Bunge, *Riqueza y renta de la Argentina* (Buenos Aires: Agencia General de Librería y Publicaciones, 1919), p. 194; and Peters, *The Foreign Debt of the Argentine Republic*, pp. 70–71.

ing urban social tensions. Despite these lofty goals, the legislation was weak and essentially meaningless.

The Ley del Hogar's inspiration was the North American Homestead Act, but Argentine political and economic circumstances differed greatly from the United States. Constitutionally, the federal government could dispose of public land only in the territories, not in the provinces, which contained most of the area suitable for agriculture. The territories, with the exception of part of La Pampa, were located in the far north or the far south and were largely useless for farming. Moreover, as *La Tierra* emphasized, the 200-hectare maximum grants the law provided were much too small to support a family in the territories, and experience had shown that few immigrants were interested in settling in the bleak, isolated southern lands or in the semitropical north. In La Pampa, where a two-hundred-hectare farm was enough for profitable cereal growing, almost no good public land remained, as the territorial governor pointed out.⁶¹ The Ley del Hogar appears to have been primarily a gesture.

Weak as it was, the law had raised hopes for populating the territories, and Yrigoyen's refusal to enforce it brought him scathing criticism. Basing his opposition to the law on what he called "nationalism," the president pointed to provisions which enabled unnaturalized immigrants to apply for land grants. Convinced that the legislation invited virtual foreign takeover of the territories, Yrigoyen ignored congressional pressure and refused to implement it until modified to apply only to Argentine citizens. Since Congress did not make this change, the Ley del Hogar remained a dead letter, a victim of the president's apprehension about the impact of immigration and of his poor working relationship with Congress.⁶²

Serious agrarian unrest erupted in 1919 and eventually induced the

⁶¹ *La Tierra*, 6 June 1919, p. 1; Molins, *La Pampa*, p. 32. Most of the congressional debate on the legislation emphasized that the farmers and the nation would benefit greatly if the proposal became law. See *Diputados sesiones extraordinarias*, IV (21 December 1916): 2970–2974; *sesiones ordinarias*, III (20 August 1917): 495–503; and *Senadores, sesiones ordinarias*, II (25 September 1917): 1071–1080. For criticism of the law by a respected intellectual and head of the Progressive Democratic party, see Lisandro de la Torre, *Obras de Lisandro de la Torre*, 6 vols. (Buenos Aires: Editorial Hemisferio, 1954), 6: 30.

⁶² The press sharply criticized Yrigoyen's refusal to enforce the law. See, for example, *La Prensa*, 11 March 1919, p. 6; 4 August 1921, p. 10. Deputies attempted a full-scale investigation, but the executive branch refused to cooperate. *Diputados, sesiones ordinarias*, II (21 July 1921): 228–238; (29 July 1921): 341–345; (3 August 1921): 412–413, 437–438. Yrigoyen informed the Chamber of his reasons for opposing the law through a Radical party spokesman, Deputy José A. Amuchástegui of the Federal District. See *Diputados, sesiones ordinarias*, II (9 August 1922): 724–731.

government to propose land tenure reform more meaningful than the Ley del Hogar. The immediate cause of unrest was familiar—world prices for agricultural products again declined, while fixed costs of production remained high. Adding to the distress were heavy rains that damaged the 1918–1919 crop and a prolonged Argentine port strike that curtailed exports.⁶³ As expulsion of colonists for rent defaults began, the FAA made an urgent appeal to the president for a moratorium on land rent payments, for government loans to finance the corn harvest, and for a decree forbidding creditors to seize farmers' tools and personal property. When the government made no reply, the FAA issued a strike call, and by March (1919) 70,000 farmers responded.⁶⁴ In contrast with earlier agrarian movements, in 1919 farmers did not limit themselves to striking for short-term improvements and rent reductions but demanded fundamental changes in the land tenure system to transfer ownership of the land to tenants and renters. Interviewed by the respected socialist newspaper *La Vanguardia*, Piacenza announced that the FAA considered contract renegotiation as only a "transitory and circumstantial remedy" that was no substitute for thoroughgoing land reform.⁶⁵ The 1919 movement was not only more militant than previous strikes but also more violent; in a number of locations striking farmers burned crops and destroyed machinery.⁶⁶

Renewal of tenant farmer agitation took place just as anti-Bolshevik paranoia was gripping the upper classes. Between 9 and 13 January 1919 Buenos Aires had witnessed a frightening bloodbath when the police, the army, and groups of upper-class vigilantes forcibly broke up an anarcho-syndicalist general strike. To justify the use of heavy-handed force during the *Semana Trágica*, as the week has been known ever since, the government, along with most of the urban press, magnified out of proportion

⁶³ *The Review of the River Plate* 52 (10 October 1919): 929. See also Hanson, *Argentine Meat and the British Market*, p. 255; and Di Tella and Zymelman, *Las etapas del desarrollo*, p. 301; and *La Prensa*, 31 March 1919, p. 5; and 13 April 1919, p. 5.

⁶⁴ The petition is in *La Tierra*, 7 March 1919, p. 1. Also see *ibid.*, 1–2 May 1919, p. 1; 9 May 1919, p. 1. Piacenza reemphasized the farmers' plight in an interview with *La Prensa* on 10 April 1919, p. 12.

⁶⁵ *La Vanguardia*, 1 January 1920, p. 1. A University of La Plata Faculty of Agronomy seminar, which surveyed cereal belt farmers on the land tenure question, found that almost without exception farmers aspired to become landowners. The seminar's published report is Emilio A. Coni, *¿Arrendamiento o propiedad?* (La Plata: Universidad Nacional de La Plata, 1920), p. 11. The results of the survey also were summarized in *La Vanguardia*, 19 September 1920, p. 2.

⁶⁶ *La Tierra*, 11 February 1916, p. 1; *La Prensa*, 24 March 1919, p. 10; 17 April 1919, p. 6; *The Review of the River Plate* 51 (11 April 1919): 855. Also see Grosso, "Los problemas económicos y sociales y la respuesta radical con el gobierno (1916–1930)," p. 143.

the threat of violent social revolution. *La Época*, semiofficial organ of the Yrigoyen government, assured its readers that thousands of Russian "Maximalists," disguised as simple immigrant farmers, were migrating to Argentina to lead a bloody social upheaval.⁶⁷

In this tense atmosphere, the government portrayed the tenants' movement as a revolutionary threat. Yrigoyen made one attempt at peaceful settlement by sending Minister of Agriculture Demarchi on an inspection tour through the cereal belt. Along with assurances that the president was looking after their welfare, Demarchi urged the farmers to return to work and made it clear that the government would not tolerate "vices" like agitation. Colonists, in a sullen and defiant mood, disregarded the minister's pleas and on several occasions shouted him down.⁶⁸ When the farmers failed to go back to work, the government turned to police repression. Circulars issued by the Ministry of Agriculture announced that the cause of the strike was agitators "who are conspiring against public tranquility and national order." The provincial police of Buenos Aires received authority to arrest anyone making "seditious" remarks.⁶⁹ By May and June of 1919, the repressive campaign was in full swing, and in several areas, police systematically persecuted the strike by breaking up FAA meetings and jailing rural leaders. The reliable British weekly *Review of the River Plate* reported that the government deported over 300 under the Social Defense Law. As in earlier strikes, government repression became particularly severe in La Pampa, where the national police openly threatened to deport farmers who refused to return to work.⁷⁰

⁶⁷ *La Época*, 15 January 1919, p. 1. For an anarcho-syndicalist viewpoint of the causes and events of the *Semana Trágica*, see Diego Abad de Santillán, *La F.O.R.A. Ideología y trayectoria del movimiento obrero revolucionario en la Argentina* (Buenos Aires: Ediciones Nervio, 1933), pp. 259–260. An account by a Buenos Aires police officer who served during the *Semana Trágica* is José Ramón Romariz, *La semana trágica* (Buenos Aires: Hemisferio, 1952). For an apology of Yrigoyen's role in the 1919 events, see Nicolás Babini, *Enero de 1919: los hechos y los hombres de la "semana trágica"* (Buenos Aires: S.E.P.A., 1956).

⁶⁸ The Buenos Aires newspapers chronicled the minister's inspection tour with great interest. See *La Época*, 14 April 1919, p. 1; 25 April 1919, p. 4; *La Vanguardia*, 22 April 1919, p. 1; 21 May 1919, p. 1; *La Prensa*, 13 April 1919, p. 5; 18 April 1919, p. 4; 21 April 1919, p. 5; and *The Review of the River Plate* 51 (18 April 1919): 917; 51 (2 May 1919): 1043. The government's principal offer to the farmers was expanded short-term credit for seeds and sowing expenses. See *La Época*, 29 April 1919, p. 1; *The Review of the River Plate* 51 (4 April 1919): 789.

⁶⁹ The ministry's circular is reprinted in *La Vanguardia*, 16 April 1919, p. 1. Also see *The Review of the River Plate* 51 (23 May 1919): 1233.

⁷⁰ *The Review of the River Plate* 51 (20 June 1919): 1445. Also see *La Vanguardia*, 10 April 1919, p. 2; 15 September 1919, p. 1; *La Prensa*, 11 May 1919, p. 10; 22 May 1919, p. 12; and Repetto, *Mi paso por la agricultura*, pp. 160, 167.

This repression brought forth vigorous protest, especially from the FAA, which complained that "the anarchists, the agitators, and the agrarian propagandists which the government indicts as promoters of the strike exist only in its imagination."⁷¹ After sharp debate, during which Radical deputies again blamed unrest on "professional agitators," the Chamber voted to ask the minister of the interior to explain the persecution of striking farmers. The Yrigoyen government never replied.⁷² By mid-June 1919 the strike ended, but the repression increased anger and resentment among tenant farmers.

The well-publicized violence and repression which accompanied the 1919 tenant strike made the land tenure question a major national issue. Since 1912 the small but active Socialist party's congressional delegation had proposed legislation to regulate rental contracts and to force landowners to compensate tenants for physical improvements to rented property. Although reintroduced periodically by the socialists and warmly backed by the FAA, these proposals had been pigeonholed in Congress and ignored by the executive branch.⁷³ As rural unrest deepened in 1919, a number of dissident congressmen in Yrigoyen's own party joined the Socialists and the Progressive Democrat party, a moderate group based in Santa Fe, to demand not only contract reform but also a stiff land tax which, it was claimed, would force the division and sale of large estates.⁷⁴ Spokesmen for the large landowners responded with arguments reflecting the incomprehension of agrarian problems which long had characterized the Argentine elite. According to one socially prominent landowner, the basic cause of agrarian distress was not the land system but the tenant farmer, who "lacks skill, lacks order, lacks economy, and lacks industriousness." Similarly, the official publication

⁷¹ *La Tierra*, 16 May 1919, p. 1.

⁷² For the Chamber's debates, see *Diputados*, sesiones ordinarias, I (28 May 1919): 146-155.

⁷³ For an overview of the Socialist party's agrarian program, see Alfredo L. Palacios, *La justicia social* (Buenos Aires: Editorial Claridad, 1954), pp. 178-179, 399-402; Juan B. Justo, *Discursos y escritos políticos* (Buenos Aires: "El Ateneo," 1933), pp. 140-189; and Partido Socialista, *El Partido Socialista y los agricultores. Doce años de acción y de propaganda* (Buenos Aires: Tip. "La Vanguardia," 1913).

⁷⁴ Carlos J. Rodríguez, a Radical congressman from Córdoba province, introduced legislation in 1919 calling not only for a national land tax but also for an immediate moratorium on all rural rents. See *Diputados*, sesiones extraordinarias, VI (9 April 1919): 652-653; *ibid.*, sesiones ordinarias, II (16 July 1919): 729-730. The Progressive Democratic party, led by the great intellectual and political reformer Lisandro de la Torre, proposed compensated expropriation of large estates followed by division and sale to small farmers. De la Torre, *Obras*, VI: 17, 23-27.

of the *Sociedad Rural* portrayed farmers as indolent drones who whiled away their time and money playing cards, shooting pool, and drinking.⁷⁵

Taking a middle ground between supporters of land reform on the one hand and the conservative elite on the other, Yrigoyen in July 1919 proposed several moderate agrarian programs. Specifically, the president's proposals would have required owners to make contracts for a minimum of three years and to reimburse tenants for improvements. Yrigoyen also proposed reform of the National Mortgage Bank, creation of an agrarian bank to expand rural credit, and formation of rural arbitration boards to settle contractual disputes.⁷⁶ In 1919 the legislators acted on only one of these proposals: the reform of the National Mortgage Bank's charter to permit the institution to make loans to farmers for purchase of rural lots. During debate, legislators predicted the reform would benefit farmers greatly, but in practice the continuing reluctance of large owners to subdivide and sell estates along with the bank's complicated bureaucratic procedures prevented the 1919 law from making a significant impact.⁷⁷ The remainder of Yrigoyen's agrarian proposals languished in Congress during 1919 and received no further support from the president. As the months passed and the government failed to act, farmers became increasingly resentful.

But the farmers' criticism of the national government subsided temporarily when a major strike of landless rural laborers, or *braceros* as they were often called in Argentina, startled the republic and threatened the interests of the tenant farmers and the landed elite alike. About 200,000 *braceros* were permanently employed, mostly on the large farms. During most harvest seasons, tens of thousands of additional laborers migrated to the cereal belt. Many of these migrants labored for the small tenant farmers who needed no outside help the rest of the year. Before the war, most migrant workers had come from Italy during the European off-season or from the poverty-stricken northwestern Argen-

⁷⁵ M. A. Pueyrredón, "Panaceas," *La Razón*, 5 May 1919; Alberto E. Castex, "El malestar agrícola," *Anales de la Sociedad Rural Argentina* 53 (April 1919): 199-200.

⁷⁶ One may read Yrigoyen's proposals in *Diputados, sesiones ordinarias*, II (2 July 1913): 612-615; *ibid.*, sesiones ordinarias (September 29 1919): 717-719.

⁷⁷ The reform of the Mortgage Bank also contained provisions to aid cattle-men, which probably explains its rapid passage. Analysis of the impact of the reform, passed as Law 10,676, may be found in Alfredo Bonino and Pedro del Carril, *La subdivisión de nuestras tierras y la evolución agraria del país* (Buenos Aires: Estudio de Agronomía y Colonización, 1926), p. 39; Podestá, *La pequeña propiedad rural en la República Argentina*, pp. 101, 114; and Ortíz, *Historia económica de la Argentina*, 2: 120-121. For the debates, see *Diputados, sesiones ordinarias*, IV (1 September 1919): 28-50.

tine provinces of Santiago del Estero and Tucumán. During World War I, however, Italian migrants were replaced by unemployed Buenos Aires laborers.⁷⁸

Whatever their origin, Argentine rural laborers were generally a repressed and marginal group. During the harvest season *braceros* labored sixteen or more hours daily, mostly under the searing sun. The wages for this heavy work were low. As late as 1924 unskilled farm labor earned 3 to 3.5 paper pesos daily without board, a substandard wage at the time in Argentina. Farmers retained much of this pay for shelter, fuel, and use of a horse. Some harvest workers, especially machinery operators, earned considerably more, but like other rural laborers isolation often forced them to purchase supplies from employers, who charged "ten for whatever is worth one." When the harvest was finished, thousands of *braceros* wandered around the countryside looking for work, riding on freight trains and suffering the harassment of provincial police.⁷⁹

Major *bracero* unrest appeared in Argentina for the first time during World War I, when inflation caused real wages to fall sharply. The weak economic situation created fertile ground for anarcho-syndicalist theories of working-class militancy brought by migrants from the cities in 1918 and 1919. Labor unions, a novelty among Argentine rural workers, formed and began to demand a twelve-hour shift, increased wages, and improvements in working conditions.⁸⁰ Farmers, many of whom had suffered severely in 1919, generally rejected such demands, and in December 1919 the workers responded with a mammoth strike. The movement began in southern Santa Fe and in southern Buenos Aires but spread rapidly

⁷⁸ Statistics on agricultural workers are found in Ortiz, *Historia económica de la Argentina*, 2: 194. For analysis of the origin of these workers, see Gori, *El pan nuestro*, p. 100; Pedro Pagés, *Defensa de la producción agropecuaria* (La Plata: Universidad Nacional de La Plata, 1928), p. 50; and *La Tierra*, 30 November 1917, p. 1. Unemployment in the Argentine cities increased markedly during World War I, when the government suspended most public works. For analysis of urban working conditions during this period, see José Panettieri, *Los trabajadores* (Buenos Aires: Editorial Jorge Álvarez, S.A., 1967), pp. 169-183.

⁷⁹ The value of the paper peso was 44% of the gold peso, or about US \$.42. The words quoted come from José Rodríguez Tardati, "Los trabajadores del campo," *Revista de Ciencias Económicas* 26 (June 1926): 386. Other analyses of *bracero* wages and working conditions are in Estabrook, *Agricultural Survey of South America*, p. 67; Juan Álvarez, "Obrerismo agrario," *La Prensa*, 28 March 1920, p. 6; *La Capital* (Rosario), 18 November 1920, p. 4; and *La Vanguardia*, 31 December 1919, p. 5.

⁸⁰ *La Prensa*, 30 November 1919, 7. On an index of 1940=100, real wages of industrial workers in Buenos Aires fell from 68 in 1914 to a low of 42 in 1918. They rose to 57 in 1919. Adolfo Dorfman, *Evolución industrial argentina* (Buenos Aires: Editorial Losada, S.A., 1942), p. 241. Also see Panettieri, *Los trabajadores*, p. 174.

throughout the entire cereal zone and lasted for several weeks. Violence was mostly confined to the destruction of crops.⁸¹

In a no-nonsense mood, the government quickly moved to crush the bracero strike. In Buenos Aires province, which spent 500,000 pesos in 1919 for police rifles, as well as in Santa Fe, the Radical governors mobilized heavy detachments of gendarmes. Several pitched battles between strikers and police occurred, but more often the government forces met little resistance as they burned literature, jailed leaders, and deported foreigners. *La Época* lauded the Buenos Aires police, who broke the strike after arresting "over 600 professional agitators." In their zeal to crush the movement by eliminating its leadership, provincial police at one point adopted the practice of sniping at labor leaders alighting from rural trains, a practice which killed innocent bystanders.⁸²

Now that the tenant farmers were subjected to a bracero strike, their fundamental conservatism became apparent. When their own interests had been at stake, colonists had generated sustained agitation and had indignantly denounced government policy. But the farmers, whose support for agrarian reform hardly envisioned social democracy in the countryside, vigorously applauded the government's use of force to end the bracero strike.⁸³ In Entre Ríos, meetings of colonists called on the president to send troops to guarantee the "right to work." The FAA viewed the strike with a petit bourgeois spirit of self-righteousness. Farmers, said *La Tierra*, are "true martyrs," who had risen from poverty. "We have frequented neither houses of prostitution, nor gaming establishments, nor horse races," it continued, adding that braceros wasted time drinking, carousing, and gambling. Such shiftless workers, who included a high proportion of "degenerates and vice addicts," certainly had no right to strike for "impossible conditions." The bracero strike, according to the FAA, must be the result of anarchist agitators.⁸⁴ The farmers, like the landed elite, the Radical party, and the press, employed

⁸¹ Urban newspapers, alarmed at the extent and intensity of the rural labor strike, gave it close attention. For detailed reports, see *La Vanguardia*, 20 December 1919, p. 2; 29 December 1919, p. 1; 18 January 1920, p. 1; 14 April 1919, p. 1; *La Capital* (Rosario), 1 January 1920, p. 3; 6 January 1920, p. 4; 19 January 1920, p. 4; *La Prensa*, 30 November 1919, pp. 7, 13; 13 December 1919, p. 12; 23 December 1919, p. 12; 18 January 1920, p. 12.

⁸² *The Review of the River Plate* 52 (17 October 1919): 995; 53 (2 January 1920): 17; *La Vanguardia*, 26 December 1919, p. 1; *La Prensa*, 20 December 1919, p. 13; *La Época*, 24 January 1919, p. 2.

⁸³ *La Tierra*, 16 May 1919, p. 1.

⁸⁴ *La Tierra*, 26 September 1919, p. 1; 14 November 1919, p. 1; 26 December 1919, p. 1; 5 October 1920, p. 1. For the position of the Entre Ríos colonists, see "Movimiento agrario," *Cooperación agrícola* 1 (March 1920): 486-488.

the conspiracy theory when it served their purposes to shift explanations of social unrest away from economics.⁸⁵

When the Chamber of Deputies convened in May for its 1920 sessions, it contained a Radical majority for the first time, but the legislators responded to the severe unrest among farmers and braceros with the same lack of urgency that previous opposition-dominated chambers had displayed. The deputies showed total disregard for the demands of landless laborers. A proposal to appoint a study commission to investigate the wages, hours, and living conditions of rural workers was promptly and unceremoniously shelved.⁸⁶ Although the congressmen took up the rural tenure reform question, they largely emasculated Yrigoyen's 1919 proposals. They did extend the minimum contract period to four years but they also inserted major loopholes into the law. One such clause limited the law's jurisdiction to farms under 300 hectares rented directly from the owner. Landowners could evade the law's intent by renting plots larger than 300 hectares or by employing intermediaries. Another weakness of the legislation was the failure to require written contracts.⁸⁷

Passed by the Chamber on 21 September 1920, the land rental reform encountered studied indifference in the Senate, which refused to consider the question during its regular sessions of 1920 and 1921. The president also passed up an opportunity to force the Senate's consideration when he failed to place tenure reform on the agenda of the special congressional sessions called for January 1921.⁸⁸

Impatient with the Senate's procrastination, the FAA took the step, unprecedented among Argentine farmers, of organizing a demonstration in the capital. After widespread advance publicity and careful organization, about 1400 farmers converged on Buenos Aires on 26 August 1921. At an open-air meeting that night, they loudly cheered speakers who portrayed the farmers' plight and who demanded political action to ease it. The next day, Yrigoyen disappointed the demonstrators when he refused to receive a delegation, but the farmers publicized their cause with

⁸⁵ The *Sociedad Rural* viewed the rural labor strike as an anarchist plot. See Alberto E. Castex, "Propaganda anarquista en la campaña," *Anales de la Sociedad Rural Argentina* 53 (15–30 December 1919): 1017.

⁸⁶ The proposal to form the study group is in *Diputados*, sesiones ordinarias, I (1 June 1920): 407. The Argentine government enacted no significant legislation to protect rural workers until 1944.

⁸⁷ *Diputados*, sesiones ordinarias, V (21 September 1920): 341–377. The Radicals held 84 of 152 seats in the chamber during 1920. For information on the composition of the Chamber of Deputies by political party, see Eduardo Zalduendo, *Geografía electoral de la Argentina* (Buenos Aires: Ediciones Ancora, 1958), p. 226.

⁸⁸ *La Tierra*, 18 January 1921, p. 1; 25 January 1921, p. 1.

a march the length of the Avenida de Mayo through the heart of the business district. Their rude clothing standing out quaintly in a capital which worshipped the latest trends in London and Paris fashions, the rural demonstrators gathered in the plaza in front of Congress, where a number of senators appeared to assure the crowd that the upper house would soon take up the land rental question. After more oratory, the farmers dispersed and began the long trek home.⁸⁹

Within a month, the Senate passed a land rental act identical to the Chamber of Deputies' version. During debate, Radical senators strongly supported the legislation over the protests of their conservative colleagues, most of whom criticized the bill's infringement on property rights.⁹⁰ Sanctioned on 24 September 1921, the legislation, known as Law 11,170, guaranteed farmers the right to retain personal property in case of debt foreclosures, prohibited landowners from requiring tenants to sell to, buy from, or insure with any specific parties, and required landowners to compensate tenants for physical improvements to the property at the end of contracts.⁹¹ Without explanation, Yrigoyen refused to sign Law 11,170, but, as the constitution provided, the law took effect without his signature after a delay of ten days. The president then continued to obstruct the law's application. Not until November 18 did he order the Ministry of Agriculture to prepare the decree necessary to administer the legislation, which finally went into effect on 21 February 1922.⁹² *La Tierra*, which was aware that the legislation was imperfect but nonetheless considered it an important precedent for future agrarian reforms, condemned Yrigoyen's delay as an insult to the republic's farmers.⁹³

As Yrigoyen prepared to leave office in October 1922, the FAA reviewed his term and found much that was unfavorable, particularly the president's failure to formulate a coherent agricultural policy and his stormy relations with the organized farm movement. *La Tierra* expressed

⁸⁹ For reports of the 1921 Farmers' March, see *La Tierra*, 18 August 1921, p. 1; 30 August 1921, p. 1; and 25 March 1925, p. 1; *La Vanguardia*, 27 August 1921, p. 1; 28 August 1921, p. 1; and *La Prensa*, 27 August 1921, p. 11; 28 August 1921, p. 5.

⁹⁰ *Senadores*, 20 September 1921, pp. 492–496; 24 September 1921, pp. 573–599.

⁹¹ The law's complete text is reprinted in Palacios, *La justicia social*, pp. 403–405. It is also found in the standard collection of Argentine legislation for this period, Augusto da Rocha, comp., *Colección completa de leyes nacionales sancionadas por el Honorable Congreso durante los años 1852 a 1933*, 27 vols. (Buenos Aires: Librería "La Facultad" de Juan Roldán & Cia., 1918–1933), 21: 58–62.

⁹² *La Tierra*, 21 February 1922, p. 1; *La Vanguardia*, 19 November 1921, p. 1.

⁹³ *La Tierra*, 28 October 1921, p. 1.

the alienation between the FAA leaders and Yrigoyen when it editorialized that the president had been a "strong enemy of farmers, as are all Indians . . . when a law was sanctioned, his Indian passions drove him to reject it."⁹⁴ Meant as an unkindly slap, the reference to Yrigoyen's mixed racial background reflected Argentina's tragic failure to integrate its rural immigrant population into national political life and to inspire the immigrants' respect for the republic's cultural background.

Largely because world market prices were favorable, the six-year interim between Yrigoyen's first and second presidencies marked a period of respite for Argentina's farmers. Between 1921 and 1925 wheat prices were relatively high and steady, while corn prices rose rapidly. Prices fell in 1926 and 1927 but then recovered, and agricultural prosperity lasted until mid-1929.⁹⁵ Farmers were not free from fears of a renewed cost-price squeeze, for land rents and railroad rates mounted steadily until 1927. But as long as farm prices stayed high, no significant rural unrest emerged.⁹⁶

This relatively auspicious economic picture coincided with the presidency of Marcelo T. de Alvear (1922–1928). A member of one of the republic's most distinguished families as well as a long-time Radical, Alvear continued the precedent, set by previous administrations, of granting a low priority to agrarian reform. In fact, Alvear's principal achievement in agrarian matters was to reorganize the Ministry of Agriculture. To accomplish this task, the president appointed as minister Tomás A. Le Bretón, Yrigoyen's widely-respected ambassador to the United States. Working with great energy, Le Bretón suppressed unnecessary positions, fired corrupt bureaucrats, and rooted field employees out of their urban swivel chairs and sent them to the countryside where they belonged. The statistical and experimental bureaus, divisions of the ministry which directly affected farmers, received particularly close attention. Rural statistics, neglected during the Yrigoyen administration, were placed under the direction of Leon Estabrook, a North American expert, and by the mid-1920s the government for the first time published reliable periodical

⁹⁴ *La Tierra*, 13 October 1922, p. 1; also see 15 November 1924, p. 2. Yrigoyen's father was a French Basque immigrant; his mother was a native of Buenos Aires and was probably of *mestizo* background. Luna, *Yrigoyen*, pp. 15–16.

⁹⁵ For data on farm prices during the 1920s, see Hanson, *Argentine Meat and the British Market*, p. 255; Di Tella and Zymelman, *Las etapas del desarrollo*, pp. 356, 381. Most "farm prices" recorded terminal market data, but for a set of statistics that reported the amounts farmers actually received for their crops, see *Diputados, sesiones ordinarias*, III (5 September 1928): 683–692.

⁹⁶ For data on rising land rents in the 1920s, see Nicolás Repetto, "La defensa de la producción agrícola nacional," *Revista de Ciencias Económicas* 33 (September 1929): 731; and Nemirovsky, *Estructura económica y orientación política*, p. 112.

agricultural data.⁹⁷ The ministry also began to emphasize scientific seed selection and distribution, which had received less attention in Argentina than in Uruguay or even in poverty-stricken Paraguay. By 1923 European experts arrived to carry out seed experimentation, while the government began an informational campaign to urge farmers to use better seeds.⁹⁸

Improvements in statistics and research were tempered somewhat by the ministry's inadequate attention to agricultural education. Enrollment in the government's agricultural schools rose only slightly—from 331 in 1922 to 443 in 1925—and most of these institutions continued to “function only thanks to the heroism of their directors.”⁹⁹ The number of field agronomists employed by the ministry rose from 35 in 1921 to only 40 in 1927.¹⁰⁰ Despite these deficiencies, Le Bretón established a good reputation for honesty and efficiency and was the only minister of agriculture whom the FAA publicly praised during the 1912–1920 period.¹⁰¹

The Alvear government's record in agrarian legislation was much less favorable than its administrative accomplishments. Like Yrigoyen, Alvear was unable to command a majority in the Senate. Moreover, in the Chamber, the Radical party was seriously divided between “personalists,” who desired Yrigoyen's return to power in 1928, and “anti-personalists,” who attempted to obstruct that return by sponsoring federal intervention in provincial politics. In both houses of Congress, “political wranglings” over the question of provincial intervention took precedence over constructive legislative work.¹⁰² Between 1922 and 1928 Congress passed only four laws relating specifically to agrarian matters.¹⁰³

⁹⁷ *The Review of the River Plate* 59 (2 February 1923): 267; Leon M. Estabrook, “Agricultural Statistics in Argentina,” *ibid.* 62 (8 August 1924): 359; Miguel Ángel Cárcano, “Nuestro régimen agrario,” *Revista de Ciencias Económicas* 29 (October 1927): 1115. The reorganization of the ministry is outlined in Argentine Republic, Ministerio de Agricultura, *Memoria correspondiente al ejercicio de 1923 presentada al Congreso de la Nación por el Ministro de Agricultura Dr. T. A. Le Bretón* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1924), pp. 5–13.

⁹⁸ *The Review of the River Plate* 59 (2 February 1923): 267; 64 (29 October 1926): 7; 66 (30 March 1928): 13. Also Emilio J. Schleh, *Semillas para el agricultor* (Buenos Aires: Imp. Ferrari Hnos., 1924), pp. 13–15.

⁹⁹ *La Tierra*, 6 May 1924, p. 1. Enrollment statistics in agricultural schools are from Allen, *Enseñanza agrícola: documentos orgánicos*, p. 106.

¹⁰⁰ Argentine Republic, Ministerio de Agricultura, *Memoria correspondiente al ejercicio de 1927 presentada al Congreso de la Nación por el Ministro de Agricultura Emilio Mihura* (Buenos Aires: Talleres Gráficos del Ministerio de Agricultura de la Nación, 1928), p. 73.

¹⁰¹ *La Tierra*, 25 August 1925, p. 1.

¹⁰² *The Review of the River Plate* 54 (26 February 1926): 5.

¹⁰³ Laws 11,380 of 30 September 1926 and 11,388 of 10 December 1926 dealt with agricultural cooperatives. Law 11,212 of 6 September 1923 appropriated one

The most glaring example of the government's inattention to agrarian needs during the Alvear administration concerned the failure to reform and strengthen Law 11,170. By the mid-1920s the inefficacy of the 1921 land rental act was public knowledge, and tenant farmers were clamoring for reform.¹⁰⁴ The FAA released a survey in 1928 which showed that, despite the law's terms, thirty percent of the tenants in Buenos Aires province held contracts for less than four years. As in the years before 1921, landowners continued to refuse to indemnify tenants for property improvements and frequently continued to require colonists to purchase bags, machinery, and insurance at extortionate rates.¹⁰⁵ On several occasions, congressmen introduced legislation to revise the law, but these proposals all died in committee.¹⁰⁶

The Alvear government made one basic agrarian legislative proposal. Submitted to Congress in 1924, the legislation would have authorized the executive branch to purchase agricultural land held in large estates, to subdivide it, and to sell it to individual farmers.¹⁰⁷ Minister Le Bretón formulated this proposal, he stated, to combat the trend toward stagnation that was becoming evident in Argentine agriculture by the early 1920s. Area under cereal and flax cultivation had increased only slightly—from 14.1 million hectares in 1913–1914 to 15.1 million in 1924–1925. Production and exports were growing slowly in comparison with other major agricultural countries. Between 1905–1909 and 1920–1924 Argentine wheat exports rose only thirty percent, while Canada's quintupled, Australia's tripled, and those of the United States more than doubled.¹⁰⁸

Government-sponsored land reform to create a numerous class of property-owning farmers was essential, argued Le Bretón, in order to reverse Argentina's declining importance as an agricultural exporter. The

million pesos for emergency seed distribution. Law 11,280 of 20 November 1923, appropriated fifteen million pesos for Defensa Agrícola.

¹⁰⁴ For detailed analysis of methods of evading Law 11,170, see Vélez, *La situación agrícola de La Pampa*, pp. 90–96. On the same theme, *La Prensa*, 28 October 1921, p. 9; and Pedro de Paoli, *La reforma agraria* (Buenos Aires: Editorial A. Peña Lillo, 1960), p. 31.

¹⁰⁵ The FAA survey was summarized in *Diputados*, sesiones ordinarias, II (1 August 1928): 775. Also see *ibid.*, sesiones ordinarias, V (29 September 1928): 599–600.

¹⁰⁶ Reform of Law 11,170 was introduced in the Chamber in 1923, 1925, and 1928, and in the Senate in 1927 and 1928.

¹⁰⁷ The proposal is reprinted in *Diputados*, sesiones ordinarias, III (21 August 1924): 480–481.

¹⁰⁸ Argentine Republic, Ministerio de Agricultura, *Memoria correspondiente al ejercicio de 1923*, p. 5. For statistics on area cultivated, see Tenembaum, *Orientación económica*, pp. 21–22. For comparative export data, Estabrook, *Agricultural Survey of South America*, pp. 3, 69.

minister's arguments emphasized that the existing tenancy system made farming an unattractive way of life and kept agricultural production low. The difficulty of purchasing land in Argentina discouraged European immigrants from settling in the largely empty cereal provinces and at the same time encouraged farmers already there to abandon agriculture and migrate to the cities. Furthermore, according to Le Bretón, crop yields in Argentina remained lower than in the United States or Canada largely because tenant farmers rented as much land and planted as extensively as possible in hopes of good weather and high prices. Still another unfortunate result of the land system was the reluctance of tenant farmers to engage in diversified agriculture or mixed farming.¹⁰⁹ The government's proposal, finally, was predicated on the fact that many tenants had long been eager to buy land, but large owners, during the 1920s as before, subdivided and sold only a fraction of the land farmers wished to purchase.¹¹⁰

Applauded by the FAA, the 1924 land reform proposal attracted widespread support among farmers, and within ten months over 14,000 telegrams arrived in Congress to urge passage.¹¹¹ Shortly after the administration presented its proposal, however, rising world cereal prices induced an expansion of planting in Argentina. With agricultural stagnation temporarily ended, Le Bretón's arguments lost some of their force and Congress took no action on the land reform proposal. After Le Bretón resigned in 1925, the administration took little further interest in land reform.¹¹²

The legislators' inattention to the land question, as well as the government's failure to take action on other fundamental rural problems, did much to discredit Argentine political institutions among the farmers. "The degeneration of Congress is poisoning our faith in democracy," editorialized *La Tierra* in 1925.¹¹³ For over ten years the rural protest movement had publicized the need for basic agrarian reforms, but none of the governments had done much to bring them about. By the mid-1920s farm-

¹⁰⁹ On low yields in Argentine agriculture, consult Scobie, *Revolution on the Pampas*, p. 87. For analysis of the impact of the land system on agricultural diversification, see Tenenbaum, *Orientación económica*, pp. 23-24; Torino, *El problema del inmigrante*, p. 250; and Vélez, *La situación agrícola de La Pampa*, p. 145.

¹¹⁰ *The Review of the River Plate* 63 (12 June 1925): 31.

¹¹¹ *La Tierra*, 26 August 1924, p. 1; *Diputados*, sesiones ordinarias, III (21 August 1925): 686.

¹¹² *The Review of the River Plate* (24 October 1924), p. 1067; 12 September 1924, p. 679; 65 (25 March 1927): 25. Hectares cultivated with cereal and flax increased from 15.1 million in 1924-1925 to 19.5 million in 1929-1930. Tenenbaum, *Orientación económica*, p. 22.

¹¹³ *La Tierra*, 25 August 1925, p. 1.

ers were comparing the inactivity of the Argentine government with what they considered the strong and vigorous regime of Fascist Italy. Piacenza journeyed to Rome to meet Mussolini, and *La Tierra* began to print editorials commenting favorably on the Italian political system.¹¹⁴ While it is a mistake to label Piacenza and the FAA as "Fascist," as some Argentine authors have done,¹¹⁵ there is no question that tenant farmers were becoming increasingly disillusioned with the accomplishments of parliamentary democracy. Two decades later, Perón's authoritarian political system gathered substantial support among cereal-belt farmers, largely because the dictator enacted many of the reforms for which tenants had been pleading since 1912.¹¹⁶

The alienation of the tenant farmers from the prevailing political system accelerated after Hipólito Yrigoyen reassumed the presidency in 1928. The Radical leader, who had maintained his popularity among the native-born masses despite his seventy-six years, swept to power with a large majority of the popular vote. Yrigoyen attracted this support not only by means of his charisma but also by indications that his second administration would assume a more populist stance than had his first. *La Época*, for example, assured its readers that it was the intention of the new administration to "aid the noble producers" by promoting the "development and protection of agriculture."¹¹⁷

The government's agricultural policies failed to match these promises. Yrigoyen took office as a rural depression, brought about by a sharp drop in world prices, was emerging. The price of wheat fell from 11.2 pesos per hundred kilograms in March 1928 to 7.35 in September 1930. During the same period, the price of corn fell from 8.8 pesos to 5.15 and the price of flax from 15.25 to 10.6. Drought, which wiped out seventy percent of the wheat and flax crops in 1929, added to the farmers' dis-

¹¹⁴ *Ibid.*, 10 April 1923, p. 1; 10 June 1924, p. 1.

¹¹⁵ H. García Ledesma, *Lisandro de la Torre y la pampa gringa* (Buenos Aires: Editorial Indoamerica, 1954), p. 55.

¹¹⁶ In 1945 land rents were frozen; in succeeding years they actually fell because of inflation. In 1948 Perón's Congress passed Law No. 13,246 which extended the minimum rental contract to eight years. Also "provision was made for periodic review and adjustment of rent." Other clauses authorized the Bank of the Nation to loan farmers up to 100 percent of the purchase price to buy the land they were renting. Peronist legislation also established special arbitration tribunals to settle contract disputes, a reform government experts had recommended in 1912. Most of these reforms were rescinded after General Perón's fall in 1955. For additional information on his government's agricultural policies, see Darrell F. Fienup, Russell H. Brannon, and Frank A. Fender, *The Agricultural Development of Argentina* (New York: Frederick A. Praeger, Publishers, 1969), pp. 302-303 and passim; and de Paoli, *La reforma agraria*, pp. 42-54.

¹¹⁷ *La Época*, 17 August 1928, p. 1.

tress.¹¹⁸ Land rents and other costs fell only slowly, and by mid-1930 tenant farmers found that sale of the harvest was insufficient to return costs of production.¹¹⁹ The rapidly deepening crisis created demands for political action, but while the government did initiate some programs to meet the needs of farmers, its attitude towards rural problems recalled the president's first administration. There was a great deal of talk about doing something for the farmers but very little actual accomplishment.

The one occasion during Yrigoyen's second term on which he vigorously exercised his executive powers in a manner that aided the tenant farmers occurred late in 1928, when bitter *bracero* strikes broke out in Santa Fe for the first time since 1920. As in his first term, Yrigoyen made it clear that he would not tolerate rural labor unrest that might threaten production and exports. The strike, called to press for higher wages and for recognition of rural syndicates, led to considerable violence and threatened to stop agricultural production in southern Santa Fe.¹²⁰ After the police failed to enforce the "right to work," the national government took the highly unusual step of sending two army regiments to Santa Fe without the request of the provincial government. Justifying this tough approach by blaming the trouble on "professional agitators," the government swiftly broke the strike. The FAA, which had opposed occasional congressional proposals during the 1920s to improve the rural workers' living and working conditions, applauded Yrigoyen's use of the army.¹²¹

But the president did not act with similar energy in organizing the Ministry of Agriculture, which after 1928 slid back into incompetence and corruption. Although the ministry's share of the budget rose slightly in 1929 and 1930 (see Table 3), the quality of its services declined. Agricultural statistics, which the *Review of the River Plate* described as in a state of "collapse," exemplified the ministry's sad state. The publication of many important statistics was abandoned, while other data appeared so tardily as to be useless.¹²²

¹¹⁸ Statistics on agricultural prices between 1927 and 1930 are in Di Tella and Zymelman, *Las etapas del desarrollo*, p. 385. *La Prensa*, in its issue of 10 January 1930, p. 15, recounts the ravages caused by drought.

¹¹⁹ Campolieti, *La organización de la agricultura argentina*, p. 7; Gastón Lestard, "La actualidad agrícola," *La Razón*, 5 November 1930; *La Tierra*, 1 October 1930, p. 4.

¹²⁰ *La Tierra*, 15 November 1928, p. 1; 24 November 1928, p. 2; *The Review of the River Plate* 66 (30 November 1928): 7; *La Prensa*, 29 November 1928, p. 19.

¹²¹ Yrigoyen's use of the army is narrated in detail in *La Tierra*, 8 December 1928, p. 2; *La Época*, 2 December 1928, p. 1; 3 December 1928, p. 1; and 12 December 1928, p. 1. For the farmers' opposition to rural labor legislation, see *La Tierra*, 16 June 1928, p. 1; and 28 July 1928, p. 1.

¹²² *The Review of the River Plate* 67 (21 June 1929): 15; *La Prensa*, 18 June 1929, p. 17; 2 April 1930, p. 13.

Troubled by the ministry's disorganization, agrarian interests were also perplexed by the executive branch's failure to formulate a national policy to confront the deepening rural depression. The executive proposed no land reform or colonization policies, nor did he suggest controls or reductions of railroad rates, which farmers considered exorbitant. Despite widespread support from farmers, economists, and the press for construction of a network of country grain elevators, Yrigoyen put forward no legislation on the subject. Faced by the diversity of conflicting interests which wished to finance, build, and operate elevators, the government took no action, and Argentina remained virtually without rural grain storage facilities (see footnote 9).

Although the administration showed no concern for agricultural storage and marketing questions, it did propose two reforms farmers long had sought: revision of the 1921 land rental act and creation of a system of rural credit. Despite the opposition of the Sociedad Rural, in September 1929 the Radical-controlled Chamber approved the administration's proposal to strengthen and reform Law 11,170. A few months later, the Senate approved the reform with some modifications.¹²³ But from that point on, the reform fell victim to the intense political hatreds which polarized Congress into warring factions during 1930. The Chamber, which spent all its sessions between May and August debating the credentials of three anti-Yrigoyen Radicals legally elected from Mendoza and San Juan provinces, was unable to constitute itself and could transact no business. Eventually, the president had his way and the Chamber refused to seat the three deputies-elect, but vital legislation, including consideration of the Senate's modifications of the land rental law, were left waiting.¹²⁴ A similar fate befell the administration's proposal to establish a national agrarian bank. Passed by the Chamber in 1929, the proposal was not considered by the Senate that year, and in 1930 the upper house held no sessions, for it could not legally convene until the Chamber had constituted itself.¹²⁵

While the executive and legislative branches continued to devote

¹²³ For reports of opposition to further land tenure reform, see *La Prensa*, 23 December 1929, p. 10; Genero García, "Leyes agrarias peligrosas," *Revista de Economía Argentina* 24 (May 1930): 340. Only one vote was cast against the reform in the Chamber. See *Diputados*, sesiones ordinarias, III (18 September 1929): 618. For discussion in the Senate, see *Senadores*, sesiones extraordinarias, III (25 January 1930): 311-356.

¹²⁴ An excellent analysis of the congressional crisis of 1930 is in Robert Smith, "Radicalism in the Province of San Juan: The Saga of Federico Cantoni (1916-1934)," Unpublished Ph.D. Dissertation, University of California at Los Angeles, 1970.

¹²⁵ *Diputados*, sesiones ordinarias, III (25 September 1929): 909-913, 1070.

their energies to political vindictiveness, the economic plight of many farmers became desperate. In Santa Fe, where numerous farmers were evicted in 1930, tenants began to strike for rent reductions. By June 1930 the FAA requested an executive order to place a moratorium on all rural rent payments, but Yrigoyen failed to respond.¹²⁶ The plight of thousands of farmers in La Pampa, who requested government grants of seeds to permit planting following the drought of 1929, encountered similar executive inertia, and the government made no seeds available.¹²⁷

By mid-1930 farmers were echoing other segments of Argentine society that the aged president had abrogated leadership in the midst of a national economic crisis, and when a military coup unseated Yrigoyen on 6 September 1930, the FAA shed nary a tear for him or for the parliamentary system. The deposed president, editorialized *La Tierra*, was a man incapable of ruling who had "vegetated . . . surrounded by deceiving and ignorant advisers." Argentine politics, added the agrarian newspaper, had done nothing fundamental to aid or develop agriculture.¹²⁸

This conclusion was accurate. During fourteen years under a form of parliamentary democracy, the national government had passed little legislation of importance to farmers and had enforced little of what was passed. The Radical party in power had failed consistently to support land reform or agrarian development in order to populate the interior, enlarge the national market for industrial goods, and integrate the rural population into national cultural and political life. As a result, Argentine agriculture remained technically backward, the interior remained largely empty, and the bulk of farmers still lived as short-term tenants—isolated, politically weak, and often economically impoverished.¹²⁹ The living conditions of landless laborers, moreover, remained dismal. At the national level, Radical party policy had continued a tradition established in earlier administrations of sacrificing the integration and development of Argentina to the interests of the landed elite.

¹²⁶ *La Prensa*, 5 March 1930, p. 17; 20 April 1930, p. 16; *La Época*, 8 June 1930, p. 1; 2 August 1930, p. 1.

¹²⁷ *La Prensa*, 20 February 1930, p. 13; 10 March 1930, p. 19; 11 April 1930, p. 11; 19 May 1930, p. 8.

¹²⁸ *La Tierra*, 10 September 1930, p. 4; 12 September 1930, p. 4.

¹²⁹ The 1937 agricultural census reported that in the provinces of Buenos Aires, Santa Fe, Entre Ríos, and Córdoba and in La Pampa territory, 59 percent of rural producers were renters, 35 percent were owners, and 6 percent held land under other forms of tenure. These percentages included cattle raisers; the proportion of renters among farmers probably was higher. See Argentine Republic, Ministerio de Agricultura, Comisión Nacional del Censo Agropecuario, *Censo nacional agropecuario*, 1: 46.

LINKED CITATIONS

- Page 1 of 1 -



You have printed the following article:

Rural Unrest and Agrarian Policy in Argentina, 1912-1930

Carl Solberg

Journal of Interamerican Studies and World Affairs, Vol. 13, No. 1. (Jan., 1971), pp. 18-52.

Stable URL:

<http://links.jstor.org/sici?sici=0022-1937%28197101%2913%3A1%3C18%3ARUA-API%3E2.0.CO%3B2-5>

This article references the following linked citations. If you are trying to access articles from an off-campus location, you may be required to first logon via your library web site to access JSTOR. Please visit your library's website or contact a librarian to learn about options for remote access to JSTOR.

[Footnotes]

⁷ **Aspectos sociales del desarrollo rural en la pampa húmeda Argentina**

Daniel Slutzky

Desarrollo Económico, Vol. 8, No. 29. (Apr. - Jun., 1968), pp. 95-135.

Stable URL:

<http://links.jstor.org/sici?sici=0046-001X%28196804%2F06%298%3A29%3C95%3AASDDRE%3E2.0.CO%3B2-J>