Foreign Creditors and the Politics of Development in Australia and Argentina, 1880–1913

Herman Schwartz

University of Virginia, Charlottesville

Most comparative studies of Australia and Argentina argue that the economic effects of concentrated landholding impede development, and that Australia’s greater development is thus attributable to landholders’ political defeat at labor’s hands. In contrast, this paper argues first that Australian largeholders were primarily destroyed by their creditors, not labor; and second that Argentina and Australian landholders behaved like productive capitalists, not rentiers. Landholders’ political behavior, not their economic behavior, affected the later development of agriculture and industry, for large landholders did make productivity-enhancing investments. But in Australia, landholders’ political weakness allowed investment markets to be distorted in favor of industry, accelerating industrial development. The Australian and Argentine experiences suggest that a balance of market-led and market-distorting policies are needed to resolve the current Third World debt crisis.

Introduction

What political, economic, and social factors cause political stability and economic growth? Many scholars have compared Argentina and Australia in search of answers to this question. Most of these scholars believe the key differences accounting for Australia’s growth and stability and Argentina’s instability and stagnation emerged at the end of the nineteenth century (inter alia, see Smithies, 1965; Moran, 1970; Ehrensaft and Armstrong, 1978; Dyster, 1979; Fogarty and Gallo, 1979; Denoon, 1983; Duncan and Fogarty, 1985; Platt and di Tella, 1985; Senghaas, 1985). Despite a diversity of theoretical approaches, these studies all accept the notion that large landholders impede development. Therefore they see Australian Labor’s greater strength relative to landowners at the turn of the century as the key factor differentiating Australia from Argentina.1 Duncan and Fogarty (1985), the best of these, seem a partial exception but ultimately fit this pattern too. Labor’s strength

---

1 Here I use “Labor” and “Labor Party” for simplicity’s sake, though none of the Australian colonial organizations, nor the federal and state ones superseding them after Australian federation in 1901, were so titled officially. “Labor” in all cases will refer to the political party; “workers” and “unions” will identify non-political groups or organizations in Australia.

Author’s Note: The author wishes to thank Richard Bensel, Elizabeth Sanders, Charles Tilly, Aristide Zolberg, and four anonymous reviewers for comments and criticism; errors remain his.

© 1989 International Studies Association
generally is explained in terms of qualities inherent to or concerning Labor and its substratum of unions: superior organization and legal protections, for example. These studies thus fail to consider the degree to which Australian Labor’s strength was a product of Australian landowners’ prior defeat at the hands of their creditors. Put crudely, Australia’s greater degree of colonial subjection meant that foreign lenders—largely British—were stronger there than in Argentina, and that in contests between lenders and landowners in both countries, lenders prevailed in Australia but not in Argentina. The creditors’ role in defeating Australian landholders in turn calls into question these analysts’ assumption that landholders’ economic interests as a class necessarily impede development. Instead, we must substitute a more textured appreciation of landholders that considers their interests as producers, interests which do not necessarily impede development. This essay, in a two stage argument, significantly revises the three common features of most of these analyses. The first stage compares the relationship between creditors and landowners in Argentina and Australia to explain the differing fates of the landowning class. The second stage then shows how these differing fates affected the subsequent process of economic development. This process in turn forces a reassessment of the theoretical assumptions that have guided the analyses criticized here. These theories, of course, have practical contemporary significance. The role foreign lenders and debt play in development—surely an increasing concern today—is poorly understood. Argentina and Australia’s differing experiences shed revealing light on the current debt crisis, including appropriate roles for the International Monetary Fund, state economic intervention, and the question of debt relief.

Sources of Divergence between Australia and Argentina

Two omissions and one common assumption deriving from theoretical predispositions reinforce the tendency of most comparative studies to explain Australian development on the basis of workers’ strength. First, following analysts of “informal empire” (Ferns, 1953; Gallagher and Robinson, 1953), these studies typically equate Argentina’s situation of formal independence but great economic dependence on Britain with Australia’s situation of local self governance and economic dependence, omitting the political advantages accruing to Argentina by virtue of its independence. Second, these studies largely overlook the influence both countries’ enormous foreign debts had on their respective development and politics, or, when they acknowledge lending, place lenders firmly in the landowners’ camp. Finally, these studies all share a theoretical assumption that rural elites (and the rarely mentioned foreign lenders) have interests that unavoidably produce underdevelopment. Obscuring the role of foreign lenders, and homogenizing both lenders and landholders, these studies fail altogether to consider the possibility that differences between Australia and Argentina emerged at least in part because of the different economic and political roles foreign lenders played in the two countries.

While these analysts disagree on precisely when Argentina and Australia began diverging, they all see divergence as a function of political and economic attacks on large landowners by other classes. This view associates intensification of production—development—with smallholding, strong labor movements, and the rise of urban manufacturing. Development thus can only occur when smallholders and workers successfully challenge the power of rural elites and their financial allies, for rural elites are presumed to be antagonistic to urban manufacturing and reluctant to invest in capitalist agriculture. Though I will elaborate on this below, it is sufficient here to note that while this may be true for rentier landlords, it is not clear why it should be true for owner-operators, including those producing on a large scale. As
producers, landowners’ interests may but do not necessarily impede urban development, and are by no means inconsistent with agricultural development. Let us examine three typical arguments.

Dyster (1979) claims the two countries diverged in the early nineteenth century when a mercantile class oriented to domestic consumption emerged in Australia but not Argentina. This trading class prevented Australian landowners from repressing workers and forced landowners to replace convict labor with free immigrant workers. Because these merchants profited from workers’ consumption, they strove to keep wages up and to link rural prosperity with domestic markets, thus preventing disarticulation in the domestic economy.

Both Moran (1970) and, to a more limited extent, Senghaas (1985) attribute divergence to the differing policies of the Australian Labor Party and the Argentine Unión Cívica Radical in the early twentieth century. For Moran (1970:79–85), the Labor Party and its sometime Liberal allies pursued domestically oriented industrialization behind a range of protectionist devices, while the Radicals eschewed tariffs and thus industrialization. Protected industry created the bases for political compromise and coalition in Australia; its absence led to confrontation and zero-sum politics in Argentina.

Senghaas (1985:46–53) echoes Moran, though his general theoretical argument also points to the shift to intensive production by smallholding family farmers in Australia as an additional decisive difference from Argentina. This shift also enlarged the rural market available to Australian domestic manufacturers. Australian development thus occurred because classes or groups—Dyster’s merchants, Moran’s Labor Party, Senghaas’s family farmers—arose to oppose large landholders. In Argentina, landowners’ interests prevailed because the Radicals’ “economic policies were influenced, if not guided, by men associated with the interests of the landed exporters” (Moran 1970:87).

By focusing on the efforts of groups either potentially or actively opposed to landowners and by ignoring foreign lenders, these analyses look simply to the absolute political strength of opposition groups, and not to their political power relative to that of landowners. After all, though much is made of Australian Labor, graziers did decisively crush unions in the 1890s, and the Labor Party governed only a total of six years before World War I conscription issues tore it apart. Focusing on Australian Labor’s absolute strength not only exaggerates that strength but also hides an important question: Why were Australian graziers politically weaker than their Argentine counterparts, the estancieros? The answer: Foreign creditors contributed decisively to Australian Labor’s ultimate victory by weakening the graziers who otherwise might have defeated Labor as successfully and easily as Argentine estancieros defeated their own workers.

The external debts of both Argentina and the Australian colonies taken as a whole were larger than their Gross Domestic Product in the 1890s and 1900s, and the ratio of debt service to GDP approximates that of present-day Brazil or Mexico. Landowners owed about one-quarter of this debt in each country, while public debt accounted for roughly half (Peters, 1934; Butlin, 1962; Stone, 1972; World Bank, 1986). The analyses that do mention lenders (Ehrensaft and Armstrong, 1978; Senghaas, 1985) typically assume that the lenders’ interest in forcing repayment conflicts with a country’s ability to develop because it represents an extraction of resources. Thus the stronger foreign creditors are, the less likely its development will occur. But our cases suggest this abstract view is mistaken. The structure of creditor-debtor relations rivals the size of debt in significance, for foreign lenders’ effects on development depend on the specific forms foreign investment takes. As we will see, landowner debt was structured differently in Argentina than in Australia in ways that strengthened Argentine landowners in their fights with private creditors,
while Argentina’s formal independence strengthened the state in its fight with public creditors.

Australia and Argentina’s different political regimes made foreign capital stronger in Australia. The local self-government granted to the six colonial states of Australia gave them only a limited political autonomy with respect to “foreign” (i.e., metropolitan) creditors. The Crown reserved the right to invalidate colonial laws it found repugnant, while the Bank of England retained firm control over Sterling, the currency used in the colonies. Argentina was independent; controlling its currency and having access to competing capital markets gave public and private debtors in Argentina an advantage in dealing with their creditors. The absence of these advantages significantly enhanced foreign lenders’ power in Australia.

But, in turn, to understand large landholders’ relations with foreign lenders means approaching estancieros and graziers as productive capitalists. Landowners borrowed precisely because they were behaving like productive capitalists. These studies all make implicit and explicit theoretical claims about the landowning class’s propensity to impede development in pursuit of its own interests, largely because they see landowners first and foremost as rent-seeking landlords and not as market-oriented productive capitalists. In the tradition of arguments advanced by W. A. Lewis (1954), A. Emmanuel (1974), and S. Amin (1974), analyses of Australia and Argentina presume that the equitable distribution of income associated with smallholding encourages development by intensifying agricultural production. In turn this provides a market for domestically produced goods through increased wages and rural incomes. Overall intensification of production, an increase in productivity per unit of labor, constitutes the essence of development in this line of thought. Without intensified agricultural production, industrial production has no captive local market and so remains stagnant and unconnected to the domestic economy. But landholding rural elites, best exemplified by those in Uruguay for Senghaas (1985:151), simply have no need to intensify production, for it is cheaper and easier to lower costs than to invest in intensification. Dyster (1979:6) concurs: “The magnates of Argentina . . . saw labor and land simply as costs that must be minimized so as to enlarge the margin of profit won from producing for non-Argentine consumption.” Large landowners thus are content with extensive production. Foreign capital, for its part, is happy to buy and market their cheaply produced agricultural goods.

This characterization of large landowners rests in part on an unwarranted comparison with rentier landlords elsewhere in Latin America. A variety of theoretical analyses, exemplified by Amin (1974:ch. 2), support Senghaas and Dyster’s assumption that rentier landlords have no immediate interest in intensification of production because they extract surplus from direct producers—peasants, sharecroppers, debt peons—in the forms of rent and interest. Because rentier landlords are shielded from market forces by the relatively fixed form in which they receive income, their survival and reproduction as a class does not depend on a constant intensification of production. Declining prices for whatever their renters produce do not necessarily affect rentiers’ claims, and so they continue to invest in more land—in more claims to surplus in the form of rent—rather than in improvements that increase productivity. Furthermore, while their tenants might react to declining prices by intensifying production, their efforts might be hampered by the landlord’s ability to extract rents—an unpredictable factor that depends on

---

9 Two qualifications: A variety of social mechanisms exist to adjust these extractions when they cut into renters’ ability to survive physically; not all production may be marketed, so declining prices again may not result in declining income. See Amin (1974) and Brenner (1977, 1986) for the clearest theoretical statements about landlord behavior with respect to development.
the degree of competition for land. In Australia and Argentina landowners were not
rentiers, but entrepreneurs who received the bulk of their income as profit. Faced
with declining profits, such entrepreneurs might very well react by trying to
minimize costs, as Dyster suggests. But there is no reason to suspect that they would
not also try to intensify production by increasing productivity or shifting to higher
value-added products, so as to increase or maintain their profits. In short, intensifi-
cation of production and its contribution to development were not merely the
prerogative of the classes in opposition to largeholders in Australia and Argentina.
Contrary to what Senghaas and Dyster argue, the historical record shows that
Argentine and Australian landowners intensified production to a surprising degree,
borrowing considerable sums overseas to finance this intensification. In both cases
borrowing by landowners created specific institutional and legal relationships
between them and their foreign creditors. In turn, these relationships determined
the degree to which landowners retained political and economic power when the
cries of the 1890s pummelled both societies.

**Australian Graziers, Foreign Capital, and Land**

The owner’s need to borrow money to buy land was the key link between landowners
and lenders, and the key difference between Argentine and Australian landowners
was that Australian graziers were forced to buy their land under circumstances not
quite of their own making. The various Australian colonial states had managed lands
the Crown formally owned, taking possession of these crown lands when local
self-government was granted in the mid–1850s. Relatively little land was sold at first,
for wool growers preferred to squat on unauthorized grazing land until their
investments in cross-bred sheep made longer-term control of the land desirable. Then
graziers leased land from the Crown in a practice that legitimized their former
occupancy through squatting. By the 1850s the tenure of these leases and the rights
they conferred were just short of freehold, encouraging graziers to make small
investments to improve productivity (Roberts, 1924; McMichael, 1984).

The gold rushes of the 1850s drew large numbers of immigrants to Australia who
lacked the capital needed to make the transition to mining quartz gold when alluvial
gold petered out. Agitation by unemployed miners, by gold-created professionals,
and by the merchants Dyster alludes to led in the 1860s to a number of Land Acts in
Victoria and New South Wales (McMichael, 1984; Wells, 1986). The Land Acts
opened leased land to outright purchase, in the hope that individuals, especially the
unemployed, would establish family farms and so relieve urban unemployment and
its consequent political tensions. Instead, as virtually all commentators agree,
squatters locked up the land through strategic purchases, bribery, and fraud, and
used their control of the Legislatures’ upper houses to impede efforts to reform the
Land Acts in ways favorable to smallholders. Clearly, at this juncture Australian
landowners were capable of mastering popular pressures in so far as they affected
their livelihood, and indeed may have welcomed the chance to get freehold. But in
mastering the masses, they also sold themselves to their future masters.

The Land Acts forced pastoralists to buy up huge chunks of land in order to
protect improvements they had made and to control water sources. Compelled to
buy, they in most cases also were compelled to mortgage, using the land they
purchased as collateral. And if they were to borrow to buy land, then they might as
well borrow to fence it, improve its productivity, and thus reduce the weight of debt
as a fixed cost (Butlin, 1964:77, 93). The cost of fencing and the amount of land that
needed to be purchased exceeded graziers’ means individually and as a group
(Bailey, 1966:52–53; Butlin, 1962:60). They bought about twenty-five million
scattered acres—an area roughly the size of Virginia—in New South Wales alone in
the 1870s, using £55 million borrowed from British and Anglo-Australian pastoral finance companies, and secured by their mortgages (Bailey, 1966:55–56). Since creditors typically held the actual lease or deed as security, indebted graziers could be chucked out at will.

The colonial states encouraged this process. At land auctions they set a high minimum selling price, which assured both large land sale revenues and the graziers’ need to borrow. These land sale receipts were then used to service the foreign debt incurred to build railways. Railways vastly enlarged the land area available for grazing, for the small scale and high costs of ox-cart transportation had sharply limited expansion of wool production (Butlin, 1962:299–320). Railways thus opened more land for sale and raised the value of adjacent lands. Both allowed graziers to increase their debt as the value of their collateral increased. The Land Acts thus created a financial pyramid: the state forced graziers to buy land, used land sale revenue to service the debt incurred building railroads, used railroads to open new land for use and sale, and borrowed more money to build more railways to open more land for sale, thus creating more revenue.

This pyramid’s foundation was the price of wool. The land graziers mortgaged only had value in relation to the value of the wool produced on it. So the value of the land graziers used as collateral fluctuated with wool prices. Furthermore, wool sales provided graziers with the cash that serviced debt. Wool prices were at their peak when graziers contracted the bulk of their debt in the 1870s and early 1880s. But British wool consumption slowed in the late 1880s, and by 1894 wool prices were 63 percent of 1870 prices (Clapham, 1907:271). When wool prices began to fall, the pyramid’s foundation crumbled. Hoping to offset declining wool prices with increased production, graziers actually increased their borrowing during the late 1880s. On ten representative sheep stations funded by the Australian Mercantile Land and Finance company the debt per sheep roughly doubled during the 1880s (Bailey, 1966:112). But this individually rational strategy was collectively irrational, for it increased the supply of wool faster than foreign demand. Though short term advances doubled, and long-term investment increased 75 percent between 1880 and 1887, falling prices limited the increase in graziers’ net profits to only 10 percent. Consequently, interest claimed an even larger share of the value of Australian wool production, rising from 20 percent in 1881 to 40 percent in 1887. This interest driven squeeze on profits motivated some graziers, particularly in Victoria, to intensify production by switching into meat and dairy production (Bailey, 1966:108–10, 147–49). But falling wool prices trapped the majority of pastoral entrepreneurs between declining receipts and growing debt obligations. Whether or not graziers desired to intensify production, their debt burden blocked any self-financed change in production. Meanwhile, their creditors’ difficulties prevented any externally financed change. Australian Mercantile Land and Finance, a typical finance firm, saw its rate of return drop 40 percent between 1880 and 1890, as falling wool prices shrank the pie from which they ate (Bailey, 1966:121–22). Falling land prices made it impossible for these finance companies and banks to liquidate their holdings profitably and invest elsewhere. As New South Wales’ Chief Statistician noted, “Advances had been made against stock and stations on the basis of values existing prior to 1884, and in 1889 these values had to a great extent disappeared. [T]he banks found themselves in possession of a great number of pastoral holdings, which could not be disposed of except at prices much below the advances made against them; these the banks were compelled to work as if they were their own property” (Coghlan, 1965:1644). Unable to sell out, land finance firms foreclosed or imposed a supervision amounting to foreclosure over the properties they held paper on. They hoped through rationalization of production and elimination of graziers’ “profit” to
maintain the largest possible return on the capital they had lent out (Butlin, 1950; Bailey, 1966:82–83, 114).

Thus, from being largely individually and domestically owned and managed enterprises, sheep stations increasingly became controlled by foreign banks or corporations. The trend toward elimination of Australian graziers was exaggerated in newer areas of exploitation, like New South Wales’ Western Division, because there had been less time for individuals to recoup the larger investments this more marginal land required. By 1889, individuals held one-third fewer leases in the Western Division than they did in the Eastern. Even where individual owners or small groups of owners persisted, banks or financial companies typically held legal title to their leases or land as security (Butlin, 1950:94–95; Cain, 1961:200; Cain, 1966). This effectively proletarianized them, turning them into managers of properties they had formerly owned, and subjecting them to the scrutiny of company pastoral inspectors (McMichael, 1984:231–32).

Increased foreclosure of and pressure on graziers weakened their political power. Because graziers were large landholders, they could not make a credible populist-style response to creditor pressures. Politically their creditors were their class allies; workers and the few small farmers their class enemies. Similarly, a nationalist alliance with workers against creditors was also unlikely. Graziers did not consider themselves “Australian” (Hancock, 1964). And practically, pressure to increase profits undercut any basis for accommodation between owners and the unions their workers formed in the last half of the 1880s. Owners needed dramatic increases in productivity to stay profitable, and their consequent pressure on workers accelerated unionization. These unions, in turn, wanted to wrest managerial control away from owners (Spence, 1911; Sutcliffe, 1967; Fitzpatrick, 1969). Graziers chose to side with fellow capitalists rather than rely on any nascent Australian nationalism. With the help of their financial backers (and perhaps of British capital in general [Coghlan, 1965:1579–99]), graziers easily defeated general strikes in 1890 and 1891. But their success only channeled worker efforts into politics. Here the elimination of the graziers and the dilemma of their creditors weakened the ability of the pastoral production and financial complex to oppose the Labor Parties when they emerged after the general strikes of the early 1890s.

Despite the formal male suffrage enacted along with self-government in the 1850s, graziers had controlled their rural legislative districts by using property and residential qualifications to disfranchise their migratory work force. But rural Labor majorities emerged from the combination of declining numbers of graziers, from the increasing social alienation of workers from rural corporate employers, and from their growing political organization. In turn, elimination of pastoral entrepreneurs reduced the ability of foreign creditors to make alliances with local class factions, decreasing their influence in domestic politics.

In the absence of a clearly dominant domestic class able to guarantee their various loans, foreign creditors’ own unity disintegrated into sauve qui peut. Those holding public debt split from those holding graziers’ mortgages, and both searched for allies other than graziers. London financiers who sold or held the bulk of public debt tried to assure the integrity of that debt through colonial government budget surpluses. Thus, in New South Wales they made a Faustian bargain with the new Labor Party and the import merchants in order to pass the land and income taxes needed to balance the budget. While these taxes made public debt service possible, they further weakened graziers and the largely London-chartered but Scottish-funded financial institutions holding their mortgages (Bailey, 1966:62–66). The price for Labor support in New South Wales was acquiescence in electoral reforms enlarging the real enfranchisement of shearsers and station hands in rural areas, which increased
Labor’s political power. Rather the opposite occurred in Victoria, where an income tax was passed but no land tax. Landowners were more diversified here than in New South Wales, and so less pressured by the fall in wool prices. Equally important, much of Victorian pastoral finance came from locally controlled capital. Consequently, in Victoria a domestically centered coalition emerged that was willing to confront London lenders; those lenders in response prevented new issues of Victorian debt in London markets. In the meantime, these domestic pastoral finance companies allied with the family farmers to increase state aid to buyers of pastoral land and to raise tariffs on agricultural products. They hoped to liquidate some of the capital locked up in grazing land while shifting the cost of doing so to urban groups. But to the extent these programs succeeded, they eliminated more graziers while isolating the remainder from potential urban allies.

Unable to come to any agreement on whose loans should be sacrificed, foreign creditors instead threw their weight behind efforts to federate the six Australian colonies. They hoped this new Dominion would be able simultaneously to guarantee foreign loans and to contain the increasingly powerful Labor parties. Fears of foreign invasions, manufacturers’ desires for a unified continental market, and nationalism combined to make Federation a reality in 1901, after ten years of political isolation and foreclosure for the graziers. But since these efforts on behalf of Federation were closely tied up with the process of intensification of production, discussion of them must wait until we have examined the relations of Argentine landowners with their creditors.

**Argentine Estancieros, Foreign Capital, and Land**

The form and scale of borrowing in Argentina differed significantly from that in Australia, allowing Argentine landowners largely to escape the wholesale foreclosure visited upon their Australian counterparts in the late 1880s and 1890s. Where Australian graziers were forced to buy their land, Argentine landowners by and large received their land as outright grants or at prices far below the typical minimum auction price in Australia. Cheap land reduced the estancieros’ need to borrow. Where the Australian graziers’ debt took the form of mortgages, the estancieros’ debt was held in more easily devalued bonds.

Both the initial absence of any stable government after independence in 1816 and the consolidation of authoritarian rule after 1832 enabled Argentine landowners to acquire land cheaply. While the English Crown was able to enforce at least the principle of state ownership, forcing Australian squatters first to lease and then to buy land, a succession of Argentine regimes found it impossible to control public lands. The political and administrative weaknesses of the post-independence state allowed estancieros to turn squatting into freeholding. After General Manuel Rosas consolidated his regime in 1832, he retained landowners’ loyalty by freely dispensing land, and used state land grants in lieu of cash payments (Zimmerman, 1945:11–15). The return of civil war in the 1850s saw both sides alienate land in efforts to buy the landowners’ support. Finally, the victorious Republic financed anti-Indian campaigns in 1878 and 1879 with bonds redeemable in land at a real cost of approximately three pence per acre (Scobie, 1964:117–18). Estancieros acquired roughly double the amount of land graziers in New South Wales bought, for a fraction of the price. Thus, from the outset they avoided the bulk of the debt that in Australia allowed foreign capital to engross pastoralists.

While Argentine wool growers did not have to borrow to get land, like their Australian cousins they did need to borrow to finance improvements. Britain’s mid-century repeal of the Corn Laws and Navigation Acts opened to any producer a market that then absorbed half of world exports. To compete with Australian
producers who were aggressively borrowing to fence, create water supplies, and effect other improvements, Argentine wool producers also began fencing and improving in the 1850s (Ferrer, 1967:51; Murphy, 1987). To match the rush of investment in Australia in the 1870s and 1880s, they issued cédula, state-backed mortgage bonds. As with land acquisition, this form of borrowing money shielded wool producers from destruction by foreign lenders.

Provincial banks gave landowners cédula equal to half the value of the land owners mortgages to the bank. Owners sold cédula in the open market, via British financial intermediaries, to get the gold or convertible currency they needed to invest in fencing, improved pasturage, and new land. Argentine provincial banks paid interest on the cédula in fixed amounts of paper pesos, so the buyer of the cédula essentially was buying a paper-denominated state bond (Williams 1969:75, 79). Landowners could retire their mortgage by offering the mortgagee bank either convertible currency or cédula equal to the amount they had borrowed. The banks in turn financed interest payments on outstanding cédula by using convertible currency to buy paper notes or by reissuing the cédula.

The Banco Hipotecario de la Provincia de Buenos Aires issued the first cédula in 1872, but very few cédula were issued before 1875, and even fewer found their way overseas. Between 1875 and 1886, 76.5 million paper pesos of cédula were issued (Ferns, 1960:370–71). Formation of Banco Hipotecario Nacional and a set of satellite provincial banks inaugurated the entry of cédulas into the formal London bond market with a virtual explosion of sales to British rentiers in 1886. By the time the 1890 Baring Bros. bankruptcy closed the London market to Argentine loans, the Banco Nacional had sold cédula worth 81.7 million paper pesos; provincial banks, including that of Buenos Aires, sold another 230 to 270 million paper pesos worth. These sales realized approximately £34 million in less than five years, mostly from British lenders (Peters, 1934:45; Williams, 1969:81–85).

Rather than meet their cédula obligations directly by paying off their mortgages or indirectly by paying taxes so the state banks could meet their interest obligations, estancieros chose to inflate the paper currency, thereby destroying the cédulas’ value. The value of the stream of paper currency a cédula generated determined its market “value” in hard currency, so as the paper peso depreciated so did a given cédula’s market value. Inflation allowed landowners to pay off their mortgages by using export-earned Sterling to buy back devalued paper cédula.

Unlike Australian graziers, Argentine landowners could inflate the paper currency because they obtained direct control over banks after General Roca’s presidency from 1880 to 1886. Two related deterrents to inflation had existed during Roca’s presidency. First, Roca and his finance minister both limited the number of banks issuing notes and tightly supervised them to maintain the paper peso’s convertibility. Second, Roca’s partisans desired but had not yet begun to sell large numbers of cédula abroad. To make cédula saleable, they needed to demonstrate the stability and convertibility of paper pesos. This desire combined with Roca’s tight supervision to prevent inflation. But Roca’s successor, Celman, was less powerful, and the incentives for maintaining convertibility disappeared as more and more cédula were sold. In an effort to expand rural credit, Celman promulgated the Law of Guaranteed Banks in 1887. This permitted banks to issue paper pesos providing they arranged for a gold reserve to back their notes (Williams, 1969:ch. 5). The national treasury helped these banks acquire gold, giving them treasury notes paying 4½ percent interest to sell, generally abroad, for gold or Sterling. The gold thus acquired was to be deposited in the Banco Nacional to provide a specie backing for the Guarantee Banks’ paper emissions. The Guarantee Banks were forbidden to issue more paper than they had gold deposited with the national government. In principle this ought to have led to a perfectly stable paper currency, but practically a rapid depreciation in the value of
the paper peso resulted. A combination of landowners and corrupt government officials controlled the provincial Guarantee Banks, and landowners used their direct control over the creation of paper currency to issue unsecured loans for themselves, while simultaneously failing to deposit any specie backing with the Banco Nacional (Ferns, 1960:399). In the absence of centrally imposed discipline, note issuing became a Prisoner’s Dilemma game. Those who had already gained from cédula sales had many incentives to defect—to inflate paper pesos and so reduce their mortgage payments—and few incentives to cooperate by constraining note issue until all estancieros had benefited from cédula sales.

By June 1890 inflation had created a 60 percent discount off the face value of the cédulas. As Ferns (1960:425) says, “The money invested in cédulas was substantially lost,” for by 1900 some 150 million paper pesos of cédula were quoted as low as 9 percent of face value (Williams, 1969:122). The only demand for cédula came from landowners buying them up to repay their mortgages and from speculators. Inflation thus allowed Argentine landowners to avoid foreclosure by simply destroying the claims of foreign creditors on their profits.

Argentine estancieros thus avoided the foreclosure experienced by their Australian counterparts. Though both depended on foreign loans to capitalize their export industry in the late 1880s, the form both debt and financial intermediation took put Argentine landowners in a considerably stronger position. Privately, their direct mortgagees were banks they controlled rather than the London-chartered firms Australian graziers depended on. Because their creditors’ claim on their profits was denominated in paper currency, the estancieros’ control over currency emissions allowed them to devalue those claims. Australian graziers could not affect currency emission by the Bank of England, and in any case their creditors had claims expressed in sterling. Operating from a considerably weaker position than in Australia, foreign creditors lost considerably more money in Argentina. Where cédula holders lost their money, graziers’ creditors eventually recovered part of theirs when intensification occurred in Australia. With regard to public debt, the Australian colonies all enforced the taxes and retrenchment necessary to continued debt service, even where this weakened or eliminated rural producers. In contrast, Argentina was able to reduce and delay payment on both principle and interest through reschedulings in 1890 and 1893. By threatening to shift its future debt emissions variously among London, Paris, Berlin, and New York, Argentina played its multinational creditors, including the many foreign railroads operating in Argentina, against one another (Jones, no date). Rather than having creditors ally with some domestic groups to the detriment of others, Argentina handily defeated its creditors. The cédula obligations of provincial banks were eventually absorbed by the Argentine state at significant discounts. Labor’s triumph in Australia thus owes much to the actions of the foreign lenders it denounced, and to the Crown from which it desired a parting of ways.

Intensification of Production in Australia

As noted above, falling wool prices motivated Australian graziers and their mortgages to try to shift production from wool to more intensive meat and dairy production. This transition required fresh investments that graziers could not, and banks and finance companies would not, make. But if finance companies had no desire to make the additional investments needed to intensify production themselves, they did

---

5 Today, of course, the International Monetary Fund creates discipline among various creditors, preventing Argentina and other debtors from playing one against the other. Today’s banks, as direct lenders rather than intermediaries like the nineteenth century investment houses, also have a greater interest in discipline.
desire to liquidate their land holdings at prices above those low wool prices established. They had two ways of doing this. First, a company itself could initiate a more intensive style of production, causing land values to rise in proportion to the increased production occurring on it. But this involved precisely the additional investment the companies wished, for the most part, to avoid. Indeed, gross pastoral investment from 1891 to 1894 fell 50 percent from its average level in the years 1888 to 1891; 1890 to 1892 saw British disinvestment of £1.14 million, causing a 90 percent fall in net pastoral investment (Butlin, 1962:20, 194, 424). Some finance companies did try this first route, either planting wheat or breeding sheep and cattle for meat. The competitive pressure exerted by declining wheat prices and the competition from New Zealand and Argentine frozen meat led most to favor a second route (Friedmann, 1978).

This route involved settling family farmers on former pasturage. These farmers would be willing to pay prices reflecting the value they expected to get from their intensive use of the land rather than the low value wool production established. Here too creditors faced a difficulty, for these families did not have the money to buy up subdivided sheep runs. But this difficulty was amenable to a political solution. Domestic banks and finance companies pressured the colonial states into supporting their efforts to revalorize some of the vast tracts of foreclosed pastoral property by supplying buyers with credit. Generally these state initiatives took the form of Crédit Foncier systems, in which the state provided low interest loans to farmers buying pastoral land. In South Australia and Victoria more local capital was tied up in pastoral land than in New South Wales; these colonies consequently established larger crédit systems and did so earlier. Queensland made similar efforts to revalorize investments that had been made in plantation style sugar production. By building state and cooperative mills and subsidizing land purchases, Queensland created the conditions needed for family scale sugar production (Dunsdorfs, 1956; Fogarty, 1966; Glynn, 1967; Walker, 1970; Shlomowitz, 1979). But all these crédit systems were limited by the colonial states’ ongoing fiscal crises (Coghlan, 1965:2067). With pastoral prosperity gone, land sale revenue dried up, making it difficult for the various states to meet their own debt payments and maintain essential services. All ran budget deficits in the 1890s, despite severe retrenchments. Funding crédit systems would involve more overseas borrowing and thus an expansion of the current budget cum debt crisis.

Unsurprisingly, London lenders took a dim view of these efforts to revalorize the pastoral property held largely by smaller, Scottish-funded institutions, afraid they would come at the expense of payment on the public debt. The Economist feared crédit bonds used “to enable the Government to repurchase land at exorbitant prices,” (Economist, 3 January 1892:9–10) would end up as valueless and unmarketable as Argentine céédula (Economist, 4 August 1894:953): “All these imitations of the Crédit Foncier system have at bottom two aims, viz., 1st, the maintenance of the reputed value of land, and 2nd, the introduction of fresh British capital. Australian land is to retain a fictitious value by the help of the British investor. Otherwise, there is no necessity for the intervention of the State in mortgage business” (Economist, 9 February 1895:185).

Intensification of agricultural production thus waited on a political solution—Federation. London and Scottish lenders could unite in support of Federation because it promised to save both public and private debts. For the London lenders, Federation promised a national government able to contain the growing strength of the “state” Labor Parties the lenders feared might initiate default, and a guarantor able to tap national resources to cover any unintentional “state” default. For Scottish lenders, Federation would reestablish the credit of the newly minted states and allow those states to borrow anew. They then could subsidize the liquidation of millions of
acres of pastoral land via sales to wheat growers and other family farmers. Federation thus created the political preconditions for agricultural intensification, enabling the various states to settle thousands of farmers on former grazing lands (Schwartz, 1989:ch. 9).

These family farms rapidly mechanized agriculture (McLean, 1971, 1973, 1981). For example, the value of farm machinery in use in Victoria rose from £18.5 per unit labor in 1900–1901 (virtually identical to the 1880–1881 figure) to £38.3 per unit labor in 1910–1911, despite a 21 percent drop in machine prices. The market these family farms provided for producers of both consumer and capital goods in the form of agricultural machinery fastened industrial development. Essentially, in this period Australia underwent what is called Import Substitution Industrialization (ISI) by Latin Americanists. Just as in Latin America, a coalition of urban labor and domestic manufacturers used a highly interventionist state to regulate wages through juridicized collective bargaining, to protect the domestic market with tariffs and anti-trust legislation, and to fund investment with agricultural exports. For their part, the new family farmers were willing to accept tariff policies redistributing income from them to urban areas. During the period in which key legislation was passed, farmers still sold much of their production in Australian—not export—markets; for example, Australia was not a net cheese exporter until 1910. Increased wages and a growing industrial work force meant increased consumption of agricultural products. Thus, single member districting and winner-take-all elections often led farmers to side with Labor, for the location of their markets and a desire to subdivide large landowners out of existence outweighed their dislike of the tariff. Only when export markets for wheat and dairy became more important than domestic markets did small farmers begin to ally with the remaining graziers. By 1911, 64 percent of Victorian and 33.9 percent of New South Wales agricultural production was exported, compared to about 3 percent and 2.7 percent, respectively, in 1890 (Victorian Statistical Register, 1914; Official Yearbook of New South Wales, 1905:424, 1915:787). Large landholders thus were politically isolated in the early years of the 1900s, and they later increasingly found themselves forced to merge with smallholders to express their political interest. A distinct Country Party uniting rural interests did not emerge until the introduction of a preferential voting system in 1919 (Graham, 1966). Australian manufacturers thus had a generation’s head start on Argentine manufacturers, for World War I and the Depression consolidated the capital goods industry in Australia even as those two events stimulated Argentina’s first efforts at ISI under Perón.

**Argentine Landowners and Intensification of Production**

The political and economic consequences of the different situations faced by Argentine and Australian landowners appear most strikingly in the different form intensification took in Argentina. In Australia, the initial advantage of banks and land finance companies in dominating the pastoral sector turned into a disadvantage when they found themselves saddled with illiquid and low profit property in the 1890s. The only way they could extricate their investment was to support a political solution leading to intensification: federation to restore public credit; subdivision and sale of illiquid properties to publicly subsidized smallholding farmers; liquidation of Australian largeholders as a coherent class. Argentine landowners, in contrast, were not foreclosed. *Estancieros* reacted to declining profits by voiding their debts and undertaking a search, on their own, for new products and production methods capable of returning higher profits than hide harvesting or wool. In Australia, the switch to meat exports came more than ten years after freezing technology emerged because it had to wait for a political solution to the problem of
capital locked up in land.\textsuperscript{4} In Argentina, by contrast, the landowners’ easy victory over private foreign capital allowed them to begin changing their production profile and exports in the late 1880s and early 1890s.

Argentine landowners responded to declining prices and market opportunities by steadily climbing to higher valued added products, just as any entrepreneur might. Primarily exporters of hides and wool in the 1880s, they turned progressively to live and canned meat exports (mostly mutton) in the 1890s, and then to higher quality frozen meats and chilled beef by World War I (See Table I). Between 1887 and 1907 frozen beef rose from nil to 51 percent of meat exports by value, while jerked beef and meat extract fell from 50 to 11 percent (Crossley and Greenhill, 1977:294). Landowners constructed elaborate and efficient production systems on their land, rotating wheat, alfalfa, and beef cattle. Retaining control of beef production, landowners rented out their land to immigrant Italian families. These tenant farmers grew wheat for three to five years, planted alfalfa in their last year, and then moved on to a different piece of land. Cattle then fed on the alfalfa for five years. By 1914, 16 million acres were under wheat. Yoked to wheat, alfalfa acreage expanded from two million acres in 1895 to nineteen million by 1914. This rotation maximized yields of each product and used the land much more intensively than beef production alone would have, for alfalfa increased the stock carrying capacity of the land by a factor of six. Though they subcontracted wheat production, landowners made significant investments in this process of intensification. For example, between 1888 and 1912 the number of windmill-driven water wells increased from 237 to 69,598. Simultaneously, breeding for fatter, beefer shorthorn cattle raised the proportion of crossbreeds in Buenos Aires province to 90 percent (Whitbeck, 1926:231–32; Taylor, 1948:141). The contrast between Uruguayan and Argentine production reveals the extent to which Argentina managed to become the low cost, high efficiency producer of beef for world markets. By 1913, Uruguay still processed 72 percent of its cattle for hides, jerked beef, or beef extract—all low quality products, and in approximately the same percentage as in Argentina twenty years earlier. Meanwhile, Argentine beef was delivered to Buenos Aires docks at 60 percent of the cost of equivalent quality U.S. beef delivered to Chicago railheads (Whitbeck, 1926:231, 287; Denoon, 1983:107–12).

Nonetheless, most analyses blame precisely this system for causing or continuing underdevelopment in Argentina, arguing that the landowners’ use of tenant farmers

\begin{table}
\centering
\caption{Argentine meat exports by type.}
\begin{tabular}{lrr}
\hline
            & 1894   & 1914   \\
\hline
Jerked beef & 42,838 tons & 2,383 tons \\
Canned meats & 1,374 tons & 13,590 tons \\
Live animals & 342,708 head & 167,641 head \\
Frozen mutton/lamb & 36,486 tons & 58,688 tons \\
Frozen beef & 267 tons & 328,278 tons \\
Chilled beef & — & 40,690 tons \\
\hline
\end{tabular}
\end{table}

\textsuperscript{4} Statistics misleadingly imply an early Australian lead in frozen meat. This lead emerged because of graziers’ distress sales of sheep and cattle the land no longer could profitably carry. The cash these sales brought the illiquid graziers was more valuable than the animals’ future production. Argentine meat production was more systematic and businesslike (Hanson, 1934; Crossley and Greenhill, 1977).
blocked development by preventing intensification of agriculture and depriving manufacturers of a market large enough to permit industrial development. The first argument clearly is mistaken on both empirical and theoretical grounds. The immigrant Italians who became tenants came to Argentina precisely because intensification occurred; in neighboring Uruguay the persistence of extensive stockraising led to a relative absence of immigration, tenants, and agriculture. The fact that tenants rather than smallholders predominate should not automatically block development. Tenants by themselves present no block to the mechanization of agriculture—quite the contrary. English agriculture had been heavily tenanted since the eighteenth century; it nonetheless became and remains highly developed, producing extremely high yields through “industrial” agriculture. In Australia, at least one-fifth of all wheat growers were sharecroppers; in the United States outside the South, one-quarter of all farmers were full tenants during this period (Official Yearbook of New South Wales, 1909/10:198). One might argue that a quantitative difference turned into a qualitative difference, since about two-thirds of Argentine farmers were tenants. Two factors, though, suggest that tenancy as an economic phenomenon was not a decisively regressive step for Argentine agriculture.

First, the alternative to tenancy was not more “capitalist” forms of agriculture. Generalizing from North America (and, by extension Australia), Harriet Friedmann (1978) has argued that family farms were better suited to absorbing the secular decline in wheat prices that occurred until 1896 than were capitalist forms of wheat farming, which were dependent on hired labor and constrained by the need to show a profit. Friedmann shows that in this period family farmers displaced capitalist forms of production everywhere that the state did not make extraordinary efforts to protect capitalist agriculture. The choice for Argentine agriculture was thus not between tenant and capitalist agriculture, but between family farmers who owned their land and family farmers who did not. Indeed, in some sense Argentine tenancy was a more capitalist form of agriculture than subsidized family farming in Australia, because the Argentine system permitted a market-driven reallocation of land, labor, and machines in contrast to the relatively immobile Australian system (Fogarty, 1981:417). Thus, Argentine agriculture was as productive as Australian. In 1900 Argentine wheat production yielded 12.7 bushels per acre, surpassing the Australian yield of 8.6 bushels per acre and roughly double Uruguayan yields; in 1910 Australian and Argentine yields were roughly equal (Scobie, 1964:87; Mitchell, 1983:223–26; Rock, 1987:164).3

Second, Argentine wheat farmers and cattlemen did not resort to labor intensive solutions to production problems, as both Oyster (1979:97) and Senghaas (1985:147, 150) assert, despite the presence of a surplus labor pool in the deep interior. Rather than mobilize the true peons of the deep interior for harvest labor, Argentine tenants and landowners alike preferred golondrina—northern Italians who returned to Italy after the harvest (Gallo, 1986:225–29, 275–78). Only when World War I forcibly interrupted the trans-Atlantic flow of Italians did Argentine landowners mobilize low-wage interior labor for the harvest. Migratory and foreign, golondrina were politically more docile and thus more desirable than the technically enfranchised peons. But golondrinatas were such a high-cost solution to the problem of harvest labor that harvesting amounted to 60 percent of production costs for wheat.

---

3 Australian farmers typically faced harsher climatic conditions, though. For comparison, U.S. yields in 1900 were 13.9 bu/acre and in 1910 were 14.4 bu/acre; Canadian yields averaged 13.2 bu/acre in 1901 and 14.9 bu/acre in 1911. U.S. data are from the U.S. Department of Commerce (K445–485); Canadian data are from Urquhart and Buckley (1965:351).
farmers. *Golondrinas* received £40 to £50 for their four months of work, which approximated Australian wage rates and equalled about six times the peons’ wage rate. Tenant farmers quite rationally responded to the high cost of harvest labor by substituting machines for human labor. While sown acreage and the number of machines expanded rapidly, the number of *golondrina* stayed fairly constant from 1890 to 1911. By 1914, £20 million worth of agricultural machinery, including 18,000 reapers, was in use; but half as many Australian farmers used virtually the same amount (CBCS, 1914:34; Scobie, 1964:60–61, 81–82; Randall, 1978:90; Gallo, 1986:229–33).

Why this disparity? The production methods of *estancieros* and tenants were not what limited agricultural development and blocked industrial development in Argentina. *Political rather than economic consequences of the continued power of large landowners acted more to limit development.* The tenants’ political weakness reduced their ability to invest. As in Australia, “the substantial mechanization of Argentine agriculture ultimately [was] amortized from the limited profits and savings of the colonists and tenant farmers” (Scobie, 1964:82). Both Australian smallholders and Argentine tenants faced rapacious grain merchants, monopolistic shippers, and flint-hearted creditors (Dunsdorfs, 1956; Scobie, 1964; Graham, 1966; Gravil, 1985). But Australian smallholders were able to temper the exactions of these intermediaries through political action. The space created by the elimination of the graziers combined with longstanding ties with neighbors and possession of the franchise to facilitate cooperative and populist initiatives. In contrast, the Argentine tenants confronting an entrenched *estanciero* class had no ties to specific areas, were frequently moved, and as first generation immigrants lacked the franchise. Both Argentine tenants and smallholders had little success with direct action. A number of smallholder revolts in 1893 in the Santa Fe province were too early to garner support from tenants or urban workers; a tenant strike in 1912 dissipated in the face of promises to reform lease conditions and grain marketing (Gallo, 1976 and 1986). But tenants were unable to challenge consistently parasitic intermediaries. Short term credit carried interest rates running from 30 to 50 percent (Gravil, 1985:42; Gallo, 1986:ch. 9). Without these burdens, tenants undoubtedly would have mechanized even more than they did, perhaps to the levels Australian farmers achieved. To the exactions of intermediaries were added higher rents after 1900. In the area that most closely approximated Australia in terms of smallholding and industrial “backlinks,” the Santa Fe province, rent seems to have more than doubled between 1895 and 1914, while tenure periods halved (Gallo, 1986:104–05). This also reduced the tenants’ ability to invest, and—to the extent that landowners consumed rather than productively invested rents—reduced overall development in agriculture.

At this point we must consider whether the survival of large landholders also had economic effects that limited urban-industrial development. The analysts surveyed above (Ehrensaft and Armstrong, 1978; Oyster, 1979; Senghaas, 1985), following Amin (1974), would argue that industrial development depends on circumstances arising from the flatter distribution of income associated with small landowners. Tenants were unwilling to invest in housing and the accumulation of household goods or in immovable capital goods for production, like wells. This decreased consumption narrowed the market available to urban manufacturers and so made industrial development more difficult. Senghaas (1985:146–51) provides the most explicit and theoretically informed argument that in Australia farmers provided a major “middle-class” market which the tariff reserved for manufacturers. The relative success of local industry in Argentina’s Santa Fe province, notable for its high proportion of smallholders, would seem to bear this out (Gallo, 1986:246–51). But it
is hard to see demand-side effects as the sole cause of the significant divergence between Argentine and Australian manufacturing prior to World War I.

On the demand side, in both societies the rapid growth of urban and rural populations provoked wide industrialization in consumer goods production. In Argentina, output and the number of factories doubled, and the number of workers more than doubled between 1895 and 1914; the two countries had roughly the same proportion of agricultural to industrial workers. But in Argentina industrial expansion took place almost entirely in _artisnal_ shops—_the_ average number of workers per factory was two-fifths the Australian average by 1914, largely because the Australian average had grown while the Argentine stayed flat. By 1913 Australian manufacturers had roughly twice as much installed horsepower per worker as those in Argentina, employed proportionate to the population a third more industrial workers than did Argentine manufacturers, and had only slightly less capital invested in machinery and plant alone than Argentine manufacturers had invested in machinery, plant, _and_ land (OYBCWA, various dates; Taylor, 1948:121; Gallo, 1970:7–11 and 1986:246–51). Only Argentine meat packing plants, which averaged over two thousand employees each, showed a degree of concentration and capitalization approaching Australian levels.

What distinguished Australian manufacturing from Argentine was a range of supply-side pressures forcing greater capitalization and mechanization on the part of Australian manufacturers. Legislation fixing relatively high minimum wages, encouraging unionization, and enforcing no strike—no lockout provisions made it rational, necessary, and safe for Australian manufacturers to substitute capital for labor (Schwartz, 1989:ch. 4). These supply-side pressures were the result not of the proliferation of smallholders at the graziers' expense, but rather of the political opening created by the actions of creditors. The political concessions creditors exchanged for Labor's political support in the 1890s permitted a strong Labor Party to emerge after the Australian Federation in 1900, while foreclosure blocked the emergence of a politically coherent “country” interest at the federal level (Schwartz, 1989:ch. 3). Both consequences allowed parties representing workers and manufacturers to unite to pass all manner of market-distorting measures in their own interest. The tariff most analysts point to was the least important of these, and one to which the Australian Labor Party only acceded rather late.

Politics produced no such supply-side pressures in Argentina; if anything they acted against demand-side pressures. Urban workers, despite organizing by Anarchists, yearly trades union conferences after 1900, and several violent general strikes, were unable to force wages up to the levels Australians largely won through legislation. Judicious repression, concession, and fraud maintained the _estancieros_’ political dominance through 1913, and this solid “country” interest marginalized both workers and manufacturers. Where the Australian workers’ alliance with foreign creditors won them electoral reforms in the 1890s, in Argentina immigrant workers and many of their employers, already disenfranchised at the federal level, lost even the municipal franchise by the end of the 1890s (Gallo, 1986:418–28). The _estancieros_’ political survival also enabled them to shift the burden of debt service onto the urban “popular” classes through imports and tariffs, which removed any urban constituency for protectionist politics. The tax burden on workers and the urban middle classes, and their fears of a repetition of the 1887–97 inflation, caused their respective political leaderships adamantly to oppose new or increased tariffs when they came to power. Without tariffs there was no way to link manufacturing growth to agricultural prosperity; without a minimum wage owners had little reason to substitute machinery for labor; without industrial peace such investment was risky.

The differences are most profoundly expressed by the export of Australian agricultural machinery to Argentina beginning in this period.
Conclusions

The Legacy of Creditors in Australia and Argentina

Where foreign lenders liquidated large numbers of Australian graziers and then sold out to smallholders, estancieros in Argentina successfully repudiated debt and then converted to mutton, beef, and wheat production. The greater durability of Argentine landowners thus was not simply a result of besting their own labor force but also of besting foreign lenders. The Argentine state’s relative domestic weakness compared to the colonial state in Australia permitted estancieros to acquire land without incurring as much debt as Australian graziers. The estancieros’ relations with their creditors also gave them an advantage compared to graziers. The estancieros’ mortgages were held by banks they controlled, and those banks issued debt in the form of easily devalued paper peso-denominated bonds. Those same banks could use their control over emission of paper pesos to inflate away creditors’ claims. Australian graziers, in contrast, were mortgaged to London-chartered institutions (using Scottish capital) with whom they usually had a distant relationship, and control over the currency rested with the Bank of England. Finally, the foreign creditors’ greater penetration of Australian society enabled them to make alliances with subordinate classes to secure fiscal stability and continued debt service. In contrast, Argentine sovereignty and estanciero unity, itself a function of the relative absence of foreclosure, enabled an avoidance of debt service and of taxes on estancieros.6

If the story of the graziers’ defeat presented by most analyses is misguided, is their presumption that large landholding had economic and political effects blocking development nonetheless true? Clearly in terms of agricultural development, most analyses are incorrect in assuming that largeholding prevented development. Both Argentine largeholders and their tenants significantly improved productivity and output. Evidence from New Zealand, where financially secure largeholders led the transition to a more productive agriculture based on mutton production, suggests that a financially unencumbered Australian grazier class would also have developed meat production and agriculture (Schwartz, 1989:ch. 5). Argentine and Australian largeholders behaved as producers, not rentiers, during the crucial period in which the transition from extensive to intensive production occurred. Only after the transition when Argentine landowners were in a position to exploit their control over land tenancy, did they begin to behave as rentiers.

Only when we turn to industrial development does the survival of the estancieros have an effect. The estancieros’ firm control of politics down to World War I significantly delayed industrial development, not so much because they were antagonistic to industrial development but because they were indifferent. If they did not hinder industrial investment, neither did they do anything to encourage it. In contrast, the reduction of the Australian graziers’ political power permitted workers and manufacturers to consciously distort markets in favor of industrial development. Later events reinforced this pattern. As the heady days of dynamic agricultural and pastoral expansion closed during the Great Depression of the 1930s, using agricultural exports as an engine of industrial growth became increasingly difficult. Where Argentina reduced tariffs on British manufactures under the 1933 Roca-Runciman

---

6 This discussion should not be taken to imply that Australia, by virtue of its “stronger” colonial state, achieved a semiperipheral status in this period, while Argentina’s weaker state consigned it to the periphery. Argentina and Australia’s positions were roughly similar in this period, and many contemporary observers thought Argentina had better prospects. Both were “semiperipheral,” especially compared to North and Black Africa, much of Latin America, and colonized Asia. The Argentine state had the requisite strength to begin some process of state-led industrial development; the point is that there was no social base for such a policy at that time.
Pact in exchange for British imports of Argentine beef, Australia increased tariffs, deepening its on-going industrial development. Perón's attempt, however inept, to industrialize Argentina along the lines of an "Australian" model thus came not one but two full generations late. By Perón's time, the window of opportunity for industrial development on the basis of agricultural exports had closed.

*The Wider Implications of the Australian and Argentine Experience*

The differing fates of Argentine and Australian largeholders, and of Australia and Argentina, have theoretical and policy implications beyond those societies. As Argentina and Australia were nineteenth century developmental borrowers, the lessons that can be learned bear most directly on the developmental borrowers of the late twentieth century, the "newly industrializing countries" (NICs) like Mexico, Brazil, South Korea, Yugoslavia, and Argentina once more. Like Australia and Argentina in the nineteenth century, these countries borrowed to create competitive export industries; as before, declining demand and export prices in the 1980s pushed the rate of return on those investments below the level needed to simultaneously sustain debt service, investment for growth, and consumption subsidies. What are the potential lessons?

First, Argentina's lesser degree of political subjection had effects opposite to those predicted by theorists of informal empire and some types of dependency. Though the notion of informal empire contains an implicit economic determinism that assimilates sovereign "neo-colonies" to formal colonies on the basis of similar economic structures, here the tail of Argentine sovereignty seems to have wagged the economic dog. And where some dependency theorists (Sunkel, 1972; Cardoso and Faletto, 1979) assume that political sovereignty creates a space in which nationalist economic policy can be pursued, Argentina's use of sovereignty to abuse its creditors seems to have resulted in less development than in "subjected" Australia.

Second, our analysis suggests that we must look at landholders as producers and not as rentiers, and therefore at ways in which politics affected their patterns of investment. The easiest way to capture this lesson is to turn to the one comparative study (in many ways the best) that diverges from those analyzed above. Duncan and Fogarty (1985) do not see any fundamental divergence between Australia and Argentina during the period we analyze—though, to be fair, their analysis focuses largely on events after 1930. Rather, they see Australia's relative prosperity as resting on a fragile base of political practices that prevent rent-seeking social groups from distorting markets, particularly for the crucial mineral and agricultural export industries. They argue that Argentine economic failure, in contrast, is a consequence of the distortions introduced by inflation and the Perónist project of soaking agriculture for industry's benefit. But put in these terms, it is clear that a significant divergence between Argentina and Australia had already occurred by the end of the nineteenth century. Both of the debt crises of the 1890s went through two phases: in the first, capital sunk in investments that could no longer generate sufficient revenues or profits to cover both debt service and reinvestment was destroyed; in the second, capital liberated by this destruction was redeployed into more productive enterprises capable of generating funds for both debt service and reinvestment. In this two step process, Argentina and Australia followed opposite paths.

Where the Argentine state and its landholding social base were willing to distort markets massively through inflation and default so as to protect their interests during the first phase, they happily allowed markets to take their course during the second phase. Argentine capital did convert from low productivity wool into higher productivity meat and grain production, but much of this investment involved the capture of tenants' rent, not profit. In contrast, the Australian colonies prior to Federation were unable to protect domestic social groups, primarily graziers, from
the consequences of overborrowing. In the first phase, markets took their course and lenders foreclosed debtors. After Federation, the Australian state used its newly constituted powers to distort wage and investment markets to the benefit of urban manufacturing. In the long run Australian manufacturing proved capable of generating high returns in the form of profit, however inefficient it may have been relative to world standards. Duncan and Fogarty’s caution against government intervention thus seems one-sided. While governments can structure markets to reward rent seekers, markets can independently evolve around rent with equally pernicious effects. The lesson here is that governments may be better at picking who should win, after someone else has decided (and perhaps taken the blame for) who should lose. This does not imply that “markets” necessarily or efficiently decide who loses, for, as we saw above, everyone deployed political power to distort markets in defense of their claims on profits.

Though it is beyond the scope of this essay to investigate current practices among the indebted NICs and their creditors, the contrast between Australia and Argentina in the last century suggests that it is better for states to let creditors destroy the weakest sectors of the economy during the first phase of a debt crisis, and only later to intervene to direct investment into areas not just capable of generating large returns but also of extracting them in the form of profit, not rent. Among the Latin American NICs, the tendency has been to duplicate the Argentine experience. States have intervened to soften the impact of the first phase of the debt crisis through continued inflation, socialization of private enterprises’ foreign debt, and de facto defaults disguised as reschedulings. Only South Korea among the heavily indebted has practiced an Australian-style destruction of inefficient firms during the first phase. Though there is no evidence yet of any massive redeployment of resources into more productive enterprises, particularly in Latin America, it is not surprising that the South Korean state most resembles the colonial state in Australia in terms of its autonomy from domestic social groups, and that South Korea has borne its debt burden more easily than any of the Latin American countries so far. The penetration of Latin debtor states by domestic social groups can only increase during the current period of democratization, suggesting that Argentina and perhaps the other Latin American NICs will continue to play “Argentina” to South Korea’s “Australia.”

References


