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LATIN AMERICA AND THE INTERNATIONAL ECONOMY, 1870–1914

INTRODUCTION

The half-century following the wars of independence in Latin America, that is to say, the period from the 1820s to the 1860s or 1870s, had been generally disappointing in terms of economic growth, although here and there, in the niches of a somewhat ramshackle but nevertheless changing structure, modest material and organizational gains were made. Over the region as a whole, the uneven diffusion of commercialization during the colonial period had left a complex mosaic of capitalist and non-capitalist relations of production, ranging from reciprocal labour networks, slavery, other compulsory labour regimes and debt peonage to share-cropping and various forms of tenant farming, wage labour and small-scale commodity production by artisans and smallholders. Communal ownership of land still existed alongside privately held properties both large and small, while other rural holdings were controlled by ecclesiastical and public authorities. Gradually, however, over the course of several decades, relationships more compatible with capitalist modes of interaction gained ground as long established colonial mechanisms for allocating resources fell into disuse and the world capitalist system expanded. A half-century of incremental change had not been enough to transform the economic organization of Latin America, but it did sufficiently alter conditions for the more sweeping institutional and technological developments of 1870–1914 to get under way.

The regulatory systems established during the colonial period were being dismantled at the same time as public administration was breaking down and new, sometimes contested, national boundaries were being drawn. These developments disrupted local commerce and in many instances halted the former inter-regional (but by then inter-country) currents of trade within Latin America, while the strong gravitational pull of the expanding North Atlantic economies reoriented economic life towards a slowly growing participation in global trade no longer determined by Iberian commercial policy. For example, an export boom in Peruvian guano had begun in the early 1840s; in the same decade Chilean mineral and Argentinian wool exports also began their rapid growth; Brazilian coffee exports also gathered momentum; and some other notable gains, mostly in agricultural exports, were registered elsewhere before 1870.

Even as they brought important new opportunities for growth, the dislocation of trade following in the wake of this reorientation entailed costs for several elements in the regional economy: dwindling artisan production and the virtual extinction of manufacturing workshops or *obrajes*, economic decline for some areas, a decay of inter-regional transport systems. But what was perhaps in the long run one of the most significant institutional losses could hardly have been foreseen at the time. The integration of the region into the world economy and the corresponding ease of borrowing from abroad helped to stifle whatever potential for a local production of technology might have survived the Spanish crown's attempts at modernization in the closing decades of the colonial era, as well as to hinder the development of manufacturing experience within the Continent. Such technological transfers as did occur raised productivity in the Americas and thus undoubtedly increased aggregate output more rapidly than would have happened in their absence. But the fact remains that this type of cross-cultural borrowing did not succeed in persuading or helping the borrowing countries to undertake their own home-grown technological improvement. Cost–benefit relations made it far easier – and more rational – in the short term to acquire new 'off the shelf' methods of production from Europe rather than to establish the kind of social milieu that would have encouraged local generation.

As control and use of the economic surplus shifted from the imperial rulers into the hands of the new national governments, factional disputes combined with interregional rivalries and political-administrative inexperience to breed policy conflicts that were fully as disabling for the conduct of business as the almost complete breakdown of the colonial financial structure had been. Punctuated by repeated *coups d'état* and military uprisings, the aftermath of independence had been, in fact, a period of exceptional political fluidity. It is not always easy to ascertain the correlation of social forces that shaped the somewhat erratic national economic policies of the post-independence period. New currency systems interjected new uncertainties, as did the frequently disordered state of public finance. The inefficiency, indiscipline and corruption which plague so many of today's new states were no less baleful and widespread then. And these were to some extent the cause of the not inconsiderable instability and insecurity that afflicted the contractual-legal environment, especially for larger-scale operations and transactions extending over longer periods of time.

Unfortunately, such institutional disturbances had handicapped Latin America during a period in which the real volume of world trade was rising and, after 1850, increasing at a possibly more rapid rate than even that which obtained between 1870 and 1914. Population growth in Europe and North America, the investment accelerator effects of this growth, together with changes in the technology of production and transport, interacted on the metropolitan economies to increase the capacity to export and import. With the passage of time, this would open up ever more attractive trading opportunities for Latin America when its political environment should improve. Until that moment came, and despite the many failed ventures of the pre-1870 period, much information of eventual economic value on the resources and production possibilities of the region was being accumulated. European mercantile beachheads had been established in the major ports and other principal population centres, new shipping routes connected Latin America with North Atlantic growth centres and, increasingly, the means were at hand for tapping European, and, to a lesser extent, U.S., capital and money markets. All the while, influential segments of Latin American society were acquiring a fuller appreciation of what might be in store (for them, at least) if ties could be successfully consolidated with the vanguard of the industrial revolution.

As Latin America moved into the last third of the nineteenth century, the business climate, which since independence had for the most part been disturbed by political instability, began to acquire a more settled character. So, too, did the transaction of framework derived from law and public policy. This is not to say that the dominant atmosphere of Latin American political life was one of serene sobriety. Flamboyant individuals still thronged the political stage of *fin de siècle* Latin America, and its salient characteristic was often a disequilibrating factionalism. Manipulation of electoral processes was commonplace. More than just occasionally, political life harked back to the earlier part of the century. Yet, notwithstanding episodic disputes among regions, classes and factions, government authority gradually came to be more stable and more comprehensive. Moreover, serious international conflicts were, perhaps surprisingly, few, the most consequential being the War of the Pacific, 1879–83, in which hapless Bolivia lost its access to the sea and both Bolivia and Peru were relieved by Chile of their major nitrate deposits.

Brazil, Chile, Argentina and Mexico stood out from most of the other Latin American nations in the degree to which domestic political stabilization allowed the machinery of state to be devoted to securing the policy basis of material prosperity. In the case of Brazil, which had escaped the earlier troubled times of Spanish America, the long rule of a progressive and enlightened monarch of the best nineteenth-century European type culminated, during 1888–9, in a remarkably peaceful abolition of slavery and the inauguration of a republic. Save for a short civil war in the early 1890s, stability was never seriously shaken and reasonably constructive political guidance enabled a favourable investment climate to be maintained to a degree that attracted much foreign notice and enabled the economy to derive considerable gain from the new export boom that was transforming the economic and geographical patterns of the nation. Chile, too, relatively stable even before 1850, had had a head start in building an economic and social environment relatively conducive to material progress. Interruptions came in the form of the War of the Pacific (although this considerably augmented the Chilean resource base) and in the civil war in 1891 that terminated the nationalistic and interventionist Balmaceda administration. But there, as in Argentina, which until 1880 was subject to extreme internal conflict, a class of improving landlords joined forces with a plutocracy of mercantile and financial origin (and, in the case of Chile, of mineowners) to establish a coalition that presided over a long wave, albeit subject to fluctuation, of economic expansion. So successful was oligarchic rule in Argentina that an area which had been largely empty at the close of the colonial period emerged as an economic heartland remarkably receptive to the new ideas, attitudes and modes of conduct, and the new methods of production which were promoted by the country's international economic contacts. In Mexico, the other major locus of economic growth in the 1870–1914 period, which had suffered a half-century of almost unrelieved turmoil after separating from Spain, an increasingly autocratic period of liberal rule known as the *Reforma* gave way in 1876 to the Porfiriato, a firmly authoritarian administration that enforced political stability on the country and wooed foreign business until its collapse in 1911. While the government of Porfirio Díaz left much to be desired from the standpoint of liberal democracy, it was received with accolades by the foreign investors of the day who perceived the fortunes to be made from linking the diverse resources of Mexico with the rapidly growing markets of the United States and Europe.

The record elsewhere in Latin America during this period was uneven. Most often, where some semblance of political order was attained it came about under the aegis of dictators, some of whom proved to be quite durable, for example, Antonio Guzmán Blanco (1870–87) and Juan Vicente Gómez (1908–35) in Venezuela, Justo Rufino Barrios (1871–85) and Manuel Estrada Cabrera (1898–1920) in Guatemala. Even in the more politically disordered states, however, the expected rates of return on at least some business ventures and bond issues evidently reached the level necessary to induce entrepreneurs and investors, both domestic and foreign, to shoulder the tasks of setting up new trading, agricultural and small industrial enterprises, if only firms catering for the more affluent consumers of the capitals and other major urban centres.

In other words, by the 1870s, major portions of Latin America came to offer a much more hospitable – which is to say reliable – investment climate for foreign capital than they had hitherto, reinforcing the basic cultural affinity that gave Latin America closer and broader links with the capital-exporting countries than were enjoyed by Asia, Africa or the Middle East. (In these areas, political subjugation was a partial substitute for cultural affinity in establishing the economic intelligence systems and common framework of transactions and expectations associated with the spread of a world market.) Greater stability in the institutional framework of business not only increased the attractiveness of Latin America for foreign investments, it also aided domestic capital accumulation and local private investment. It had as well a direct bearing, through effects on risk calculations and debt amortization experiences, on the not inconsiderable flow of capital moving from the capital markets of the North Atlantic economies to the public sectors of Latin America, a flow which was probably much more profitable to the financial intermediaries and political insiders who put these deals together than it was to either the ultimate borrowers or the ultimate lenders. While the years from 1870 to 1914 were clearly those of high capitalism, with all that this implied for reliance on the private sector, it should not be overlooked that these massive transfers of resources also occurred through the mechanism of government borrowing, with a substantial improvement in the region's infrastructure (and the growth of its external debt) as the result.

Further, while governmental improbity and a certain suppleness in fiscal administration were far from being eradicated anywhere in the region, regime stability, whatever its human costs, tended to raise the effectiveness with which long-term capital transfers were put to use, if only because there was less of the wastage and pilfering associated with frequent and irregular changes of government, and because there was rather more opportunity for administrative competence to build up through learning by doing. There can be little doubt that social investment was more efficiently carried out in, say, Argentina or Chile than it was in Bolivia or Ecuador, in Mexico or Brazil than it was in Haiti or El Salvador, although this is not to deny that, from the standpoint of long-run growth capabilities, substantial amounts of resources were misallocated, by governments and markets alike, in even the leading economies of the area.

If more stable political conditions contributed to the growth of investment, production and trade, the relation was not only unidirectional but also interactive inasmuch as the growth of export earnings and hence the capacity to import eased the collection of resources for government-sponsored investment and current expenditures alike. The long-term rise in trade taxes, chiefly from duties on imports, gave governments a far more ample fiscal base than they had enjoyed previously, both directly in the form of the revenues themselves and indirectly in the form of the increased volume of loans which could be floated abroad thanks to projected tax receipts. The public finances generated by external sector growth, in turn, not only enabled governments more readily to purchase the means of repression (an aspect that has probably been overplayed in political history) but also provided the wherewithal for avoiding recourse to a heavier burden of internal taxation, always the occasion for political conflict, and for generating the employment and profits that would increase regime acceptability among important local constituencies. The swelling of public payrolls may have been decried as *empleomanía* by more than one contemporary critic, but it afforded a politically convenient way of dealing with those who, if left to their own devices, might have proved troublesome.

In the long run, it was resource complementarities with the world market that played a major role in governing how the individual Latin American economies would respond to the opportunities presented by the growth in world trade. The entire nineteenth century was marked by general export expansion, with world trade in primary products growing more rapidly than the world trade in manufactures until the last quarter of the nineteenth century, during which period the two rates of expansion were approximately equal, at around 3 per cent annually. After the turn of the century, trade in manufactures grew more rapidly, at a rate of 4.5 per cent per annum compared with around 3 per cent for primary commodities. The regional impact of these trends was substantial, if so diverse, however, that increasing heterogeneity was already characteristic of the region as it approached the last quarter of the century. Yet the wide divergence of experiences among the Latin American countries in exporting basic commodities was only partly explicable in terms of national resource endowments and the social implications of differing production methods in export industries. Institutional conditions within the republics also helped to pattern their differential economic performances. It was in this connection that political stability and continuity were such influential factors, not least because they were so intimately related to the international movements of capital, technology and, in some instances, labour that created resources out of the natural endowments of land, minerals and climate.

What happened in Latin America between 1870 and 1914 is, in one sense, indisputable. The principal engine of growth in this period was industrial production in countries of the economic centre, with its concomitant social and economic changes. The aggregate growth rate in these advanced economies was largely determined by the rate of growth of industrial output, which in turn determined the rate of increase in the demand for exports from the peripheral economies, including those of Latin America. At the same time, gains in the size of the centre's economic surplus, as well as changes in its composition, gave industrially advanced regions the technical and economic means for drawing peripheral regions ever more closely into that economic field of gravity, the capitalist world market.

As part of this global process, Latin America became increasingly integrated, or, as it is more commonly expressed in Latin America, 'inserted', into the overarching structure of articulation provided by the world market system. Among some scholars this process is thought to have begun with the Conquest; for others, around the middle of the eighteenth century. The degree to which the economic systems of Latin America and those of North Atlantic capitalism were engaged before the middle of the nineteenth century, however, need not concern us here. What is more important for present purposes is that by 1870 the process was, for most of Latin America, well under way and, indeed, even accelerating. That the growth rate of world trade in primary products may have averaged somewhat higher before 1870 (e.g., around 4.3 per cent per annum from 1853 to 1872) than it did thereafter (around 3 per cent per year from 1872 to 1913) does not contradict the increasing influence of the world market on domestic patterns of resource allocation in Latin America. For one thing, the absolute size of increases in the global commerce in primary commodities was generally rising even when, for reasons of an expanded statistical base, the rate may have slipped. For another, world commerce in manufactures increasingly incorporated trade in investment goods, with which substantial portions of the production systems of Latin America were transformed between 1870 and 1913.

The growth of the Latin American external sectors was not a steady process, for it was hindered by periodic instability in the core economies of capitalism. The post-1873 crisis, for instance, brought some weakening of export prices and necessitated a rescheduling of the foreign debt of Honduras, Costa Rica, the Dominican Republic, Paraguay, Bolivia, Guatemala, Uruguay and Peru. Argentina, Chile and Colombia were also deeply affected. The recession in the British and French economies in the middle to late 1880s had a lesser impact, but the economic crisis in most of the advanced industrial countries during the early to mid-1890s coincided with the Baring crisis, default by Argentina, and a big dip in foreign lending generally. Mexico, with its increasingly unpopular political regime, suffered particularly from the 1907–8 recession, a slowdown which was also felt elsewhere. Export price instability further complicated the picture. Cotton, wool and wheat prices, for example, generally declined from the late 1860s to the mid-1890s. Coffee prices fell in the early 1880s, rose sharply thereafter, then declined even more to the early 1900s. More comprehensively, the terms of trade for primary products moved somewhat adversely in the 1880s and 1890s, but improved in the early 1900s. The external sector, then, was not an unfaltering source of support, even before the severe crises of the twentieth century.

Variations in trade volume and prices aside, however, the fact was that Latin American economic expansion in the period under review remained overwhelmingly export-led and therefore primarily induced by the pull of demand in the advanced industrial economies. To this impetus the Latin American economies reacted in varied fashion, with the result that structural differentiation among the countries and regions of the hemisphere, which of course existed before 1870, increased even further. By 1914 the economic contrasts in Latin America were far sharper than they had been a half-century or so earlier. A reorientation of economic processes to the world market and unequal development across sectors and regions were both, in fact, defining characteristics of the era. On this much there is more or less general agreement. Where scholars part company, however, is in interpreting the details of how this process came about in the first place and in assessing its implications for future policy alternatives in the area. The chapter will conclude with an examination of these differences of interpretation. First, however, it is useful to look more closely into the specific ways the international economy impinged on economic organization in Latin America. Product markets, above all export product markets, inasmuch as it was the swelling demand of the North Atlantic industrial centres for imports that propelled Latin American economic life forward, will be considered first. The adaptive response of the Latin American economies will then be reviewed through an exploration of changes in factor markets: land, labour and capital.

EXPORT MARKETS

As Latin America was drawn more deeply into the Atlantic economy, far-reaching changes in the pattern, and in some cases the geographical location, of production occurred in response to overseas demand for the area's minerals and its pastoral and agricultural products. Both consumption goods and industrial raw materials were shipped abroad in rising volume.

In the River Plate, a region that had counted for little, commercially speaking, even at the very end of the period of Spanish imperial rule, the opening up of Argentina and, on a smaller scale, Uruguay produced a stream of temperate zone commodities, notably livestock products and cereals. Improvements in sheep herds, through the importation of blooded stock and cross-breeding, combined with a substantial spread of sheep grazing to yield notable results even before mid-century; the growth of the industry continued at a rapid pace thereafter. From an export of only 1.6 million kilograms in 1840, for example, Argentina was able, on average, to export nearly 45 million kilograms of wool annually during the decade 1860–9. By the 1880s, wool exports averaged well over 100 million kilograms a year, and the annual average for 1895–9 reached 211 million kilograms. Wool exports subsequently fell, however, to an average of only 137 million kilograms in 1910–14. In Uruguay, foreign sales of wool and other products of sheep-farming tripled between 1876–80 and 1896–1900. While the total volume of Uruguayan production was much smaller than that of Argentina, the industry figured much more prominently in the export lists down to the end of the period. Wool exports from the two countries went mostly to the continent of Europe – chiefly France, Germany, Belgium and Austria. In 1913 a little under a fifth of the wool exported from the River Plate entered the British market.

In Argentina other export industries were experiencing substantial growth as well. Hides, a traditional product, earned about two-thirds the value of wool exports over most of the period and almost doubled in aggregate value from the mid-seventies to 1910–14. It was the development of refrigerated shipping in the 1870s, however, that paved the way for the swift rise of meat shipments from Argentina, and, to a lesser extent, Uruguay. Mutton was at first favoured, but by the turn of the century beef began to overshadow the volume of mutton being shipped out, thanks to an upgrading of the quality of herds and other technical improvements made after the 1860s. By 1910–14 the value of frozen and chilled beef exports, two relatively new products, had grown from the very small fraction of mutton exports that frozen beef shipments had represented as late as 1890–4 to six times the value of mutton exports. In volume, frozen mutton and lamb exports grew from 36,486 tons in 1894 to 58,688 tons in 1914; frozen beef, from 267 tons in 1894 to 328,287 tons in 1914. In 1914 there were also chilled beef exports amounting to 40,690 tons. And canned meat exports rose over the same interval from 1,374 tons to 13,590 tons. At the close of the period Uruguay was selling abroad about a fifth of the Argentine volume of frozen beef exports and about 15 per cent of the Argentine exports of mutton. Europe was the destination of virtually all shipments of meat