

## **LIBERALISM AND ECONOMIC GROWTH IN ARGENTINA, 1870-1914\***

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This paper was written by R.M. Hartwell on the basis of some notes by E. Gallo (Di Tella Institute, Buenos Aires, Argentina) which suggested the importance of 1853 constitutions and the subsequent legal codes for understanding the economic history of Argentina, and which questioned the conventional wisdom about the economic inefficiency of the tenant system which dominated the rural life of Argentina before 1914. Hartwell, however, claims full responsibility for the particular interpretation here expressed; the paper as presented was neither seen nor criticized by Gallo.

### **I**

There was remarkable economic growth in Argentina between 1870 and 1914, as measured, particularly, by increasing population, expanding settlement, rapidly increasing agricultural production, and a growing export trade of agricultural staples. The national population, 1.7 m. in 1869 and 7.9 m. en 1914, was built up not only from natural increase but from an immigration of 2.6 millions, so that in 1914 forty per cent of Argentina's population was foreign born. The migrants were strategically important in Argentina's progress, because they were mainly responsible for the increasing agricultural output –in cereals, sugar, cotton, wine and fruits– and, through their cultivation of Lucerne, for the increase and improvement in cattle herds. The immigrant both colonised new land, and intensified

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production on already alienated land. In the South Indian hostility had made settlement difficult their defeat in the war of 1879-80, but with the opening up of the south, and of the west and south-west, the whole of the area that now constitutes Argentina became available for development. But, in the context of traditional ranching, change was greatest in existing pastoral areas. Migrants after 1870 formed more than a hundred new settlements on land hitherto had been used exclusively for grazing; they established wheat and maize farming and pioneered extensive sugar-cane and grape production. This agricultural expansion, which has been linked to the Western movement in the United States, dramatically changed Argentina's status in the world of primary producers. Argentina became one of the world's largest exporters of food, and in the years before 1914 had a substantial surplus on commodity account in her trade with the world; from Britain, for example Argentina in 1913 was importing goods worth £ 18.6 m. in exchange of exports worth £ 40.7 m. Briefly, this favourable position was achieved because of two trends –one of increasing world demand for raw materials and foodstuffs, and the other of increasing agricultural productivity within Argentina– and two institutional changes –first, the establishment of constitutional government and the rule of law after 1853, and then a system of land tenure that encouraged settlement and increasing production. Argentina's prosperity was based on an increasing supply of primary products, much of it produced by tenant farmers that were strongly demanded in a Europe that was industrializing and increasing in prosperity.

Argentina's export staples were wool, beef and wheat. In the middle of the nineteenth century the Pampa had been devoted largely to sheep and cattle grazing on natural vegetation. Arable was confined mainly to the region near Buenos Aires, both because population, and hence demand, was low elsewhere, and because transport was primitive. The grazing land of Argentina, however, differed from such land elsewhere in the areas of recent settlement, like the United States and Australia, by being fertile and humid, and therefore as well suited for arable as for pastoral farming, and also by being already alienated in large private states and in not being part

of a public domain. There as no frontier movement into free land, as in the United States, and no effective policy of closer settlement on small individually owned farms. The commons of Argentina had been converted to private owner-ship before active development commenced, and even when the new land became available after 1870, in the west and south, it was quickly alienated, again in large estates. But the *estancia* owners did not have the labour available for intensive arable farming, and the improve cattle breeds needed better and more food, mainly imported, by enclosure through fencing, and by the growing of Lucerne, in rotation with cereals, as a fodder crop. The essential agricultural labour in this transformation was provided by Spanish and Italian immigrants many of whom were attracted by leasing contracts which suited them and the landed proprietors. Immigrant farmers accepted short-term leases on a share-cropping basis, growing cereals and, in the last year of the tenancy, Lucerne which would last up to ten years as a fodder crop before replanting was necessary; they then moved on to another holding, and repeated the cycle. Under this system cereal production became a major staple of the economy in conjunction with pasture-improvement and cattle grazing.

The results, in quality and quantity, were remarkable. In 1860 the major exports of Argentina were hides and wool. Most of the cattle were descendants of those introduced by the original Spanish settlers; the sheep were mainly of merino origin. The introduction of British cattle and sheep breeds, both aimed at meat production, changed the character of the locks. In 1870 Argentina's beef exports were of poor quality and meat came third behind wool and leather in the country's exports; by 1914 Argentina was the largest exporter of beef in the world and a considerable exporter of mutton. In cereal production, the story is similar, with the area under production increasing from a half million to twenty million hectares between 1870 and 1914, and Argentina becoming on of the world's largest exporters. In 1871, when Argentina's wheat was first exported, virtually all exports were pastoral; by 1900 Argentina was the third largest wheat exporter in the world and wheat was the country's leading export. These changes are commonly related to the expansion and intensification of

settlement, to immigration and capital imports, to the expansion of railway network, and to improvements in farming technology in the contest of expanding world demand. Less attention has been given, however, to the constitutional and legal reforms that followed the writing of the 1853 Constitution, and to the role of the tenancy system in encouraging settlement and expanding production. These provided the institutional framework, ‘the rules of the game’, and the particular property rights structure, which allowed successful agricultural enterprise to flourish.

## II

In 1869 the census of Argentina, after half a century of independence showed a country of a million square miles sparsely inhabited by a million and a half people, a small urban population, a few trading centres, a large number of subsistence farmers, and a small number of ranchers on large estates, a sort of provincial aristocracy. A long period of political chaos and economic uncertainty had left Argentina with a traditional society and a primitive economy.

Argentina after Independence had retreated from constitutionalism, even though the first president, Rivadavia, had believed in political democracy and economic liberalism. But he could not curb provincial *caudillismo*, and it was the ruthless Rosas, using violence as the main instrument of power, who won the army’s allegiance and established control over society by a combination of force, patronage and charisma. It was Rosas, also, who frustrated the well-meaning attempts of Rivadavia to conserve the public ownership of land by *enfiteusis* contracts (long-term rentals of public lands). Rosas renewed or sold such contracts, giving existing rent holders first rights of purchase and allowing the formation of large estates. These and other measures meant that much of Argentina’s best land was alienated in private estates before the arrival of large numbers of land-hungry immigrants. Argentina, like so many other countries of South America, could have continued as a society and

economy dominated by force, patronage and plunder, but instead emerged in the second half of the century an Argentinean version of liberal democracy. Just as Argentina had been, earlier, the centre of a new political philosophy that had sanctioned revolution and independence, now it inspired liberalism with a Constitution that was based on that of the United States and on Alberdi's bases. This constitution embodied the nineteenth century doctrines of individual freedom, private property and *laissez faire*, and succeeded because it suited the desire of all classes for political stability and economic prosperity, and because enlightened presidents guided development in reasonable conformity with the constitution and increasingly with the help of a liberal patriciate. Alberdi's famous dictum that 'to govern is to populate' justified a positive role for the states in the pressing task of increasing the work-force of the nation by encouraging immigration. The state also was to encourage the migration of capital, especially to provide a transportation system of railways and ports. And so, along with injunctions about property and liberty, a role for the state was written into the constitution. Between 1853 and 1870, on the eve of Argentina's 'take off', an impressive body of legislation was passed by the Congress, including the civil, commercial and penal codes, which for the first time legislated clearly on property rights and on penalties for the violation of those rights. At the same time the strengthening of government institutions made possible the enforcement of this impressive body of legislation. Weber has described such development as legitimization through effective bureaucracy and public respect for rational law, and although the rewards fell differently, with the old oligarchy of landed proprietors faring best, the immigrant farmers and the growing middle class also benefited from a stable and prosperous economy. By the 1870's national leadership was passing from the reformers like Mitre and Sarmiento to a landed aristocratic elite led by Roca who used liberal arguments to justify their power, and also the economic policies that were so successful in encouraging Argentina's economic growth.

Argentina's history between 1853 and 1916 can be seen as a successful compromise between a world of democratic self-government and one of

beneficent oligarchy, and between a world of economic liberalism and one of beneficent intervention. The results were that high degree of *laissez faire* that encouraged enterprise and growth, and that sufficient degree of intervention that maintain political stability and encouraged capital and labour migration. The result was what J.R. Baragar has called, 'the agrarian revolution' of the 1880's and beyond.

### III

Two institutional features of Argentina partly explained the remarkable nineteenth century growth: the comparative smallness of the public domain available for closer settlement, and the share-cropping tenancy system which constituted a high proportion of total farming by 1914. The new countries of the world developed mainly by the progressive alienation of public land into small-scale family farms; as the frontier advanced, so did settlement. That is what happened in North America and Australasia. In Argentina, however, 'the great common' had been largely dispersed before intensive agricultural development commenced. Land in Argentina by 1870 was not 'a free good' to be acquired by occupancy; it had to be bought or leased, and the unique feature of Argentina's development was the proportion of tenancy. By 1914 sixty per cent of farmers were tenants, a higher figure than in other areas of recent settlement, even though there had been a sharp increase in the percentage of tenants in similar regions in other parts of the world, for example, in Australia. The direct reasons for the rise in tenancy were the shortage of public land and the size of land-hungry immigrant population, but the actions of both landowners and tenants to support the system over a long period of time indicates, also, that it was mutually advantageous. Tenancies continued to come into existence, not because farm owners lost farm ownership, but because immigrants and hired labourers contracted *de novo* as tenants. The system, in retrospect, was highly successful, in the sense that there was remarkable economic growth. Perhaps a different system might have

produced greater growth, but that counterfactual has never been tested.

Nevertheless a rhetoric of disapproval emerged, later confirmed by historians, which stressed the evils of tenancy, both in terms of its alleged exploitation of the farmer, and also in respect of its alleged inefficiency. Certainly tenancy caused mobility, with farmers moving frequently as leases expired. Certainly the crop share paid as rent, increased rapidly after 1895; in Santa Fe province, for example, the percentage increased from 15 to 40 percent between 1895 and 1910. But mobility allowed a selection process whereby inefficient farmers tended to lose tenancies or to move more frequently; and increasing rents reflected general price trends, with prices rising after 1895, and productivity, which was increasing rapidly after 1900. On inefficiency the argument was that the tenant had little incentive to innovate or to invest in long-term improvements. But again the argument can be challenged, for it was in the interest of the tenant to maximise the crop yield, and in the interest of the landowner to keep the land productive. Nevertheless there was considerable agitation after 1910 for reform of the land tenure system and in 1912 there was a general strike by tenants against rents.

Recent literature on the economics of property right has questioned whether tenancy and share-cropping are necessarily inefficient compared with owner farming. Given a carefully defined incentive structure, tenant farming can be, and in many countries have proved to have been, economically efficient. Efficiency depends basically on enterprise and rewards. A key variable, as Alfred Marshall pointed out long time ago, is the degree to which entrepreneurial functions are exercised by the tenant. On estates combining pasture with arable, with the land-owner as cattle-breeder and the tenant as farmer, the entrepreneurial function remained with the land-owner, and leases for tenancy usually included clauses that restricted the freedom of enterprise of the tenant. Again while the landowner was interested in converting 'hard grass' into 'soft grass' (Lucerne), there was a tendency to use short leases (often for three years) with a crop rotation that concluded with Lucerne. In this way, millions of hectares of arable were converted into high-quality cattle pastures. But the wealth

brought to the cattle-owners by this system led to increasing rents and increasing absenteeism, to a reversion to arable and to the growth of new crops like maize. There was also, on large estates, a great deal of sub-contracting, with further subdivision by the sub-contractors into tenant farms of 150 to 400 hectares. The incentives in these developments, for both the land owner and the tenant, had not been examined systematically, although the size of the tenancy holding has been commented on continually.

It is possible to argue that the tenancy system was inefficient and had a negative effect on agricultural productivity. The common sense view, however, is that the system quickly allowed the expansion of farming in Argentina and led to a remarkable improvement in productivity and output. The system had other advantages: it allowed the hired agricultural labourer, the newly arrived immigrant and the unlanded Argentinean farmer, to acquire farms; it enabled such people to get farms and to work in them with very little capital; it enabled many of such people, in the long run, to become land-owners themselves. And there is no doubt that the ability to acquire leasehold farms was the most compelling bait that induced large-scale immigration. The system also led to the effective breaking up of many large estates into as many as hundred tenant-operated family-worked farms. In these cases, although ownership did not change, the operating unit was much reduced, and the number of farm families supported by the same acreage greatly increased.

For these various reasons Carl Taylor, writing about rural life in Argentina in the 1940's, and, in particular, about 'what it means to be a farm tenant in Argentina' concluded: 'By tenant operation a farmer can produce on a large scale with relatively little or no capital. In cases where the land-owner furnishes all or the major part of the working capital a tenant can farm hundreds of acres of wheat with very little capital. He furnishes his entrepreneurial capacity and the labour of the family, employs additional labour for harvest and takes relatively little financial risk. If the yield is average and the export market good he makes considerable money'. Was it much different between 1880 and 1914?



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