4 The Argentine Economy, 1890–1914: Some Salient Features

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The modern political economy of Argentina dates from around 1860. At this point came the first of the great export booms led by wool, and the formation of a national state. From this time forward Argentina’s population and its chief cities grew rapidly. Its lands were settled by European immigrants. It drew in foreign capital for the development of its railways and a wide variety of urban amenities: tramways, sewage and gas works, and, later on, electricity. Production, now integrally linked with world markets, underwent rapid expansion. This economy persisted largely unchanged until the coming of the world depression in 1930.

Within the whole 70-year span between 1860 and 1930, the period which best exemplifies this dominant quality of expansion and growth is that between the depression of 1890 and the outbreak of the First World War in 1914. At this point the pace of change and development was fastest, and confidence in the country’s potentialities at its highest. This period, before all others, was Argentina’s great step forward. The country embarked into the twentieth century on a wave of promise and prosperity which had few equals throughout the world.

Yet the 1890s began inauspiciously in the midst of financial collapse, caused mainly by recent overborrowing from abroad, and with the threat of political breakdown. Soon after the financial crisis struck in 1890, an attempted revolution brought the overthrow of President Miguel Juárez Celman. Afterwards came several more lean and gruelling years. After Juárez’s fall his immediate successors as president, Carlos Pellegrini and Luis Sáenz Peña, struggled to avoid default on the foreign debt. For some time the government could do little but attend to

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this issue, while battening down on renewed expressions of political discontent. The depression deepened in 1891. The gold premium, which measured the depreciation of the paper peso against gold, increased from an average of 151 per cent in 1890 to 287 per cent the following year. In January 1891 Pellegrini successfully persuaded the government's main creditor, the British merchant banking house Baring Brothers, to accept a moratorium on large slices of the debt. The year 1892 marked some improvement. However, the following year brought more difficulties when the wheat harvest failed. Export earnings, whence came the resources to settle the foreign debt, plummeted steeply once more. In 1893 the Sáenz Peña government was obliged to renegotiate the external debt once more, and to seek further postponements on its interest repayments. With the 'Romero Deal' (Arreglo Romero), as it was known after the Minister of Finance who led the negotiations, many interest charges were deferred until 1898, and amortisation repayments delayed until 1901. Another result of this renegotiation was that the national government assumed responsibility for debts of the provinces contracted during the past decade. But it did so on condition that the provinces surrender control over several local revenues and taxes. The crisis of the early 1890s thus released new centripetal impulses and reinforced the concentration of power in Buenos Aires, which had been a salient feature of the period since 1860.1

Despite the severity of the depression, the longer-term outlook was not unfavourable. Once the debt problem had been brought under control, there was every possibility that expansion could be quickly renewed. This depression did not produce major shifts in world trade, nor a redistribution of international economic power. Although commodity export prices had fallen, the crisis was, at root, financial in nature. Its effects were more severe among borrowers in Latin America than among the industrial countries. In the 1890s Argentina still possessed an enormous land reserve in the pampaean region suitable for export production. As was the case under similar circumstances in the 1870s, the way to surmount the depression was to increase production and exports. Here the high gold premium which prevailed during the depression began to prove itself a disguised blessing, since it meant that local costs of production fell faster in gold terms than commodity prices on the world market. As this margin widened, it fostered opportunities for profit and incentives to increase production. Recovery was also assisted by the completion of railway construction at the height of the depression, which had been contracted and financed in the late 1880s. Between 1890 and 1892 the railway track length grew more than a