BRITISH OVERSEAS INVESTMENT IN THE LATER NINETEENTH CENTURY: ARGENTINA AND SOUTH AFRICA

by

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I

South Africa and the republics of the River Plate owed their development over the first two-thirds of the nineteenth century to the rapidly growing demand of industrial Europe for hides, wool, and other pastoral commodities. In each area the exchange of raw materials was managed by private merchants, generally organized in partnerships. Typically, these men were recruited from the hinterlands of the European ports. Sons of Leeds and Remscheid manufacturers, Glasgow and Hamburg merchants, they were often sent overseas as super-cargoes and formed an attachment with one of the houses with which they dealt, or else were despatched to join or set up a branch of an existing family firm.

So long as land in the temperate zone of the southern hemisphere remained relatively cheap and the commodities it could produce dear, there was a great incentive for such merchants to invest in stock-breeding or viticulture, or merely to hold land for the rise in value effected by the slow but steady improvements in transport and credit facilities. So, while some retired to Europe after ten or twenty years in trade, contenting themselves thenceforward with seven or eight per cent on their money, a good many settled permanently at the Cape, in Buenos Aires, or on the Banda Oriental, where rates of return were substantially higher.

In this way there came into being around each major colonial port a landed commercial community. They were distinguishable from older established elements in the ruling class by the extent of their commitment to trade; typically, in the second and third generations, land and office would assume greater relative importance. Also, they might be marked out by their port of origin: thus, those of the Buenos Aires community who arrived between the reglamento de comercio libre of 1778 and the French Wars were mostly Basques, Catalans, and Galicians; thereafter they were drawn from New England, Northern England, the Clyde, and North Germany.

By the middle of the nineteenth century these commercial communities were a strong force. Linked by ties of credit, correspondence, and matrimony with their principal business partners, often bankers and politicians as well as merchants and landowners, they were set to achieve a powerful if not a dominant voice in the government of their adopted countries. Together, they constituted a diasporic civilization of profound influence. (1)

Inherent in this civilization was the means of its destruction. It had sprung from the North European revolution in metal and textile technology, a revolution which numbered amongst its intermediate consequences the advances in transport, communications, and business organization which made possible the efficient management from London or Paris of large-scale enterprises overseas, and had also accounted for the massive supplies of capital accumulated in Europe which were to respond to such schemes.

The Joint Stock Companies Acts of 1858-62 opened new avenues for the investments of British funds overseas. To lend large sums to foreign governments, as London had been doing for half a century, had been to confirm the status quo in the recipient countries by fuelling the patronage system employed by the existing governments. Investment overseas by British-registered joint stock companies was quite a different matter, and far more socially disruptive. This was because the power of British companies was generally exercised by directors in London and their appointed officials: men outside the colonial (2) political structure, who were responsive to a wide range of market and non-market forces of which colonial political authorities and commercial communities were not always by any means the most important.

From the presence of British-owned joint stock companies and their agents there developed a number of controversies. To whom should banks lend money? Was their business simply to finance long-distance trade, or ought they also to lend to rural entrepreneurs or to government, to assist in industrial development and infrastructure projects, or, at the very least, desist from interfering with those local banks which were prepared to undertake such tasks? How much of the premium income earned by British insurance companies in Argentina or South Africa should be invested there, and in what form? Should local insurance companies which invested all their funds in national development be favoured in law against the British giants? And ought the British to be permitted to fix rates for insurance business and exercise sanctions against colonial companies which tried to undercut them? Then again, who should control the rates charged by public utility companies? If the water, electricity and gas supplies, the tramway and telephone services, were owned by British and other foreign companies, ought they to have a free hand in deciding what to charge the public? These and many other questions were at issue between colonial governments and sections of the metropolitan bourgeoisie from the 1860s.

How were these powers to meet? Work on Argentina suggests several possibilities for the articulation of this relationship, all of which involved members of the colonial commercial community acting in new roles. First, there is the stage, typical of the early years of many British overseas banks and mortgage companies, in which management was entrusted to members of the colonial commercial community, who applied local criteria in their lending policies, acting generously towards the larger local merchant houses and politicians. This caused little disruption at the colonial port (beyond encouraging speculation and over-trading), but was a recipe for quick death in the City of London. Before long, therefore, the London directors of these companies took a firmer hand, replacing the first generation of managers by men who shared their own commercial mores, having been trained in English, German, or Scottish companies. The loss of expert local knowledge was commonly made good by the defection of a few influential members of the colonial commercial community to London to become professional company directors.

This second stage in the development of Anglo-foreign joint stock companies was much more disruptive of the colonial bourgeoisie. Many were alienated by the more aggressive stance now adopted towards them by the second generation of managers. Some went bankrupt. Some stuck to their guns and tried to manipulate the system to their own advantage, forging alliances with metropolitan financial powers to raise capital in Europe in the naive expectation that they would be able to retain managerial control. (3) Some looked to the local government for support. By contrast, a number made use of the new freedom of movement afforded by general limited liability to form their colonial landed interests into companies under professional managers, enabling them to become professional company directors in London. Alternatively, they might become mere rentiers in Bath or Biarritz, their investment portfolios diversified to the extent that they ceased to be identifiable with any one part of the world. These options, which had not been available to the generation of Cape and River Plate merchants which flourished in the first half of the nineteenth century, were now taken up by many of their sons. Nor should we exclude from this group those who remained in the colonial port acting as advisers, local directors, consulting lawyers or wire-pullers for the British companies, and whose continuity of residence should not conceal their realignment of loyalties.

In short, the spread of joint stock organization drove a wedge into commercial communities in the principal states receiving British investment. What had formerly been a continuous cosmopolitan bourgeoisie constantly refreshed by international migration and marriage and with foci in all the principal ports now began to polarize into a number of discrete and self-contained national bourgeoisies on the defensive against a single metropolitan haute bourgeoisie centred upon London but with subordinates everywhere.

Some of the strains resulting from the process of capitalist concentration and the attendant fragmentation of the commercial bourgeoisie were expressed in the political arena. Elements in the colonial commercial communities which had chosen to align themselves with the emergent colonial state were able to enlist support amongst the petit bourgeoisie and sections of the working class on bread-and-butter issues. The constituencies of the gas, water and electricity supply companies, the tramway and suburban railway companies (monopolies all), and the depositors of the banks coincided to a marked degree with new and volatile sections of the colonial electorates. The employees of many of these companies were in the van of labour organization. Here, surely, in the grievances of a section of the electorate whose attachment to existing political leaders was no more than embryonic, could be seen a heaven-sent gift to the national bourgeoisie in its struggle against metropolitan capital. As if to be able to cry "monopoly" were not enough, they could cry "foreign monopoly", and point the finger at those of their political opponents who were implicated as local directors or legal advisers to the foreign capitalists in what could easily be portrayed as a cosmopolitan conspiracy.

II

In the Orange Free State, local capitalists established the Bloemfontein Bank in 1862 and the Fauresmith Bank the following year: small affairs, each with a capital of £30,000. By the end of 1863, the second of these had been absorbed by the London-based Standard Bank of British South Africa. There was a certain amount of unpleasantness from the start, as it appeared probable that the Standard Bank had achieved an extra-market advantage in its negotiations for the purchase of the Fauresmith Bank in the shape of co-operation from its cashier, Barret. (4) Over the next eighteen months complaints against the Standard Bank multiplied. The personal venality of Barret aroused discontent, but there were also more fundamental problems concerning relations between the Standard and its competitor, the Bloemfontein Bank. Large numbers of notes of the local bank were presented by the public to the various branches of the Standard Bank in the normal course of business. Naturally, they were sent to the Bloemfontein branch of the Standard, there to be presented for payment. Whether the Standard actually went out of its way to collect these notes and present them in large quantities without warning in a deliberate effort to cripple their rival is essentially irrelevant. What matters is that the Orange Free State public preferred the Standard's notes to those of the local bank. When the Bloemfontein Bank's notes went down to the Cape to cover the Free State trade deficit, they came straight back up again. The notes of the Standard Bank, by contrast, remained in circulation. The point is that the manager of the Standard, be he never so well disposed towards his rival, could not avoid being seen as the man who stripped the Bloemfontein Bank of its specie reserves. He was, indeed, the proximate cause.

Very soon, the Bloemfontein Bank was reduced to giving receipts for fixed deposits in favour of the Standard Bank bearing 10 per cent interest instead of gold in exchange for its own notes; and the interest payments on these illusory deposits were a further drain on resources.

Turning to Argentina and the Banco Provincial de Santa Fé, we find a similar story. (5) The chief commercial city of Santa Fé, Rosario had served as financial centre for the Argentine Confederation during the secession of Buenos Aires from 1852 to 1862; in 1867, it put itself forward in all seriousness as a compromise site for the federal capital to replace Buenos Aires. Two attempts to found banks in Rosario during the Confederate period failed. They were followed in the immediate aftermath of the reunification by a less ambitious and more successful attempt by the Spanish-born merchant Carlos Casado del Alisal. Casado's Banco de Rosario was soon acquired by Henry Green, Buenos Aires manager of the London and River Plate Bank and a former River Plate merchant, to serve as the foundation for a new branch of the London Bank. Green promised Casado a position as local director; however, head office refused to ratify the appointment, instead demanding Casado's signature to a document committing him not to engage in any banking activities in the future. There was unpleasantness, therefore, similar to that which had accompanied the entry of the Standard Bank into the Orange Free State; and the reappearance of Casado, in 1874, as the founding chairman of a new, privileged Provincial Bank of Santa Fé (Banco Provincial de Santa Fé) in June 1874 did nothing to lessen the tension.

A war ensued between the two banks, remarkably similar to that which had been waged, some years previously, between the Standard Bank and its competitor. The Government of Santa Fé, and many of the local landowners who collectively constituted that government, had been happy enough to greet the London and River Plate Bank on its arrival in 1866 and had seen the Banco Casado swallowed up with few regrets. They thought that the new institution would provide them with plentiful credit on good terms for the improvement of their estates. But this was not what the Bank had in mind. On the contrary, under the chairmanship of George Drabble, a former River Plate merchant, the London board expressly forbade loans on mortgage, however wealthy or reputable the client. In spite of the evident desire of their branch manager to accommodate his customers, the board remained adamant. (6) Inevitably, this policy, and especially the inconsistency of policy between the London board and their local manager, resulted in a good deal of ill-feeling against the Bank on the part of the local community. They felt that they had been led on with false promises and then slapped in the face; and so in a sense they had been, for the opening of the branch at the height of a boom in 1866 was soon followed by retrenchment in the aftermath of the Overend Gurney crisis, compounding the swing from local to London lending criteria.

Out of this situation arose the state-sponsored Provincial Bank: a last-ditch attempt by local businessmen to retain an independent source of credit. The government went so far as to transfer to the new institution some of the privileges they had earlier ceded to the London Bank, notably the right to issue notes. The London Bank managers in Buenos Aires and Rosario regarded this as the last straw in a policy of aggravation which had begun with the establishment of the rival bank. To them it was "yet another proof of the desire entertained on the part of the natives, and those composing the governments of this country, to hostilize the foreign banking institutions established here as much as possible". (7)

As in Bloemfontein, the imperial bank responded to these attempts to diminish its privileges and to the deteriorating general condition of the economy by steadfastly refusing to hold the notes of its rival. Furthermore, local deposits, showing little loyalty to the cause of the provincial government, began to seek safety in the foreign bank, fearing a declaration of forced currency.

The London Bank continued to fight the policy of the provincial government in the courts as well as the counting house. The case went to the Supreme Court, but although well prepared legally the London Bank simply lacked the political weight needed to win such a suit, and it went against them. (8) The provincial authorities responded by ordering the liquidation of the Rosario branch of the London Bank, hoping that, rather than lose their entire business in the province, the board of directors in London might admit to a compromise and be persuaded to merge with the Santa Fé Bank, or at least to assist it extensively. (9)

The bluff, if that was what it was, did not work. George Drabble, chairman of the London Bank, complied with the liquidation order, possibly reckoning that the Santa Fé Bank would fail in any case and the government be obliged to ask the British to return with their original rights restored or even improved. (10) What might have happened if the Provincial Bank had been content and able to ride out the crisis without outside assistance it is impossible to say. As it was, the provincial authorities overstepped the mark in June 1876 by abducting the gold reserves of the London Bank and briefly imprisoning its manager. (11) This use of physical coercion brought the reluctant and tentative involvement of the national government and the British foreign office. The outcome was that the provincial government was eventually obliged to countenance the continued existence of the London Bank in Rosario, the national government making good the funds that had been abstracted. In short, the survival of the Provincial Bank was ensured by means of a forced loan levied on the London Bank and later repaid by the national authorities.

The manner in which the two pairs of banks competed - one in Rosario, the other in Bloemfontein - was largely due to their geographical circumstances. In so isolated a situation, whichever of any two banks was found to command the greater public confidence at a time of general uncertainty was bound, in the event of there being a convertible paper currency, to receive large numbers of its rival's notes for conversion into metal or more trusted notes. So it was the banking public - a body not so very different in composition from the governing class - which decided the fate of the local bank in each case. For once the foreign bank concerned had received large quantities of its competitor's notes, it was bound, for the security of its depositors and shareholders, to present them for conversion as soon as possible, rather than run the risk of their being declared inconvertible, as was to happen in Rosario in the winter of 1876.

What, though, of the political reaction to this free-market competition? In Rosario, as we have seen, the provincial government eventually resorted to force. There is no space to go deeply into the details of the incident here. Suffice it to say that coercion was unnecessary, and was almost certainly greeted with dismay by the provincial finance minister and the governor. The problem had been on the verge of solution through a loan from the London Bank to the Provincial Bank on the very day that the police chief of Rosario and his men took the bullion.

Equally strong was the reaction to the policy of the Standard Bank in Bloemfontein. There, as in Rosario, the local institution was obliged to seek the assistance of government in the form of a decree authorizing the issue of inconvertible legal tender notes. These became known as bluebacks. As in Rosario, local bank and local government shared an interpretation of the morality of the affair wholly different from that of the foreigners. The Standard Bank simply saw that it had competed with another commercial institution and won. The Volksraad, by contrast, declared that "unless similar 'Foreign Banking Institutions' are henceforth forbidden here, the entire people will by degrees fall under the power and become dependent upon foreign capitalists", and resolved that they would forbid absolutely the operation of such banks throughout the republic. (12) So it was that the Standard Bank of South Africa finally withdrew from the Orange Free State in 1868, not to return until after the annexation of 1900. The boers, it appeared, had been confirmed in their original opinion that joint stock banks were "a gigantic swindle". (13) So, too, in Santa Fé, a province with a long-standing grudge against over-mighty Buenos Aires and all it stood for, xenophobia came very naturally. In an open letter to the provincial attorney general written a few days after the bullion had been taken from the London Bank, Servando Bayo, Governor of Santa Fé, accused the London Bank of being responsible for the current economic depression. The bank, he asserted, had withdrawn gold from the province "for the enrichment of a foreign market, under the pretext of rendering miserable and dearly bought services". And Bayo went further, accusing the Bank of "hostility, persistent and constant, against every banking institution until the attainment of the discredit, the annihilation and disappearance thereof, in order to create a monopoly which would leave the entire commerce of the province at its mercy". (14) The rhetoric is familiar; it is the universal voice of economic nationalism. The local governing class, seeking a scapegoat for the effects of world-wide recession, finds it in the institutions of foreign capitalism. At such times they are themselves, as members or affiliates of the local commercial community (15), under grave pressure: a pressure exerted through foreign firms threatening to withdraw credits and to take over or simply drive out of business local institutions which have grown out of the preceding boom. How easy, then, to identify the vehicle of recession with its cause, and direct personal and public discontent over unemployment, bank failures, and other symptoms of depression, towards foreign institutions?

One last point about Rosario and Bloemfontein banking crises: whereas the Standard Bank was kept out of the Orange Free State until 1900, the London Bank was able to keep its Rosario Branch, and lost only the right to issue notes. Two essentially similar incidents had very different outcomes because of the very different political contexts within which they took place. For, whilst the British government could do nothing in either case, there was the additional intermediary resource in the Rosario affair of the Argentine national government in Buenos Aires. There, press and government were appalled by the behaviour of Bayo. La Tribuna declared that "the unprecedented proceedings of the Government of Santa Fé show all the aggravating characteristics that make them most degrading to the dignity of a civilized people"; La Nación and La República expressed similar opinions. (16) President Avellaneda and two members of his national government - Lucas Gonzalez, the Minister of Finance, and Simón de Iriondo, Bayo's predecessor as governor of Santa Fé - all addressed semi-public letters to Bayo deploring the treatment meted out to the London Bank. (17) It was an expression of the recurrent conflict between civilized city and barbaric camp. (18) And there was need for the national government to step warily, since, as we have seen, the issue was still a live one: the caudillo López Jordan not yet finally defeated, Buenos Aires not yet federalized. Indeed, the British minister in Buenos Aires believed that the national government was too weak to coerce the government of Santa Fé into making restitution, and that any attempt to do so would bring out the province in support of the rising apprehended in Entre Rios. (19) This was at the beginning of June. At the end of the month, following the seizure of the London Bank bullion, the Minister again gave voice to his pessimism concerning the future of the republic. "The actual state of affairs in this Republic is most precarious", he wrote, "and in view of a possible dissolution of the Argentine Confederation, I can scarcely expect that the Government will adopt, even if able to carry it out, any measure of coercing a powerful and disaffected province for the satisfaction of the aggrieved subjects of a foreign country." (20) In retrospect, this view may easily appear too pessimistic; at the time it was a realistic appraisal of the situation. All the more remarkable, therefore, that the national government should have done as much as they did on behalf of the London Bank. Yet not as remarkable as all that, for Gonzalez was a founder of the British-registered Buenos Aires and Ensenada Railway Company Limited (21), whilst Iriondo, for his part, very probably had already an eye to the next gubernatorial elections, when he hoped to oust Bayo. Sure enough, in January 1878, he called at the Buenos Aires office of the London Bank to ask for an advance of $5,000. Smithers, the manager, considered it best to grant the request even though, as he put it, "it is just possible we may never get the money back". (22) In March, Iriondo was back for more. Smithers wrote: "we are sorry to say we have had another demand for money from this man.... We can only hope that once in power Dr Iriondo will not forget these services." (23) He did, of course.

The point of all this is a simple one, namely that the web of relations between the City of London, the Argentine national government, the local offices of British companies, and the provincial authorities was of consistent texture. Even under stress, things never got out of hand to the point where excessive coercion or a prolonged break in relations ensued. So when, after 1890, the build up of resentment against imports of British capital reached danger point, it expressed itself in Argentina as a powerful and widespread minority feeling which would grow into a broad national political movement of a mildly populist character. In South Africa, by contrast, it was concentrated geographically by the endurance of the Boer Republics as separate political entities, a situation exacerbated by the spatial concentration of the mining industry. These two factors reinforced each other, contrasting strongly with the more dispersed character of the principal Argentine industries: stock raising and cereal production. To put it another way, the tension between the pro-foreign-capital majority of the Argentine ruling class and the anti-foreign-capital minority was expressed and worked out without resort to civil war at least partly because the socio-economic crises of 1890-93 and 1913-17 followed nearly half a century of careful internal diplomacy, interspersed with armed confrontation, and all aimed at evening out the conflicts between coast and interior. The British, for their part, constantly impeded by imperial considerations, had been far less successful in creating a political and constitutional environment in South Africa into which the large-scale export of British capital could safely intrude.

III

It would be specious to attempt to reach firm conclusions on the basis of a schematized account of the transition from commercial to corporate capitalism and a comparison between two incidents in the history of banking

The Rosario and Bloemfontein incidents illustrate a few of the generalizations made in the earlier part of this paper, it is true. In both instances, initial optimism in the colonial community about the likely effects of opening a branch of an imperial bank were pretty soon dispelled by managerial incompetence and partiality, board intransigence, and the impersonal and ineluctable process of competition and concentration of capitals. When indigenous institutions were threatened, their owners quickly aligned themselves with local government authorities in an attempt to fight back against the metropolitan connexion, enlisting support from elements in the local population by the use of provincialist, anti-capitalist rhetoric.

My contention is these phenomena are endemic to the economies of the newly settled temperate lands of the nineteenth century. The particular pattern of circumstances and events which characterized Rosario or Bloemfontein was, of course, quite distinct from that to be found in the more cosmopolitan cities of Cape Town or Buenos Aires. To that extent the incidents described here are of marginal significance and any generalizations they may suggest of limited application. But the general themes of distance and its effects upon hierarchical institutions, the clash of metropolitan lending criteria and provincial credit requirements, and the relation of provincial or national bourgeoisies with their local governmental authorities and with metropolitan capital are all matters of perennial interest on which the records of business firms may shed a particularly revealing light in those all-too-rare instances where they have survived.

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Notes

(1) Fernand Braudel, The Mediterranean and the Mediterranean World in the Age of Philip II (Paris, 1949; English edition 1973), II, p. 804, refers to civilizations of the diaspora type, listing the Jews, Armenians, Moriscos, Parsees, Mozabites and Nestorian Christians, and adding: "In a sense, the same is true of European colonies in the Third World countries both before and after independence."

(2) The word is used throughout to imply economic, not political, relations.

(3) An interesting example is the Mercantile Bank of the River Plate Ltd (registered 1872), whose Anglo-Argentine founders were outwitted by City investors in the end. See C. A. Jones, "British Financial Institutions in Argentina, 1860-1914" (unpublished PhD, Cambridge, 1974).

(4) For the Standard Bank incident, see E. H. D. Arndt, Banking and Currency Development in South Africa, 1652-1927 (Cape Town, 1928), pp. 302 et seq., and William W. Collins, Free Statia: reminiscences of a lifetime in the Orange Free State (Cape Town, 1965, reprint of 1907 first edition), pp. 207-9.

(5) There are several accounts of the Rosario incident. See, for example, Ezequiel Gallo, "Conflicto entre banqueros estranjeros y los terratenientes en la zona del Rió de la Plata", Documento de Trabajo, agosto de 1972, Instituto Torcuato Di

Tella; A. J. S. Baster, The International Banks (1935), pp. 131-7; D. M. Joslin, A Century of Banking in Latin America (Oxford, 1963), pp. 43-50; H. S. Ferns, Britain and Argentina in the Nineteenth Century (Oxford, 1960), pp. 381-6; and C. A. Jones, "British Financial Institutions in Argentina, 1862-1914", pp. 230-38.

(6) The first manager disobeyed the board and had to be replaced by a sterner soul. It was found that he had made one advance on the security of a river steamer! (Bank of London and South America Papers, University College, London: D.94, Head Office to Weldon, 8 Jan. 1869.)

(7) BOLSA Papers, D.35, 15 May 1875, p. 2.

(8) PRO, FO 6/345, Maschwitz to Sackville West, 25 November 1875; BOLSA Papers, D.35, 26 February 1876, p. 2.

(9) BOLSA Papers, D.35, 26 January 1876, p. 12; and Buenos Aires Standard, 31 June 1876 - The Manifesto of the London Bank.

(10) Throughout the incident the attitude of head office was stoical: "Seeing we are an admitted necessity, a stout holding out for all our rights would better serve our ends than any compromise", the London manager wrote. BOLSA Papers, D.1, 22 July 1876, p. 2.

(11) Buenos Aires Standard, 31 June 1876.

(12) Volksraad resolution, 6 November 1865, quoted by William W. Collins, Free Statia (1965 edition), p. 208.

(13) The Friend, 1860, quoted by E. H. D. Arndt, Banking and Currency Development in South Africa, p. 307: "... the boer in his secret heart, has until recently considered a joint stock bank as a gigantic swindle."

(14) PRO, FO 6/345, Open Letter from the Provincial Governor to the Provincial Public Attorney of Santa Fé, 12 June 1876.

(15) There was a considerable overlap between the OFS Volksraad and the shareholders of the Bloemfontein Bank; a similar situation prevailed in the case of the Santa Fé Bank.

(16) La Tribuna, 3 June 1876; La Nación, 4 June 1876; La República, 25 May 1876.

(17) BOLSA Papers, D.35, 26 November 1875, p. 6, and 26 January 1876, p. 7; William Hadfield, Brazil and the River Plate in 1870-76 (London, 1877), p. 251.

(18) "Camp": Anglo-Argentine term for the countryside, derived from the Spanish word "campo".

(19) PRO, FO 6/345, 1 June 1876, StJohn to Derby.

(20) PRO, FO 6/345, StJohn to Derby, 30 June 1876.

(21) PRO, BT 31 1738/6413.

(22) BOLSA Papers, D.35, Smithers to H.O., 24 January 1878.

(23) BOLSA Papers, D.35, Smithers to H.O., 1 March 1878.