Before 1930, contemporary writing about industrial development often hinted at the need to radically transform policies and society’s attitudes to make the country ready for successful industrialization. Despite this suggestion for a radical plan, the adjustment of the tariff rate had primary importance in the Argentine congress. The rate was viewed as the way to develop industry and incited on-going dialogue among industrial advocates, government, and those seeking a lower tariff.

After 1914, broader social and political acceptance for protective tariffs gained strength after war-related material shortages and economic uncertainty made several groups view the need for economic diversification. The debate to pass protective tariffs gathered support from intellectuals, policymakers, and businessmen who wanted to diversify the economy and achieve national self-sufficiency. Some industrial advocates alleged industry could be developed through correct legislation.

There existed a counterpoint in government, albeit diminished, that stressed the need to foster internal competition. As debates about protective policies increased in the 1920s, some congressional deputies voiced concern about industrial concentration. These congressmen argued that strong protectionism was leading industry toward monopoly and oligopoly. Through their efforts, Congress enacted two laws to ease the entry of small corporations into manufacturing and combat monopolies. It passed the Anti-Monopoly Law of 1923 and the Limited Liability Law of 1932 to simplify incorporation of smaller firms. Both measures were intended to increase competition between domestic firms. However, the weak enforcement of the Anti-Monopoly Law and the strict regulation of the Limited Liability Law did little to change Argentina’s industrial structure.

Despite growing legislation aimed at protecting and guiding industrial development, the political structure and higher tariffs of the 1920s did not create a competitive and sustainable industrial sector. Tariff policies in particular were short-sighted and largely enabled established companies to gain greater control over their respective industrial sectors. After 1930, new entrants were small-scale and inefficient producers that relied on the government’s industrial programs for their survival. Argentine industry developed a structure that endured through the 1980s whereby a handful of modern and large-scale firms that dominated domestic production were surrounded by a constellation of small and inefficient, almost artisan, shops.

This chapter argues that the tariff rate was not based on any well defined plan to promote industry. Instead the rate resulted from political compromises among different political players including political parties, regional interests (interior provinces),
industrial lobby, and manufacturers. Each group had their own agenda, but expected to benefit, at least partially, from compromising on tariff levels. Higher tariffs could help the government raise revenue, aid agro-industries of the northwest interior to dominate in internal markets, and increase companies’ profits. However, if import tariffs were too high the government did not benefit because consumers would stop buying imports. At the same time, other interests sought to lower or eliminate tariffs on raw material, fuel, and machinery inputs for production.

The following section briefly discusses the data used in this paper. It is followed by an analysis of the industrial debates and tariff history from 1875 to 1914. Then, the fourth section examines the debates, rationales, and the new support for increased tariff protection between 1914 and 1930. Critics against protectionist policies are discussed in the final section.

DATA

The principal sources of data for this chapter are three Argentine serial publications that reported on the national economic climate and opinion of the period: the Diario de sesiones de la Cámara de Diputados de la nación, the Revista de economía argentina, and the Anales de la Unión Industrial Argentina. These sources document in detail the political and economic debate concerning Argentine industrialization.

The Diario de sesiones contains the minutes and speeches of the national deputies of Argentina. Through these sources, the Diario reflects contemporary political thought on industrialization. The Revista de economía argentina was edited and published by the economist and businessman Alejandro Bunge. Its writers were the intellectual supporters of government-supported industry; they articulated the need for state-sponsored manufacturing and influenced a generation of policymakers. They collected data allegedly showing how domestic industry could grow only with the government’s support. The final source was published by the leading industrial lobby, the Unión Industrial Argentina. The lobby published its reports, debates, and letters in the Boletín de la Unión Industrial Argentina (1905–1924) and Anales de la Unión Industrial Argentina (1925–1936).

DEBATES ON PROTECTIONISM AND TARIFF HISTORY, 1875–1914

Scholars present opposing views on whether the Argentine tariff was protective or too low between 1900 and 1930. Early works claimed that Argentine industry failed to develop because the government was hostile toward it and aborted any attempt to protect it. Essentially, the government relegated industry to secondary importance behind the agro-export sector. Scholars reasoned that manufacturers and industrial advocates lacked any political clout to push forward protectionist policies. Immigrants dominated in manufacturing, but lacked citizenship and political connections. As a result, Congress failed to pass policies to please this group because there was no political benefit in doing so. Another scholar made the case that the industry lobby, Unión Industrial Argentina, was politically weak and could not persuade the Radical party in power from 1916-1930 to implement favorable industrial legislation. The Radical party was purported to support only free trade policies which made Argentina an anomaly because it “adopted only
hesitant and limited protection of its manufacturing industries during a period when many other countries were actively building high tariff walls.” For these scholars, insufficient government protection was a primary reason industry remained underdeveloped before 1930.

The extant literature also asserts that Argentine industry was protected beginning with the late nineteenth century. In a study of long run tariff rates, for instance, Coatsworth and Williamson found that tariffs were generally high in real values in Latin America; and in Argentina, tariffs were quite effective. Colin Lewis contends that previous scholars “may have been excessively influenced by contemporary polemics, accepting uncritically complaints about reduced protection,” and failed to take into account more objective sources. Argentine industry may have been of secondary importance in economic growth but was of primary importance in key political and social circles. Industrial advocates and lobbies had considerable political sway and their demands for higher tariffs for certain goods and lower tariffs for inputs were commonly realized. According to these scholars, Argentine manufacturing grew behind a wall of protective tariffs and remained underdeveloped precisely because it relied on tariffs and “continued to suck in imports” of inputs for the production processes.

Other scholars reasoned that the Argentine tariff was neither a protective nor a low one because of “heterogeneous forces forcing freer trade.” Rocchi says that the tariff characterized a “midway protectionism” whereby “pragmatism dominated in the tariff policy,” entailing a balance between extreme groups wanting protection and others seeking very low tariffs.

Given the conflicting viewpoints, is it possible to assess whether Argentina had a protective tariff? The stated goal was to build a strong manufacturing sector through higher tariffs for selected imports of consumer goods and low tariffs for inputs needed in domestic production. Implicit, however, was the fact that the tariff rate demonstrated different groups’ ability to compromise in exchange for other favors. The tariff rate was largely determined by local interests, politics of the time, and government’s revenue needs.

The rate was complicated by the repeated changes over time and had several protectionist characteristics, but was not explicitly protectionist across the board. Argentina had both specific duties for individual products and a nominal ad valorem duty between 1890 and 1930. Between 1890 and 1923, the ad valorem duty was 25 percent across the board, but numerous modifications to the tariff created a “cascade” that can be characterized by different rates for specific products and industries. Stated simply, most consumer goods that could be produced in Argentina typically had a higher tariff rate than those products that were not produced within its borders. However, this was not a general rule and some products could have lower tariffs. Most inputs of raw materials, fuel, and machinery entered with a low to zero tariff. Selected agro-industries such as sugar, flour, and wine enjoyed effective protection because of the political bargaining between the provinces of the interior and Congress. Law 11281 of 1923 raised tariff levels across the board for all finished consumer goods produced in the country. The rate varied according to product. It was between 35 and 50 percent; some products had specific duties resulting in an even higher rate.

Three factors must be taken into account to determine how the rate was resolved and whether or not it was effective: exchange rate; government’s revenue needs; and
compromises among different political players. The exchange rate and government revenue needs played a part in determining the level and effectiveness of the tariff rate. As stated in Chapter 5, devaluation of the Argentine peso, particularly in the 1920s, made imported products more expensive to domestic consumers. It reinforced the “protectionist features” of the tariff and helped industry exclude foreign competitors.

Revenue concerns also partially determined the tariff rate. Before the implementation of Income Tax Law of 1932, the import tax covered 52 percent of the government’s total income in 1900; and by 1928, import taxes filled 60 percent of the government’s budget. Import taxes were important, but the government had several sources of income such as import taxes, sale of government bonds, and foreign loans. During times of crisis such as during the First World War, however, foreign loans were difficult to obtain and the government raised tariffs temporarily to increase income. It also reduced its spending on public works projects rather than continue to raise tariffs if revenues were insufficient, such as during the First World War.

Lastly and most importantly, political compromises among different political players helped to determine the tariff rate. These political players included: industrial advocates in congress; intellectual groups (for example, Bunge group); the lobby, Unión Industrial Argentina; congress members from the interior with regional interests; and then the major critics, Socialist congress members that wanted to lower the tariff on imports of consumer goods because it raised prices for basic goods.

Most groups stressed tariffs rather than other policies to develop industry because of two reasons. First, members within each group likely compromised on key issues to present before congress. For instance, the lobby, Unión Industrial Argentina (UIA) was structured by two competing groups: the small-scale and large-scale industrialists (UIA was meant to be representative of all industry). Small-scale manufacturers dominated in sheer numbers, but the organization was financed and directed by large-scale industrialists. In order to avoid battles or splits between the two groups, Schwarzer argues that the two groups conciliated on two key themes to debate in Congress: tariffs and labor.

Second, the tariff remained a key topic associated with industry because it was not a radical change from existing policies. Topics that received little attention in congress were typically those that were viewed as too radically shifting away from extant policy. Also, some industrial advocates were not pressing through congress demands that would have required substantially altering policies. For example, in 1920, UIA argued the need for an industrial bank to provide long-term credit. It asserted that Argentine industry was characterized by large firms surrounded by thousands of small shops because of the shortage of industrial credit to small firms. Congress countered that protective tariffs would generate profits sufficient for self-financing, and failed to further discuss it. Indeed it was up to the UIA to continue lobbying to demand state-sponsored industrial credit. Instead the tariff debate remained their leading agenda item before congress.

Tariff History

In 1875, congress members first debated whether tariff rates should be based on fiscal concerns or the intent to protect industry. A practical issue was that local industry was not ready to replace imports. In that year, congress compromised and raised tariffs for
selected products in specific industries. Deputy Carlos Pelligrini was in the forefront of the protectionist movement; he believed that “all countries should aspire to develop their national industry. [Industry] is the base of a country’s wealth, of its power, of its prosperity; and to achieve it she must do all possible, despite the challenges ahead.” At that time, however, most deputies were rightly concerned that the nation was not prepared to shut out imports with high tariffs. Beginning in 1876, tariffs on imported goods were reduced, causing deputy members Vicente Fidel López and Miguel Cané to rally against “odious” free trade that suppressed development of local manufacturing. In 1881, tariff duties were again increased to 25 percent ad valorem. By 1906, the 25 percent ad valorem rate across the board was made law and the general structure of the tariff, albeit a number of revisions, remained in effect until 1940.

Beginning in the 1880s, the issue of the tariff rate dominated in congress as the primary way to develop industry. Deputies and senators from the conservative political party particularly supported protection of domestic industries. They were nationalistic and linked their vision of a self-sufficient and strong nation with the development of the industrial sector. Other representatives from the interior provinces of Argentina were interested in higher tariffs to protect regional wine and sugar industries. Arguably, regional elites of the interior sought to increase tariffs to enjoy the growth and wealth experienced in the littoral. In Congress, the interior was overrepresented with respect to its economic importance. As a result, congressional bills regarding subsidies and protection of sugar and wine industries were often discussed in Congress from 1890-1930.

In the 1880s, the industrial lobby, Unión Industrial Argentina (UIA) also represented industrialists’ interests in Congress and demanded that it raise tariffs to reduce foreign competition. UIA often reasoned that the tariff level of 25 percent was based on nominal values rather than real values. Therefore, the existing tariff did not genuinely protect domestic industry from foreign competition. The UIA was not requesting a radical change to raise tariffs, but was demanding that existing tariffs function as expected, that is, they should help local industry “fight” against foreign competition.

The lobby claimed that imports presented an unfair challenge because domestic producers could never compete equally on account of their higher costs of production. Imported goods were often better-quality and cheaper because they were efficiently produced in the United States or Europe. Domestic firms were hobbled by high production costs associated with imported raw materials, fuel, and machinery. Even if these inputs entered with a low or zero duty, manufacturers relied on international prices and supply. Shortages and higher prices could come unexpectedly and hurt local production. In addition, even with moderate tariffs, imports were still less expensive than the domestic alternative. Foreign producers had the advantage of “centuries of experience on how to produce at lower costs.” The modern production techniques of foreign companies permitted those firms to achieve economies of scale and sell at a lower price. According to the UIA, domestic industry would need a substantial period of protection in order to catch up with foreign producers’ capabilities.

The UIA maintained that if industry were highly protected, Argentine manufacturers would eventually produce goods equal in quality to imported products. It claimed that the time required to develop industry should be viewed generously since domestic firms had much catching up to do. Increased tariffs, the UIA argued, would
strengthen domestic industry and reduce the high level of industrial concentration because rising prices would encourage new domestic entrants.  

By 1914, the UIA was not only demanding that tariffs be raised, but also defending existing levels. They asserted that “protectionism was not prohibition” and would not cause shortages of consumer goods. The UIA also sought to combat the general perception that protection of industry led to corruption. However, even the UIA acknowledged that, in the past, manufacturers had abused the tariff system by producing low-quality goods or reducing supply to increase prices. The UIA insisted that these were the actions of only a few “disgraceful” manufacturers.

Before 1914, those opposed to raising the tariff rate believed that industry should receive some tariff protection but not to a prohibitive level because domestic industry could not yet efficiently satisfy domestic demand. Some critics expressed reluctance to support an industry that could function only in a highly protected environment. In 1910, government officials and leading economic groups helped establish committees in the Chamber of the Buenos Aires stock exchange, the Ministry of Treasury, and the Ministry of Justice to examine the growing manufacturing sector. These committees generally opposed higher tariffs and additional state intervention to promote industry. In 1911, the chamber’s committee on commerce and industry opposed increased state intervention because it believed doing so would reduce industrial efficiency and competition. The committee also noted that high tariffs raised consumer prices and decreased the quality of goods. The committee was particularly concerned that higher prices would decrease the purchasing power of the working classes; it speculated that higher prices could even spark labor unrest. The committee recommended that tariffs remain at the same level; it also recommended that industrialization remain under the control of private enterprise and that national economic policies focus instead on increasing national productivity through export of agricultural goods.

DEBATE, RATIONALE, AND NEW SUPPORT FOR INCREASED TARIFF PROTECTION, 1914-1930

After 1914, the debate regarding protection of industry continued from the previous decades but saw greater intensity as the relationship of industrialization to national self-sufficiency gained broader currency. The outbreak of the First World War cut Argentina’s ties to international markets, reduced its income from exports, and temporarily halted the inflow of European capital into Argentina; 1914 began a period of economic downfall. After the resultant economic crises, several constituencies and interest groups who were previously uninterested in manufacturing came to believe that the economy needed to be diversified and less subject to price fluctuations in international markets. After the First World War, these groups came to view industrialization as the key to the economic diversification and self-sufficiency that Argentina would need should international economic and political conditions once again create shortages of raw materials, fuel, and finished consumer goods.

The First World War and Argentina’s subsequent economic crises marked the beginning of new strategies by pro-industry groups. The UIA and a new group led by Alejandro Bunge became more vociferous in their demands for protection of industry. They expressly linked domestic industrialization with economic self-sufficiency and
independence from international markets. As support for their claim that protectionism would decrease concentration and increase manufacturing self-sufficiency, the UIA and the Bunge group observed that the number of new manufacturing firms increased during wartime isolation. For these groups, the emergence of new manufacturing signaled that Argentina was prepared to embark on full-scale industrialization of capital and consumer goods. This successful industrialization, they contended, could be realized through heavy state promotion.

Bunge developed the political rationale for protectionism that was adopted by and influenced an entire generation of policymakers and intellectuals. Bunge spoke “in favor of industrialization and economic independence.” Bunge was born into a wealthy merchant family and began his public career in 1914. In that year, he began writing a series of books and articles “describing and analyzing the Argentine economic scene.” In 1918, he founded the Revista de economía argentina. The journal displayed an unusual sophistication for its period thanks to “richness in data,” “quality of analyses,” and ability to clearly rationalize why Argentina, an agricultural powerhouse, should develop industry. The journal’s contributing writers became known as the Bunge group. The Bunge group consisted of leading intellectuals and prominent Argentines who supported state-led industrialization. The group’s well-articulated articles offered a clear and convincing rationale for government support of domestic industrialization.

The Bunge group believed that Argentina should emulate the European countries that achieved economic independence through industrialization. In the first issue of Revista, a member of the Bunge group announced that Argentina did “not need to invent new theories to advance its national economy” but merely follow the historical models of “advanced” countries that developed by protecting domestic industry. The group also argued that in the post-World War I era “economic nationalism became the norm for all nations of the world.” The group noted that tariff and industrial policies in Europe, South Africa, Asia, and other Latin American countries were moving toward protectionism. The Bunge group asserted that industrial development would inevitably raise technical efficiency, wealth, and living standards.

The Bunge group promoted domestic manufacturing as the key to national self-sufficiency and freedom from crisis in the international economy. For Bunge, sustainable growth could be achieved only through internal industrial development, not promotion of international commercial trade. He claimed that the United States, England, and Germany enjoyed the “most favorable environment” for their products, but it was time that Argentina “conquered its own markets” and removed the need for imports. He showed that the value of annual imports of manufactured goods exceeded the value of exports, which he cited as evidence of the economy’s weakness and vulnerability. He argued that if domestic industry failed to develop, Argentina ran “the risk not of stagnation but of regression, of impoverishment and limited cultural progress.”

The UIA was among the leading industrial groups to use the Bunge group’s well-crafted rhetoric of “economic nationalism and independence” to place industrial development in the forefront of Argentine politics. The UIA had already adopted a nationalist tone, but the Bunge group’s more articulate expressions were more widely accepted by legislators and other business interests such as the agrarian and mercantile elites.
Beginning in the late 1920s, the UIA president, Luis Colombo, overtly appealed to nationalism in order to expand industry’s base of political support. He tailored the UIA’s objectives to appeal to the growing workers’ unions. Colombo argued that an industrial worker could feel proud to work for a domestic industrial firm that made products specifically for Argentine citizens. In the 1920s, Colombo used radio addresses to argue that the growing labor movement should adapt state-sponsored industrial promotion as part of its agenda. He said that growing unemployment could be reduced through state-backed efforts to increase the number of local manufacturing firms. The notion that greater manufacturing would lead to more employment for the growing urban population came to be one of the UIA’s basic and often repeated tenets.

Acknowledging that tariffs increased prices for workers, Colombo contended that they would also push workers’ wages upward as well.

In the 1920s, the UIA linked its agenda to what it characterized as the “nation’s patriotic needs.” In 1920, the UIA led a successful campaign for legislation mandating that Argentine-made goods be imprinted with “Industria Argentina,” arguing that this mark would permit consumers to distinguish between foreign and domestic products. Colombo described the purchase of domestically produced goods as an act of patriotism.

After 1918, the UIA intensified dissemination of its message that Argentine industry needed protective tariffs to encourage new entrants and promote industrial growth. It further urged that protectionist measures should not be viewed as merely temporary, since Argentine industry had a significant gap to close with their European competitors. The UIA argued that domestic industry could be successful only if it remained protected and had exclusive access to domestic markets. According to the UIA, only the government with its control over tariffs and economic policy could sustain domestic industry. The UIA asserted that the First World War period demonstrated local producers could successfully substitute imports of manufactured goods. The UIA contended that if consumer goods could be produced locally, imports should not be permitted to compete with these nascent local industries.

The UIA sought other measures to push industry. It demanded a long-term guarantee for duty-free imports of raw materials and machinery, subsidized fuel, reduced rail freight charges to ease internal transport, and antidumping legislation to control the entry of inexpensive imports. Dumping was often referred to as “disloyal competition” as foreign companies sold products below cost. Dumping was viewed as particularly threatening since it forced local companies to choose between losing market share or incurring losses. The UIA also urged more liberal credit availability for industry, claiming that this would “stimulate overall economic growth and wealth for the nation.” It also actively sought increased government contracting and procurement with local industry; such activity would ensure a large-scale buyer for domestic products. The UIA lobbied for reduced corporate taxes and establishment of import quotas when tariffs proved insufficient.

Between 1917 and 1919, the political party in power, the Radicals, did not oppose the protection of domestic industry but was initially cautious about implementing the broad and dramatic policy shift for which the UIA advocated. During this period, Argentine President Hipólito Yrigoyen publicly acknowledged the importance of domestic industry. In 1917, he noted that the number of small-scale industrial firms grew
significantly during the First World War, when the Argentine Congress temporarily increased tariffs from 25 to 40 percent ad valorem. He attributed this growth to protective tariffs. However, Yrigoyen cautioned against maintaining high protective tariffs after the war since he believed that free markets were still the best assurance of increased economic efficiency. It should be noted that the increase in small firms did not change the manufacturing environment. They depended on higher prices to remain in business and did not provide significant competition to the existing and established large-scale firms. Yrigoyen often “vacillated between raising tariffs to placate industry and to realize additional government revenues, and lowering them to strengthen his hold on urban consumer markets.”

In one speech, the president suggested that Argentina should research Brazilian industrial legislation to ascertain how Argentina could strike a balance between free market efficiency and the growth of domestic industry. President Yrigoyen’s ambivalence stemmed in part from his skepticism that Argentina could effectively produce high-quality goods at low cost. He seems to have believed that Argentina should aspire to develop an efficient industrial sector capable of exporting its manufactured goods in competition with other nations.

Despite the moderate approach voiced by President Yrigoyen, after 1918 the industrial cause gained new support from leading economic groups, politicians, and Congress members. Legislators, leading entrepreneurs, and landowners were deeply alarmed when the post-First World War economy failed to return to its prewar level. Agricultural prices, particularly for beef, “sagged” between 1920 and 1924, causing an “acute exchange shortage.” European economies were in disarray, and agricultural prices continued to decline. As a result of this crisis, promotion of domestic industry came to be collectively recognized as a prescription for economic diversification and decreased dependence on agricultural exports as a source of national income. These groups called on the Argentine government to promote and protect industry.

Beginning in 1919, members of the influential Buenos Aires stock exchange and the elite landowners’ club, Sociedad Rural Argentina, partnered with UIA members and government officials to create the Argentine Confederation of Commerce, Industry, and Production. The confederation sponsored a series of national conferences to examine the postwar national economy and acted as a think-tank on how to revive the Argentine economy. Initially, the group championed efforts to sell more wheat in international markets, but prices remained too low. The value of imports also continued to exceed the value of export receipts.

After the first national conference of the confederation in 1919, a special committee was formed in Congress to examine industry. This commission’s pivotal 1919 report recommended a large number of new industrial policies and sweeping changes to existing industrial codes. The recommendations included tax reduction for industry, extended tariff protection for new industries, special rates for internal transport of domestically produced goods, liberalization of industrial credit, development of export facilities for industry, antidumping laws, and government subsidies to factories that used domestic raw materials. The commission also concluded that the Tariff Law of 1905 did not offer “real” protection. Stimulated by the committee’s recommendations, congressional debate soon convened on whether to significantly raise tariff rates.

Manufacturers and pro-industry groups also sought enactment of additional policies that would bar certain imports outright and give existing and new industries a
broader array of privileges. In 1922, one pro-industry bill, presented by Javier Padilla, general director of commerce and industry, encapsulated industry’s aspirations. The bill called for creation of a new government department, the Industrial Development Committee (IDC), which would implement a number of initiatives: (1) tax deferral or reduction of up to 50 percent for domestic manufacturing; (2) permanent duty-free imports of raw materials; (3) special rates for transport of goods within Argentina, (4) guaranteed yields of 6 percent for up to ten years; (5) government assistance with exporting or buying excess inventories; and (6) compelling the Banco de la Nación Argentina to lend to domestic manufacturers at low fixed rates determined by the IDC. Though the bill was not enacted, manufacturers continued to lobby for similar legislation into the 1920s.

By 1922, the Argentine Confederation of Commerce, Industry, and Production concluded that new protectionist policies were needed to foster a strong industrial sector. Arguing that Argentine industry had many systematic weaknesses but insisting that the absence of technical capability or capital markets was not the principal problem, the confederation identified industry’s greatest challenge as the lack of adequate government support and protection against foreign competition. They recommended that the administration pursue “clearly active and definite” policies in favor of national industries. The confederation particularly stressed protection of industries that used domestic raw materials.

In sum, Argentina’s political, mercantile, and agrarian elites were willing to support government promotion of industry politically, for three reasons. First, they believed that industry and agriculture could be interdependent and equal promoters of the economy. The agricultural sector could produce the raw materials needed in manufacturing processing; they believed this interdependence could be achieved within a generation. Second, they appear to have accepted to varying degrees the historically based thesis that industry was the “natural stage” following agricultural expansion. They saw, or wanted to see, the strong parallels in Argentina’s historical and economic evolution with that of advanced European nations such as Britain and France rather than the rest of Latin America. In these European nations, the historical pattern was that industry became the “obvious” and “natural stage” after agrarian expansion. Lastly, they concluded that a capacity to satisfy domestic demand for manufactured products was essential to making the domestic economy “more secure, more independent, and less affected by crisis in international markets.”

Another important set of newly acquired allies after 1914 were the legislators and governors of the interior provinces. They considered industry (particularly sugar, flour, and wine production) a means for the underdeveloped interior regions to prosper. The income gap between the littoral and interior regions had been widening since the late-nineteenth century. The northwest of Argentina was one of the richest regions of the republic during the colonial period, thanks to its strong ties to the Peruvian silver economy. However, after independence the region declined economically. In the late-nineteenth and early-twentieth centuries, the liberal export boom mainly benefited the littoral regions. In large part, the interior region’s poverty was a result of environmental degradation from excessive irrigation, clear cutting of forests, and water pollution.

By the 1920s, it was suggested that the growing economic divide between the prosperous Pampas regions and the impoverished interior could pose a threat to the
sustained political unification of Argentina achieved some sixty years earlier. Mindful of
the social and political implications of the interior’s underdevelopment, by the early
1920s Congress was debating how to promote sugar, wine, cotton textile, and tobacco
industries in the interior. For instance, Congress considered generous subsidies and
incentives for the sugar industry in the interior and debated one bill proposing that the
government should guarantee an annual return on investment of 6 percent to each sugar
mill during its first fifteen years of operation. The stipulations of this bill were that the
mill must produce fifteen thousand tons of sugar each year and the guaranteed returns to
each mill be limited to five million pesos. Other bills sought promotion of cotton textile
production in the interior. In 1921, the minister of agriculture commissioned an engineer,
Julio Sánchez, to acquire textile machinery from Europe and use it to establish factories
in the northwest regions of La Quebrada and La Puna in Jujuy province. For
particularly impoverished areas such as Catamarca province, Congress considered
whether to directly fund establishment of a new cotton textile factory. Cotton textile
production was considered a promising way to help Argentina’s poorest regions.

The government’s decision to promote and protect manufacturing activity in the
interior was a political compromise between the impoverished interior provinces and
wealthier littoral provinces and territories. Industries and raw material programs based in
the interior provinces were among the first to receive protective tariffs and subsidies. The
raising of these tariffs, however, cannot be accurately viewed to signify congressional
acquiescence to the agenda of the UIA. Instead, national deputies from the littoral
provinces realized that to mitigate political and social tensions between the littoral and
interior regions, the former would be required to offer subsidies and protection for the
latter.

For diverse political, intellectual, economic, and social reasons, increased
protection came to be accepted as a political necessity by the early 1920s. In 1923, a bill
was discussed to increase tariffs to 60 percent ad valorem on all manufactured imports.
The compromise was the tariff law of 1923 that raised tariffs on most, yet still selected
consumer goods. It was yet another revision that resulted from political compromises.
Machinery, raw materials, and other products needed for industry remained duty-free.
The appeal to economic nationalism and internal unity succeeded in overcoming
Argentina’s historical orientation as an exporter of agricultural commodities and importer
of finished manufactured goods.

CRITICS OF PROTECTIONISM

Although sentiment in favor of protectionism grew in the 1920s and early 1930s, several
groups remained opposed to the trend. The most vocal opponents of increased tariffs
were the Socialists. In 1919, the Argentine Socialist party rejected increased tariffs
because they would raise prices for basic consumer goods. The Socialists argued that
tariffs merely permitted large-scale industrialists to enjoy oligopoly rents at the expense
of poor and working-class consumers. President Marcelo T. de Alvear (1922–1928)
also toned down the rhetoric of protection and at least publicly espoused laissez-faire
principles after 1923. In the 1920s, critics argued that there were two major adverse effects with
increasing protectionism. First, more protection helped only to increase the size of
established firms. There was a rise in trusts, cartels, and monopolies in Argentina, particularly in the manufacturing sectors located in the interior. Second, these policies encouraged foreign companies to start settling factories within the Argentine borders. Indeed, foreign companies began “opening factories in Buenos Aires to secure a place in the market.” Specifically, the Socialists pointed out that foreigners did not need to export to Argentina; instead, they could just set up factories. They admonished the North American cement company Argentina de Cemento Pórtland for beginning to take control of its sector.

Critics seemed to believe that some protection was necessary, but they argued that competition between domestic companies was essential to combat concentration and monopolies. In the postwar period, Congress debated policies to increase the number of local firms and create “internal competition.” Most legislators debated bills that were based on previous models of industrial development, bills influenced by legislation passed in Germany, the United States, and England.

In the postwar period, Congress debated numerous bills with the intent to create an ideal environment for manufacturing; they wanted to encourage new entrants. Some of the bills pertained to encouraging indigenous technology, such as easing patent laws, rewarding cash prizes to encourage new inventions for industry, and easing credit terms for inventors of machinery. The goal of these policies was to emulate the machine making that took place in the early industrial phases of the United States, England, and Germany. Other bills debated nationalization of oil because the government wanted to heavily subsidize the fuel needed for industry.

Two bills that passed into law with the intent to create an ideal environment were the Anti-Monopoly Law of 1923 and the Limited Liability law of 1932, to simplify incorporation of smaller firms. An additional purpose of the latter law was to increase the number of small firms that would compete with each other.

The antitrust/monopoly bill stirred contentious debate in Congress between 1918 and 1922. It arose from numerous allegations of monopolies, cartels, and consolidation of large firms. In 1919, the Argentine Congress set up the first investigative committee on trusts; it concluded that trusts and monopolies were clearly present in the sectors of wine, sugar, rice, flour, beef, and petroleum. Several congress members defended these cartels. Ernesto Padilla, a deputy from Tucumán province, argued that monopolists were actually “capitalists.” Without “ultra-protectionism like in Brazil,” Padilla argued, the rice industry finds itself competing with imports and must form cartels to become larger and compete effectively.

The Anti-Monopoly Law passed in 1923, but it was difficult to establish occurrence of violations. The law largely functioned as a warning, but no one was arrested before 1930. The law classified violations as either “per se” or contrary to the “rule of reason.” Per se violations were defined as certain acts of conduct that were deemed patently anticompetitive. It was difficult to catch explicit agreements between two competitors to set prices, create a pact, or fuse capital for the purpose of sustaining a monopoly. In contrast, the rule of reason applied to certain practices whose anticompetitive effects were questionable and therefore best judged case-by-case. Because rule of reason was a somewhat gray area, the law identified certain acts that could cause probable action by a prosecutor. For example, if it a director were suspected of having fixed prices, destroyed goods for the purpose of raising prices, purposely shut
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off machines, abandoned fields, or created regional monopolies, then the cases went to trial. There were no convictions before 1930.85

The law failed to realize its intended outcome because of lax enforcement and obscure legal wording that made it difficult to enforce. For example, in 1925 Deputy José Amuchásteegui called for a congressional investigation to modify the Anti-Monopoly Law, to consider removing the stipulation that companies must have “criminal intent.”86 He argued that although violations of price fixing and trusts were numerous, they were nearly impossible to prosecute thanks to broad legal jargon and specific criteria that could not be met. Amuchásteegui cited the recent appeal of the federal capital’s Cámara del Crimen that repealed the judgment against the bakers’ society, Centro de Patrones Panaderos. The criminal appeals court repealed the judgment against the bakers’ price fixing arrangement because it could not find criminal intent.87

In 1929, Congress debated a new bill to ease legal requirements for incorporation and capitalization, to increase the number of small-scale firms. This bill was influenced by a similar law passed in Germany in the late-nineteenth century. According to congressional members, the German outcome was growth of a large number of competitive firms. The Argentine bill called for easing regulation to transfer partnerships into limited liability firms.88 Before this bill, only joint-stock companies enjoyed the full benefits of limited liability. This new bill was intended to ease the transition for smaller firms into limited liability. In 1932, the bill passed into law as the Limited Liability Partnership Act.89 It was strictly limited to partnerships of no more than twenty investing in commercial and manufacturing activity.90

Although the 1932 law helped to increase the number of small firms, these new small-scale companies were not competitive. They had high costs stemming from labor-intensive methods. Most of these small firms resembled their predecessors of the late-nineteenth century that used labor-intensive methods and supplied manufactured goods to a limited clientele. Most could also operate only in a highly protected environment.

Generally, industrial legislation, in particular higher tariff rates, solidified the inward-oriented nature of Argentine manufacturing and hurt its overall development in three ways. First, the tariff structure protected domestic manufacturers from importers of competing products of low-cost items for immediate consumption. The goods produced in Argentina were admittedly of lower quality than imports and intended for a mass working-class market. Once leading manufacturers captured a market, they did not typically improve their product or expand into producing high quality items because of two reasons. First, manufacturers may have tried to avoid having to debate lowering tariffs for inputs and raising tariffs for a specific new product. Second, costs were higher for machinery and inputs to produce higher quality items. In the glass industry, for example, the top three national glass manufacturers failed to produce high-quality glass (such as crystal or windows) even though there was a lucrative market for these items.91 Instead, most large flat glass or glass for windows was imported. Finer products were more expensive to produce and required more expensive machinery and skilled labor than production of simpler or cruder items. Foreign companies could easily set up factories in Argentina because they found a niche in producing finer products. For instance, the U.S. glass firm American Industries set up a factory in Argentina to produce its patented high-quality clear crystal.92
Second, the significant tariff increases of the 1920s established a presumption among government leaders that more protection, rather than efficiency-increasing measures, was the only way for government to aid industry. Protectionism became a panacea that pushed aside other potential government-based solutions. For example, in 1920 the UIA lobbied for an industrial bank to provide long-term credit to manufacturing, arguing that the thousands of small artisan shops were characteristic of Argentine industry because of the lack of industrial credit to expand operations and firm size. Congress rejected their proposal, responding that protective tariffs would generate increased profits sufficient for self-financing.  

Finally, Congress failed to develop the ideal manufacturing sector through tariff legislation because it was a short-term solution. The revisions to the tariff created a complicated and badly organized structure. The reason the revisions failed to push overall industrial efficiency was because the decision to raise tariffs was not the outcome of long-standing dialogue about multiple options on how to promote industry. Instead, Congress raised tariffs because it was the best political compromise and less cumbersome than committing to a long-term industrialization plan. By the late 1920s, protective tariffs strengthened the market position of the established large-scale firms and protected highly inefficient artisan shops.

CONCLUSION

Legislation to protect industry increased after the First World War for several reasons. The first was the severe economic decline after World War I, with the economy failing to return to its prewar levels of growth and expansion. This economic lull led independent and influential groups to clamor for government action to stimulate the economy. Industrialization was considered the best way to diversify it. Several economic groups, including those from the beef and agricultural sectors, pushed for government promotion of industry. The provincial governors of the interior supported industrial development as a way to fix the egregious income gap between the prosperous littoral and impoverished interior. The provincial governors supported full protection of the flour, wine, and sugar industries. This general belief that favorable legislation could push overall industrialization had major shortcomings.
Notes

2. These sources are located in various libraries in the United States. The *Revista de economía argentina* (hereafter, *REA*) is located in the Baker Library at Harvard Business School and at Ohio State University. The *Diario de sesiones* is accessible in various forms; the entire collection is available at University of Massachusetts Amherst and Ohio State. Several years of the *Boletín* and *Anales* of the Unión Industrial Argentina are located at the Science, Industry, and Business Library in New York City.

4. See Dorfman *Historia de la industria argentina* and Ferrer, *La economía argentina*.
15. Ibid., p. 90.
18. The labor issue was important because Congress was passing a number of labor laws to protect women and children, reduce labor hours per week, set minimum wages, create pension funds, and others. Manufacturers alleged that these laws lowered labor’s productivity, resulting in inefficient production. Schvarzer, *Empresarios*, p. 50.
20. Ibid.
22. Ibid., pp. 343-344.
23. Hora, “La política económica”
24. Buenos Aires province contained 30 percent of the Argentine population and had sixteen representatives in Congress. While at the same time, three minor provinces in terms of population and economic importance also had sixteen representatives (Santiago del Estero had 7; Tucumán 5, and Catamarca 4). Ibid.

25. There are many examples of this argument in the literature. Unión Industrial Argentina, “Defensa industrial,” *REA*, Jan.–June 1922, 8, pp. 246-248.


29. Ibid.


31. Ibid., pp. 2-3.


33. Ibid., p. 533.

34. Ibid., p. 534.

35. Falcoff, p. 59.

36. Falcoff, pp. 60-61.

37. Ibid., p. 61.

38. Ibid., pp. 61-62.


43. Ibid., p. 455.

44. Ibid., pp. 451-452.

45. Falcoff, p. 63.

46. It is worthwhile to note that although the UIA and Bunge group argued that a strong industry would also help laborers, they valued workers only as passive commodities. Bunge, for instance, believed that workers who were engaged in “trade unionism were not merely undercutting their own livelihood, but subverting attempts to convert Argentina from a dependency of Europe into an industrial power in her own right.” The UIA also opposed labor legislation that cut into companies’ profits; it was strictly in defense of manufacturers’ rights. When Congress began debate on social welfare legislation such as the eight-hour work day and company-funded pension plans, the UIA immediately attacked these laws as irrational and possible only once Argentine industry fully matured. Falcoff, “Economic Dependency,” p. 65; “Los proyectos de ley de la diputación socialista sobre jornada legal de ocho horas y ‘semana inglesa’,” *Boletín de la Unión Industrial Argentina*, Aug. 15, 1914, 28(548), pp. 19-20.

50. Colombo likely targeted the growing urban masses in response to get labor support for industry.
52. Sharkey.
53. Ministerio de Hacienda, Tercer censo nacional, p. 16; Luis Pascarella, Los derechos aduaneros a los tejidos de algodón (petición de los fabricantes a la H. Cámara de Diputados, 1918).
57. Sharkey, p. 113.
59. Falcoff, p. 66.
60. “Mensaje del Presidente, 1917.”
61. Solberg, Oil and Nationalism, p. 36.
66. Ibid., pp. 4-8.
70. “Industria y agricultura,” p. 311.
72. The support for protective tariffs suggests that it might have been a quid pro quo for subsidies of the regions’ products. Congressional debate of the time implied exchanges between politicians of the interior and littoral. Peter Smith’s original dataset on voting patterns suggests political cooperation between groups. Smith, “Argentine Chamber of Deputies." José Antonio Sánchez argues that the interior deputies and senators were able to block implementation of an income tax system that was favored by
littoral politicians until Buenos Aires deputies agreed to support subsidies for industries

74. “Industria del Tejido en Jujuy: Adquisición de maquinarias en Bélgica,”
REAA, July-Dec. 1921, 7, p. 244.
75. “Proyecto de ley,” Diario de sesiones, sesiones ordinarias, Sept. 30, 1926,
6, pp. 592-593.
77. By 1924, his supposed doubt about the abilities of local industry labeled
him a traitor of protection and revivalist of free trade in the secondary literature. See
Ferrer, The Argentine Economy; Ortiz, Historia económica; and Dorfman, Historia de la
industria argentina.
79. “El proteccionismo industrial: Los materiales de construcción y los
80. “Proyecto de ley: institúyense dos premios de . . .,” Diario de sesiones,
May 27, 1925, 1, pp. 189-190; “Proyecto de ley: institúyese cinco premios . . . ,” Diario
de sesiones, Sept. 2, 1926, 5, pp. 8-10.
24, 1920, 4, pp. 452-463.
82. Schvarzer, La industria que supimos conseguir, p. 123.
83. Padilla did not define ultraprotectionism, but it likely referred to Brazil
effectively keeping out all competition against rice. “Restricciones bancarias a los trusts,”
Diario de sesiones, June 30, 1921, 1, p. 664.
84. Law number 11210, Aug. 28, 1923.
85. Any tampering with prices by lowering, increasing, or fixing them was
illegal, including deliberately decreasing supply to manipulate price and demand.
Violation of this law was punishable by a fine of 2,000–100,000 paper pesos or up to
three years in prison. It was hard to prove, and the prosecuting party needed sufficient
evidence to indict the defendant. Argentine law number 11210, Aug. 28, 1923.
86. “Represión de los trusts: Proyecto de resolución,” Diario de sesiones,
sesiones ordinarias, Sept. 9, 1925, 4, p. 284.
87. Ibid., pp. 280-284.
88. By 1929, the legal requirements to incorporate as a joint-stock company
were cumbersome. The laws to incorporate (sociedades anónimas) called for following
Articles 313 to 371 of the Commercial Code. A corporation was mandated to have
frequent stockholder meetings; its administration and accounting records were public and
to be supervised by the government. “Proyecto de ley, Autorízase la formación de
sociedades comerciales a responsabilidad limitada,” Diario de sesiones, sesiones
ordinarias, June 12, 1929, 1, pp. 219-220.
89. “Sociedades de responsabilidad limitada,” ley número 11645, Oct. 8, 1932.
90. Ibid., artículo 9.
91. The glass manufacturers Rigolleau, Papini, and Compañía General de
Envases focused on production of low-cost bottles, glassware, and small glass containers,
particularly because the price of glass bottles was on a per-item scale and glassware at a
per-kilogram scale. Anuario del comercio exterior