FALSE ECONOMY

A Surprising Economic History of the World

ALAN BEATTIE

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CONTENTS

FALSE
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PREFACE

Franklin Delano Roosevelt, perhaps the greatest of all of America's presidents, loved stories about himself. One of his favorites went like this: During the Great Depression of the 1930s, one Wall Street commuter had a daily morning ritual. He would buy the newspaper on the way into the train station. He would glance only at the front page and then, without taking another look, hand it back to the newsboy and board the train. Eventually, the boy got up the courage to ask him why he read only the front page. The commuter explained that he bought it solely for the obituaries. The newsboy pointed out that the obituaries were at the back. "Boy," the man said, "the son of a bitch I'm interested in will be on page one."

At the time, Roosevelt was busy trying to save the U.S. economy in the face of a colossal global dislocation. He was working to preserve the most powerful engine for creating wealth in the history of the world. To do so, he expanded radically the frontiers of American government. And a decade later, at the end of his presidency—and his life—he would help to create the institutions that led a global economy shattered by war and by misguided isolationism back on the road to openness and prosperity.

And yet he was vilified by some, like that New York commuter, who would continue to benefit from the success that FDR helped to restore. Roosevelt was trying to save capitalism from itself, and some of the capitalists were resisting. Knowing the right thing to do to enrich your nation and the world is hard enough. Bringing people with you to get it done is even harder.

The financial crisis that started in 2007 and exploded around the world in 2008 was a reminder of how fragile and reversible is the history of human progress. But it should also remind us that our future is in our own hands. We created this mess and we can get ourselves out of it.

To do so involves confronting a false economy of thought—namely, that our economic future is predestined and that we are helplessly borne along by huge, uncontrollable, impersonal forces. To explain the vast complexity of the economic history of the world, there is a rich variety of fatalistic myths on hand: that some economies (the United States, Western Europe) were always going to get rich and that others (Africa) were always going to stay poor; that certain religions are intrinsically bad for growth; that market forces are unstoppable; that the strutting vanguard of globalization cannot be routed and driven into retreat.

The aim of this book is to explain how and why countries and societies and economies got to where they are today—what made cities the way they are; why corruption destroyed some nations but not others; why the economy that fed the Roman empire is now the world's biggest importer of grain. But it will reject the idea that the present state of those economies, countries, and continents was predetermined. Countries have choices, and those choices have substantially determined whether they succeeded or failed.

Economic history is a challenging thing to explain, and to read, for two reasons. First, it involves forcing together disciplines that naturally fall out in different directions. History, in its most traditional form, lives on specifics and particularities—what the historian Arnold Toynbee (disapprovingly) called the study of "one damned thing after another." It stresses the importance of narrative in the way that countries develop, the role played by chance and circumstance, and the influence of important characters and events. Economics, by contrast, seeks to extract universal rules from the mess of data that the world provides—providing reliable and testable predictions that economies run in a particular fashion, or that starting off from a particular point, they will end up a particular way. Both approaches have risks. If history can become the undisciplined accumulation of a random heap of facts, economics risks descending into the pseudoscientific compression of a complex reality into a simplistic set of fixed categorical molds.

Second, economic history is vulnerable to fatalism. Any study that takes as its endpoint the present day is always vulnerable to arguing backward from the conclusion. History is so rich in scope and detail that it is always possible to pick a particular constellation out of the galaxy of facts to explain clearly and precisely why things are as they are. Yet such reasoning is frequently proven wrong by subsequent history. Or it completely fails to explain why other, similar, countries and economies came to a different end.

If we are going to learn from history rather than just record it, we need to stop explanations from becoming excuses. Drill too far down into explanations of how things turned out the way they did and you risk hitting a bedrock of determinism. There are plenty of reasons why countries have made mistakes. Often their decisions are driven by a particular interest group, or a coalition of them, whose short-term gains stand at odds with the nation's long-term interests. But such interests can be overcome. Similar countries facing similar pressures can take meaningfully different decisions. Most nations that discover oil and diamonds in their ground suffer as a consequence, but not all do. Some interest groups have captured countries and dragged them down; some have been resisted. Islamic beliefs have proved a drag on certain economies at certain times, but they do not have to. Some economies have managed to capture great benefits from the globalization of markets in goods and services; some have missed out.

History is not determined by fate, or by religion, or geology, or hydrology, or national culture. It is determined by people. This book is not a whimsical set of disconnected stories. It is an explanation of how human beings have shaped their own destiny. It also shows how decisions being taken now are determining our future.

Nothing can call back the finger of history to cancel even half a line of what has been written. But still we can compose the script for the remainder of our lives, and beyond.

1.

MAKING CHOICES

WHY DID ARGENTINA SUCCEED AND THE UNITED STATES STALL?

Everyone remembers the horrendous, world-changing events of the morning of September 11, 2001. Everyone remembers the planes commandeered by terrorists slamming into the twin towers of the Centro Mundial de Comercio in Buenos Aires. As the richest country on earth and the modern world's first global hyperpower, Argentina was a prime target for malcontents revolting against the might of the Western capitalist order.

Fewer recall the disaster that befell the United States of America three months later. Fewer recall the wrenching moment when the U.S. government, crushed by the huge debts it had run up borrowing abroad in pesos, announced it was bankrupt. The economic implosion that followed, in which thousands of jobless, homeless Americans slept rough and picked through trash bins at night in New York's Central Park, shocked only those still used to thinking of the United States as a First World country.

Well, no. It happened the other way around. But that was not inevitable. And the crisis that has hit the United States—and then the entire global financial system, threatening to plunge the world into another Great Depression—should be a dark warning. The United States could have gone the way of Argentina. It could still go that way, if the painfully learned lessons of the past are forgotten.

The strong likelihood is that in the long sweep of history, the turmoil that began with the credit crunch in 2007 and escalated to a full-blown global financial emergency in 2008 will be seen as a crisis of capitalism, but not its terminal crisis. The world economy—and particularly the U.S. economy—has recovered from financial crises and economic recessions, indeed depressions, before.

Each time, similar lessons have emerged. Countries do not get rich by accident. They make choices that determine the path their economies take. It is not always clear which is the right path at any given point, though some general rules can be drawn. But the countries that succeed are those that are flexible enough to learn from experience and that do not become captured by groups whose interests are sharply at odds with those of the country as a whole.

The United States and Argentina took different paths. Yet that was not inevitable. One short century ago, the United States and Argentina were rivals, starting off in similar places. Both were riding the first wave of globalization at the turn of the twentieth century. Both were young, dynamic nations with fertile farmlands and confident exporters. Both brought the beef of the New World to the tables of their European colonial forebears. Before the Great Depression of the 1930s, Argentina was among the ten richest economies in the world. The millions of emigrant Italians and Irish fleeing poverty at home at the end of the nineteenth century were torn between two destinations: Buenos Aires or New York? The pampas or the prairie?

A hundred years later, there was no choice at all. One had gone on to become one of the most successful economies in history. The other was a broken husk, a place where inept, corrupt governments had, time and again, stolen the savings from their own people. And when the flesh of that fruit was sucked dry, they stole from foreign investors foolish enough to recall the promise of the distant past and forget the failure of the present.

Perfect hindsight encourages us—and historians—to imagine that the two countries were fated to diverge in the way they did, that one was bound to fly and the other destined to stall. A superficial similarity over a hundred years ago might have been enough to fool desperate Italian and Irish emigrants, we may think, but surely we can see clearly the fatal flaws that were there to be found beneath?

History invites us to think we are explaining and analyzing when in fact we are retrospectively rationalizing. Things that happened were always going to happen, and the proof that they were always going to happen is that they did happen. Since we know that Argentina was going to fail, we can always pluck some fundamental elements out of the vast thicket of geographical, social, environmental, and political influences that make up its history to show that the failure was inevitable.

An old saying of historians is that until lions learn to talk, history will always be written by the hunters. There is some truth in that, though not a universal truth; the losers of history have their modern champions as well. Less recognized is the tendency to assume that the roles of lions and hunters were irreversibly assigned at the beginning. This book will argue that the paths taken by different countries largely reflect the decisions they took, even if they were unaware they were making them. Had they made other choices, things might have turned out very differently.

Imagine that the United States had followed the arc that Argentina did, falling from the First World to the Third. How many factors from earlier in its history, fundamental and superficial, would now triumphantly be produced as evidence that it always would? America was a nation whose antecedents traveled across an ocean to establish a colony of religious absolutism, a country whose birth was induced by the rejection of a colonial power, whose revered first president warned against "foreign entanglements," which insisted even on inventing sports alien to the rest of the world. While successful Argentina imported political liberalism from Europe, along with the grace and artistry of association football ("soccer" in U.S. parlance), the isolationist, insular United States invented its own brutal and violent version of each. Clearly the United

States was *always* going to make the fatal mistake of rejecting the opportunities offered by the international economy and turn in on itself. Wasn't it?

Almost as unhelpful as historical fatalism is trying to nail down a single turning point where a country, an economy, or a society went one way or the other. The human desire for a story means it is usually possible to find symbolic events that fit the need for narrative moments of crisis and resolution. But tightening the focus of causation on a single event itself invites the misleading "if only" feeling that had one pivotal thing gone the other way, the entire direction of subsequent history would have been different. The old saying has it that for the want of a nail, the shoe was lost; for the want of a shoe, the horse was lost; for the want of a horse, the message was lost; for the want of a message, the battle was lost; for the want of a battle, the kingdom was lost. The nail assumes critical importance. But a kingdom that had grown vulnerable to the loss of a single messenger was, perhaps, not long for this world, no matter whether that message got through.

Harper Lee's wonderful novel *To Kill a Mockingbird* starts with the endpoint of its narrative. Scout, the narrator, recounts that her older brother, Jem, had his arm badly broken at the elbow when he was nearly thirteen. Within the novel they dispute the cause. Scout identifies the key event as occurring a couple of years previously, when the man who attacked him came into their lives. Jem, four years older, reaches back years further, to a first encounter with a new friend who conceives of meeting the recluse who eventually saves Jem from the attack.

Their father, wisely, pronounces both of them right. There was no individual event at which Argentina's future was irrevocably determined or its path set on a permanent divergence from that of the United States of America. But there was a series of mistakes and missteps that fit a general pattern. The countries were dealt quite similar hands but played them very differently.

The similarities between the two in the second half of the nineteenth century, in fact up to 1939, were neither fictional nor superficial.

The "lords of the pampas"—young Argentines strutting the salons of Europe between the wars—pop up in accounts of the time as a type equally prominent as the swaggering Americans playing at European decadence in Berlin and Paris.

For a long while the two countries were on parallel paths. Unlike most African and Asian colonies, those in the Americas generally gained early independence from European empires. The colonies that later became the United States declared independence in 1776 and became a new nation in 1789. The viceroyalty of Argentina, part of a Spanish empire that reached across the continent to Peru, was overthrown in 1810 by rebels inspired by the American Revolution. They were then emboldened by the successful repulsion of two British attempts to seize Buenos Aires, the capital. In 1816, Argentina became an independent republic.

Both Argentina and the United States faced internal struggles between those who wanted a centralized government and those who wanted power reserved for the individual states or provinces. In the United States, the separate colonies had existed long before the idea of uniting them, and it was not guaranteed that a republic would actually be realized, nor that it would succeed once formed. The negotiations that led to the writing of the Constitution were long, tortuous, and often ill-tempered, and the various religious denominations, traditions, and constitutions of the former colonies all too evident. Only five of the thirteen founding colonies, later states, even bothered turning up for the first drafting meeting, in 1786. Virginia, the most populous colony, wanted a strong central government with directly elected representatives based on population size. New Jersey, one of the less populous ones, wanted equal power for each state. The U.S. Congress to this day reflects the compromise: a lower house, the House of Representatives, elected roughly proportionally by population, and an upper house, the Senate, with two representatives per state, regardless of geographical size or population.

The idea that an American identity sprang fully formed from the adoption of the Constitution is a comforting thought for a country that sees itself as the embodiment of great and universal principles. It is, however, something of a myth. Battles had to be fought to make flesh the national motto *E pluribus unum* ("Out of many, one"). That motto appears today on U.S. coins, but at the time of independence, in 1789, dozens of different currencies were circulating—the "continentals" printed by the Continental Congress, the governing body of the independence movement (and the forgeries of same issued by the British to destabilize the war effort), as well as various currencies issued by states, cities, and foreign nations. A national bank and a single "national debt"—making the federal government responsible for the debt of the states—were not created without fierce opposition. Some of the most prominent of the new republic's founding fathers, particularly Thomas Jefferson, believed too much power was being pulled into the center.

In Argentina, it took decades of struggle between centralists, who wanted all tax to pass through the hands of the national government, and federalists, who wanted it reserved for the provinces. A constitution was adopted in 1853 with a system of sharing tax revenue between the center and the provinces. But there remained continual tensions, which were not settled until the suppression of an armed uprising in the province of Buenos Aires in 1880, at a cost of 2,500 dead and wounded, which focused more power in the center. Domingo Sarmiento, who had tried to forge an Argentine national unity while president between 1868 and 1874, said he would settle for an Argentina whose inhabitants were not killing each other. Instead of the French Revolution's rallying cry of "Liberty, equality, fraternity," he said, he would settle for "Peace, tranquillity, and liberty."

On the face of it, the economies of the two countries also looked similar: agrarian nations pushing the frontiers of their settlement westward into a wilderness of temperate grasslands. In both nations the frontier rancher—the gaucho and the cowboy—was elevated into a national symbol of courage, independence, and endurance. But closer up, there were big disparities in the way the frontiers were settled. America chose a path that parceled out new land to individuals and families; Argentina delivered it into the hands of a small elite.

From the founding of the colonies, America was fortunate enough to have imported many of the practices of northern European farming and the aspirations of its people. The farmers of "New England," the densely populated states of the Northeast, came largely from Britain, Germany, and the Netherlands—all countries with a lot of people and not much land. They brought with them the tradition of skilled farmers on small homesteads. Argentina, by contrast, had a history of a few rich landowners on great estates left by the Spanish, and the aristocratic elitism that came with it. It also had a labor shortage. Mass immigration to Argentina came later in the nineteenth century, but the country had to push forward its frontier with a skeleton staff.

Both countries expanded westward, the United States to the Pacific, and the Argentines to the Andes, but not in the same way. They faced similar problems. The vast distances and unfamiliar terrain were weapons of great value for the Native Americans in both halves of the continent. The westward expansion could not be blocked indefinitely, given the gulf in technologies. Rifles and revolvers would in time defeat axes and bows and arrows. But the resistance they encountered helped to shape the settlement.

America favored squatters; Argentina backed landlords. Desperate to push inland, and short of cash, Buenos Aires found the best way to encourage settlers was to sell in advance large plots in areas yet to be seized from the Native Americans, or to promise them as inducements to military officers leading the charge. This was an extreme form of performance-related pay: no win, no farm. But once the battles were won, the victors were exhausted, good farm laborers were in short supply, and the distances from the eastern seaboard to the frontier vast. Most of the new landowners simply encircled wide tracts of grassland with barbed-wire fences and turned them over to pasture. Raising cattle or sheep required relatively little hired help, yet neither did it leave much room for increased productivity with fertilizer and machinery. Nor was that initial misstep ever systematically retraced.

Thus was privilege reinforced. A small number of wealthy and powerful landowning families controlled vast amounts of sparsely populated pasture. Argentina's land conquests did little to change its nature. European emigrants to Argentina had escaped a landowning aristocracy at home only to re-create it in the New World. The similarities were more than superficial. In the early decades of agricultural commercialization—the 1860s and 1870s—the landowners regarded rural life and the actual practice of agriculture with disdain. Many lived refined, deracinated lives in the cities, spending their time immersed in European literature and music in cloistered salons rather than bothering to run their farm estates themselves. And even when a number of new immigrants made it into the elite, they acted as though their blood had always been blue. The closest they came to celebrating country life was elevating polo, an aristocratized version of a rural pursuit, to a symbol of Argentine athletic elegance. Even then, it assumed an elite and exclusive form: the famous Jockey Club of Buenos Aires, founded in the 1880s. It worked, too; by the end of the nineteenth century some were sending sons to Eton, a prep school at the apex of British aristocratic privilege. A few were even accorded the ultimate goal of being permitted to marry into titled European nobility.

Though it regarded what it termed the "manifest destiny" of expansion with imperious, and almost imperial, ambition, America's move westward was nevertheless more democratic. The government deliberately encouraged a system of smaller family holdings. Even when it did sell off large tracts of land, the potential for a powerful landowning class to emerge was limited. Squatters who seized family-sized patches of soil had their claims acknowledged, news of which created an incentive for other westward emigrants to follow en masse. Its cattle ranchers did not spend much time boning up on the entrance requirements of elite English schools. And in addition to cattle, the western settlers ran higher-productivity farms than their Argentine counterparts, growing wheat and corn. The massive westward move of America created a vacuum in the coastal east of the country, which soon filled up with new emigrants sucked in from the poverty and desperation of Europe. By the 1850s, the United States was importing a quarter of a million immigrants a year.

Immigrants came to Argentina as well, and later made up a bigger proportion of the population there than in the United States. But they came later, and with fewer skills. Even from across the Atlantic, the wages offered for lowly farm laborers did not always look enticing. Low productivity meant low wages, for which, generally, only the poorer and less well-educated Europeans were prepared to emigrate in large numbers. The surge of immigrants into Argentina, largely low-skilled Italians and Irish, came in the last few decades of the nineteenth century. In 1914, a third of Argentina's population was still illiterate.

The European migrants to Argentina had been pushed as much as pulled. A rising population and inefficient farming in their home countries—where the local economies were, appropriately enough, undercut by cheap agricultural produce exported by the United States and Argentina—drove Italians off the land, while the Irish were escaping the famine of the potato blight. America imported the special forces of British agriculture, and in addition a large number of literate, skilled workers in cloth and other manufactures. But while there was an English-speaking aristocratic landowning clique at the top of Argentine society, the only British farming colony of any note in Argentina was peopled by the Welsh, who pitched up deep in the southern Argentine province of Patagonia—poor, isolated hill farmers swapping one cold and remote land for another.

Nor were many immigrants gripped by an Argentine version of the American dream. Many of the immigrants were "swallows" (*golondrinas*) who came from Italy or Spain for the harvest season and then returned home. Between 1850 and 1930, only 5 percent of immigrants even became Argentine citizens. Italy won the 1934 World Cup with three Argentine players on its squad. Since they were of Italian descent, Italy considered them to be, essentially, Italians and simply poached them ahead of the tournament, to the fury of Argentina's football (soccer) fans. It is hard to imagine England getting away with requisitioning American athletes of British descent.

Still, America's openness to immigration was not a given, any more than it is now. The Plymouth Colony founded by the Pilgrim emigrants of the seventeenth century was intended not to extend freedom and democracy but to give a dissenting denomination the ability to impose its own religious purity. America's low-church Protestants had left Catholicism and its near neighbor, Anglicanism, in Europe. Many had no wish to let them follow on behind.

Associations of American-born workers arose to oppose successive waves of immigration. With an unconscious gift for self-satire, one powerful political movement of the mid–nineteenth century styled itself the "Know-Nothings," after the response they were required to give when asked about their half-secret gatherings. The Know-Nothings wanted Catholics and foreigners banned from public office. There were riots in New York against the newcomers. But in the end the exigencies of economic growth won out. There was no point fighting over shares of the pie when it became evident just how rapidly it was growing. America was not a zero-sum game.

Meanwhile Argentina was heading down the wrong track. It had more land than it could efficiently work, and too few homegrown or imported laborers to work it. But it was well into the twentieth century before the rot in the foundations became apparent. Its faults were for a long while masked by a great and unearned gift.

Hyperbole about the "unprecedented" nature of the twenty-first-century globalized economy is misplaced. There was huge integration in markets for goods, capital, and (particularly) people during the first "Golden Age" of globalization, roughly dating from 1880 to 1914. Peace in Europe coincided with the growth of cities, and with them urban consumers. A global trading system developed with astonishing speed.

Transport costs dropped sharply. In the mid–nineteenth century, wheat cost more than twice as much at destination in London than it did at source in Chicago. By 1913 they cost about the same. Most leading countries fixed their currencies to the price of gold, in order to be sure how much their export earnings would be worth.

It was a great time to be a New World farmer. American and Argentine farming had a big competitive advantage (relative to other countries) and a big comparative advantage (relative to other industries). A canning industry already existed, boosted by the American Civil War. Soldiers, especially of the Southern armies, had had to fight a long way from reliable sources of fresh food. Fray Bentos, long famous in Britain as a brand of tinned glutinous meat pie, is named after a meatpacking town in Uruguay near the Argentine border. Canning was now supplanted by new industrial processes invented elsewhere, such as freezing and refrigerating meat. American and Argentine farmers saw the markets of Europe open up, wide and clear, before them. This, after all, was the way specialization was supposed to work in a global market. The New World did farming; Western Europe did machines.

Along with Australia and Canada, Argentina and the United States formed a clutch of efficient, profitable New World farm exporting countries. Production expanded massively, seizing on the new technologies. Fresh American beef appeared with frequency on the tables of Europe. A growing market and established supply chains meant that the concentration of production in a few products like beef and wheat seemed the logical way to go. By the end of the nineteenth century, Argentina's economy, calculated on a per capita basis, was higher than that of France, and a third higher than Italy's.

A British visitor to Argentina in 1914 wrote: "One cannot go through the country and see its fecundity, go into the killing houses of La Plata and Buenos Aires, watch the ocean liners, with the Union Jack dangling over their stern, being loaded with many sides of beef, visit the grain elevators at the ports of Bahía Blanca and Rosario pouring streams of wheat destined for European consumption into the holds of liners, without the imagination being stimulated when standing on the threshold of this new land's possibilities."

Used wisely, the benefits of this export boom could have kept Argentina up in the pack, chasing the United States. But much of the money was captured by the owners of huge swaths of pasture, not their badly paid employees, and they generally either spent it on imported consumer goods or bought more land with it. Argentina needed to import more than just technology to benefit from the commodity boom. It needed to borrow the money from abroad as well. At this time it hardly seemed to matter. The British were on hand. They poured money and expertise into railroads that opened up the pampas just as they did in Australia, Canada, and the United States.

If Argentina looked like it was following the American route, it was doing so by rote, not by understanding—importing modern technology, but not the spirit of innovation and change. Argentina borrowed money from the British, but America learned from their experience as well. Economies rarely get rich on agriculture alone. Britain had shown the world the next stage: industrialization. Crudely put, labor-saving inventions increased farm output, created surplus profits, and reduced the demand for labor. The savings were used for investment in industry. The displaced farmers went to the towns to work in the factories.

The same benefits that boosted American farming also helped it industrialize. Sometimes it serves to be second on the scene: the United States could follow the path that Britain had already beaten down. Two advantages in particular were to be gained from Britain's agricultural revolution: one, the technologies of smelting iron and so forth already existed; and two, America could tap some of Europe's, and notably Britain's, large pools of money looking to invest abroad.

America learned quickly. Though it benefited from the farm trade in which it also had a comparative advantage, and from British investment, it never became as dependent on either as its counterpart in the Southern Hemisphere. Its most significant import from Britain was neither money nor goods but ideas. Among other things it grasped that building a manufacturing industry would allow it to benefit from better technologies, whereas halfheartedly trying to squeeze a little more wheat out of the same fields would not.

American business owners wanted to invest their own money in industrializing their country. Although they borrowed a great deal from abroad, they also saved their money and invested it. Foreign capital accounted for no more than 10 to 15 percent of investment in America, compared with more than a third in Argentina.

It was not as if Argentina consciously and visibly rejected the same course. It could scarcely avoid growing its own manufacturing industry unless it copied the remarkable Chinese decision, earlier in the millennium, to retreat from the world and regard foreign technologies with suspicion. But when the industrialization did come, the prevailing prejudices ensured that it was limited and late. The elites of Argentina rejected the mentality (and actions) that industrialization required. Safely milking the golden teat of their farming, they saw no special reason to risk their status and livelihoods in the fickle and dangerous world of industrial manufacturing. Conspicuous consumption was a far more attractive proposition than tying up money for a long time in an uncertain project that might in any case harm rather than help their farming interests. And despite the large inflow of immigrants at the end of the nineteenth century, Argentina still suffered from a chronic labor shortage. There were not enough new Argentines to fill factories.

Argentina brought the same conservative and oligarchic tendencies to industrialization that it had to the agricultural sector, preferring cozy, safe monopolies protected by government fiat and regulation to the brutal riskiness of the marketplace. Nascent Argentine industry was, in essence, carried by the rest of the economy. It had little momentum of its own.

Argentina's development during the Golden Age was rapid but precarious. Its well-being depended on farm prices' continuing to hold their own against the prices of manufactured goods, and on global markets' remaining open. A boost from new technology and new export markets would be no guarantee of a secure place on the escalator that would take the economy past agriculture and into manufacturing.

Many of the manufacturing industries that did spring up were adjuncts to the farming business, such as the Fray Bentos canneries. They became not replacements for farming but offshoots from it; they did not lead but were towed behind agriculture. Argentina's manufacturing was small-scale—handicraft workshops, not factories—and used imported capital and technology. Its labor force was unskilled, and remained that way. The wealth and status of the Argentine elite, while they also owned some service industries, such as banking and transport, were still based on landowning. Manufacturing was regarded as a little vulgar.

Often, or at least often in the narratives of historians, we find a symbolic moment—a pivot—when it became clear that the investors and industrialists of the cities would be the future rather than the landowners and farmers of the countryside. In Britain, the defining moment was the repeal, in 1846, of the Corn Laws, the import tariffs that had protected British grain from foreign competition and artificially buoyed the value of land. In America, it was the Civil War, with the industrial North defeating the agrarian South. The closest Argentina came was the symbolic burning down of the Jockey Club by urban supporters of Juan Perón (of whom more later), more than a century after Britain had repealed the Corn Laws.

If the South had won the Civil War and gone on to dominate the North, America might have looked a lot more like Argentina. The antebellum Southern states would have been very familiar to an Argentine: large estates with a few rich landowners and some badly paid laborers. (Thanks to the low productivity, which could not attract enough labor, it also had a lot of slaves.) They exported crops, principally cotton, to the rest of the world, but with little ability to expand and diversify. The cotton was shipped to Liverpool, to be made into textiles in Lancashire; the financial powers of the South did not make clothes themselves.

In fact, though the war itself could have gone either way, in reality this is a "what if?" turning point imbued with more significance than it deserves. A Southern victory in the Civil War might have slowed and skewed American industrialization but not halted it. Even if the North had lost, and failed to bring the South back into the Union by force, it would likely have gone its own way, building an economy based on manufacturing and commerce and leaving the South to wallow in its victorious stagnation. Manufacturing and finance were supplanting farming. No country was going to keep up with the leading pack by remaining in agriculture.

The American commerce-finance-business establishment got another scare in the 1890s. Farmers from both northern and southern states, seeing their prices drop as a result of global oversupply, wanted in effect to print more money by fixing the dollar to the price of more plentiful silver rather than, as it was then, to the price of gold. The "Populist" political movement arose to press their case. But the investment and business community regarded the link to gold as essential to the country's position as a financial and trading hub. It ensured that the dollar kept its value both against other leading currencies, such as the pound sterling, which were also fixed to the gold price, and in terms of what it could buy. The limited amount of gold in the world also meant that all currencies linked to it were kept in short supply, imposing a rigid financial regime that left policymakers unable to respond to economic downturns with looser monetary policy. The presidential election of 1896, which turned largely on the issue, was close. But William McKinley, who backed the continuation of the gold standard, defeated William Jennings Bryan, who had thundered: "You shall not crucify mankind upon a cross of gold."

Yet even though the central demand of the Populists was defeated, the discontent that it reflected was not ignored. Discontent had arisen in the last decades of the nineteenth century for a reason that will seem all too familiar today. Unregulated finance capitalism appeared to be enriching a powerful minority while subjecting everyone else to the