SOURCES OF FINANCE AND REPUTATION

Merchant Finance Groups in Argentine Industrialization, 1890–1930*

Yovanna Pineda
St. Michael's College, Colchester, Vermont

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Abstract: This article examines the connections between financing, reputation, and industrial development in Argentina. It analyzes five leading merchant finance groups through a newly created data set of 1,282 directors and shareholders of fifty-nine manufacturing companies across ten sectors from 1890 to 1930. Merchant finance groups formed to pool capital for manufacturing investment in the absence of developed domestic banking institutions and equity markets. The leading five groups under study secured access to diverse sources of capital by developing personal connections and by their reputations. Although these five groups successfully adapted to an environment that lacked efficient credit markets, most manufacturers' companies were capital-starved due to the lack of industrial credit. Insufficient industrial credit resulted in dominant firms owned by a few merchant finance groups controlling the noncompetitive manufacturing sector.

Argentina's rapid growth rate before 1914 was largely attributed to the export of agricultural staples and influx of foreign capital. However, despite Argentina's characterization as an agro-exporter, modern manufacturing had also emerged in the late nineteenth century. Indeed, it was the wealth accumulated from agrarian expansion that fostered the beginning of modern manufacturing in Argentina between 1890 and 1930. It was specifically private local capital from domestic finance groups that served to generate Argentina's manufacturing development before 1930. This article examines why and how domestic entrepreneurs invested in manufacturing before 1930.

One of the principal issues in the historiography of Latin American industrial development has been the absence of well-established financial systems to provide long-term credit to manufacturers. A financial

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system serves to "eliminate the need for parties to have direct knowledge of one another," and it makes contracts "easy to value and exchange" (Haber et al. 2003, 81). For the most part, Latin American manufacturing was capital starved because the region lacked efficient financial systems capable of extending long-term credit. Haber (2005) argues that in Latin American countries, "manufacturers tended to be liquidity constrained, which had negative effects on the extensive growth of industry, the adoption of new technologies, and hence, on productivity growth" (22).

Argentina's banking system and stock markets were particularly underdeveloped and offered little in the way of long-term credit for manufacturing before 1930. Regalsky offers one reason for the lack of credit: after the bank panic of 1891, Argentine banks adopted conservative lending policies that limited the extension of credit through the 1920s (Regalsky 1997, 370–375). Adelman adds that "by 1914, any credit shortage could be blamed not on the lack of institutions, but rather on the lending policy and preferences" (Adelman 1990, 73–74). Another explanation for the underdevelopment of Argentina's financial system was that private domestic banks failed to fill the void left by the flight of foreign capital that resulted from the First World War (Taylor 1992; Della Paolera and Taylor 1998). Nakamura and Zarazaga (2001) argue that "neither the Buenos Aires stock exchange nor the private domestic banks developed rapidly enough to fully replace the British investors as efficient channels for financing private investment" (Nakamura and Zarazaga 2001, 3).

Under these circumstances, manufacturing investment came largely from the growth of merchant finance groups. These groups increased their access to capital by forming informal alliances and establishing networks with many other entrepreneurs, merchants, political leaders, and banks. In Latin America, groups formed to pool capital for manufacturing investment in the absence of developed domestic banking institutions and equity markets (Haber 1989; Haber et al. 2003; Kirsch 1977). These merchant finance groups operated in most regions of Latin America and had existed since the colonial period (Socolow 1978; Kirsch 1977; Quiroz 1989; Kicza 1983; Dean 1969). Membership in finance groups reduced the risk of asymmetric information because members were familiar associates who shared non-public information about their companies. Brown and Rose (1993, 1) argue that scholars have long expected that networks of trust "reduce the uncertainty of business dealings generally and innovation in particular."

This article contributes to the historiography on Latin American finance networks by examining how and why Argentine entrepreneurs formed merchant finance groups to invest in manufacturing before 1930. Members were forced to develop a network of alliances and build group reputations in order to have consistent access to diverse sources of finance capital. In Argentina, a group's reputation played a key role in both solidifying ties among members and attracting outside capital. Over time, members found that membership in a business group offered faster and more secure sources of capital than individual entrepreneurship. Chandler (1977) views the formation of networks and the use of a business group's reputation to attract capital as signs of inefficient finance systems. He argues that efficient business enterprises rely on the "impersonal world" of commerce and finance (1977, 19). In Latin America, however, groups' reputations have an explicit purpose in business. Maurer and Sharma argue that in Mexico, reputation served as a "form of intangible collateral to creditors" in the absence of secure property rights (Maurer and Sharma 2001, 950–51).

Without effective financial systems that would have allowed for the "easy value and exchange" of capital between anonymous parties, a group's reputation served as a signal to outsiders. A good group reputation developed over time. Its primary characteristic was that members behaved in a manner consistent with the promotion of companies' stability and profitability. Reputations could be used to attract outside capital to invest in company bonds and shares and in maintaining investor confidence during economic downturns. As economic volatility and company failures were relatively common before 1930, access to capital from outside sources was vital to long-term company success. Outsiders seeking profitable but relatively safe manufacturing investments viewed these reputable groups' ventures as stable and profitable. Outside investors were those who had neither business nor personal relationships with the companies' senior management or directorial board.[1]

This article examines five leading merchant finance groups. These five groups under study invested in a diverse array of activities including agriculture, banking, hotels, entertainment, real estate, the fishing industry, and manufacturing. By 1930, these five groups owned Argentina's largest and most dominant manufacturing firms in their respective sectors. These five finance groups were labeled as Tornquist, Bemberg, Devoto, Paper, and Soulas. Four groups—Tornquist, Bemberg, Devoto, and Soulas—were named after the leading director's family name.[2] The Paper group is named so because of the substantial stake its members held in the Argentine paper industry.[3]

1. Depending on the company, these outsiders could be foreigners investing through an investment broker, foreign or domestic banks, or other merchant finance groups. These outsiders felt confident in investing and buying company shares or bonds because they relied on the group's reputation.

2. Groups like Devoto have received a myriad of names from different authors.

3. There were other foreign groups and foreign capital invested in large-scale industries. Marichal identified other important groups like Bunge and Born and Portalis/

Although these five groups succeeded in adapting to an environment that lacked efficient credit markets, most manufacturers' companies were capital starved due to the lack of industrial credit. Argentina's manufacturing sector remained limited in size and underdeveloped. In contrast, early industrial New England had a kinship-based banking system that lent largely to insiders, of whom nearly all who needed industrial credit obtained it (Lamoreaux 1986). The outcome in New England was that the manufacturing sector helped the region's overall economy. In Argentina, however, the lack of industrial credit helped create a noncompetitive manufacturing sector in which dominant firms that were owned by a few merchant finance groups exercised most of the control. The lack of competition reinforced the dominance and reputation of the five groups under study.

A discussion of the data and methods used to analyze the merchant finance groups follows this section. Conclusions are drawn from the original data set. The third section begins with a brief discussion of the literature on Argentina's merchant finance groups. It also identifies how merchant finance groups formed and remained cohesive between 1890 and 1930. The fourth section analyzes the specific characteristics of the five merchant finance groups under study. It examines why other groups were generally less successful than the dominant five groups in attracting finance capital. The last section offers final conclusions.

DATA AND METHODS

Findings from this article come from a newly created data set of 1,282 company directors and prominent shareholders from fifty-nine companies across ten manufacturing sectors between 1890 and 1930.[4] These ten sectors are textiles, metallurgy, paper, matches, cement, glass, beer, tobacco, soap and candles, and burlap sacks. All fifty-nine companies under study were public corporations, and their records were available in business journals of the time. Information for this data set of 1,282 directors comes from a variety of primary and secondary sources. The most important among these sources were companies' bylaws, directorial and stockholder reports, and financial statements. These sources are

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Bracht (Barbero 2000, 124). The Born and Bunge group were a significant merchant financier family. By the 1920s, Born and Bunge expanded their investments to include numerous finance, agriculture, and non-agricultural ventures. Bolsalona. *Memoria del Presidente de Bolsalona*. Jones discussed the importance of British capital in Argentine business (Jones 1985). While these groups and foreign capital are worthy of discussion, this article is limited to the five domestic industrial groups.

4. I created this data set from the sources identified in this section. This data set is organized as a spreadsheet in a common computer program.

available in three publications: *Monitor de sociedades anónimas, Boletín oficial de la bolsa de comercio de Buenos Aires*, and *Boletín oficial de la República Argentina*. This database represents an advancement in the use of these sources. Only recently have scholars begun using the *Monitor* to examine manufacturing companies and industrial entrepreneurs. Other important sources included the *Nómina de Diputados de la Nación por Distrito Electoral, período 1854–1991, Diario de sesiones de los diputados de la nación*, and Peter H. Smith's original data set for *Argentina and the Failure of Democracy*, which provided information on politicians who were also industrialists (Smith 1974). These public records and publications permitted examination of the owners and their companies' activities from 1890 to 1930. Directors' information was also available in several financial and business journals of that time.[5]

The data set traced directors' affiliations to banks, government, insurance agencies, manufacturing firms, and commercial companies. It also identified directors' memberships in the Chamber of the Buenos Aires Stock Exchange, the Jockey Club, Sociedad Rural Argentina, and Unión Industrial Argentina.[6] The annual *Quien es Quien* of the 1930s also provided additional information on social club and business memberships.

The purpose in identifying directors' affiliations and memberships is to reveal their network circles. Directors relied on their networks to obtain capital, expand their wealth, and increase their influence in Argentine business and industry. Tracing directors' networking activities revealed a high level of corporate interlocking and a short list of the most important businessmen in Argentina. Some of the most reputable and influential businessmen headed the five dominant groups under study.

This research and the resulting body of evidence led to the creation of two criteria to identify the leading finance groups that had considerable influence in their respective manufacturing sector. The first criterion was that all leading members must be corporate directors and own the majority of ordinary stock (voting shares) in at least eight ventures. Having a directorial seat and being a major shareholder indicated that a member had considerable control over a company's affairs. The requirement of eight or more ventures showed that these members invested together repeatedly and served as a measure of a group's cohesion. The second

5. Other important groups like Bunge y Born and Di Tella were not included because this article limits to the owners of the fifty-nine companies. DiTella was also more prominent after 1930, which is beyond the scope of this study.

6. "Bolsa de Comercio de Buenos Aires: Historia de la jurisdicción y prácticas comerciales desde la época del Virreynato," donated by Luis Colombo to Biblioteca Nacional, 1935. British Chamber of Commerce in the Argentine Republic (Incorporated), "Annual Report," for years 1920–1930.

criterion was that members must be corporate directors in at least two banks or finance houses.[7]

This work also followed other individual merchant financiers that invested in companies together. However, these individuals could not be labeled as a group. At least two characteristics distinguished these other groups from the five dominant finance groups. First, less cohesive groups had a smaller number of shared ventures. It could be that they invested in a smaller number of ventures together because either they simply had little interest in strengthening group ties or had limited access to capital. Second, these groups invested less in their companies' physical capital and did not raise equity to high levels like the dominant finance groups. Consequently, their firms failed to grow at a rapid pace and remained relatively small scale. In most cases, these groups depended more on self-financing for expansion projects, an approach that curtailed their size. Annual directorial reports demonstrated that these groups frequently managed their companies by carefully observing dominant finance groups' strategies. These more loosely organized networks were aware that excessive output from dominant groups' large-scale companies could lead to below-cost prices and threaten their firms' survival.

MERCHANT FINANCE GROUPS IN ARGENTINA

Scholars have historically relegated the topic of Argentine finance networks to the examination of elite landholding families' investments. Beginning in the 1960s, however, scholars analyzed entrepreneurs' involvement in promoting Argentine industrialization between 1890 and 1930. Most studies focused on why manufacturing entrepreneurs failed to expand industry before 1930. Cortés Conde (1965) argues that manufacturers of the late nineteenth century lacked sufficient political power or modern entrepreneurial skills to develop a modern industrial sector. Cornblit (1967) contends that the political apathy of immigrant entrepreneurs, who predominated in industry, in conjunction with the government's failure to reach this group, were largely responsible for the slow-paced development of Argentine industry (667–668).

Since the 1990s, studies have examined the importance of manufacturers' ability to raise capital and build networks to support industrialization in the late nineteenth and early twentieth centuries (Barbero 1997). Finance capital for manufacturing was not easily attainable in Argentina (Guy 1982). Barbero (1990; 2000) argues that industrial groups were important in promoting large-scale manufacturing. Barbero (2000, 123) examines how group organization was important for finance and also

7. These finance houses were simply known as Casas.

for overcoming administrative problems, lowering transaction costs, technological reasons, and legal matters. Another scholar, Gilbert (1998) focuses on one financier family, the Tornquists, and traces this one financier family's myriad of investments. Studies by Sábato (1991) and Hora (2001) have examined the culture and general strategies of elite businessmen in Argentine society before 1930 to show that finance groups' investments could be relatively diverse.

In the late nineteenth and early twentieth centuries, many import-export merchants acquired their wealth in the export of agricultural and pastoral goods. They used their accumulated wealth to invest in a diverse array of profitable ventures. Manufacturers wanted to substitute imports of manufactured goods with domestic products. Markets were growing rapidly due to the influx of immigrants during this period. Merchants wanted to fill consumer demand for manufactured goods. Another incentive to invest in manufacturing was protection that Argentina received through tariffs that helped increase prices and profits.[8]

Entry into any finance group occurred in stages over the course of many years. Merchants initially began setting up manufacturing on a relatively small scale. If their manufacturing venture was successful, merchants sought other merchant financiers to expand their venture. In the early 1890s, for example, the merchant family, Masllorens Hermanos were importers of finished wool textiles from Spain (Biblioteca Tornquist 1899). By 1898, Masllorens Hermanos established their own wool mill in Buenos Aires to substitute for the import of finished merino wool and cashmere products.[9]

An illustration of entrepreneurship and group formation comes from the Belgian immigrant Otto Bemberg, who headed the Bemberg group. Otto Bemberg (1827–1895) arrived in South America from Europe in the 1850s and married into a wealthy *porteño* family.[10] Once he settled in the community, Bemberg began exporting Argentine grains (Quilmes 1990, 15). He accumulated a substantial amount of capital from this venture

8. A detailed discussion on tariffs would take me well beyond the space and thematic constraints of this article. In brief, tariffs remained at 25 percent ad valorem for all imports of manufactured goods between 1891 and 1923. Beginning in 1923, tariffs increased to 60 percent ad valorem. Hora (2000, 487) described that in the 1920s, Argentina could be described as "clearly protectionist." In the 1920s, Argentina's tariff levels exceeded Canada, France, and Germany. Also see custom duty and tariff laws: Law 2766 of 1891; law 2923 of 1892; law 3050 of 1894; law 3672 of 1898; law 3890 of 1900; law 4933 of 1905; law 10,362 of 1918; law 11,281 of 1924.

9. In the late nineteenth century, Argentina had a wool industry. However, Masllorens imported higher quality merino wools and cashmere. *Finanzas* (1899).

10. Bemberg married a daughter of the Ocampo family, which was a wealthy *porteño* family. Porteño is a resident of the port city, Buenos Aires.

and developed a network of trusted clients and financiers. In the 1860s, Bemberg and his wife moved to Paris (Fey 1996). In Paris, Bemberg continued his trading business and developed another network of trusted partners in France. By 1886, Bemberg and his French and Argentine partners pooled their capital to start an alcohol distillery in Argentina. After the initial success of this distillery, Otto Bemberg, his partners, and his son, Otto Sebastián (1858–1932), invested in a large-scale brewery, Argentina Quilmes, in 1887 (Quilmes 1990). This brewery was built primarily from French capital and machinery (Fey 1996). By 1889, Quilmes Brewery was Argentina's largest brewery.

All finance groups under study shared certain characteristics in how they initially formed and operated. The groups' mercantile background helped their entry into manufacturing in at least three ways. First, merchant financiers had developed lending and credit systems through their affiliated finance houses or banks and their wholesale suppliers. This was significant because setting up large-scale manufacturing was expensive. Some merchant financiers borrowed funds from their affiliated financial institutions to invest in their projects. The four leading directors of the paper firm Argentina Fábrica de Papel held directorial seats in two of Argentina's largest banks, Banco de la Nación and Banco de la Provincia de Buenos Aires.[11] Two directors, Angel and Tomás Estrada, borrowed funds from Banco de la Nación for the paper company's first mortgage loan (Banco de la Nación 1991). Altogether the directors of Argentina Fábrica de Papel borrowed 122,019 nominal paper pesos from the Banco de la Nación between 1892 and 1896 and 1,375,000 nominal paper pesos from Banco de la Provincia de Buenos Aires between 1906 and 1916.[12] These amounts were very large for the period and permitted the directors to establish Argentina's largest paper manufacturing firm. Until 1930, this firm nearly monopolized the paper industry.

11. These four leading directors were: (1) Julian Balbín, who was on the directorial boards of Banco de la Provincia de Buenos Aires and Argentina Fábrica de Papel; (2) Angel Estrada was president of the Banco de la Nación from 1900–1910 and held directorial seat in the paper company; (3) Tomás Estrada was on the directorial boards of both the Banco de la Nación and Argentina Fábrica de Papel; (4) Indalecio Gomez was on Argentina Fábrica de Papel's directorial board and bank director of two banks, Banco de la Nación and Banco de la Provincia de Buenos Aires. Data collected from *Monitor de sociedades anónimas* [hereafter MSA], *Boletín oficial de la bolsa de comercio de Buenos Aires* [hereafter BOBCBA], and *Boletín oficial de la república Argentina* [hereafter BORA].

12. Credit data collected from the transaction books of the Archivo del Banco de la Provincia de Buenos Aires (1906-1916) and Banco de la Nación Argentina (1892-1896). See also Fernando Rocchi, "The Myths and Realities of Industrial Finances" in "Building a Nation, Building a Market: Industrial Growth and the Domestic Economy in Turn-of-the-century Argentina" (Ph.D. Dissertation, University of California Santa Barbara, 1997).

Merchant financiers had also developed credit systems with retail and wholesale suppliers. In turn-of-the-century Argentina, credit was limited, but merchants used their established credit systems with European suppliers to purchase expensive manufacturing technology from abroad. European suppliers had typically extended credit for manufactured goods (U.S. Dept of State 1890, 39). The usual maturity period for credit given by the cotton mills of England was six months, and the importers from France, Germany, and Belgium offered corresponding credit. Argentine merchants used these existing lines of credit with European suppliers to import manufacturing machines and negotiate lower prices for raw materials.[13] For example, Masllorens Hermanos imported wool textile machinery from Spain. They also imported high quality cashmere and merino wool from distributors in Spain (Biblioteca Tornquist 1900).

A second advantage that eased merchant financiers' entry into manufacturing was the custom of a few senior leaders' directing and taking control of a company's decisions. These few leaders could quickly make and execute decisions without lengthy debates or discussions with voting shareholders. These men were usually senior partners that had accumulated capital and had substantial managerial experience. They were wealthy individuals expected to contribute to the company's initial equity by purchasing the majority of voting shares. In this manner, they formalized their rights to control their enterprises.[14] A typical directorial board consisted of the firm's president, some relatives and/or managers, and a few trusted friends. It was common for board members to have close relationships that went beyond companies' business affairs.

Voting control gave these directors the right to make company decisions quickly. Directors typically made management decisions such as choosing a senior manager or an insurance agent, securing the allocation of resources, renting or buying warehouse space, obtaining retail contracts, and providing numerous other services for the company. Directors also decided on when and how to use reserves or merge with another company to enhance market power.[15] In most cases, directors

13. Nearly all machinery and technology were imported from Great Britain, United States, Germany, and France. It is possible to obtain an approximate value of machine investment by examining the exports of machinery from these four countries to Argentina.

14. *Argentina Código de Comercio de 1889* required that corporations must initially form with a minimum of ten shareholders.

15. In company elections, shareholders representing at least 75 percent of the subscribed capital and the affirmative vote of shareholders representing at least half of the subscribed capital were required for passing resolutions. Company resolutions were issues pertaining to any change to the company. Some of these were: (1) anticipated dissolution of the company, (2) prolongation of the company's life, (3) merger with another company,

effectively limited the sale of voting shares to close business associates. Nearly all of the directors of the wool textiles firm Baibiene y Antonini were related for instance.[16] Similarly, in the 1890s, Bemberg's partners were relatives and close business associates.[17]

In most cases, directors were careful to prevent outsiders from owning shares with voting rights. In one lawsuit against the Bemberg Group, the Argentine courts upheld the Quilmes bylaws that prohibited the transfer of shares to non-directors. The question was whether such bylaws could trump the operations of Argentina's inheritance laws. In this case, Juan Baenninger, who was a director of two breweries, Schlau and Quilmes, had died in December 1919. In his will, Baenninger left his estate, including his Quilmes and Schlau shares to his heirs, his wife, three children, and a sister (Silveyra 1925, 4–6). Baenninger had received voting shares and a 3 percent annual dividend in lieu of cash payment when the Bemberg group had purchased his Schlau brewery. However, the Quilmes board of directors refused to release his voting shares or pay the annual 3 percent dividend to his family. The Quilmes directors argued that Baenninger's rights to voting shares and annual dividend ended upon his death. The directors offered instead to buy the family out by paying them the nominal value of Baenninger's Quilmes stocks. The Baenninger family sued the directors of Quilmes Brewery. The family sought release of a portion of the shares for sale at market value and that they receive the annual dividend of 3 percent. The Argentine judge ruled in favor of Quilmes because the firm's bylaws clearly stated that voting shares were not transferable. In the end, the Baenninger family was only paid the nominal value of Quilmes stock (Silveyra 1925, 3, 15–16).[18] Dominant groups demanded control of their companies' activities. A key to their success was having absolute company control to quickly develop strategies and execute decisions.

Generally, the members of the first directorial board served on the board for most of their lives. Over the years, directors held the same board position or rotated through various directorial or managerial positions within the company. Some directors served as president, auditor, secretary, or treasurer during their tenure with the company. José Devoto, for instance, served on the directorial board of the match firm, Compañía General de

(4) reduction of capital, (5) reinstatement or increase of capital, (6) change or modification in the statutory objects of the company, and (7) any other modification to the company's statutes. *Argentina Código de Comercio de 1889*, Articles 335–345, (1889).

16. "Baibiene y Antonini," Company bylaws MSA (1922).

17. Bemberg's son and nephew were both involved in his businesses. *Quilmes Centenario* (1990) and Data set of 1,282 directors.

18. Juan Baenninger received 3 percent per year during his tenure with the company.

Fósforos, from 1888 until his death in 1926.[19] Company presidents obtained their positions because of their wealth, extensive business experience, and well-respected connections. Presidents were typically senior partners that had access to large amounts of capital that exceeded all other directors. The directors protected their board positions by owning the majority of common stock and controlling the majority of voting rights. They simply voted to maintain themselves on the board. In most cases, if a director retired or died, only other directors were permitted to buy the voting shares of the retired or deceased member. In some cases, the directors selected one voting shareholder and gave him the opportunity to buy directorial shares and join their ranks.

A third advantage that eased merchants' entry into manufacturing was their established practice of consignment. Merchant groups entered consignment contracts with trusted distributors and retailers. The advantage of consignment was that goods were placed on shelves immediately after production. Manufacturers were only paid after their products were sold, which could take as long as several months. Some merchant-manufacturers could wait for payment because they had other sources of income and did not rely on the income of one company. It was common for the manufacturing companies under study to report that 50 percent of the asset value on the accounting balance sheet was accounts receivable. In other words, half of a firm's asset value was anticipated income from goods in consignment and sold on credit.

Most merchant groups shared several characteristics when they first entered manufacturing. The main reason for investing in manufacturing was access to inside knowledge of consumer demand for manufactured products. Most merchant groups invested in manufacturing to substitute the import of foreign products. Groups had at least three advantages that eased their entry into large-scale manufacturing. As merchants they had established practices to obtain finance capital, credit, and company control. They also knew how to sell products on a consignment basis, which helped them place products on sale immediately after production and before their competitors.

FIVE FINANCE GROUPS

By the early twentieth century, the Bemberg group became well known as a promoter of the beer sector, the Tornquist group became dominant in the metallurgy sector, and the Soulas group was well known in woolen textiles. The Devoto group was known for its stake in the Compañía General de Fósforos, its firm Compañía Fabril Financiera, and the Banco

19. Data set of 1,282 directors.

de Italia y Río de la Plata. The paper group promoted the growth of the paper industry. By 1926, they owned the largest paper corporation in Argentina, Papelera Argentina.

Members' loyalty to the group developed over time as trust among members was strengthened through their business ties and consistent interaction in social clubs and geographic proximity. Members worked and lived in or near Buenos Aires city. Companies' bylaws typically required that directors have residents near the financial and corporate headquarters. In most cases, these headquarters were in Buenos Aires city. The close proximity reduced the costs of setting up meeting times, office space, and correspondence. Kono (1998) has argued that corporate members' close proximity to each other through their dense, informal, and inexpensive networks of social interactions allowed them to quickly convene and make company decisions. Although most company bylaws under study required one directorial meeting per year, directors, particularly senior leaders, met more often to finalize decisions. Finance houses provided the physical space where members could regularly meet and discuss investment projects. Generally, finance houses had multiple duties: they lent capital to the groups' ventures, lent to known agents, served as retail centers, participated in the import and export of merchandise, and served as meeting centers. Members of the Casa Ernesto Tornquist y Compañía held their meetings at the Casa Tornquist to discuss their current and future investments (Tornquist 1924, 9).[20] Between 1874 and 1908, Don Ernesto Tornquist (1842–1908) and his trusted partners expanded the Casa Tornquist's credit and trading services, increased business connections, and invested in a variety of activities (Tornquist 1924, 3–8). Upon Ernesto's death in 1908, his trusted partners and sons continued to meet at the finance house to discuss the group's operations and expand its investments.

As members repeatedly invested together, they developed complicated webs of interlocking directorates that kept members in close contact with each other. Interlocks exist simply when two or more corporations have one or more directors in common. These interlocks kept group members in constant contact and helped reduce the costs of monitoring each other. Members confided in one another and felt secure that sensitive information could be kept confidential.

Members had certain advantages in becoming insiders. Members were privy to information about potential investments and other company news.

20. In 1830, the Casa Bunge, Bornefeld y Cía was the predecessor to Casa Altgelt, Ferber y Cia, which eventually through marriage ties became Casa Ernesto Tornquist y Compañía. Ernesto was hired by Altgelt, Ferber, y Cia. He later married the daughter of Adán Altgelt.

To some extent, members could monitor an individual's loyalty to the group. The Devoto group owned the highly successful match firm Compañía General de Fósforos and had also owned the cotton textiles company Compañía Nacional de Tejidos y Sombreros.[21] In 1906, this textiles company held promise as Argentina's largest hat and cotton textiles manufacturer. However, it began to fail as early as 1908.[22] The leading directors did not sell their individual interests and decided to save the company. Other insiders followed the leaders and did not pull their investment from the company. All insiders remained until the company's official bankruptcy in 1912. In Argentina, it was more common that investors move their capital around to diversify investment. Sábato (1991) contends that Argentina's industrial underdevelopment was due to domestic investors moving their capital too quickly and seldom allowing investments to mature. However, Devoto group insiders did not move capital quickly because they had more to gain in the form of business reputation and wealth if they remained loyal to the group. These insiders could have also feared being excluded from future investments if they pulled out of the textiles company. They likely did not want to be perceived as disloyal and lose their privileged position within the Devoto group.

In less cohesive groups, members liquidated companies when they failed to perform well for a few years. For these groups, there was little or no incentive to stay in slow or bad investments. There were greater potential rewards if individuals moved their capital elsewhere. In 1913 Hilario H. Leng, associate of the finance house Roberts, Leng, y Compañía, was a major investor and president of two paper companies, Fenix and Fábrica Casati de San Nicolás.[23] His paper companies did quite well financially and even had double-digit profits between 1911 and 1921.[24] Beginning in 1922, however, both of these companies suffered losses. Rather than keep his investments, Leng preferred to sell the titles and shares of Casati in 1924 and Fenix in 1926 to the new giant paper corporation, Papelera Argentina.[25] In lieu of cash payment, Leng received shares and a coveted seat

21. "Compañía Nacional de Sombreros," MSA (1912).

22. According to the company, the costs of cotton and fuel and the inability to raise prices due to the import of competing products were reasons for failure. In 1910, the company curtailed its operations to reduce costs by producing only hats. "Compañía Nacional de Sombreros," MSA (1911), 368–369.

23. Roberts, Leng, & Co. reportedly had international connections to the Baring Brothers and Casa Morgan from New York. *Guía descriptiva de las industrias* (Buenos Aires, 1895), Biblioteca Tornquist; "Fábrica Casati de San Nicolás" Bylaws (June 23, 1910); "Fenix Fábrica de Papel," MSA, vol. 6 (1913), 151–153.

24. These results came from measures of both annual return on capital stock and return on equity.

25. As president of the company, Leng had substantial control of the company. "Fábrica Casati de San Nicolás" Bylaws (June 23, 1910); "Fenix Fábrica de Papel" BOBCBA (November 29, 1926), 1146.

on the board of directors of Papelera Argentina.[26] Leng's finance house was a representative of British capital, however, and his house was not associated with a cohesive group. Hence, Leng felt free to make investment decisions and sell his paper companies.

The reputation of the five groups under study increased over time as they invested in a larger number of companies and became associated with a greater number of successful businesses. Generally, a group's reputation was that of its current and past members. Tirole (1996) has argued that a group is judged by members' individual traits. Outsiders can judge members' talent, wealth, cooperation, discipline, and intelligence based on past behavior and decisions. Past individual behavior conveys information about the strengths and weaknesses of the members of the group (Tirole 1996).

Ernesto Tornquist is an example of a financier gaining reputation and finance capital over his lifetime. In the nineteenth century, he married into a wealthy merchant family and took over its well-reputed finance house in 1850. He increased this import house's success through his international and domestic networks. Before his death in 1908, he was an active member in business and social clubs, participated in politics, and had diverse investments that he managed through his finance house. His finance house invested in agriculture, beef, sugar, metallurgy, mortgages, and various other manufacturing activities (Tornquist 1924, 18).[27] Ernesto also played a small role in helping build Argentina's financial credit system (Tornquist 1924, 12–13). He was reputed to be a "man of vision and action."[28] This reputation continued even after his death and passed on to his sons. By 1906, Casa Ernesto Tornquist was a legal corporate entity, and the directorial board consisted of Ernesto's close business associates and his two sons, Carlos Alfredo and Eduardo. After Ernesto's death in 1908, the group continued operating under the name Casa Ernesto Tornquist. The group obtained a substantial amount of outside capital in part because of the reputation that Ernesto had built for the company. His associates continued to expand the number of business they owned and managed.

Members sought to protect and enhance their reputations. Reputation reduced problems associated with asymmetric information between company insiders and outsiders. Dominant groups typically published propaganda, albums, and company histories in different languages for domestic and international investors. The company histories traced the

26. "Papelera Argentina," bylaws, BOBCBA (1924).

27. He was assigned to a special diplomatic mission to survey the possibilities of potential foreign investment in Argentina.

28. "En todos los grandes problemas de la economía Argentina, [Ernesto] Tornquist adopta como solución, la acción." In "Ernesto Tornquist y Cía" (1924), 6.

humble beginnings of the companies' directors or original founders.[29] These publications portrayed the directors as innovating entrepreneurs that helped build industry in Argentina. The purpose of these publications was largely to maintain the image of successful businessmen and industrialists. Members also used their connections with international journalists and editors to publish articles on their firms' excellent performance. In most cases, these articles exaggerated companies' roles in the economy. A reporter from *La Nación* commended Quilmes Brewery for being the leader in the beer sector and bringing in modern machinery and techniques from abroad.[30] The reporter, however, failed to discuss Quilmes's excess productive capacity, low national demand, and labor problems.[31]

Dominant groups' companies appeared far more frequently than other firms in international business journals like the *Review of the River Plate* and the *South American Journal and River Plate Mail*. These journals targeted foreign businessmen that were seeking safe and profitable investments. These men were likely to come across names like Bemberg and Tornquist rather frequently in these journals. The *Review of the River Plate* even followed the social events of Carlos Alfredo Tornquist. The Tornquist group also started a magazine, *Revista TAMET* that discussed all occurrences at its large-scale metallurgy firm, TAMET. Carlos Alfredo Tornquist also helped publish, and he wrote the annual introduction to the English-language journal, *Business Conditions in Argentina* (Spanish version available). This English-language journal began in the early twentieth century to provide international investors, particularly British and American ones, with relevant information on Argentina's economic conditions. These published documents exposed curious outside investors to Argentina's manufacturing companies.

Many of these reputable members were invited to sit on other manufacturing companies' directorial boards.[32] Generally, a company invited reputable members because it enhanced its credibility among its own investors. In some cases, members sat on a directorial board and eventually took over the company. For example, Palermo brewery had been performing badly since 1919 due to high material costs, labor problems, and relatively low demand.[33] In 1922, members from the Bemberg group

29. "Piccardo tabacos" photo album (ca. 1930) and "Ferrum" photo album (ca. 1940), "Revista TAMET." Albums available at Biblioteca Tornquist. "Quilmes" pamphlet (1949), "Quilmes" Company history and album (1990).

30. "Quilmes" *La Nación*, 1919. Biblioteca Tornquist.

31. Yovanna Pineda, "Industrial Development in a Frontier Economy" (Unpublished manuscript, 2005).

32. New or less prestigious firms benefited by having reputable members sit on their board of directors. This signaled to potential investors that it was a legitimate enterprise and worthy of support.

33. "Cervecería Palermo," director report, MSA (1921), 150.

appeared on Palermo's directorial board. The owners of Palermo likely asked members from the prestigious Bemberg group to sit on their directorial board to help restructure the firm. By 1923, Bemberg members became the major shareholders and had bought director equity shares.[34] These equity shares gave Bemberg members substantial control in Palermo's operations.

The five finance groups under study had access to finance capital from their finance houses, banks, and outsiders that bought company shares and bonds. It was important to have diverse capital resources because finance markets were not well established in Argentina. Banks and credit houses considered most manufacturers credit risks and either failed to offer loans or offered high-interest loans with short maturity periods (three to six months). Although Rocchi argues that the "lack of capital was not a major constraint for industrial development," his firm-level data came from the largest companies that were owned by major finance groups (Rocchi 1997, 264). For the most part, small-scale industrial firms and manufacturers established outside of the Buenos Aires region had difficulty obtaining sufficient capital to expand and develop (Sánchez Román 2001). It is noteworthy that Adelman (1994) argues that even wheat farmers—wheat was Argentina's most important export—suffered from capital scarcity, and farmers often turned to informal networks to obtain credit. Generally, domestic bank loans had short maturities (three to six months), which was not conducive for support of long-term projects.[35]

Dominant groups used funds from their own banks or finance houses to establish manufacturing firms. These groups' banks were good sources of funds to finance mortgages and buy imported machinery. The Demarchi family, for instance, had established the bank, Banco de Italia y Río de la Plata, and the Devoto family had established the bank, Banco de Italia in the late nineteenth century.[36] These two families merged their banks together and then used funds from Banco de Italia y Río de la Plata to finance the merger and reorganization of three match companies. These three firms were reorganized to become the large-scale match firm Compañía General de Fósforos in 1888.[37] Similarly, in 1919, the Soulas group acquired the woolen textiles company Masllorens

34. Ibid.

35. In most cases, Banco de la Provincia de Buenos Aires provided short-term loans to be paid within 90 to 180 days. "Libros de actas del directorio del Banco de la Provincia de Buenos Aires," Manuscript (Buenos Aires: Archivo y museo del Banco de la Provincia de Buenos Aires in Buenos Aires, Argentina, 1906–1910).

36. *Boletín Industrial* (September 21, 1893), Biblioteca Nacional.

37. The three match shops were Bolondo, Lavigne y Cia, A Dellacha y Hermanos, and Francisco Lavaggi e Hijo. *Anuario Pillado* (1899), pp. 221–222.

Hermanos. They used funds from their Casa Eduardo Soulas Financiera y Comercial and the affiliated Banco de Avellaneda to acquire and reorganize this acquisition.[38]

Some of these five groups' affiliated banks were relatively large.[39] The Devoto group's Banco de Italia y Río de la Plata represented between 23 and 29 percent of all Argentine banks' paid-in capital (gold pesos) between 1902 and 1917 and between 21 and 25 percent from 1918 to 1929.[40] Members of the paper group sat on the directorial boards of Banco de la Nación and the Banco de la Provincia de Buenos Aires. Banco de la Nación consistently held over 40 percent of all banks' paid-in capital between 1903 and 1914.

One advantage in borrowing from an affiliated institution was that dominant groups could negotiate debt.[41] In 1914, the glass company Cristalerías Rigolleau borrowed a mortgage loan for $850,000 gold pesos from Carlos Alfredo Tornquist's finance house, Ernesto Tornquist Comercial, Industrial y Financiera.[42] Beginning in 1914, Argentina's economy underwent a serious crisis. Between 1914 and 1917, Argentina had a sharp economic decline due to foreign capital shortages and the interruption of foreign markets during the First World War (Taylor 1992). Consequently, Rigolleau was selling below cost and had low profits.[43] The leading directors decided to renegotiate the loan terms with Tornquist's finance house because mortgage payments became cumbersome.[44] The new negotiated terms permitted the mortgage loan to be reduced to 700,000 gold pesos by 1919. By the early 1920s, the original mortgage loan had been reduced to less than 400,000 gold pesos as a

38. "Masllorens," company bylaws, MSA (1919); Masllorens' financial statements in BORA (1921–1930).

39. Between 1902 and 1917 there were between seven and twenty-six chartered banks in Argentina. MSA lists operating banks every month.

40. Dirección General de Estadística Municipal, Municipalidad de la Capital, República Argentina. *Anuario Estadístico de la Ciudad de Buenos Aires* (Buenos Aires: Compañía Sud-Americana de Billetes de Banco, 1903–1915). "Estado de los bancos según sus balances al 31 de octubre de 1915" and "Estado de los bancos según sus balances al 31 de octubre de 1916" MSA, vol. 22, (1916), 128–129; "Estado de los bancos según sus balances al 31 de octubre de 1917" MSA, vol. 24 (1917), 112. "Estado de los bancos según sus balances al 31 de diciembre de . . ." MSA, vols. 26–48, (1918–1929), 166.

41. Otto Bemberg and Carlos Alfredo Tornquist were major shareholders in the largest glass firm, Cristalerías Rigolleau. Both held 1,000 preference shares or more. "Cristalería Rigolleau," bylaws, BOBCBA, (First Semester 1908), 473–477.

42. One British pound = 5.14 Argentine gold pesos. "Cristalerías Rigolleau," balance sheets 1914–1917, BOBCBA (1914–1918); Carlos Alfredo Tornquist and Martin E. Tornquist were on Rigolleau's directorial board.

43. "Cristalerías Rigolleau," balance sheets 1914–1917. This is yield on capital stock. Returns on equity were between 1 and 3 percent annually. BOBCBA (1914–1918).

44. There is no 1919 balance sheet because directors suspended financial activity temporarily in order to reorganize.

result of annual discounting and amortization.[45] Discounting and amortizing loans are accounting methods to depreciate the value of the original amount of the loan. Therefore, the loan money in current terms is worth less than when it was originally taken out. This allows a company to pay less than the original loan amount. Casa Tornquist lost some of the loan value; however, the finance house likely benefited in terms of gaining greater control of Rigolleau's operations, a contract to import materials for the company, or some other ad hoc arrangement in return for Casa Tornquist's willingness to negotiate the mortgage debt. In 1919, Rigolleau was restructured and reorganized. It is highly conceivable that the leading directors of the Casa Tornquist played a substantial role during this reorganization.

Outside capital played a key role in long-term growth. Although the finance capital from the five groups' banks and finance houses was an important source of start-up capital for their manufacturing projects, companies expanded quickly when they had access to outside capital. Dominant groups raised equity by selling preferred and series "A" shares. Preferred and "A" shares entitled investors to profit, but not to voting rights. The owners wanted investors' capital, but did not wish to disrupt the balance of voting power within their companies. Dominant groups also guaranteed fixed annual interest rates for their preferred shares to increase investor confidence. Cristalerías Rigolleau and Piccardo Tabacos offered a fixed annual rate of 7.5 percent on preferred shares. Dominant groups also paid dividends annually. Even if profits were low or there were losses, dominant groups simply used reserves to cover dividend payments or paid out slightly lower dividends.[46] They paid dividends to maintain investor confidence and appear as stable performers.

Directors used their capital resources in at least two ways: to build high levels of initial paid-in equity and to invest in physical capital. First, directors preferred to raise high levels of paid-in equity because it provided company stability. Although the Argentine Commercial Code of 1889 did not impose minimum capital requirements for incorporation, most firms under study had initial paid-in equity ranging from one hundred thousand to well over one million Argentine paper pesos.[47] Aggregate census data makes it clear that only a few manufacturing firms actually incorporated. Incorporation entailed additional costs such as the transaction costs, court fees, numerous other expenses, and legal burdens. Therefore, most firms that incorporated usually had access to large

45. "Cristalerías Rigolleau," new mortgage terms, BOBCBA (1919).

46. Reserves were money from profits that were collected annually and held in a contingency fund on the liabilities side of the balance sheet.

47. *Argentina Código de Comercio de 1889*, Artículo 318 (1889). Equity is reserves and paid-in capital. Both are located on the liability side of the balance sheet.

amounts of start-up capital. The amount devoted to initial paid-in equity depended on what the first group of directors and shareholders could contribute. Companies that began with over one million pesos in initial paid-in equity had a substantial number of wealthy directors and outside capital support that contributed to the first wave of paid-in equity.

Argentine corporations preferred large amounts of equity because it increased their companies' stability and long-term survival. In a financial downturn, losses of the companies under study ranged between fifty thousand to one million Argentine pesos.[48] If a firm had low levels of equity relative to debt, such a loss could easily bankrupt it. Of the failed firms under study, one or two bad years led to losses amounting to nearly half of their existing paid-in equity and reserves. Although losses amounting to less than half of the subscribed capital did not obligate owners to declare bankruptcy, most director-owners liquidated and sold their companies' assets to pay creditors (Halperín 1961, 374).[49] Non-dominant owners were compelled to do this because they had no other resources to weather the downturn. In 1909 the small match company, Unión Fósforos had a loss amounting to 16 percent of owner's equity in its first year of operations. It failed to recover from this first loss and debt-to-equity ratios increased from 0.873:1 in 1909 to 1.852:1 in 1910. It shut down operations in 1911 after only two years in business.[50] Once firms had substantial losses, it became difficult to maintain investor confidence. The directors of Unión Fósforos decided to shut down operations because they thought greater losses were possible if they failed to liquidate immediately.[51]

Directors raised equity capital by issuing shares. They offered company bonds and preferred shares with guaranteed interest rates (between 5 and 7.5 percent) to outside investors. By the 1930s, most companies under study

48. This is based on the profit and loss calculations made for the fifty-nine companies under study.

49. According to Argentina's bankruptcy laws, a joint-stock company could dissolve for any number of reasons. The law stated specifically that if at anytime during the firm's life it had a loss amounting to 50 percent of its subscribed capital, the firm was obligated to inform the legal commercial courts and publish their near-bankrupt status in the local newspapers. (Subscribed capital is the monetary amount of shares still owed to the company by shareholders). If the loss amounted to 75 percent of the company's paid-in capital then liquidation was compulsory. The exact terms used are "disolución *ipso jure*." In other words, the company will be considered dissolved *ipso jure* if loss amounts to 75 percent of paid-in capital.

50. "La Unión Sociedad Anónima Cooperativa de Fósforos Limitada," Manuscript (Buenos Aires: Departamento comerciales tribunales, Archivo general de la Nación de Argentina, 1906–1912). [hereafter Fósforos-AGN]. This manuscript had company information including bylaws, credit sheets, inventories, invoices, balance sheets, and final bankruptcy reports.

51. Ibid.

had at least one million pesos in paid-in equity. Most large-scale companies like Compañía General de Fósforos had issued stock (ordinary and preferred) every few years so that paid-in capital increased over time. Compañía General de Fósforos, for instance, increased its paid-in equity from 3 million in 1904 to over 29 million by 1930.[52] Similarly, the tobacco firm Piccardo increased its firm's paid-in capital from 7.5 million in 1914 to 45.5 million by 1920.[53]

Directors relied on their reputations, particularly during crisis times, to raise needed equity capital. In 1921, Talleres Metalúrgicos had a large loss and depleted its reserves to cover that year's loss of over 570,000 Argentine paper pesos. The company also drew on paid-in equity capital to pay off large debts. Thereafter, the directors planned to strengthen their company's financial position to prevent another crisis. First, they issued new ordinary and preferred shares to raise equity. The directors requested that their wealthy shareholders and directors buy newly issued equity shares.[54] The company also offered preferred shares and guaranteed a fixed annual interest rate to attract outside investors.[55] The company's directors also assured investors that they could rely on the directors' and the company's reputations to weather the temporary setback. In this manner, the firm quickly raised the amount of equity from 2.9 million paper pesos in 1920 to 6.6 million paper pesos by the end of 1921.[56] By 1924, Talleres Metalúrgicos was performing well, expanding operations, and negotiating the largest merger of six metallurgy firms.

The second way that the directors used capital was to invest large sums in physical capital. Directors invested large amounts in machinery and factory installations because the investments gave their companies advantages in economies of scale. Directors justified this expense because of the expectation that they could produce more output and drive out competitors. In the case of the brewery Del Norte, the Bemberg group established this brewery in the northwest Andes region of Argentina. The company needed substantial capital because it was very expensive to transport machinery and technicians from Europe, through Buenos Aires, to Tucumán province. Del Norte was the only brewery in the region and had losses in its first decade of operations, 1913 to 1922.[57] Nevertheless, the Bemberg group did not liquidate the company nor sell its interest. If they had liquidated and sold assets, they would have obtained only a fraction of the amount invested. It would have been difficult for Bemberg to sell

52. Compañía General de Fósforos, balance sheets and income statements 1904–1930.
53. Piccardo Tabacos, balance sheets and income statements.
54. "Cristalerías Rigolleau," director's report, MSA.
55. "Cristalerías Rigolleau," special report, BOBCBA.
56. "Talleres Metalúrgicos," special stockholder's meeting report and revised company bylaws," MSA (1921–1922).
57. "Cervecería del Norte," balance sheet and income statements.

Del Norte because there was no other group interested in purchasing the firm. Under these conditions, it was better for Bemberg investors—outsiders and insiders—to continue their investment in Del Norte. Directorial reports during this period urged outside investors to be patient as profits were in Del Norte's future.[58] The reports also implied that the Bemberg group expected profits because it planned to monopolize the beer market in northwest Argentina. There were no other competitors with similar production capabilities in the region that could effectively compete with Del Norte.[59] The group also began massive beer campaigns to attract consumers.[60] By 1923, Del Norte began making profits.

In contrast, less successful manufacturing companies failed to raise paid-in equity during downturns because of their directors' limited capital resources and inability to maintain investor confidence. Between 1925 and 1930, the woolen textiles firm Baibiene y Antonini had losses which compelled investors to sell their stock. Due to the panic, the stock value decreased and there were no new investors. The company's paid-in equity decreased from over 1 million pesos in 1925 to 752,080 *moneda nacional* pesos by 1930.[61] The directors acknowledged the company's losses and financial problems, but suggested that the company would do better in some unforeseen time.[62] Unlike the dominant groups, owners of small-scale firms could not rely on reputation for quick fixes. In most cases, small-scale firms simply curtailed operations and hoped that their companies could survive the downturns.

Less successful and smaller manufacturing companies were typically affiliated with smaller financial institutions or finance houses. These directors had access to smaller pools of capital. Their investments were in turn fewer in number and smaller in terms of capital invested in equity and physical stock. Their affiliated banks had smaller amounts of equity capital because it reached few borrowers and saving depositors within a circumscribed region. The two banks, Banco Argentino Uruguayo and Banco de Galicia y Buenos Aires, were well known in Buenos Aires city, but they had paid-in equity capital that represented only 3 percent of all banks' paid-in capital (paper pesos) in 1929.[63]

58. "Cervecería del Norte," director's reports, MSA (1913–1922).

59. In the early twentieth century, beer-making and transport required constant refrigeration and was costly. Prior to low-cost refrigerated railways and trucks, beer could not be cheaply transported across a large geographical region from Tucumán to Buenos Aires.

60. The Bemberg group started a massive advertising campaign to attract consumers. "Quilmes y Del Norte," anniversary issue of Bemberg's breweries (1940), Biblioteca Tornquist.

61. "Baibiene y Antonini," balance sheets, BORA, (1923–1930).

62. "Baibiene y Antonini," MSA (1925–1930).

63. "Estado de los bancos según sus balances al 30 de noviembre de 1929," MSA, vol. 48, (1929), 166.

Small-scale manufacturing firms also borrowed from their directors to start and expand projects. Companies like Unión Herradores (metallurgy), Elaboración General del Plomo (lead), and Baibiene y Antonini (woolen textiles) listed directors' and owners' names on the liabilities side of the balance sheets. However, there were limits as to how much companies could borrow from directors. In 1906, the directors of the match company Unión Fósforos described the limitations of relying on directors' resources to raise capital.[64] They borrowed money from the directors and a local bank to finance start-up costs: second-hand machinery, factory organization, engineers, and skilled workmen. They used the factory and their directors' personal property as collateral for the bank loan. Unión Fósforos' directors also rented out sections of their factory to bring in additional income. The directors believed that they had adequately financed Unión Fósforos. However, the company underwent a brief slump in 1909 when match prices dropped dramatically. Unión Fósforos reported that they were selling below cost and needed higher profits to cover costs and remain in business. By definition, profits are simply net income that exceeds the costs of production. Between 1908 and 1910, the company had a nominal average of 4.5 percent return on physical capital and 10.6 percent return on equity.[65] These profits were insufficient because the company was highly indebted to its directors and the bank. By 1911, the company declared bankruptcy after only three years in business.

In general, non-dominant groups were capital starved. Court cases of the time show a large number of family-owned, small- to medium-scale companies suing customers and distributors for payment for goods purchased on credit. In most cases, the amounts sued for were relatively small, for example, less than five hundred pesos.[66] These small amounts indicated that these small firms needed to collect all capital owed to them. In one case, the woolen textiles firm Baibiene and Antonini sued a customer for the paltry amount of eighty-six pesos in 1899.[67] In contrast, dominant groups wrote off such small amounts and simply used their reserves to recover funds.[68] Reserve funds were monies that were collected each year to cover contingent liabilities or other unforeseen events. Less successful firms had a difficult time enforcing the collection of small

64. Fósforos-AGN.

65. "Unión Fósforos," balance sheets 1909–1910.

66. Specific examples include the companies Primitiva, Baibiene y Antonini, Chientelassa Hermanos, and Cervecería Buenos Aires. Court files available at Tribunales Comerciales, Archivo General de la Nación, Buenos Aires, Argentina.

67. "Baibiene y Antonini," Manuscript (Buenos Aires: Departamento comerciales tribunales, AGN, 1912).

68. Write-offs appear in the liabilities side of the balance sheets.

debts. In 1899, Chientelassa Hermanos sued a client for failing to pay for machinery sold on credit.[69] The judge in this case ruled that the client must pay Chientelassa Hermanos; however, the client lived in the province of Tucumán and the judge could not enforce the collection of payment.[70] Generally, most small companies that sold on credit ran into difficulties in collecting payments due to them.

Most of the smaller corporations under study relied on their annual profits to cover operation costs, create reserves, and pay dividends. The early years of companies' operations were usually the least profitable, with firms commonly having losses. In most cases, firms had to endure volatile profit rates. Companies that failed and liquidated typically did so in the first decade the business was in operation. Companies failed because they did not have consistent access to capital resources. They were particularly vulnerable to volatile cycles while also dependent on annual income to cover numerous costs, such as maintenance, operation costs, reserves, and dividends. The directors of Unión Fósforos discussed how all income in their three years of operation was employed to cover the costs of production.[71] The company failed to build reserves and became very vulnerable to external shocks.

The five dominant groups suffered less from capital shortages because they had access to diverse capital resources to protect their companies from failure and liquidation. The dominant firms under study came to dominate because they enjoyed a consistent flow of incoming capital. These five groups could rely on their reputation to maintain investor confidence and raise capital from outside sources. This was particularly important during a crisis or business downturns, when it was particularly difficult to obtain any type of credit. In contrast, the less successful firms under study suffered from frequent capital shortages, which hindered the companies' size and limited how long they would remain in business.

CONCLUSION

In the late nineteenth and early twentieth centuries, Argentina's merchant financiers created informal finance groups to invest in modern manufacturing. These finance networks had their genesis in nineteenth-century import-export merchants who had amassed large amounts of capital in Argentina's booming agro-export sector. Beginning in the late

69. This company was later acquired and would be known as Unión Fundición y Talleres.

70. "Chientelassa Hermanos," court case (Buenos Aires: Departamento comerciales tribunales, AGN, 1898).

71. Fósforos-AGN.

nineteenth century, some merchants, often guided by familial, ethnic, or social ties, partnered with others to invest in numerous and diverse ventures. These included investments in banking, retail, manufacturing, real estate, and agricultural activities. These merchant financiers sought diversification to reduce risk from failure in any one activity.

Argentina's merchant finance groups were networks of investors that cooperated and repeatedly invested in diverse investments across sectors together over time.[72] These groups used their personal ties and business reputations to obtain finance capital for manufacturing. The start-up of Argentine manufacturing was expensive because machinery, skilled workers, and raw materials were purchased and shipped to Argentina from abroad. Members under study had access to capital from diverse sources including income made from other investments and personal ties to banks or investment houses. They also incorporated their firms to limit liability and offer the sale of company shares and bonds to raise capital.

These merchant finance groups functioned well because their members came to trust their partners and used each other's capital to expand their investments. Trust between agents was important because it reduced the risk of asymmetric information that made it difficult for two people to do business together and limited capital investment.

Merchant finance groups formed in Argentina because financial systems were inefficient. It was difficult to obtain large amounts of finance capital or long-term credit terms for manufacturing. The groups obtained access to capital through the development of informal alliances between bankers, company directors, merchants and other entrepreneurs. Groups also obtained capital by developing a reputation that attracted outside investors. Developing a reputation maintained the cohesion of the group and attracted outside investors. The synergy of repeated investments indicated cohesion and a growing reputation helped to expand the groups' access to diverse sources of finance capital.

The five merchant groups under study should be considered as case studies in understanding how a few groups rose to prominence in their respective manufacturing activities. Initially, these groups had access to capital through their affiliation to banks and finance houses. However, because they needed additional capital, leading members of the groups promoted the groups themselves as highly reputable entities worthy of outside investment. Group members sought to build and protect the image of the group as a cohesive alliance of leading industrial promoters and businessmen. Groups relied on their reputations to obtain outside capital through the sale of companies' bonds and non-voting shares.

72. Other terms for these groups have been *grupos económicos, grupos industriales/financieros*, and entrepreneurial networks.

The absence of strong finance markets served as a barrier to entry and limited the number of competitors in industry. Only a few groups were successful in consistently accessing capital. The five groups under study had clear advantages in developing large-scale firms that had the capacity to control markets in their respective industries. Without an efficient banking system, there were a limited number of manufacturers who could remain successful in manufacturing. The successful model of the five dominant groups was nearly impossible for new entrants to emulate. In Argentina, new entrants and smaller merchant finance groups were largely capital starved, and their companies posed no threat to the companies owned by the five groups. Without competition, Argentine manufacturing remained highly underdeveloped and controlled by a few groups.

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TRANSLATED ABSTRACTS

REPUTACIÓN Y FUENTES DE FINANCIAMIENTO: LOS GRUPOS FINANCIEROS MERCANTILES EN LA INDUSTRIALIZACIÓN ARGENTINA, 1890–1930

Yovanna Pineda

RESUMEN: El presente artículo analiza los vínculos entre las fuentes de financiamiento y las conexiones personales en el desarrollo industrial en Argentina. Se examinan cinco de los principales grupos financieros mercantiles a partir de una base de datos que contiene 1,282 directores y accionistas de cincuenta y nueve empresas manufactureras en diez sectores durante el período 1890–1930. Los grupos financieros mercantiles se crearon con el objetivo de reunir capital para invertir en el sector manufacturero, esto a la falta de instituciones bancarias domésticas y mercados de valores lo suficientemente desarrollados. Estos cinco grupos aseguraron su acceso a diversas fuentes de capital mediante el establecimiento de conexiones personales basadas en la reputación. A pesar de que estos cinco grupos pudieron adaptarse exitosamente a la falta de mercados crediticios eficientes, la mayoría de las compañías manufactureras padecieron escasez de capital debido a la falta de crédito industrial. Esta carencia de capital industrial contribuyó al surgimiento de un sector manufacturero no competitivo dominado por unas pocas empresas propiedad de unos pocos grupos financieros mercantiles.

REPRESENTANDO "INDIOS REALES": LOS DESAFÍOS DE LA AUTENTICIDAD INDÍGENA Y LA ESTRATEGIA CONSTRUCTIVISTA EN ECUADOR Y BOLIVIA

José Antonio Lucero

RESUMEN: Entender quien "realmente" representa a los pueblos indígenas de América Latina es cada vez más importante. Este artículo explora la creciente representatividad de una federación "sorprendente" de indígenas evangélicos (FEINE, Consejo de Pueblos y Organizaciones Indígenas Evangélicos del Ecuador) y una federación aparentemente más "auténtica" de unidades precolombinas (CONAMAQ, Consejo Nacional de Ayllus y Markas del Qollasuyo). A través de un estudio histórico, etnográfico y comparado, argumento que la representación indígena se construye en múltiples escalas: desde abajo (en la organización y movilización de comunidades y dirigentes) y desde arriba (en la manera que las estructuras de oportunidad política favorecen a algunos actores y no a otros). FEINE y CONAMQ representan casos inversos de las maneras en que actores indígenas negocian redes y discursos locales-globales: FEINE "indianizó" el protestantismo evangélico mientras que CONAMAQ "globalizó" las estructuras de autoridades locales de los ayllus. Este análisis, a múltiples escalas, sugiere que cómo se habla de la indianidad en redes transnacionales condiciona quién habla por los indígenas en espacios locales.

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CARLOS DE LA TORRE is director of political studies at FLACSO-Ecuador. He has published on Latin American populism and racism in Latin America. His latest books are *Populist Seduction in Latin America* (Ohio University Press, 2000) and *Afroquiteños, ciudadanía y racismo* (Quito: CAPP, 2002). With Steve Striffler he is editing *The Ecuador Reader* for Duke University Press.

AGUSTÍN E. FERRARO is Professor/Researcher at the Institute of Iberoamerican Studies of the University of Salamanca (Ramon y Cajal Program). From 2000 to 2002, he was an Alexander von Humboldt-Scholar at the Institute for Iberoamerican Studies in Hamburg and at the London School of Economics and Political Science. His research interests include civil service reform, legislatures, parliamentary controls of the bureaucracy and political theory.

GLORIA GONZÁLEZ-LÓPEZ is an Assistant Professor in the Department of Sociology at the University of Texas at Austin. Born and raised in Monterrey, Mexico, she received a PhD in sociology from the University of Southern California (2000). She conducts sexuality research with Mexican immigrants and teaches undergraduate and graduate courses on gender, sexuality, and qualitative methods. She has published her academic work in anthologies and academic journals and her book *Erotic Journeys: Mexican Immigrants and their Sex Lives* was released in the summer 2005 (University of California Press). A psychotherapist by training, she has worked with Latin American immigrants as a clinician, teacher, and sex educator at different community-based agencies in Texas and California.

GUILLERMO B. IRIZARRY received his PhD in Hispanic Literatures from the University of Texas at Austin (UT) in 1996. He has taught Latin American Literature, Caribbean Literature, and U.S. Latina/o Literature at UT, Bucknell University, and Yale University, and he is currently an Assistant Professor at the University of Massachusetts at Amherst. His publications on Caribbean Literature, Latin American Drama, and U.S. Latina/o Literature have been included in *Revista Iberoamericana, La Torre, Chasqui, Latin American Theatre Review*, and *Revista Canadiense de Estudios Hispánicos*. His manuscript "José Luis González: El intelectual nómada" was published in fall 2005 by Editorial Callejón in Puerto Rico.

JOSÉ ANTONIO LUCERO is an Assistant Professor of Political Science at Temple University. His research on indigenous politics, social movements, and representation focuses primarily on Ecuador, Bolivia, and (more recently) Peru. His work has been published in several edited volumes. He is currently completing a book manuscript on indigenous movements in the Andes (under contract with the University of Pittsburgh Press).

YOVANNA PINEDA is an Assistant Professor in the History Department at St. Michael's College in Colchester, Vermont. Her research specialties are Argentine business and economic history. She has received awards from Fulbright IIE, the National Science Foundation, the UCLA International Studies and Overseas Program, and the St. Michael's Global Studies Program to conduct research for this project. She is currently working on her book manuscript, "Industrial Development in a Frontier Economy: The Industrialization of Argentina, 1890–1930."

JENNIFER PRIBBLE is a doctoral candidate in Political Science at the University of North Carolina at Chapel Hill. Her dissertation examines social policy reform in post-authoritarian Chile and Uruguay and will involve extensive field research in both countries. She has been awarded a Ford Foundation Dissertation Research Grant for her fieldwork in Chile.

ALEJANDRO PORTES is Professor of Sociology and chair of the Department at Princeton University where he also directs the Center for Migration and Development. He is author of books and articles in the fields of Latin American urbanization, development, international migration, and economic sociology. These include two articles on Latin American class structures, published in *LARR* in 1985 and 2003, which provide theoretical background for the present study.

BRYAN R. ROBERTS is C. B. Smith Sr. Chair in U.S.-Mexico Relations and Professor of Sociology at the University of Texas at Austin where he also directs the Mexican Center of the Teresa Lozano Long Institute of Latin American Studies. He is the author of books and articles on urbanization, development, social policy and citizenship. His field work on Latin American urbanization in the 1960s and 1970s is, along with that of Alejandro Portes, part of the historical perspective of this project.

JOHN W. SHERMAN is Professor of History and Director of the MA Program in History at Wright State University, near Dayton, Ohio. Primarily concerned with political ideology and opposition movements, his publications include *The Mexican Right: The End of Revolutionary Reform, 1929-1940* (Praeger, 1997), *Latin America in Crisis* (Westview/Harper Collins, 2000), and *A Communist Front at Mid-Century: The American Committee for Foreign Born, 1933-1959* (Praeger, 2001).

MATTHEW M. TAYLOR is an Assistant Professor of Political Science at the University of São Paulo. He holds a PhD in Comparative Government and a master's degree in Public Policy, both from Georgetown University, and a BA from Princeton University. Prior to entering academia, he worked as a consultant to the private sector on economic and political issues in the Southern Cone and Brazil. His academic research on courts, public policy, and policy reform has been published in *Comparative Politics*, the *Brazilian Journal of Political Economy*, *América Latina Hoy*, *Economics of Governance*, and the *Bulletin of Latin American Research*, among other scholarly journals.

JOHN P. TUMAN is Associate Professor of Political Science and the Director of the Institute for Latin American Studies at the University of Nevada, Las Vegas. He is the author of *Reshaping the North American Automobile Industry: Restructuring, Corporatism and Union Democracy in Mexico*