



## From Local to Global Markets: Notes on the Role and Function of Commercial Networks in the Export Boom of Argentina, 1890-1930

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Without intermediation, it is difficult for trade to take place. In this paper, I explore the centrality of local agents in the export boom at the beginning of the twentieth-century in Argentina, a country that ranked among the top five exporters of wheat in the world.<sup>1</sup> Agrarian expansion was the motor of the economic growth of Argentina and it was part of a wider economic process that included other Latin American rural areas that developed forms of commercial agriculture. Rural merchants have been a driving force behind rural-led economic development in the Argentinean pampas. I am interested in analyzing not only the role of local agents but also the configuration of informal regional networks among different types of firms such as retailers, banks, importers, and grain exporters.<sup>2</sup> The way in which commercial networks are organized varies over time and across space, and I concentrate on one of the margins of the pampeana region (the National Territory of La Pampa). My focus is the history of a family firm, Casa Torroba Brothers, which was the most important commercial house in La Pampa Territory, and whose long-standing commercial activity has made it one of the few cases of continuity and sustained commercial growth.

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Casa Torroba Brothers opened in Santa Rosa, La Pampa in 1897; it expanded its activities by setting up branches in the province of Buenos Aires (in 1903 and 1911) and in the Commercial Bureau in Buenos Aires (in 1905). These first steps were strategic for the Torroba Brothers, the owners, to widen their commercial knowledge, contacts, and capabilities.

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<sup>1</sup> For a general description of this process, see Jeremy Adelman, *Frontier Development: Land, Labour and Capital on the Wheat Lands of Argentina and Canada, 1890-1914* (Oxford, U.K., 1994) and Roberto Cortés Conde, *El progreso argentino* (Buenos Aires, 1979).

<sup>2</sup> I will not deal with operations on rural or commercial credit due to space limitations; I focus on the importance of local merchants as credit agents.

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From the 1910s until the 1930s, they managed to diversify, making their commercial offerings even more complex and varied. The firm expanded its internal organization incorporating more employees and becoming a sales representative for international brands. My study ends in 1930, the beginning of a different period in the commercial activity of Casa Torroba. The firm's commercial letters, consisting of 50 volumes of 1000 pages each, show clearly the inter-organizational collaboration between firms. In addition to considering these primary sources, I put forth a new theoretical understanding of credit markets. These advances have evolved from a paradigm emphasizing the problems of imperfect information and imperfect enforcement.<sup>3</sup>

### **The Agrarian Expansion in La Pampa**

The incorporation of La Pampa National Territory as a productive area for the international economy was the result of a military campaign annexing new territories to the National State during the last period of military conquest and land occupation of the Argentine interior frontier (east of the province of Buenos Aires). In the final decade of the nineteenth century, the National government began administrating the Territory, which was undergoing colonization as part of its final integration into the bordering provinces.

The changes in production during these decades were the result of a general growth in economic activities related to farming and cattle ranching in Argentina. However, in La Pampa territory these changes did not take place synchronically with those occurring throughout the nation. The first stage, associated with the initial productive process in the area, was dependent on the westward expansion of the frontier from the province of Buenos Aires. During these years, the major activity was extensive cattle ranching, involving railway transportation of live cattle, wool, and other by-products. From the 1910s onwards there was a shift to a farming economy, with an emphasis on wheat production. The agrarian expansion occurred mainly between the 1910s and 1920s. This process was closely linked to factors such as the arrival of migrants, availability of more and better means of transport, a greater division of the land, and the introduction of many new farming techniques that diversified farm production. Production growth was possible thanks to a system of land ownership combining landowners and tenants, with the latter predominant in the Pampean countryside.

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<sup>3</sup> Karla Hoff and Joseph E. Stiglitz, "Imperfect Information and Rural Credit Markets: Puzzles and Policy Perspectives," in *The Economics of Rural Organization: Theory, Practice, and Policy*, ed. Karla Hoff, Avishay Braverman, and Joseph E. Stiglitz (New York, 1993); Mark Casson, "Institutional Economics and Business History: A Way Forward?" in *Institutions and the Evolution of Modern Business*, ed. Mark Casson and Mary B. Rose (London, 1998).

A large proportion of renters was typical of the land structure. In La Pampa, the 1914 national census determined that 62.4 percent of the producers were tenants. In 1937, the percentage was 62.6. Those percentages were linked to the fact that this was a newly developed area with marginal lands. Jeremy Adelman attributed these percentages to the increasingly uneven distribution of land as the frontier expanded.

The rural expansion was related to the construction of the financial system.<sup>4</sup> In Argentina, the conservative politics of agricultural credits and the preeminence of tenant farmers shaped a system where merchant credit played a central role.<sup>5</sup> By that time, and afterwards, many called for a reform of the banking system and better and cheaper rural credit. The discussion centered on a particular law and institution for agrarian credit.<sup>6</sup> Topics included a classical description of the marketing and financing of cereal activity, reflected in many foreign contemporaneous views, such as this one: “The Argentine small farmer, or “ranchero” suffers many disadvantages in the selling of his wheat. Frequently, he falls into the clutches of the “almacenero,” or general store man. This person is ready to provide all necessary provisions, implements, etc., on terms profitable to himself, including the financing of the crop when harvested. His store is usually at the railway-station.”<sup>7</sup>

There is little research about the rural credit system in Argentina. According to Tulchin, an exponent of the classic position, by 1910, there were two credit systems in Argentina. One was the formal, institutional system represented by the nation’s banks. The other was the informal one consisting of private commercial companies using the facilities of the banking system but independent of it. Only the wealthiest landowners had direct access to bank credit. The overwhelming majority of ranchers, who accounted for the most significant portion of the nation’s agricultural

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<sup>4</sup> Andrés Regalsky, “Banca y capitalismo en la Argentina, 1850-1930”, in *Revista Ciclos* (1998); Fernando Rocchi, “El período de la riqueza: la economía argentina en el período 1880-1916”, in *Nueva Historia Argentina*, 12 vols. (Buenos Aires, 1999), 5; Roberto Cortés Conde, “El origen de la banca en la Argentina,” in *La economía argentina en el largo plazo* (Sudamericana, Buenos Aires, 1997).

<sup>5</sup> See Joseph Tulchin “El crédito agrario en la Argentina, 1910-1926,” *Desarrollo Económico* 71 (Oct.-Dec. 1979): 381-408. Jeremy Adelman, in *Frontier Development*, postulates that the reasons for such bank-lending behavior were: a) security (tenant had little to offer as collateral for the loans), b) the high risks associated with wheat farming, and c) commercial loans were more lucrative.

<sup>6</sup> For example, Hert Holm offers a contemporary critical view of Argentinean rural economy in *Agriculture in Argentina: National Wealth Prostituted; A Plea for Sage and Scientific Methods* (Buenos Aires, 1914), which includes subtitles such as: “The truth our agricultural prosperity. Is it a myth? 500.000.000 pesos annual wasted. The farmer’s hopeless handicapped. Which is it to be, ruin or reform? Elevators an absolute economic necessity. Urgent government action imperative.”

<sup>7</sup> William Pickering Rutter, *Wheat Growing in Canada, the United States and the Argentine* (London, 1911), 15.

production, had to turn for credit to the local merchants, who also acted as *acopiador* (collector).

### Local Agents

Despite those general observations, the absence of any well-rounded or sustained historical portrait of the merchant sector is remarkable. These subjects remain neglected in the historiography of Argentina partly because of the scarcity of primary sources.<sup>8</sup> The opportunity to work with account books and commercial letters from rural merchants as well as periodicals, archives of public notaries, and court files have allowed me to carry out an empirical study of the historical nature of local agents.

The transition from *pulperías* to *almacenes de ramos generales* was complete in Argentina by the 1860s.<sup>9</sup> The most influential factors in this adaptation were changes in the sources of supply and the market, and improvements in transportation and communication facilities<sup>10</sup>. As John Benson states, a country general store is easier to describe than to define.<sup>11</sup>

He identifies two key characteristics: a) a wide variety of goods (to satisfy the demands of a rural population both as consumers and as producers), b) operating in a rural community or settlement with less than a thousand inhabitants. I include two additional aspects: a) the stores functioned as social centers, providing different types of services closely related to community life and b) the provision of credit or financial services.<sup>12</sup> With respect to the first, different contexts explained the types

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<sup>8</sup> The study of rural retailing is an underdeveloped academic area in Argentina. Even if we can accurately consider retailers essentially unproductive and unattractive participants in the channel of distribution, essentially dishonest and base, they are worthy of consideration for this fact alone. After all, political history would be a shallow stream if we excluded all who qualified for such a description; see Nicholas Alexander and Gary Akehurst, *The Emergence of Modern Retailing, 1750-1950* (London, 1999), 13.

<sup>9</sup> For an analysis of pulperías, See Carlos Mayo et.al., *Pulperos y pulperías en Buenos Aires, 1740-1830* (Universidad Nacional de Mar del Plata, Buenos Aires, 1996) and Carlos Mayo, ed., *Vivir en la frontera. La casa, la dieta, la pulpería, la escuela (1770-1870)* (Buenos Aires, 2000).

<sup>10</sup> In La Pampa, beginning with the arrival of the first white settlers in the 1880s, when the military campaign was completed, rural stores began to grow. Two Spanish immigrants founded the first general store, Casa Bella Vista, in 1885. Trade directory data show that store numbers increased in proportion with population growth. The rate of almacenes per 1000 inhabitants was 3.2 in 1895 and 3.3 in 1914, below the national average (4.20 in 1895 and 4.24 in 1914).

<sup>11</sup> John Benson, "Small-scale Retailing in Canada", in *The Evolution of Retail Systems, c 1800-1914*, ed. John Benson and Gareth Shaw (New York, 1992).

<sup>12</sup> I define credit as the purchasing of goods, money, or services in the present based upon the promise to pay for them at some time in the future. In this sense, the deferred nature of the payment is the key feature of credit transactions. Austin Gareth and Sugihara Kaoru, *Local suppliers of credit in the Third World, 1750: 1960* (London, 1993) used the same definition

of services that developed. In some cases, stores functioned as a branch of national state offices (army supplier, scholar council, payments for police officials, judicial warehouse, etc.) Casa Torroba, established in an urban settlement, provided many other services, including the extension of credit to travelers to Buenos Aires or Europe, conducting market research, finding employment for friends or relatives, selling lands, reporting on the local, political, and economic scene, serving as attorney or providing legal advisors. The business even negotiated different official procedures, examined insurance claims, or helped to send the sick to Buenos Aires for medical care.

Credit was a way of life at the country store. Goods would be given “on credit,” marked on the clients’ notebooks (*libretas*) and on the merchant’s books account at the same time.<sup>13</sup> Typical records of daily sales are voluminous. I looked at more than 2000 accounts from Casa Torroba for the period 1900-1930. In addition, I have had access to the book accounts and inventories of a dozen of rural stores. All of them carried a general merchandise line, including all the standard commodities: groceries, candy, alcohol beverages, cigars, hardware, clothes, tableware, footwear, and equipment used in rural communities.<sup>14</sup>

### Identification of Mechanisms

As noted, merchants necessarily assumed a number of functions related to their central position in rural communities. Due to a seasonal lack of cash due to the nature of the primary productive activities, and removed from the conservative lending politics of banks, merchants became key factors in the growth of credit, liquidity, and exchange techniques. The rural and economic historiography only describes the rural credit as liquid credit (*por adelantado*) but I discovered other mechanisms to provide credit.<sup>15</sup>

The largest proportion of retailers’ credit consisted of open book accounts secured only by the credit standing of the borrower. The terms of

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<sup>13</sup> This letter from Severino Fernandez to a client condensed some of the usual practices in credit accounts: “Muy señor mío: a mi llegada a esta me entero de su carta del 13 dirigida a mi encargado y en la que le pide las cuentas como es de prácticas. Lo que es de práctica a fin de año entre los clientes que se les da libreta es arreglarla y pagar lo que se debe. En consecuencia sírvase traer la libreta para ponerla al día y cancelarla.” *Libro Copiador* No. 3, 27 Jan. 1915, f. 661.

<sup>14</sup> The diversification of products had the immediate effect of complicating almost all of the retailer’s work. In Casa Torroba, for example, the number of items grew enough to increase the cost of selecting those they wanted to offer their customers; they had to enlarge the inventory (10 times), display space, the system of accountancy, employees, and so on.

<sup>15</sup> While a large part of store credit was for consumption purposes, it is hard to separate production and consumption loans, because the farmer’s home was part of the farm plant and the farmer and his family needed to have food and clothing to furnish the labor for farm production.

payment varied because of differences in the way in which their customers draw their incomes.

Overdrafts and advance payments in cash became a habitual practice and part of the “ruling lines” imposed by these stores in the market. The most extended way was to open an account with the subheading “cash in advance.” The entry in the commercial book was just “in cash” under the written expression “to whom” (*a él*).

One financial mechanism for short-term money supply involved merchants acting as note brokers or discounting bills of exchange. Casa Torroba served as a financial intermediary capable of supplying reliable credit information, rationalizing payments in order to minimize discount costs, and furnishing operating cash either by discounting notes, making advances on accounts receivable, or lending on inventories. Merchants acted as intermediaries between banks and rural producers. The expanding regions had few credit facilities; in 1898, for example, the Banco Español del Río de La Plata represented Casa Torroba, and 3 years passed before the Santa Rosa branch of Banco Nación opened. I found close links between the two markets.

Vouchers (*vales*) were used for many purposes, but principally as rural wages and payments for services. Generally, the client handed in vouchers presented at the store by their employees or third persons (to draw merchandise or cash). Merchants placed stricter limits on the size of these types of accounts.

*Maturity of Book Accounts.* How long did credit terms last? When were they paid off? Preliminary conclusions show that credit extensions were short-term (1-6 months) particularly when the operation was for advance in cash (by vouchers or bills of exchange). However, others were “middle-term” and covered a period from 6 months to 2 years. These types of lending were related to production and marketing purposes. In practice, clients’ renewals made these long-term loans. By reconstructing accounts we can see that most clients took almost a year to pay off their debts. Of course, there were noteworthy differences, attributable to personal economic situations. Frequently the merchant had to carry the farmer over for another year because of a crop failure or low yields.

*Interest Rates.* The classic interpretation was that the *almacenero* was a local credit monopolist who sold money at 20 to 25 percent interest.<sup>16</sup> A merchant got money from consignment houses in Buenos Aires or from their agents in the local district at about 12 percent interest. Dealers in commercial paper were the wholesalers of the rural credit business, and

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<sup>16</sup> The view of the village moneylender as a usurious monopolist is one of the competing theories of rural credit markets. This view assumes no competition among moneylenders. See Hoff, Braverman, and Stiglitz, *The Economics of Rural Organization*.

they got their money from the banks, at about 6 percent interest, or from their European partners.<sup>17</sup>

However, as book accounts suggest, merchants granting credit for a short time (30 to 40 days or until a bill exchange matured) charged no interest when dealing with good clients. In the supply of middle-term credit, the average interest charged on book accounts was between 8 and 10 percent per annum.<sup>18</sup> The charge had to be somewhat higher than the bank rate in order to repay the merchant for losses sustained in uncollectible accounts and unpaid interest.

The interest rates were not uniform. Why? Because the interest rate is not the price paid by the borrower, but the price the borrower promises to pay the lender. Increasing the price of credit could reduce risk. The flaw in this logic is precisely that those who promised to pay more are not necessarily those who, *ex post*, would actually deliver more. As Stiglitz and Weiss argue there may be systematic reasons for suspecting that those who are willing to offer to pay the highest interest rate are not among the best credit risks.<sup>19</sup>

One would imagine from the recorded variations in the price of credit, which range from 4 percent to 12 percent annually in Torroba commercial records, that the local suppliers tried to sort their clients in different categories in a process that we call “selection of the clientele.” They applied different policies to reduce their exposure to breaches, eliminating those who would not be able to repay loans by using different methods of credit rationing.

### Merchant Credit and Information: Some Hypotheses

The commercial and credit practices described were related to the nature of the merchant profession in rural Argentina and in other contexts as other researchers demonstrate.<sup>20</sup> Why did merchants do what they did?

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<sup>17</sup> For example, Joseph Tulchin “El crédito agrario en la Argentina, 1910-1926,” *Desarrollo Económico* 71 (1979): 381-408.

<sup>18</sup> In a prior study, we analyzed the financial activity of local notaries through the “*protocolización*” of 240 chattel mortgages in Santa Rosa. The annual interest rates were between 8 and 10 percent.

<sup>19</sup> Joseph Stiglitz and Andrew Weiss, “Credit Rationing in Markets with Imperfect Information,” *The American Economic Review* 71 (1981): 393-410.

<sup>20</sup> See Mario Cerutti “Comerciantes y generalización del crédito laico en México (1860-1910). Experiencias regionales,” *Anuario del Instituto de Estudios Históricos Sociales (IEHS)* 7 (Tandil, 1992): 253-65; Erick Langer and Hames Gina, “Commerce and Credit on the Periphery: Tarija Merchants, 1830-1914,” *Hispanic American Historical Review* 74 (May, 1994): 285-316; Eugene Weimers, “Agriculture and Credit in Nineteenth Century Mexico: Orizaba and Cordoba, 1822-1871,” *Hispanic American Historical Review* 65 (1985): 519-46; Montserrat Garate Ojanguren “Financial Circuits in Spain: Merchants and Bankers, 1700-1914,” in Alice Teichova, Ginette Kurgan-van Hentenryk, and Dieter Ziegler, eds., *Banking, Trade and Industry: Europe, America and Asia from the Thirteenth to the Twentieth Century* (New York, 1997); Eugene White,

First, for commercial interests: many agents made little profit from re-lending bank or commercial money. Instead, the loans were vital to tie farmers into the long-term trading relationships from which the agents derived most of their profits. It is clear that we could analyze trade/credit inter-linkages as a direct mechanism for solving the problem of screening, incentives, and enforcement. Second, because they were professional risk takers, merchants were more willing to assume the risks attendant on credit running for several months and without material security than were bankers.

In making this assertion, I consider two principal aspects, control of information and personal supervision and monitoring.<sup>21</sup> With respect to control of information, the crucial function of financial intermediaries is to be able to respond to information. The problem in the credit market is that this important information is extremely costly to acquire and process.<sup>22</sup> However, merchants could afford the effort and cost of acquiring information because they used the information for a variety of other purposes in addition to loans. Thus, they defrayed the cost of information by a number of income generating retailing activities.

With respect to personal supervision and monitoring, merchants' closer geographical and personal proximity to rural communities facilitated information acquisition through direct observation and made it easy to recall. In general, these stores were local firms whose staff came from the vicinity. Merchants' correspondence indicates that many were on close terms with local farmers and sometimes advised them on personal matters.<sup>23</sup> Similarly, they listened and inquired into what happened in the

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“California Banking in the Nineteenth Century: The Art and Method of the Bank of A. Levy”, in *Business History Review* 75 (Summer 2001): 297–324.

<sup>21</sup> Lending activities entail: a) the exchange of consumption today for consumption in a later period; b) insurance against default risk; c) information acquisition regarding loan applicants characteristics (the screening problem); d) measures to ensure that borrowers take those actions that make repayment most likely (the incentives problem); and e) enforcement actions to increase the likelihood of repayment by borrowers who are able to do so. See Hoff, Braverman, and Stiglitz, *The Economics of Rural Organization*.

<sup>22</sup> Andrew Godley and Duncan Ross, eds., *Banks, Networks and Small Finance* (London, 1996). P. Hoffman, G. Postel-Vinay and J. Rosenthal, “Information and Economic History: How the Credit Market in Old Regime Paris Forces Us to Rethink the Transition to Capitalism,” *The American Historical Review* 104 (Feb. 1999): 69-94.

<sup>23</sup> For example, Fernández wrote to a merchant friend in Buenos Aires “aprovecho la oportunidad para presentarles al portador señor Isidoro Orgales, viejo empleado y actualmente y encargado de una de mis casas, el carbón. Como no conoce esa capital y necesita una operación, he de agradecerles lo acompañen.....asimismo les estimare gestionen su admisión en el hospital español y cualquier servicio de otra índole que necesitara para recuperar su salud.” *Libro Copiador No. 5*, 29 June 1915, f. 515. Or this letter from Casa Torroba to a client called Guillermo Hartfield “hoy recibimos cartas fechadas ayer

surroundings. Thus, merchants used their social and political influences and contacts, visiting regularly local bankers, authorities, and merchants. They were also on the alert when customers gathered in front of the counter.

A great deal of the information is required to extend credit in all of its forms. However, supervision also required time, costs, and ability, and rural merchants expended significant time and resources to obtain information and screen loan applicants to reduce the risk of default. For example, in 1912, Casa Torroba placed clients into four creditworthiness categories: reliable (*de confianza*); good (*buenos*), regular (*regular*), and without credit (*sin crédito*).<sup>24</sup> This classification was permanently available on the counter for consultation by employees. Generally, good references included “people of good morality and trustworthy” (*gente de buena moral y cumplidora*), the intermediate cases were “clients for little and short-term credit” (*clientes para poco crédito y de corto plazo esto a nuestro parecer*); at the opposite end of the spectrum were cases denominated “birds of bad omen” (*pájaro de mal agüero*).

The detailed information that merchants obtained covered a multiplicity of issues: climate, political and productive conditions, characteristics of the inhabitants as consumers and producers. With respect to production, the information focused on the level of capital, indebtedness, productivity, quality of their land, family composition, willingness to work, and concepts related to honorable behavior and being able to keep word of honor (*valor de su palabra*).

These issues influenced the spatial extension of merchants' activities. To the extent that commercial success demanded decisions with a high degree of risk, their lending policies, as expressed in their letters, restricted credit to clients they knew, and, for that, personal monitoring was essential. As Juan Pedro Torroba explained to the manager of Ford Motor Company in 1917: “The radius that I have requested is a radius that

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de los señores Muriel y que nuestro hermano Hipólito que se halla en buenos Aires y que la fatalidad quiere que no den buenas noticias de su cuñado José Muhs, parece le hicieron una operación en el hospital y después tuvo una descompostura que según el doctor era grave y favorable si pasaban unas 24 horas, como es domingo nada más sabemos quiera que se mejore, sin embargo en estos casos es bueno enterar a la familia, nosotros los tendremos al corriente y para más rapidez mandamos su dirección a los señores Muriel.” *Libro Copiador* No. 4, 3 Nov. 1901, f. 280.

<sup>24</sup> Another system was: “todo empleado esta en la obligación de tener al corriente los clientes que se le marcan en la lista que esta acerrida a la libreta de ferreteria con los signos señalados. Es para preguntar si se le fia o no es para fiar a nadie, ni tampoco tienen necesidad de consultar al escritorio, para tener esto completa se necesita que tome uno este trabajo de hacer las notas y estar al tanto de cada cliente, que esto se puede hacer mas tarde en la lista del mostrador solo están los nombres y el signo por lo que hemos agregado es para mayores datos de Uds. y toman el estado de cada cliente moroso y dudoso, los que consideramos buenos no están en la lista”. *Libro Copiador* No. 23, 21 May 1912, f. 959.

will allow me to assist properly and to be always in touch with the interested customers, and also to visit them often.”<sup>25</sup>

### High Risk

This type of credit required a high specialization; an indirect measure of which was retail volatility and mortality. The volatility of small firms reflected the competition, the uncertainties of everyday life, and the high risks of a liberal politics of lending. Birth rates were high but so were death rates. Between 1900 and 1930, 75 percent of retail stores (*almacén, tienda y ramos generales*) had a life span of 5 years or less.<sup>26</sup>

We do not have contemporary estimates of annual average loss in the commercial sector (of wholesalers or rural merchants), but the large number of commercial societies' bankruptcy is an indirect sign of how large the loss on bad debts could be.<sup>27</sup>

Because the expected harvest or wool products served as the guarantee for credits (in their different modalities), crop failure inflicted losses on the creditor as well as the debtor. In years of poor crops the merchant's losses were, consequently, relatively high.<sup>28</sup>

For that reason, we conclude that merchants preferred to deal with long-standing clients. The game between lender and clients is likely to recur over a succession of seasons; the lender should find it less difficult to distinguish between bad luck and poor performance, especially when the clients reside in the same area and the risks each face from variations in nature should be strongly correlated. These considerations should

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<sup>25</sup> In Spanish: “El radio que yo he solicitado es radio para poder atender en forma y estar siempre encima de los interesados para visitarlos a menudo”. *Libro Copiador* No.30, 24 Aug. 1917, f. 647.

<sup>26</sup> Such high levels of turnover suggest that it was relatively easy to create or acquire a small business and equally easy to leave it behind. In general, the social contract specified duration of 4 years. As Nenadic shows, for English family firms in the nineteenth century, “the rates of turnover helps to explain popular anxieties about the state of business ethics.” Stana Nenadic, “The Small Family Firm in Victorian Britain,” in *Family Capitalism*, ed. Geoffrey Jones and Mary B. Rose (London, 1993), 91.

<sup>27</sup> We can see these aspects in the hundreds of judicial records called “*convocatoria de acreedores*.” The magnitude of this phenomenon was important. For example, 138 of 587 merchants registered in the Registro Público de Comercio presented to justice to *convocatoria de acreedores*. The arguments were: “Esta sociedad viene constituida desde el 15 de noviembre de 1920 bajo el rubro así indicado que las malas cosechas de los años 1922 y 1923 vinieron a sostener una caída inevitable, con la cosecha del año 1924, la que a efecto sus fuertes vencimiento y obró toda honradez en todos sus actos comerciales, pagando con puntualidad a todos sus compromisos que teníamos contraídos.” (Miguel de Blas y Cía, Judicial Archive, No. 602, File 344, 1925).

<sup>28</sup> The use of legal system was not predominant. They used different enforcement mechanisms and arrangements had a significant role. The basic reason for that was the cost of legal system.

influence the borrower's actions in ways that mitigate the problem of moral hazard for the lender.

### Commercial Networks

Looking inside the practices and terms in which merchants functioned as financial providers is not enough to understand their centrality because local tradespersons operated within complex networks of relationships, connected as they were to different groups. As Simon Ville showed for Australasian pastoral industry, they served as a conduit for the flow of financial, commercial, and technical services.<sup>29</sup> Private records and letters show that much of commercial career success was attributable to relationships with different firms, such as banks (Banco Español y Banco de la Nación), cereal exporters (Bunge Born, Dreyfus, Weill Hnos. and Pampa Grain), machinery importers (Agar Cross), insurance companies, manufacturers, and wholesalers.<sup>30</sup>

Local agents' commercial activity was strongly linked to other types of commercial credit. Local consumption implied the setting up of a system where the banks, importers, and wholesalers based in the capital city (Buenos Aires) had to grant long-term credit.<sup>31</sup> The main reason for this procedure was that a large part of the transaction was based on trusting the liquidity of the system, which would occur once or twice a year when the bulk of the harvest production as well as the export of meat, wool, and by-products.<sup>32</sup> During the rest of the year, all commercial activities were refinanced through a line of credits starting with the importers and reaching wholesalers, retailers, and consumers.<sup>33</sup>

Buenos Aires firms were also interested in expanding their position. The decline in information costs had implications for intermediation in just a few metropolitan cities, regions, or conurbations where information on many different subjects from many different sources could be readily

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<sup>29</sup> Simon Ville "Networks and Venture Capital in the Australasian Pastoral Sector before World War II," in Andrew Godley and Duncan Ross, eds., *Banks, Networks and Small Finance* (London, 1996).

<sup>30</sup> See Alejandro Fernández, "Las exportaciones españolas a la Argentina: un enfoque comparativo (1880-1935)" (Ph.D. diss., Universidad de Barcelona, 2001).

<sup>31</sup> The Buenos Aires commercial desk opened by Torroba house in 1906 was a central key for better access to credit, contacts, and reducing the transaction cost; see Andrea Lluch, "Comercio y comerciantes rurales a principios del siglo XX en el Territorio Nacional de La Pampa", in *Empresas y Empresarios Rurales en la Argentina del Siglo XVIII al XX* (UADE, Buenos Aires, 2002): 84-99.

<sup>32</sup> Alejandro Fernández, *Las exportaciones españolas...*, 167.

<sup>33</sup> Local merchants could secure credit without great difficulty from wholesale houses, the usual terms being six months, with low interest ranging from 6 to 8 percent after the first 6 months. Severino Fernández, another rural merchant, is the only case studied for us, that preferred to use the discount for cash basis (30 days maximum) because wholesalers recognized this by granting from 3 to 5 percent off.

combined. At the end of the nineteenth century, the major portion of exporters, wholesalers, and manufacturers in the country were concentrated in Buenos Aires.

A central point in a local merchant's career was becoming well acquainted with personal economic status, honesty, and morals. In the beginning, a merchant's reputation for financial reliability depended mainly upon other merchants' recommendations. As letters to the merchants testify, wholesale customers attempted to establish personal relationships with wholesalers and manufacturers.<sup>34</sup> The personal networks established in this way were also essential for extending credit to new customers and providing longer terms for old ones.

Another important aspect in explaining the dynamics of commercial networks was the mechanism of representation (agency). Casa Torroba acted as agent of firms such as American Bosch, Cía Argentina de Cemento Porlant, Delco Luz, Dodge Motors, Fairbanks Morse y Company, Ford Motor Company; Goodyear and Rubber Export Company, Henry Peabody y Cía, Kodak Argentina Ltda, Michelin and Company, United States y Rubber Company, West India Oil Company, International Harvester Company, and Case Threshing Machine Company. In this process, as Livesay and Porter pointed out: "no single manufacturing company could profitably pay a full-time sales force to find many buyers in the numerous, and widely scattered markets."<sup>35</sup> In addition, local agents knew the area, the clients, their creditworthiness, and their needs.

### **Inter-Organizational Collaboration: The Role of Information<sup>36</sup>**

The trade-credit linkage created a dense network of market interaction. The base of this regional commercial network, acting as a focal point was the local agent. Banks, machinery importers, insurance companies, and manufacturers rarely made direct transactions with farmers (62 percent of whom were renters). The high risk of lending activities and the asymmetries of information were two reasons why national and international firms preferred to interpose a merchant as their agent or intermediary.

However, not only credit and material flows configured this regional network. The evidence suggests that each of these firms sought to combine their strengths and overcome weaknesses, and through informal contacts with national or international firms obtain efficient and reliable information to operate in the area. Information was essential to making economic decisions: improving provisions, increasing security, and thus

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<sup>34</sup> Langer and Hames, "Commerce and Credit on the Periphery," found similar procedures.

<sup>35</sup> Glenn Porter and Harold C. Livesay, *Merchants and Manufacturers: Studies in the Changing Structure of Nineteenth-Century Marketing* (Johns Hopkins University Press, 1971), 162.

<sup>36</sup> See Mark Casson, *Information and Organization: A New Perspective on the Theory of the Firm* (Oxford, U.K., 1997).

gaining major control of an area still under construction, where difficulties in communication were frequent, economic operations were risky, and distances significant.

The ability of local agents to acquire better information more cheaply than national or international firms rested in their local networking capabilities and their conduct of a wide range of trading activities with individual farmers. I found that networks based on personal relationships might have a significant advantage as intermediaries because they provided fast access to reliable information, allowing firms to respond to changing economic circumstances. As Powell observed you trust most the information that comes from someone you know well.<sup>37</sup> What types of information did they share? I identified three levels: general topics, credit reports, and collaboration for the enforcement of contracts.

*General Topics.* Every year bankers, industrialists, importers, or security managers wrote asking for statistics and data concerning agricultural activities. For example, Casa Torroba sent a letter to the Spanish Bank (branch of Carhué) in 1919: “We have received your letter and following your request we attach lists of firms in the second section of this government. All of them own land, and the ones marked with an X are businessmen who own capital and can be recommended for their excellent morality and background. We have a great number of tenants and ranchers who would also share these characteristics but we have not listed them as we wanted you to have a sample of the best clients in our area.”<sup>38</sup>

Another example was this answer to the Nation Bank from Torroba in 1925: “As an answer to your letter received yesterday, we must inform you that we are carrying out a very extensive survey of the area under cultivation which has not been completed yet, due to the fact that flax is still being sown but we may state that approximately 25000 hectares have been sown with wheat, 5000 has oats, 8000 has Rye, 4000 has barley and 6000 has flax. From these figures we estimate between 1 and 15 percent will be stored in the nearby railway stations.”<sup>39</sup> These kinds of data were

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<sup>37</sup> Walter Powell, “Neither Market Nor Hierarchy: Networks Forms of Organization,” *Research in Organizational Behavior* 12 (1990): 295-336.

<sup>38</sup> In Spanish: “Recibimos su atte del ppdo y conforme en ella nos pedía adjuntamos listas de las firmas de n/conocimiento radicadas en la 2 sección de esta gobernación. Todos ellos son dueños de campo y los marcados con una X son comerciantes todos son de capital y de muy buena moralidad y antecedentes y reuniendo estas dos últimas condiciones hay una gran cantidad de chacareros buenos y arrendatarios que no anotamos por haber querido llenar la lista con lo mejor de esta zona”. *Libro Copiador* No. 34, 4 Jan. 1919, f. 124.

<sup>39</sup> In Spanish: “Impuestos del contenido de su atenta fecha de ayer, debemos informarle que recién estamos llenando una estadística muy completa del sembrado de la zona y que todavía no se ha completado, por estarse sembrando lino, pero aprox. calculamos que hay sembrado en la zona: 25000 has de trigo, 5000 has de avena, 8000 has de centeno, 4000 has de cebada cervecera, 6000

vital to determining entrepreneurial strategies and enlarging control over the market.

*Credit Reports.* Another aspect of local agents' services was acquiring information concerning loan applicants' (firms or individuals) characteristics. They functioned as informal mercantile agencies providing credit reports.<sup>40</sup> This point is particularly relevant because we know that establishing branches of a mercantile agency in Spanish American countries proved to be a very hard proposition. Contemporaneous views show how merchants and others could not understand how they could be benefited by disclosing their affairs to a foreign concern, and they looked upon it as a piece of impertinence and trespass on their privacy. For example, the trained men sent by R. G. Dun & Company to Argentina had to withstand many and continued rebuffs and to exercise great patience and diplomacy to overcome prejudice.

In rural areas, the "informal" channels provided the main source of credit reports. Evidence shows the centrality of this type of flux of information between different firms and how merchants developed an extensive information exchange among themselves, with clients, and with other institutions to define commercial and lending policies. The main users of these services were commercial "allies" such as the banks of Nación and Español, national manufacturers, wholesalers, importers (such as Agar Cross, International Harvester, West India Oil Company, and United States Rubber) and exporters (Bunge y Born). But professional companies and mercantile agencies used them too, and frequently firms such as The British Information Bureau, The Cámara de Comercio de Buenos Aires, La Opinión Comercial, La Agencia Comercial Mayo, R S Dun y Cia (Dun & Bradstreet Co y El Asesor del Comercio, wrote asking for commercial reports. The centrality of this service is clear.<sup>41</sup> It was vital for lenders to acquire a wide range of information as a basis for assigning risk

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has de lino. De esto calculamos en un 1 a 15 lo que se depositara en las estaciones de ferrocarril vecinas." *Libro Copiador* No. 44, 4 Sept. 1925, f. 624.

<sup>40</sup> In 1912, Santamarina claimed that: "they have succeeded and now have branches in the various commercial and industrial centers throughout Spanish America. Through their able branch in Buenos Aires they are prepared to furnish American manufacturers and other interested in trade with the Argentine reliable information as to the standing and responsibility of the various companies and firms doing business there, in the same manner as with trade in the United States." J. P. Santamarian, *The Argentine Republic: Development, Facts and Trade Features* (New York, 1912), 176.

<sup>41</sup> Another issue is the criteria used to assess clients applying for credit. Lucy Newton studied the perceptions of bank's managements and their procedures in the assessment of borrowing customers for England and Wales at the turn of the nineteenth century. For the Argentinean case, we do not have similar studies. Lucy Newton, "Trust and Virtue in English Banking: The Assessment of Borrowers by Bank Managements at the Turn of the Nineteenth Century," in *Financial History Review* (Volume 7, Issue 02, October, Cambridge University Press, 2000):177 – 199.

categories to potential borrowers and then to be able to monitor their progress effectively during the course of the loan and enforce the contract if necessary.

*Collaboration for the Enforcement of Contracts.* A third aspect of local agents' services was providing vital and precise information for the enforcement of the contracts. Local agents not only monitored the payments of debts (the collection of bills of exchange) but also monitored the judicial processes of different firms. This letter, send to Bank Español management, is a typical example: "Mr. Mariano Berón has taken due note to proceed in the creditor board. According to your instructions and we thought we could already inform you its results, but it was cancelled at the last minute to put it off to another date, and once it is fixed, we will be glad to communicate it."<sup>42</sup>

Trust and reciprocity, backed by complementary interest, defined the conformation of informal networks, but at the same time, they set their own limits, because when such relationships were not present, merchants reduced access to information and services.

### **Preliminary Conclusions**

Trade requires people to make contact with each other, to communicate their needs, to explain what they can offer in return, to negotiate prices, and to monitor the fulfilment of their contacts. Intermediation can reduce the costs of these activities. Market-making intermediation is thus a value-added activity; indeed, it is one of the most important sources of added value in the entire economy.<sup>43</sup> Unique historical conditions determined that local agents in La Pampa filled an entrepreneurial gap by satisfying the demands of the population both as consumers and as producers, providing farmers with advice, vital finances for short-term marketing, and other "community life" services.

Hence, we can nuance the classic image of rural merchant as a monopolistic and isolated economic agent with a broader analysis of merchants' activities, showing how we can only understand them through reciprocal patterns of communication and exchange with other firms. Networks were vital to credit, products, and information flows within and between communities. Regular day-to-day contact was vital for negotiation of contracts, the distribution of goods, and agreeing on terms of credit. My research, through case studies, highlights different dimensions of inter-organizational collaboration between firms in two relevant dimensions. First, webs of credit (or debt) undoubtedly created

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<sup>42</sup> In Spanish: "el señor mariano Berón ha tomado debida nota para proceder en la junta de acuerdo a sus instrucciones y creíamos poder darles ya el resultado de la junta que hoy se debía celebrar pero a ultima hora ha sido suspendida a objeto de postergarla para otra fecha y una vez sea esta señalada nos sera grato indicársela."

<sup>43</sup> Casson, "Institutional Economics and Business History: A Way Forward?," 155.

special relationships between firms. Second, the vitality and functionality of these economic cooperative relations reduced the costs of reliable information derived from the specialization of local agents.

As the evidence suggests, regional networks can overcome information asymmetries within loan contracts and therefore reduce screening, monitoring, and enforcing cost.<sup>44</sup> Of course, it is inaccurate to characterize networks solely in terms of collaboration and concord. Each point of contact in a network can be a source of conflict, particularly when each member retains considerable independence. We studied this aspect in another work but of interest here is that the principal points of conflicts or tensions between local agents and national/international agents were localized in prices, sales terms (periods and interest rates), services and responsibilities, and finally, the definition of the area of operation (*derechos territoriales*).<sup>45</sup>

In recent years, business historians have explored the significance of “networks” and their role in linking many small and family firms in order to broaden our understanding of the complexity of interactions and transactions.<sup>46</sup> In this vein, I have attempted to illuminate the function of a small-family firm and the emergence of a regional commercial network in interrelated levels: local (retailers), national (banks and importers), and transcontinental (exporters) to explain internal market expansion and the process of regional economic growth.

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<sup>44</sup> For the bank sector, see Francesca Carnevalli, “Between Markets and Networks: Regional Banks in Italy”, in *Banks, Networks, and Small Firm Finance*, ed. Andrew Godley and Duncan M. Ross (London, 1996).

<sup>45</sup> Andrea Lluch, “Comercio y comerciantes rurales a principios del siglo XX en el Territorio Nacional de La Pampa”, in *Empresas y Empresarios Rurales en la Argentina del Siglo XVIII al XX* (UADE, Buenos Aires, 2002), 84-99.

<sup>46</sup> See, for example, Jonathan Brown and Mary B. Rose, *Entrepreneurship, Networks, and Modern Business* (New York, 1993).