

THOMAS F. O'BRIEN'S REPLY*

I am pleased that my article has prompted Dr. Mayo's thought-provoking reply. His critique can be summarized in three points: the sources are partisan; Edwards and Gibbs are exceptional rather than typical examples of their respective groups; and the external reason for the absence of change in Chilean economic structures was the noninnovative nature of the European commission house.

Before point one I stand defenseless for even if the business correspondence of the Edwards clan were available, it too could be labeled as partisan. Since all sources are partisan, it is an essential function of the historian's craft to weigh and judge the validity of the evidence presented. In this regard, the quality of the article speaks for itself.

As for the exceptional nature of Edwards and Gibbs, I must take issue with Dr. Mayo. The Edwards family was typical of *nouveau riche* elements (often of foreign extraction) who acquired wealth in nitrates, mining, commerce, manufacturing, or banking, and merged with the elite. That Agustín Edwards Ossandón was the wealthiest and most successful of these upwardly mobile individuals is no more distinguishing a characteristic than his speech impediment.¹ The Ross, Délano, Lyon, and Cousiño families, to name only a few, are equally typical of this group. My article points to an important factor, alliances with foreign capital, that facilitated the process of cooptation. The alliances allowed these Chileans to pursue ventures requiring productivity improvement while scaling the promontories of a traditional society that was incapable of supplying inputs essential to modern economic enterprises. Furthermore, joint ventures with European capital were not restricted to such elements. They also permitted established members of the elite to transcend the paltry returns of agricultural estates and engage in higher profit pursuits without disrupting the social productive relations of the countryside.² Francisco Subercaseaux, scion of one of Chile's prominent land-

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1. Virgilio Figueroa, *Diccionario histórico y biográfico de Chile*, 5 vols. (Santiago, 1926-1935), III, 17.

2. A *fundo*, of course, offered more than low profits, contributing to social status, and political power as well as providing access to the national money market where land remained the preferred form of collateral. Therefore, estate ownership continued to be of critical importance to both the *nouveau riche* and the oligarchy; see Arnold J. Bauer, *Chilean Rural Society from the Spanish Conquest to 1930* (Cambridge, Eng., 1975), pp. 27-46, 88-96, 174-202, 214-217.

ed families, operated his nitrate *oficinas* in partnership with the German firm, Folsch and Martin, and the partners fulfilled much the same roles as in the case of Antofagasta. Subercaseaux's brother-in-law, Melchor Concha y Toro, claimant to an even more distinguished elite pedigree, turned to European capitalists to aid in the development of his Bolivian silver mining company.³ Thus linkages to European capitalism enabled aspirants to attain elite status and members of the oligarchy to straddle the conflicting power bases of modern economic enterprises and tradition-bound agriculture.⁴

Gibbs' direct involvement in ventures such as nitrates was hardly unique. Between 1870 and 1884, the four most powerful nitrate producers were Gibbs, J. Gildemeister, and Folsch and Martin, German mercantile partnerships, and J. D. Campbell, an offshoot of the British commission firm Hainsworth and Company. Gibbs and Gildemeister subsequently sold their aging *oficinas* to British joint-stock companies. Gildemeister transferred some of their capital to direct investment in Peruvian sugar plantations, revamping plantation production methods in the process. All four houses continued to develop their interests in nitrate refining.⁵ As Dr. Mayo points out, the houses showed little interest in artisan industry. Yet as manufacturing expanded in the late nineteenth century, European trading firms including Gibbs, Duncan Fox and Com-

3. On Subercaseaux, see Archivo Nacional, Santiago, Chile (hereafter cited as AN), Archivos Notariales de Valparaíso, vol. 209, Mar. 5, 1878, fols. 239–240; Hayne to Bohl, Valparaíso, Aug. 17, 1878, Guildhall Library, London, Archives of Antony Gibbs and Sons (hereafter cited as GMS), II, 120; AN, Archivos Notariales de Iquique (hereafter cited as NI), vol. 69, Sept. 20, 1882, fols. 642–645; AN, NI, vol. 71, Oct. 4, 1883, fols. 916–923; AN, Archivo del Ministerio de Hacienda (hereafter cited as MH), vol. 1091. On Concha y Toro, see Compañía Huanchaca de Bolivia, *18a Memoria* (Valparaíso, 1890); Figueroa, *Diccionario*, II, 421; Santiago Marín Vicuña, *Los ferrocarriles de Chile*, 3d ed. (Santiago, 1912), pp. 38–39; *Burdett's Official Intelligence*, IX (London, 1891), 561.

4. Direct alliances with foreign capital became increasingly significant in the last quarter of the nineteenth century as the domestic economy was unable to cope with price declines for its exports, and as industrialization accelerated. In the preceding period of rising prices and artisan industry, the linkages were more loosely structured such as the supply of credit and machinery to mining by foreign merchant houses.

5. As early as 1873 with 115 nitrate companies in operation, these 4 firms accounted for twenty-five percent of all productive capacity and actual output in Tarapacá. Even in 1886, when John Thomas North had emerged as a major force in the industry, the 4 houses provided thirty-one percent of the province's production; see Thomas F. O'Brien, "British Investors and the Decline of the Chilean Nitrate Entrepreneurs, 1870–1890" (Ph.D. Diss., University of Connecticut, 1976), pp. 38, 40, 151. Concerning the continued involvement of the houses in nitrate production, see E. Semper and E. Michels, *La industria del salitre en Chile*, translated and augmented by Javier Gandarillas and Orlando Ghigliotto Salas (Santiago, 1908), pp. 348–349, and C. W. Maude, *Antony Gibbs & Sons Limited: Merchants and Bankers, 1808–1958* (London, 1958), p. 87. For a concise summary of Gildemeister's involvement in Peruvian sugar plantations, see Peter F. Klarén, *Modernization, Dislocation and Aprismo* (Austin, 1973), pp. 3–23, 65–83.

pany, Williamson Balfour and Company, and Vorwerk and Company quickly immersed themselves in industry.⁶ Although constrained from citing further evidence by space limitations, I believe we can safely dispense with the argument of exceptionalism.

Perhaps most interesting is Dr. Mayo's characterization of commission houses as cautious, conservative institutions. Certainly the Gibbs correspondence is replete with the frettings of senior partners over the amount of capital committed to nitrate production and stinging rebukes to the visionary schemes of their junior partners. Indeed one might draw the conclusion that Gibbs was dragged kicking and screaming into nitrate refining. Such a conclusion, however, results from a literal-minded reading of the sources. For lo and behold, Gibbs and these other unwilling European merchant houses emerged as four of the most powerful nitrate producers of the nineteenth century. Have we then yet another empire acquired in a fit of absent-mindedness?

Gibbs was cautious as were most merchant capitalists, as in fact were most industrial capitalists. I am in complete agreement with Dr. Mayo's statement that "they were innovators only when forced to be." Innovation in the capitalist system occurs when the capitalist confronts such threats to his profits as the limits inherent in the extraction of absolute surplus value, the general tendency for the rate of profit to fall, or the simple fact of competition.

European merchant houses entered the nitrate industry to recoup loans to producers and remained to offset declines in their more customary lines of business.⁷ In nitrates the conservative foreign commission houses faced decreasing caliche quality as well as rising fuel and labor costs. Between 1878 and 1886 they responded by increasing average capital investment per *oficina* by seventy-four percent, tripling average *oficina* productive capacity, raising labor productivity by twenty-six percent, and revolutionizing the method of production with the introduction

6. Henry W. Kirsch, *Industrial Development in a Traditional Society* (Gainesville, 1977), pp. 77–87.

7. On Gibbs' motives for entering and remaining in the industry, see Antony Gibbs and Sons to William Gibbs and Company, London, Jan. 29, 1864, GMS, 11,471/1; Annual Accounts of William Gibbs and Company, Valparaíso, Apr. 30, 1865, GMS, 11,033/5; Robert G. Greenhill and Rory M. Miller, "The Peruvian Government and the Nitrate Trade, 1873–1879," *Journal of Latin American Studies*, 5 (May 1973), 119–120. Concerning the entrance of the other houses, see Oscar Bermúdez Miral, *Historia del salitre desde sus orígenes hasta la Guerra del Pacífico* (Santiago, 1963), pp. 266–270, 272; AN, NI, vol. 7, June 6, 1872, fols. 658–660, June 23, 1872, no folio nos.; AN, NI, vol. 68, Apr. 3, 1882, fols. 90–91, Apr. 8, 1882, fols. 99–103. On the conditions which prompted commission houses to make and maintain direct investments, see D. C. M. Platt, *Latin America and British Trade, 1806–1914* (London, 1972), pp. 136–143.

of the Shanks system.⁸ The joint-stock companies which emerged in the late 1880s were in fact far more cautious, simply acquiring the older properties of the merchant houses or duplicating the production methods they had pioneered.⁹ Merchant capital itself is not capable of revolutionizing the mode of production. But as these developments indicate, European merchant capital by the mid-nineteenth century had become a conveyor of the capitalist center's mode and methods of production to the periphery.¹⁰

The failure of the Antofagasta Company, and other enterprises requiring productivity improvement, to prompt radical alterations in Chile's socioeconomic structures can hardly be attributed to the conservatism of foreign commission houses. Rather as my article suggests, this failure derived in part from their introduction of essential factors of production, precluding the necessity for sweeping structural changes to produce such factors domestically. Indeed, the Antofagasta Company captures in microcosm the macrosymbiotic relationship that emerged between the nitrate industry and the domestic economy in the first decade of Chile's nitrate age (1881–1890).

The growth of Chile's export economy in the first half-century of independence transpired within a society where wages played a limited role in controlling the labor force. Since labor was not entirely free, that is, a commodity which *must* be bought and sold in a competitive market,

8. These figures are for the industry in Tarapacá. The capital investment and productive capacity of the four houses exceeded these averages. On capital investment and productive capacity, see Guillermo Billinghurst, *Los capitales salitreros de Tarapacá* (Santiago, 1889), p. 21; W. M. F. Castle, *Sketch of the City of Iquique, Chili, South America during Fifty Years* (Plymouth, Eng., 1887), p. 23; AN, MH, Delegación Fiscal de Tarapacá, 1880; *El Veintuno de Mayo* (Iquique), Feb. 1886–Jan. 1887; O'Brien, "Chilean Nitrate Entrepreneurs," chap. 4. Statistics on labor productivity are for the period 1880–1886; see Chile, Ministerio de Hacienda, *Memoria de la Delegación Fiscal de Salitreras* (Santiago, 1890), p. 81. On the Shanks system, see Bermúdez Miral, *Historia del salitre*, pp. 272–278, and Enrique Kaempffer, *La industria del salitre y del yodo: Anexos y glosario* (Santiago, 1914), pp. 178–184.

9. After the nitrate boom on the London stock exchange (1888–1889), the four houses were still in a much stronger position than the overcapitalized joint-stock companies which they and North had foisted on British investors. While the London companies were desperately trying to form a combination to restrict production, Gibbs prevented its formation in 1890 by refusing to provide financial backing. After initiation of the combination in 1891, Folsch and Martin simply refused to join it. Antony Gibbs and Sons to Gibbs and Company, London, Sept. 16, 1890, GMS, 11,471/36; J. R. Brown, "Nitrate Crises, Combinations, and the Chilean Government in the Nitrate Age," *HAHR*, 43 (May 1963), 234–236.

10. This does not mean that European merchant capital consistently carried out this function. Its fulfillment of this role was determined by the needs of the center and local conditions in the periphery. For a theoretical treatment of this phenomenon, see Geoffrey Kay, *Development and Underdevelopment: A Marxist Analysis* (New York, 1975), pp. 96–124.

there was little necessity for innovation.¹¹ Expanding market opportunities could be met with increased exactions upon labor and limited infusions of foreign technology (such as railroads), rather than widespread productivity improvement. Price declines for its principal products beginning in 1873 marked the developmental limits of this system which deemphasized innovation. But the seizure of the nitrate zone breathed new life into it, as a fragment of the European capitalist mode of production was absorbed within Chile's national borders.

In the nitrate region, foreign investors supplied fixed capital, technology, skilled labor, and management. The domestic economy provided unskilled labor, short-term credit, and foodstuffs. Productivity improvement by European producers and state policies helped to combat the inadequacies of the domestic economy that led to relative labor scarcity and rising food costs. Market relations and state taxation funneled wealth back into the domestic economy, while foreign nitrate production ensured Chile's place in the world economy without a radical restructuring of its premodern class relations.¹²

Whether in direct partnerships like the Antofagasta Company, or the broader sectoral relationships of the nitrate region and the Central Valley, ties to European capitalism permitted a continuation of Chilean prosperity despite the traditional nature of its society. From the mid-nineteenth well into the twentieth century, European commission houses played a vital role in this process, supplying inputs that the domestic economy could not adequately produce. This precluded fundamental structural change to the detriment of Chilean development. But it was an essential service to those who ruled Chile. For while the oligarchy and successful aspirants to elite status were truly the masters of Chilean society, they were also the prisoners of its social productive relations.

11. On the stagnation of wage levels, and use of non-wage control mechanisms in Chilean agriculture, see Bauer, *Rural Society*, chap. 6. On the development implications of labor repressive agrarian systems, see Robert Brenner, "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism," *New Left Review*, 104 (July–Aug. 1977), 47–51, 68–73.

12. O'Brien, "Dependency Relationships in Transition: Chile and the Nitrate Industry, 1870–1891" (manuscript in preparation), chap. 5.