

The Pampas precedent

In Argentina, football is a religion. If the derby between Boca and River Plate is Easter Sunday Mass, then the Bombonera Stadium, Boca's home, is a Holy Trinity of the Vatican, Lourdes and Fatima – a sacred theatre of dreams, miracles and, depending on the score, extravagant benedictions.



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David McWilliams, 5 June 2015, 08:30

The other day, I made my own personal Camino to this place of worship. A procession of the faithful moved slowly through the streets towards the tabernacle, repeating incantations, bonded together by the low murmur of repetitive chanting. In the same way as medieval monastic orders from Franciscans to Jesuits distinguished themselves with different coloured habits – the outward signs of inner differences – Boca's devotees are a sea of yellow and blue.

Like all religions, this congregation is bonded together by their own sacred scriptures, myths and mysteries, passed down from father to son. They have their Boca creed which they profess openly, each fan trying to out-do the next in the intensity of their devotion. Tears are not uncommon.

Nothing prepares you for the Buenos Aires derby, the noise, the colour and outlandish drama that this most dramatic of races brings to even the most innocuous challenges on the pitch. In this city of mass psychotherapy, we can only speculate the extent to which the collective hysteria of the derby contributes to making Buenos Aires the world capital of psychology; it has more shrinks per head than New York. Is it any wonder they are highly strung?

After all, the canon of Argentinian football deity is impressive. Think about all the players who have worn the blue and white: Maradona, Messi, Batistuta, Caniggia, Passarella, Zanetti, Mascherano and Di Maria – this is a roll call of world talent. These are all mesmerising players, but apart from being Argentinian footballers, what else do they have in common?

Look again at the surnames. Notice that all these giants of the beautiful game, in this Spanish-speaking country, have Italian names. Indeed, come to think of it, so too does the Argentine Pope, Cardinal Bergoglio and that most infamous of locals (for the British at least), General Leopoldo Galtieri.

Why are there so many third generation Italians in Argentina? What prompted these millions of Italians, the grandfathers and great grandfathers of Maradona, Messi and the Pope, to move from Italy to Latin America in the later part of the 19th century?

And, as we try to understand our world in 2015, what lessons can we learn from the mass migration of people in the late Victorian age? Could the experience of Europeans just over one hundred years ago be repeated, in a different form, today? We know that economic history rarely repeats itself directly but – to paraphrase Mark Twain – it does tend to rhyme.

In particular, I would like to focus on today's secular stagnation and explore whether this has occurred before. If it has, what happened?

The thesis argues that the global deflationary and offshoring shock from globalisation in general and the opening up of China in particular, is undermining the wages and sustainability of Western workers and is having a once in a generation impact on Western productivity, incomes, welfare and growth.

This deflationary shock at a time of high levels of debt, is dragging down Western growth rates and this lack of growth is making western and European politics more unstable.

Much of the evangelical talk about globalisation presupposes that it is a new phenomenon, but is it? History suggests not.

The first great period of globalisation was between 1870 and 1914 and Argentina was the epicentre of this development. Its story is both instructive and cautionary.



Disruptive supply shock

The reason so many Argentinian footballers have Italian names is because their grandparent's livelihood was destroyed when Argentinian agriculture opened up after 1870. There was a protein invasion of Europe, as cheap beef from the Pampas flooded into Europe, causing agricultural prices to collapse in the late 19th century. As agricultural prices fell, people left the land and headed to the action. Many millions chose to emigrate and followed the money to South America.

It might sound strange now when Argentina is a byword for economic mismanagement, but over a hundred years ago it was all so different. The country went from backwater to boom in a generation.

The speed of the transformation in the first great period of globalisation makes it fascinating and relevant for us. Like today, the economic shift happened quickly because of disruptive technology.

By tearing up the old rules of business, disruptive technology amplifies competitive advantages, obliterates the status quo and creates new industries and new hubs of economic activity that no one has yet imagined. Disruptive technologies take the world by surprise and, if these changes are big enough, they can have lasting social and political consequences.

This is what happened in the late 19th century and in the same way as technology has brought the world closer today, technological breakthroughs over one hundred years ago made the world suddenly a smaller place.

This combination of massively increased supply of land with dramatically more efficient technology is the story of the great Argentinian boom.

As rich as an Argentine

At the turn of the 20th century a common phrase used to describe wealth in London was to be "rich as an Argentine". The impressive no-expense-spared, period buildings of Buenos Aires attest to its opulence. Not only did this out of the way place at the end of the earth become rich but, by 1929, Argentina had the 4th highest income per capita in the world.

How did this country become so rich, so quickly?

In 1870, the Argentinian army set about slaughtering the last of the native peoples in a genocidal campaign, which is now euphemistically known as the "Reconquest of the Desert". As it cleared the Indians, huge tracks of fertile land became available for cultivation. A combination of soil and climate made the vast Pampas of Argentina extraordinarily productive for all sorts of agriculture. What's more, to new settlers the land was free.

But an Argentina made up of a cluster of Spanish aristocracy and a few British adventurers didn't have enough people to farm this land. Argentina needed farmers and workers. It opened its doors to all comers. By this stage the United States was open but the east coast was already well populated, so Europeans looked south as an alternative.

Between 1880 and 1915 the population of Buenos Aires exploded from 200,000 to 1.5 million. Migrants from all places came to the River Plate delta.

Taking a leaf out of the Americans' book (and unlike their European rural cousins), the new Argentinian farmers began to mechanise. They were the first to introduce industrial scale slaughterhouses and meat packing plants. In fact, the area of Buenos Aires where Boca Juniors come from is called La Boca, 'the mouth', because it is the mouth of the Río Mataderos or The River of Slaughterhouses.

However, what really spurred Argentina was disruptive technology.

In 1876 a ship called the Frigorifique left La Boca bound for London. This voyage changed the world. It was the first floating fridge, a refrigerated vessel that could transport huge quantities of frozen beef from Argentina to Europe.

Suddenly, Argentina wasn't 13,000 miles away; it was next door. Argentinian beef was our beef. The international price of beef collapsed. But the Argentinians exported everything that they could cultivate. So the price of cereal collapsed too because the Pampas, like the American mid-west, produced everything at a fraction of the cost of European agriculture. While the American mid-west was opened up to Europe via the extraordinary canal network built in the US to link the prairies with the great lakes and the port cities of the Eastern seaboard, the Argentinian Pampas were opened up by the railway and the fridge.



Deflationary effects

Think about these developments in a 21st century context. Replace Argentina with China. And replace agriculture with manufacturing. You can see the same deflationary process is happening all over the world.

Technology in the late 19th century, while not exactly making geography history, made geography and distance a lot less significant. Today, technology and massive leaps in the efficiency of supply chain management means that Chinese industrial might is felt throughout the world, in every product line and in every market.

It is a massively deflationary process, which (like the Argentinian deflationary shock in the late 19th century) will have serious political and social ramifications.

The Pampas more than doubled the European agricultural land mass. Just to put the size of Argentina in context for you, the province of Buenos Aires alone – one of many provinces in Argentina – is bigger than France. The disruptive technology of the fridge changed everything. What was once far away was now next door.

Between 1870 and 1910, freight costs from Argentina to Europe fell 0.7% per year. Together with rapid railway building, export costs from Argentina fell by 70% in total. Efficient railways were to late 19th century trade what online shopping is to retail today. Railways slashed the cost of doing real business and each time track was laid, more land supply was opened up for cultivation.

Like China today, this dramatic shift in trade was accompanied by a massive surge in investment flows to Argentina.

More than half of all loans from Europe and the USA to Latin America went to Argentina. US lending to Argentina rose from \$306 million in 1902 to \$1.6 billion in 1912. By 1913, the French and Germans were investing roughly the same as the Americans, while the British bet the house on Argentina, lending \$5.8 billion in 1913 alone.

Like Chinese stocks today, with all this cash sloshing around, asset prices in Argentina went through the roof. Like the Chinese property bubble, land prices in Argentina rose by 300% from 1900 to 1910.

And of course, the money, the action and the heat of economic success attracted millions of people, who in turn created the dynamics for more migration. Europe's loss was Argentina's gain.

Between 1881 and 1931, 8.4 million migrants arrived in Argentina. This is a huge number and they came from all over Europe, but the Italians made up a significant chunk and whereas, the Irish, Welsh and Scandinavians came to farm the Pampas and Patagonia, the waves of Italians came as industrial labour, settling in the cities and became the industrial working class of this immigrant nation.

This is why its footballers have Italian names. The men who worked in the factories and foundries played football, so too did their great grandchildren.

History doesn't repeat itself...

In Europe of the late 19th century, the ramifications of this massive deflationary shock and falling agricultural incomes were profound and long lasting. With agricultural incomes falling, the price of land fell too because the income and rent from land fell.

This reduced the livelihood of both landlords and tenants, prompting (1) a massive move to the cities, creating the industrial working class that would soon become the battleground for the great left/right battles of the early 20th century and (2) increased agrarian agitation to break up the quasi-feudal massive land holdings of the European landlord class who had ruled Europe for centuries.

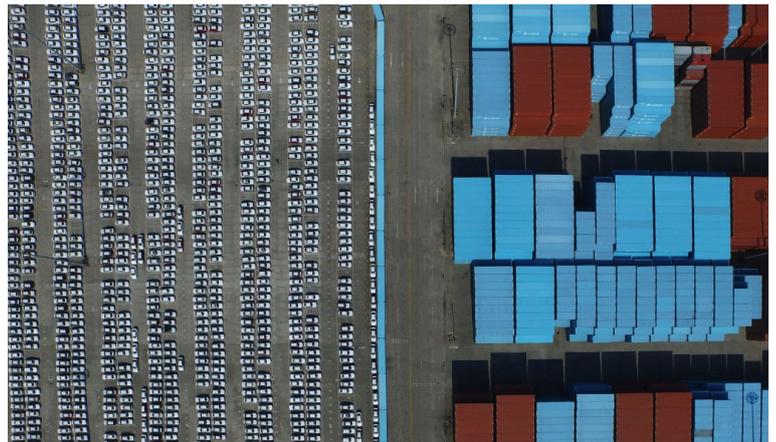
The mass movements of populations created the instability that nationalism and modernism thrives on. In the arts, modernism – from Joyce to Picasso – was the artistic response to the breakdown of old certainties, but nationalism and socialism, both linked to the fragility of the old order and the need for a new modern ideology flourished in the new urban centres, now brimming with displaced farmers who had been the first victims of the Argentinian shock. These cities would later become the crucible for 20th century ideologies such as Marxism and later fascism.

In addition, the improved and cheaper nutrition – with protein now more accessible – created the conditions for a population boom. Population booms and a lack of opportunity breed instability. Arguably, this boom in births also meant there was no shortage of young fighting men for the subsequent slaughter on the killing fields of World War One.

With all this upheaval comes revolution. The newly impoverished agrarian classes became much more politically assertive, which set the political and economic scene for the breakup of huge land-based political domination of families, princes, kings and ultimately empires, most of whom lost their grip on power in the opening decades of the 20th century. The legitimacy of the landlords was inextricably linked to agricultural prosperity and once deflation set in, the days of the landlord were numbered.

Finally, of course, the collapse in income from European land, prompted millions to leave Europe and migrate to the New World in search of a better life. These people became the Italian communities of La Boca.

This chain of events – political, social and economic – was triggered by a massive deflationary shock to the world stemming from the opening up of South American agriculture. Buenos Aires was ground zero but the tremors were felt all over the world.



...but it often rhymes

In the early 21st century, China is exerting similar deflationary pressures. The impact will prove similarly profound and long lasting. Much of what we now term “secular stagnation” derives from the original China effect. The floor of incomes of industrial workers all over the western world is now set in Shanghai rather than Stoke. Countries that respond to this competitive threat by trying to borrow to maintain lifestyles will find themselves choked by low growth and rising debts.

In the 1890s, the response to Argentina was emigration. Millions of Europeans, who had neither a safety net nor a viable alternative, simply uprooted themselves and headed to the South Atlantic to where the action was. However, this time around, there is no American or European emigration to Asia. Europeans don't move to Shenzhen, they stay put and seethe as their opportunities diminish.

There are no easy solutions to this deflationary shock.

The UK and the US are creating jobs, but they are low productivity, low wage jobs. This development further diminishes the average guy's stake in the society. The response to the financial crisis has been QE, which is benefitting rich people because poor people don't own assets. This wealth disparity drives a wedge between those in society who depend on dividends for their income and those who depend on wages for their income.

This inequality pushes people into the arms of easy-fix populist or nationalist movements such as we have seen in Greece, Poland, Spain and, arguably, Scotland.

Germany is one of the few wealthy countries that, via enormous capital investment and an education system that rewards industrial apprentices, has managed to create a high productivity, high wage society capable of meeting the Chinese threat head-on and beating the Asians hands-down in the quality stakes. But Germany is the exception rather than the rule.

And typically, it was an exceptionally organised, fit and talented German team that broke Argentinian footballing hearts in Brazil last year. Argentina, the better team with the better players, simply couldn't compete with a clinical, high-tempo Germany.

Leo Messi, whose ancestor Angelo Messi from Ancona, emigrated to Argentina in 1882, was reduced to looking to the skies, seeking answers from the Almighty.

Funnily enough, that expression – a quizzical face looking to the heavens, hands joined in prayer seeking divine guidance – was everywhere the other night on the terraces of La Bombonera in Buenos Aires. It must be, like so many things, in the genes.

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