Chapter Thirteen

WAKEFIELDIAN INVESTMENT AND THE BIRTH OF NEW SOCIETIES,
c.1830 TO 1930

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Wakefieldian investment, colonisation and settler societies

Historians of the world economy have been struck by the volume of capital that flowed to settler societies during the century before 1914 [Kenwood and Lougheed 1999, 29; Bairoch 1997, vol. 2, 321]. According to Woodruff’s widely used but now somewhat dated estimates (summarised in Table 1), by the eve of the First World War the regions of recent settlement accounted for almost two-fifths of the globe’s stock of foreign investments. The proportion is even more impressive if we consider only investments outside Europe (it rises to half), or investment per capita (ten times greater than in the areas that later became known as the ‘third world’) [Bairoch 1997, vol. 2, 323]. These statistics already tell us much about settler economies before 1914, including their capacity to attract and absorb capital, their low population densities, and the high returns to—and capital-intensive nature of—investments directed to them. Nevertheless, it is still important to remember that about 60 percent of foreign investment before 1914 was sent to other parts of the world. From the mid-nineteenth century, in particular, metropolitan capital flowed to all parts of the globe and its objectives were often very similar. Regions of recent settlement were merely one amongst several potential destinations; the types of assets offered to rentiers (whether government bonds, railway securities, or mining shares) often mattered as much as their origin, and the activities seeking capital—e.g. building a railroad; sinking a mine—were frequently identical.¹ At the beginning of this chapter, therefore, it is useful to ask what, if anything, was distinctive about investment in settler societies, especially as far as its overall contribution to their economic and social development was concerned.

Table 1
Woodruff’s estimates of world stocks of foreign investment at the outbreak of First World War, £ millions.

<table>
<thead>
<tr>
<th>Stock, £ m.</th>
<th>Percent total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>1,459</td>
</tr>
<tr>
<td>Canada</td>
<td>791</td>
</tr>
<tr>
<td>Argentina</td>
<td>606</td>
</tr>
<tr>
<td>Australia</td>
<td>370</td>
</tr>
<tr>
<td>New Zealand</td>
<td>62</td>
</tr>
<tr>
<td>South Africa</td>
<td>339</td>
</tr>
</tbody>
</table>

¹ For overviews: Woodruff [1967] and Kenwood and Lougheed [1999]; for some contrasts between the types and geographical origins of equity investments attractive to different British investors: Davis and Huttenback [1986, 195–220].
<p>| | | |</p>
<table>
<thead>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Total Settler Societies</td>
<td>3,627</td>
<td>39</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>2,466</td>
<td>26</td>
</tr>
<tr>
<td>Rest of Latin America</td>
<td>1,223</td>
<td>13</td>
</tr>
<tr>
<td>Rest of Oceania</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>1,459</td>
<td>16</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>493</td>
<td>5</td>
</tr>
<tr>
<td>Total Other</td>
<td>5,682</td>
<td>61</td>
</tr>
<tr>
<td>World</td>
<td>9,308</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Woodruff [1967, Table IV/3].
Note: US dollars converted to sterling at 4.8666. There is a minor difference between my world total and Woodruff’s because of an adding discrepancy. No separate data for Uruguay.

Already at the beginning of our period, publicists and promoters like Edward Gibbon Wakefield [1967, 242; Semmell 1970] included the ‘enlargement of the field for employing capital’ amongst the ‘objects of an old society in promoting colonization’. Indeed, the writings of Wakefield and others [1967, 86–87; Fieldhouse 1967, xvi–xviii, 1] during the 1820s and 1830s were symptomatic of a dawning awareness of the economic opportunities offered by the world beyond Europe. New colonies would be the solution to Britain’s Malthusian crisis and a cure for an industrialising economy that appeared to have fallen into a stationary state. Wakefield [1967, 237–38] conceived of colonisation as essentially a double movement—it involved migration from densely settled countries as well as expansion beyond the settled parts of an established colony: ‘the idea of a society at once immigrating and emigrating, such as the United States of America and the English settlements in Canada, South Africa, and Australia’.

Clearly, as the inclusion of the United States suggests, ‘colonisation’ did not necessarily imply British dominion. The transfer of population and capital was a process that, in its initial stages at least, might extent to all of what Belich [2009] has recently called the ‘Anglo-World’. Thus for Wakefield [1967, 23, 255] there could be no inconsistency between drawing American attention to ‘the facility with which, in any part of England, funds are raised for any undertaking that offers the least chance of profit’, and declaring: ‘that colonies may open a rich and wide field for employing that capital of the mother country, for which there is no very profitable opportunity at home’. 2 Whether in a free republic or a colony under the Crown, *Wakefieldian investment* was investment that facilitated the transfer of population and its combination with land and capital in proportions that maximised the

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efficiency of all factors of production [86]. In its purest form, it was land-related (borrowing to anticipate land sales or direct purchases by private companies) and financed the emigration of labour [316–17]. But any ‘secure and profitable investment of English capital in the improvement of a colony’ [254] might be included in the Wakefieldian vision [130]:

The whole world is before you. Open new channels for the most productive employment of English capital. Let the English buy bread from every people that has bread to sell cheap. Make England, for all that is produced by steam, the work-shop of the world. If, after this, there be capital and people to spare, imitate the ancient Greeks; take a lesson from the Americans, who, as their capital and population increase, find room for both by means of colonization. You have abundance, superabundance of capital; provide profitable employment for it, and you will improve the condition of all classes at one.

Of course, not all investment in Wakefieldian societies conformed to this ideal. Capital might be wasted, as it had been during the 1820s, ‘on foreign loans and far off ruinous speculations’ [129]. Nevertheless, Wakefield’s was a remarkable anticipation of how foreign investment would contribute to the creation of a global economy in which new settler societies participated as suppliers of ‘raw produce and cheap corn’ [316]. Within this pattern of specialisation, Wakefieldian investments would be oriented simultaneously towards the promotion of settlement and the supply of rural products. This is what distinguished them from other kinds of investment. For this also reason, with the onset of rapid industrialisation, foreign investment in the United States eventually ceased to be exclusively Wakefieldian in character, despite the persistence of mass immigration and the contribution internal emigration continued to make to the growth of rural output. The United States remains, however, a benchmark for the core Wakefieldian societies, i.e. the sites of mass European immigration in Canada, Australia, New Zealand, Argentina and Uruguay before 1930. Other settler regions, most notably South Africa and Chile, were different because of the dominance of mining in their economies and the more limited role played by rural industries in the sponsorship of settlement [Blakemore 1986, 510, 513; Denoon 1983, 60; Darwin 2009, 217]. South Africa, in particular, always remained ‘part settler state and part African colony’ [Beinart 1994, 6].

Finally, it is important to emphasise here that the notion of Wakefieldian investment is introduced in this chapter solely as way of characterising the functions of overseas
investment settler societies. The concept, however, is essentially a conceit. No assertions are made about whether particular types of investment were Wakefieldian or not. What mattered was the context in which they occurred and their larger social and economic meanings. A railroad in Buenos Ayres was fundamentally no different from one in Bengal; only their social and economic consequences varied. This chapter will focus on foreign investment in the United States and the five core Wakefieldian societies already mentioned. Investment flows into southern Africa will also be discussed to highlight some of the continuities in the roles of the settler state, as well as the peculiar (and distinctly un-Wakefieldian) dynamics of European investment in that region. The first part considers the quantitative record of capital flows from the early nineteenth century to the Great Depression. The second briefly surveys the main cycles of investment in that period. The third assesses the economic significance of foreign capital with reference to its contribution to domestic capital formation and the rising levels of interest and dividend payments due to non-residents. The fourth part discusses the geographical origins and industrial composition of investments. Finally, the conclusion comments briefly on the underlying dynamics of capital flows and their impacts on the development of economic institutions in the different settler regions.

Quantities
The two main approaches to measuring foreign investment in a country are well known [Cottrell 1975, 11]. The ‘indirect’ method treats a country’s balance on current account (i.e. the overall balance of payments for goods and services plus investment income) as a measure of ‘net apparent capital inflow’ on the assumption that any deficit must mainly be financed by borrowing or other capital transfers from abroad. The indirect approach serves well enough in the absence of alternatives, but it has several disadvantages. Most obviously, it is a net measure which cannot distinguish between gross inflows and outflows of capital, identify different types of investment (long or short-term; portfolio or direct), or establish their geographical origins. Moreover, no allowance can be made for changes in private or official bank reserves (a proportion of a trade deficit may be financed by running down holdings of specie or foreign currency), a factor that became increasingly important after the financial instability of the 1890s, when bankers started to shore up their defences against the flight of capital [Schedvin 1973, 603–4; Alejandro 1970, 57–58]. Finally, all estimates of the current account are subject to errors and omissions. Precision about the final balance is impossible,
particularly when estimates are retrospective and based on incomplete or faulty evidence. At best, then, the indirect method shows us the shadow rather than the substance of capital movements. Provided exactness is not required, however, it is still a useful guide to the relative magnitudes and main fluctuations of overseas investment.

The alternative way of estimating capital flows or stocks of existing investments at a particular time (as in Table 1) is to use the direct evidence of the investments themselves.\(^3\) The advantage is that it is possible to identify the origin, type and purpose of capital issues, as well to make allowances for repayments and re-financing. The main limit to this approach is imposed by the availability the evidence itself. Some types of investment, e.g. bond offerings by governments in major international markets, are easily traced through public advertisements and other notices or reports published in the press and other sources. Other types, e.g. bond sales by private treaty or direct investments abroad by individuals, partnerships and domestic companies, left no similar records; consequently their values are unknown or can only be estimated after painstaking research.

Given the difficulties associated with both methods of estimation, as well as the long period covered by this chapter, it is not surprising that the quantitative record of investments in the Wakefieldian societies is uneven. There is, however, sufficient evidence to be able to identify its main outlines. Indirect estimates of foreign investment in the United States begin from 1790.\(^4\) Direct estimates of net foreign inflows and the outflow of U.S. funds abroad become available from 1900. Several stock estimates are summarised by Davis and Cull [1994, 10–12, 15]. Australia has been almost equally well served. Butlin’s posthumously published [1994] estimates of private capital inflows between 1827 and 1850 extended (but sadly did not directly link to) his earlier [1962] current account and direct estimates for 1861–1900. When spliced with other series covering the years from 1900, his current account estimates (as revised by Boehm [1965]) provide a continuous run of data to the end of our period. Canada is also relatively well-served by Urquhart’s [1986] reconstruction of Canada’s balance of payments between 1870 and 1926. This includes estimates of credits on account of long-term capital and can be linked to the capital account data already available in *Historical Statistics of Canada* [Urquhart and Buckley 1965]. Unfortunately, the remaining settler societies lack statistics of comparable quality or chronological depth. Taylor [1998, table 9] has created a current account series for Argentina from 1885 which della Paolera and he

\(^3\) For an exhaustive discussion of this approach as applied to British overseas investment: Tiberi [2005].
\(^4\) For the sources of these and the other quantitative estimates discussed, but not referenced, here, see Table 2.
admit [2003, 176] ‘should be regarded as having a wide margin of error’, at least up to 1913. The underlying data after 1913 is derived ultimately from official statistics re-worked by Balboa, and therefore are slightly more robust. Davis and Gallman’s estimates of foreign investment in the Argentine between 1881 and 1914 [2001, 735–43] are extrapolated from fragmentary evidence of stocks and flows in given years. Even less information is available for New Zealand, Uruguay and South Africa.

Fortunately, one set of national estimates of capital exports can serve as a proxy for all foreign investment in the two South American republics as well as the two smaller dominions during the half-century preceding the outbreak of the First World War. From 1865, the British financial press started to publish detailed information about capital called in the City of London which many scholars have used as a basis for constructing annual time series of British overseas investment before 1914 [Simon 1967, 33–40; Davis and Huttenback 1985, 28–76]. These sources suffer from several limitations. Most obviously, they only report capital issues that were advertised publicly in London. It also needs to be recalled that Britain was by no means the only capital exporter to Wakefieldian societies, most notably to Canada and Latin America. Nevertheless, Britain was predominant before 1914, and public issues accounted for by far the greatest proportion of its investments. We can make the reasonable assumption, therefore, that the level of British capital exports to a particular destination was a fair barometer of the general level of investor interest in a particular country. They thus also provide an indication of the timing, fluctuations and peaks of all foreign investment in those destinations up to the First World War. Irving Stone’s revision of the Jenks-Simon estimates of British capital called before 1914 [Stone 1999] have been used here as the most accurate available.5 When capital was mainly raised in Britain—as in the cases of New Zealand and South Africa—Stone’s series can be treated as a fair approximation of total overseas flows. In places where British money was only a fraction of capital imports (albeit a large one), as in Argentina, Stone’s statistics understate the total to varying degrees. Thus, in the years in which the Jenks-Simon estimates for Argentina overlap with Williams’ older calculations of total foreign investment [1920, 45, 101, 152], British investment is only two-thirds of the total. This is broadly consistent with what we know about the geographical origins of foreign capital in that country. Nevertheless, the correlation between British investment and total borrowing remains high.6

5 For an evaluation of these statistics with reference to Australian public issues: Attard [2007a]
6 The Pearson correlation coefficient is 0.84 (a coefficient of one signifies a perfect positive correlation).
Stone’s estimates, however, only take us up to 1914. The quantitative record of investment flows to South America and the smaller dominions during the 1920s is patchy once again. The League of Nations collected statistics of the current account, capital balance, and international reserves for Argentina and South Africa which are published in Mitchell’s volumes of *International historical statistics* [2003, 1058; 2007, 848]. Otherwise, recourse must be made to the statistical appendices of studies of U.S. and British overseas investment by Lewis [1976] and Atkin [1977] respectively, as well as the appendices in Cortés Conde’s recent study of Argentina [2009]. The data for all seven countries are summarised in Table 2.

### Table 2
Foreign investment in Settler Societies, current values

<table>
<thead>
<tr>
<th>Panel A</th>
<th>United States</th>
<th>Canada</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Argentina</th>
<th>Uruguay</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Foreign Investment</td>
<td>US$m.</td>
<td>Can$m.</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
</tr>
<tr>
<td>1831–1840</td>
<td>186</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1841–1850</td>
<td>–20</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1851–1860</td>
<td>160</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1861–1870</td>
<td>875</td>
<td>37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1871–1880</td>
<td>332</td>
<td>163</td>
<td>65</td>
<td>23</td>
<td>16</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>1881–1890</td>
<td>1,310</td>
<td>287</td>
<td>188</td>
<td>21</td>
<td>111</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>1891–1900</td>
<td>–393</td>
<td>177</td>
<td>92</td>
<td>14</td>
<td>28</td>
<td>3</td>
<td>61</td>
</tr>
<tr>
<td>1901–1910</td>
<td>109</td>
<td>1,007</td>
<td>–7</td>
<td>10</td>
<td>117</td>
<td>4</td>
<td>132</td>
</tr>
<tr>
<td>1910–1914</td>
<td>341</td>
<td>1,381</td>
<td>52</td>
<td>16</td>
<td>89</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>1920–1929</td>
<td>–5,810</td>
<td>1,061</td>
<td>359</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B. Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment (Williams)</td>
</tr>
<tr>
<td>1881–1891</td>
</tr>
<tr>
<td>1895–1900</td>
</tr>
<tr>
<td>1900–1914</td>
</tr>
<tr>
<td>1921–1929</td>
</tr>
</tbody>
</table>

Minus equals capital outflow. A bar indicates a break in a series. Australia, year to 30 June from 1914.

**Sources**
Australia: 1831–50, Butlin [1994, table 13.9]; 1861–1929, Vamplew [1987, ITFC 1 and ITFC 100]. The 1871–1900 current balance has been adjusted by substituting Coghlan’s estimates of overseas interest and dividend payments for Butlin’s, thus producing a balance and hence greater apparent capital inflow [Boehm 1965, table 3]. The 1901–29 balance is adjusted by deducting changes in reserve assets in Vamplew [1987, ITFC 40]. No attempt has been made to follow Pope’s similar procedure for the nineteenth century because of the essentially speculative nature of the exercise [Pope 1994, 203–5; Schedvin 1973, 592–93].

New Zealand, Argentina, Uruguay and South Africa: Stone [1999, tables 3, 6, 9 and 22].

Argentina (Panel B): Williams [1920, 45, 101, 152]; Cortés Conde [2009, table A.C.2.2], based on Allende; includes migrant remittances; original figures in gold pesos converted at 1.03 [347]. Stone [1999] converted at $4.86.

**Long swings, waves and pulses**

As Simon [1967, 44–51] pointed out several years ago, flows of foreign investment before 1914 can be thought of as a series of ‘long swings’, waves or pulses, staggered as to destination, but frequently also overlapping, and ending more often than not in a financial crisis when returns failed to meet expectations, investor confidence slumped, or borrowers struggled to meet their external obligations.² The wave-like pattern is evident in the variations of the decennial totals in Table 2, as well as the quinquennia to 1914. It is also clear in the five-year moving average of foreign investment in the United States up to the First World War illustrated in Figure 1. The ‘long swings’ in the moving average of flows to other Wakefieldian society are equally striking. The movement of capital to the United States was heaviest during 1832–39, 1850–57, 1864–75, 1882–96 and 1906–13, a sequence marked by heavy state government borrowing in the earlier years, the rise of a massive European investment in railways, and finally the diversification of foreign interest into manufacturing and commercial activities.³ For a time after 1896, the country became a net exporter of capital, although this outflow reversed in 1906 and, on the eve of the War, the United States remained the world’s greatest debtor. The position was completely changed by Allied borrowings and realisations of U.S. assets during the First World War. Around 1915, when income from overseas investments first exceeded property income paid to foreigners, the United States became a creditor nation. The twenties were notably marked by a sustained outflow of U.S. private capital to the rest of the world.

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² For discussions of the nature of the investment cycle: Hall [1963]; Cottrell [1975]; Edelstein [1982]; Solomou [1988].
³ The best short introduction is Davis and Cull [1994].
No other Wakefieldian economy followed the United States into becoming a net lender. Their capital inflows, however, were equally subject to wide swings. The Canadian experience was dominated by the western settlement boom of 1901–13. By contrast, variations in the level of foreign investment before then were generally much smaller in magnitude. Overseas capital funded canal construction during the 1840s and the first important phase of railroad building during the 1850s. Later periods of foreign investment, peaking around 1874 and 1888, were also linked to railway construction [McCalla 2008, 249–56]. Long-term inflows resumed during 1920–26, although the current account moved into surplus from 1923.

The pattern in Australasia was characterised similarly by major pre-war booms but also substantial foreign investment during the 1920s. Noel Butlin’s statistics [1994], together with his sibling Sidney’s study of the origins of the Australian monetary system [1968], confirm that the first significant movement of private British capital into eastern Australia reached a high point during 1838–41. A second large inflow almost certainly began around 1854, when the newly created colonial governments to borrowed to create urban and transport infrastructures, peaking during the early to mid-1860s [Attard 2007a]. The main Australian investment boom, however, ran from the mid-1870s to 1892, when British capital financed railway construction, pastoral expansion and urban development on a grand scale. When the speculative bubble finally burst, overseas interest was diverted for a time to the gold discoveries in Western Australia. But economic activity in the other parts of Australia stagnated. During 1904–11, capital was repatriated in every year but one. A new investment cycle associated with large government capital outlays commenced in 1912. Capital inflows for public works slowed, but did not entirely stop, during the War. After the Armistice, they accelerated again to 1928 [Schedvin 1973].

Heavy British investment in New Zealand preceded that in eastern Australia. The colony’s tiny provincial governments made stuttering attempts to attract capital during the 1860s, but the main boom occurred between 1874 and 1888 [Attard, forthcoming; Simkin 1951]. Investors then took fright at the debt the colonists had managed to amass. Capital inflows recovered around 1895, before again subsiding to a new low in 1906–7. A fresh

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9 The classic studies are Hall [1963] and Butlin [1964].
influx from 1908 once again anticipated that into Australia; thereafter, loan receipts followed a similar upward trajectory to that of the dominion’s larger neighbour, with New Zealand bond issues successfully offered in London each year from 1921 to 1929 [Stone 1999, table 9; Atkin 1977, appendix B].

Arguably, Canadian, Australian and New Zealand borrowers benefited from membership of a ‘British world economy’ which facilitated their access to British investors by lowering informational costs in the City of London [Magee and Thompson 2010]. By contrast, in 1834, Wakefield [1967, 217, 247] had felt that ‘the beautiful pampas of Buenos Aires (sic) will soon be fit for another experiment in colonization’, but considered the local European population still too ‘barbarously unskilful’ to supply grain to the British market; in any event, the original Spanish colonists’ lack of interest in British manufactures meant they had no incentive to trade. Apart from an 1824 loan issued by Baring Brothers, which soon went into default, no significant foreign investment occurred in Argentina until the second half of the century, when the central government consolidated its authority and, like other Latin American countries, adopted the Wakefieldian plan of settlement and export specialisation [Bulmer-Thomas1994, 43, 46; Cortés Conde 2009, 2–6]. Argentine capital calls in London were concentrated in 1870–76, 1881–90 and 1896–1914, with significant French and German interest also beginning during the 1880s [Regalsky 2001, 504; Schaefer 1995, 447]. The two later periods—separated by national bankruptcy and the Baring crisis of 1890—witnessed the heaviest inflows of overseas funds [Marichal 1989; Davis and Gallman 2001, 653–54, 719–22]. Foreign investment resumed almost immediately after the First World War. During twenties, the republic experienced current account deficits and raised money in the United States, receiving the greatest amount of American long-term loan capital during 1924–28 [Lewis 1976, 623; Mitchell 2007, 848; Marichal 1989, 184]. U.S. direct investment also grew substantially [Cortés Conde 2009, 62–63].

Allowing for differences of scale, the timing of flows to Uruguay followed that of its larger southern neighbour, with capital calls in London coming most heavily during 1871–74 and 1882–91 [Cortés Conde 2009, 142–44]. For the rest, a final wave of investment gathered momentum from 1906, rising to a peak in 1913. After the War, long-term loans were issued in the United States in 1921–22 and 1926 [Lewis 1976, 625].

Finally, as we have already noted, overseas investment in southern Africa differed from that in Wakefieldian societies narrowly-defined because of the dominance of the mining economy and the impact of the Anglo-Boer war of 1899–1902. Capital calls in London for South African investments followed a rising trend, with concentrations in 1876–85, 1888–92
and 1894–99, and period mining steadily displacing government as the main recipient of overseas finance. Subsequently, war and reconstruction-related borrowings completely dominated inflows around 1899–1905, while mining investment fluctuated around a downward trend. Large-scale public borrowing resumed in London in 1914, and restarted again in 1921, with £35 new money raised during the eight years to 1927 [Atkin 1977, appendix B].

**Domestic capital formation and the debt burden**

Taken in isolation, the pattern of fluctuations just summarised can only give a limited impression of the economic significance of foreign investment in Wakefieldian societies. A better indication is the relationship between capital inflows and gross domestic fixed capital formation, referred to here as the ‘investment ratio’. Table 3 sheds some light on this relationship in the regions for which estimates of capital formation are available. The statistics are presented in two panels to facilitate comparisons where data are only available for limited periods. Panel A presents decennial statistics for the United States, Canada, Australia and New Zealand. Panel B compares Davis and Gallman’s estimates for Argentina with Canadian, Australian and New Zealand ratios calculated for the same time periods. Panel B also includes the Canadian, Australian and Argentine investment ratios for the 1920s. Once again, the limited and sometimes speculative nature of the underlying data needs to be borne in mind. The foreign investment statistics of the United States, Australia and post-1913 Argentina (net apparent capital inflow) are not strictly comparable with the direct estimates used for Canada, New Zealand and pre-1914 Argentina. It should also be remembered that the estimates of domestic capital formation in the United States are *net* rather than gross. In every other instance, the latter measure has been used. The ratios in Table 3, therefore, are primarily a guide to the direction of movement *within* countries and allow only rough comparisons between them.

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Canada</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Argentina</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel A</td>
<td></td>
<td></td>
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</tbody>
</table>

Table 3

Foreign Investment as a Proportion of Domestic Capital Formation, percent.

10 The capital balance in Mitchell [2003, 1058] is almost identical in the overlapping years.
Again, the United States serves as a benchmark. Three points are immediately obvious in the investment ratio for this country. First, the wave-like pattern of foreign capital flows is evident, albeit in attenuated form, in the investment ratio, which is highest during the 1860s and 1880s. The statistics of foreign investment in gross national capital formation (the latter includes inventories and, hence, is a larger denominator) published by Davis and Gallman [2001, table 3:1–1, panel B] show a slight upturn after 1905, when net capital inflows into the United States were again recorded. But, by then, the share of foreign investment in total capital formation (1.1 percent in 1910–14) was negligible indeed. This brings us to the two other points: foreign investment made its greatest contribution to U.S. capital formation much earlier than in the other settler societies, but it declined steeply from the 1870s. Neither of these observations should be particularly surprising in the context of America’s economic history. The investment ratio peaked at one-fifth during the 1860s and never again
approached a similar level. Indeed, by Davis and Cull’s reckoning, it had reached its highest point long before then, at around 30 percent during 1816–40.\footnote{According to Davis and Cull [1994, table 1.1], foreign capital imports as a share of domestic capital formation during 1816–1840 was 22 percent. I have assumed the same ratio of fixed capital to total capital formation (variant A) as in 1840 and 1850 (0.73) [Gallman 1986, appendix, 4.A.1].}

The investment ratio in the other Wakefieldian societies followed a similar pattern, climbing to a peak at some point before the First World War and thereafter fluctuating around a falling trend. But the peaks occurred much later (at least, in Table 3) and, in most cases, the contribution of foreign capital never fell to same extent as in the United States. In Canada, the high point was reached during 1910–14, the last stages of the western settlement boom. If net apparent capital inflow (a higher numerator) is used for the calculation, the investment ratio was 47 percent [Urquhart 1986, table 2.2]. In Australia, net apparent inflow was about 55 percent of capital formation during the pastoral and urban boom of the 1880s, and rose again immediately before the War. The ratios may have been even higher in both Canada and Australia during the 1850s, when the colonies embarked on railway construction and other major public works. In New Zealand, the peak came during the boom instigated by the colony’s entrepreneurial premier, Julius Vogel (hence the ‘Vogel boom’), during the 1870s, when British capital called was equivalent to half domestic capital formation. In the Argentine, the investment ratio was probably highest in the mid to late 1880s (the Davis and Gallman statistics unfortunately straddle the financial crisis), although it rose again after 1900. But compared with the ratios in the other Wakefieldian societies, the Argentine percentages in Panel B look improbably high. Alejandro’s older estimate that: ‘during 1880–1914 foreign savings financed between one-third and one-half of net physical investment’, is probably much closer to the mark [1970, 31]. Uruguay’s experience is unlikely to have been much different, with foreign capital most important during the 1880s. Even southern Africa may not have been the exception: if we exclude reconstruction expenditures, the investment ratio probably peaked during the 1880s or 1890s.

The secular decline of the foreign investment ratio in all Wakefieldian societies continued after the War. In Canada, it fell to the much lower levels found in the United States after the 1860s: during 1920–29, long-term capital issues and direct investments combined were equal to about 12 percent of domestic capital formation; if the current account balance is used for the calculation, the ratio is only four percent.\footnote{The sources for Canadian current account balance statistics are the same as for the direct estimates in Table 2.} By contrast, heavy federal and state government borrowing meant the investment ratio recovered strongly in Australia from its
nadir at the turn of the century. New Zealand’s experience may have been similar. Finally, Table 3 suggests that the investment ratio was highest in Argentina of all the Wakefieldian societies during the 1920s. The underlying data, however, are weak. Cortés Conde [2009, 58–63] emphasises that Argentina’s net domestic savings after allowing for debt service and profit repatriation were still insufficient to displace overseas capital. Nevertheless, Alejandro [1970, 31] believed the investment ratio was still less than one-fifth.

Table 4
Income Payable to Foreigners as a Proportion of Foreign Investment, percent.

<table>
<thead>
<tr>
<th>Panel A. New Zealand (Rosenberg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1840–1886</td>
</tr>
<tr>
<td>1887–1906</td>
</tr>
<tr>
<td>1907–1914</td>
</tr>
<tr>
<td>1915–1919</td>
</tr>
<tr>
<td>1920–1934</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B. Other Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
</tr>
<tr>
<td>1841–1850</td>
</tr>
<tr>
<td>1851–1860</td>
</tr>
<tr>
<td>1861–1870</td>
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<td>1871–1880</td>
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<td>1881–1885</td>
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<td>1886–1890</td>
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<td>1891–1895</td>
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<td>1896–1900</td>
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<tr>
<td>1901–1910</td>
</tr>
<tr>
<td>1910–1914</td>
</tr>
<tr>
<td>1920–1929</td>
</tr>
</tbody>
</table>

Minus equals outflow.
Australia, year to 30 June from 1914.

Sources
As for Table 2, plus:
As for Panel A: derived from Rosenberg [1961, tables 2–6 and 13].
Canada: 1927–29, Urquhart and Buckley [1965, F60 and F66].
South Africa: Investment income balance divided by long-term capital balance in Mitchell [2003, 1058].

13 Heavy public borrowing in London by New Zealand suggests that the ratio may also have been high in that dominion.
We will return in the conclusion of this chapter to the possible significance of variations in the investment ratio between the different Wakefieldian societies. In the meantime, Table 4 offers another perspective on the economic significance of the capital they received. Almost half a century ago, Rosenberg [1961] pointed out that New Zealand’s receipts from foreign investment from the late-1880s to the 1950s were insufficient to offset the interest and dividend payments (net property income) due to non-residents arising from earlier investments; he concluded [95]: ‘Foreign investment in New Zealand … did not make available new capital funds, but merely represented interest payments not remitted and accumulating in the shape of an ever-increasing debt burden—or what amounts to the same, payment of interest and subsequent borrowing of the amount so paid’. Thus foreign investment did not increase the ‘availability of real resources’ [106, my emphasis]; on the contrary, Rosenberg asserted in a phrase echoed by others [94; c.f. Belich 1996, 242]: ‘It is this initial £71 million gross debt incurred [by 1886] for the finance of New Zealand’s import surplus … during her formative period which by virtue of the workings of compound interest grew by 1935 to a Government foreign debt of £185 million and a private foreign sector in the New Zealand economy of unknown size’. Bulmer-Thomas [1994, 108] used similar reasoning to arrive at the same conclusion for Latin America by 1914: it was ‘probable … that the contribution of foreign investment … to the finance of capital accumulation was not as crucial as is often supposed’.

The nub of Rosenberg’s argument is the relationship between capital imports and income payments due to overseas residents, which is summarised in Panel A of Table 4. His underlying estimates were rough, but there is no reason to believe that the ratios would be much different if the statistics were better. Similar ratios for other settler economies are presented in Panel B. In every instance, sooner or later interest and dividend payments permanently exceeded fresh capital inflows. New Zealand is exceptional only because it apparently arrived earliest at this point. By contrast, the large inflows experienced by the United States during the 1860s and 1880s pushed the share of foreign income down towards 50 percent. In Canada, it fell during the western settlement boom, but was twice the amount received for new long-term investments during the 1920s. The Australian colonies followed New Zealand closest; from the early 1890s, non-residents do not appear to have made any addition to the funds available for domestic investment. Net apparent capital inflows did rise just above property income during the 1920s, but it is unlikely that even this would be the case if a direct measure of long-term investment were used for the calculation. The large
lacunae in the record for Argentina make it difficult to be precise in its case, but there cannot be any doubt that income payments exceeded new investment any later than the outbreak of the First World War. This was surely also true of Uruguay and South Africa.

Rosenberg raised important issues to which we will return shortly, but his argument amounts to less than might first appear. There is no more reason to suppose that: ‘New Zealand financed her capital imports out of her own [export] earnings, requiring foreign loans only in order to meet charges on loans previously incurred’ [1964, 107], than that the opposite was the case. This is more than a question of semantics. Foreign investment was attracted on the assumption that it would generate sufficient income from exports (it does not matter whether directly or indirectly) to cover interest and dividends payments. Provided that the stock of existing foreign investments generated the required export receipts, new subscriptions to loans and company flotations continued to finance the purchase of capital goods and other expenditures which, it was anticipated, would increase overseas earnings even further. This remained so even if payments to non-residents exceeded the new capital raised—the ‘real resources’ made available by foreign investment were not remitted in the form of ‘a net inflow of foreign exchange’ but as the imported goods (again, it does not matter whether they were capital goods) that overseas investment ultimately paid for [Rosenberg 1961, 106; Butlin 1964, 25]. Irrespective of whether governments or private companies raised fresh capital, existing bondholders and owners of shares still had to be paid: new investment allowed higher levels of expenditure and capital formation than would otherwise have been possible; without it, export receipts would have continued to cover interest and dividend payments, but imports would necessarily have been lower.14

The flaws in this argument, however, are obvious and return us to the questions Rosenberg originally raised about the economic significance of the debt. Underlying them is a more fundamental question about the sustainability of high rates of foreign investment in Wakefieldian societies. It was not necessarily the case—indeed, it frequently was not for several years, if ever—that capital assets generated the export earnings required to service the existing stock of debt and to justify further investment. Butlin [1964, 4] commented early in his classic study of investment in Australian economic development: ‘Social and productive assets established by the 1890s appeared, in the ‘nineties, to be redundant. But after 1900, many of the physical assets were turned to account and yielded handsome dividends for later

14 The same argument applies pari passu to taxation and government capital expenditures; c.f. Rosenberg [1961, 107].
Australians’. This could not even be said for the urban amenities financed by foreign capital, like the loan issued in the United States by the city of Montevideo during the 1920s ‘for extending a seacoast boulevard, beach development, and the widening of city streets’ [Lewis 1976, 379]. Belich [2009, 86–87, 200, 229] writes eloquently of the ‘imagined futures’ underlying the psychology of ‘booming newland’ economies. The exaggerated expectations of both debtors and creditors were self-reinforcing, leading to easier credit at the height of a boom and investments on which there was no likelihood of an immediate return (vide Butlin above). The stimulus of an export-oriented boom soon spilled over into other sectors like residential construction, exaggerating the effects of the initial boom but also multiplying the consequences of a cessation of capital inflows when investor confidence collapsed and a legacy was left of under-used assets that failed to pay their way.\(^{15}\) When this happened, fixed-interest payments to non-residents certainly were a burden on income and taxpayers.\(^{16}\) Borrowers also became more vulnerable to the effects on their incomes of commodity price fluctuations. In other words, the investment process in Wakefieldian societies was no more stable than in any other parts of the world, often generating the sharp swings in capital flows we have already observed.

**Investors and investments**

The instability of the investment process was also, in part, a consequence of its organisational and institutional forms, in particular the ‘portfolio’ nature of investments (in motivation, if not precise form) and the heavy reliance on a large body of individual rentiers whose sentiments might change with every shift in confidence in particular destinations of overseas capital. The organisational and institutional characteristics of capital flows to Wakefieldian societies will be considered here with reference to the investors themselves, the ways in which they invested, the geographical origins of overseas capital, and the sectoral destinations of foreign funds.

The motivation of the majority of individuals and institutions who purchased stocks and shares was to acquire a portfolio of securities that provided income or capital gains. There was little interest in the operation or management of enterprises themselves. Most British, French, German and other European *rentiers* were like the pre-war bourgeois immortalized by Keynes [1920, 11] in the *Economic consequences of the peace*:

\(^{15}\) See the discussion in Hall [1963, 192–99], which has wider implications.

\(^{16}\) For the Argentine example, Contés Conde [1986, 343–47].
The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth ... he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or ... [he] could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend.

The ease of investment for the moneyed few was largely a function of the ways in which capital was raised and transferred between different parts of the globe before 1914. Foreign investments were represented, in the first instance, by government bonds—the portfolio investment *par excellence* because sovereign debt promised the regular payment of an interest coupon. Ordinary shares, on the other hand, were thought ‘usually [to] appeal more to the speculator than to the investor’ [*Financial Times Investor’s Guide*, 78; Pohl 1989, 271]. For this reason, equities were generally much less commonly held (see Table 5 below). British investors were happy to divide their investments between governments and companies; by contrast, continental Europeans were mostly attracted to bonds—although this may also have reflected their more limited opportunities to invest in entities operating overseas. Public loans accounted for 45 percent of French investments in Argentina by 1913—double the proportion of the British—and must have been an even larger share of Germany’s portfolio given that country’s lack of involvement in railways [Regalsky2001, table 2; Schaefer1995, 476].

Table 5

Sectoral distribution of foreign investment

| Panel A: Sectoral distribution of capital called in Britain, 1865–1914, percent |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                 | USA | Canada | Australia | New Zealand | Argentina | Uruguay | South Africa |
| Government                      | 5.8 | 33.9   | 65.8      | 64.3          | 22.4      | 32.7      | 50.9          |
| Railways                        | 61.6 | 40.3   | 1.0       | 2.0           | 57.5      | 51.6      | 2.0           |
| Public Utilities                | 9.5  | 5.6    | 3.5       | 5.1           | 8.9       | 8.8       | 2.4           |
| Financial                       | 6.3  | 6.2    | 11.6      | 17.8          | 5.4       | 6.3       | 6.4           |
| Raw materials                   | 5.5  | 3.7    | 13.4      | 6.4           | 0.5       | 0.2       | 33.7          |
| Industrial & Misc.              | 10.8 | 10.1   | 3.5       | 2.7           | 4.6       | 0.3       | 4.1           |
Shipping

<table>
<thead>
<tr>
<th></th>
<th>0.5</th>
<th>0.2</th>
<th>1.2</th>
<th>1.6</th>
<th>0.8</th>
<th>0.0</th>
<th>0.4</th>
</tr>
</thead>
</table>

Total Private

<table>
<thead>
<tr>
<th></th>
<th>94.2</th>
<th>66.1</th>
<th>34.2</th>
<th>35.7</th>
<th>77.6</th>
<th>67.3</th>
<th>49.1</th>
</tr>
</thead>
</table>

Calls accounted for by shares

<table>
<thead>
<tr>
<th></th>
<th>25.2</th>
<th>19.5</th>
<th>25.4</th>
<th>21.5</th>
<th>42</th>
<th>n.a.</th>
<th>35.5</th>
</tr>
</thead>
</table>

Panel B: External public debt as a share of total foreign investment in 1930, percent

<table>
<thead>
<tr>
<th></th>
<th>20.3</th>
<th>69.2</th>
<th>68.0</th>
<th>37.5</th>
<th>50.0</th>
<th>61.9</th>
</tr>
</thead>
</table>

Sources. Panel A: Stone [1999, tables 1, 2, 3, 4, 6, 9, 22 and 63]. Panel B: Royal Institute of International Affairs (henceforth RIIA) [1937, 223, 225].

Nevertheless, a considerable amount of direct investment did involve purchases of securities of companies that were nominally controlled by their shareholders (even though investors might opt for fixed interest debentures or preferred stocks over common equity). Most often, these corporations took the form of ‘free-standing’ companies operating entirely outside their country of registration. Free-standing companies were the most ubiquitous institutional type of foreign direct investment before the Great War. They served a fundamentally Wakefieldian purpose by ‘bringing together profitable or potentially profitable operations overseas with … investors seeking financial opportunities superior to those at home’ [Wilkins 1988, 263]. Thus, they aggregated the savings of rentiers—who enjoyed the advantages of local registration, home country laws, and securities easily tradeable in domestic stock markets—while providing their promoters with the organisational and institutional capacities needed to operate in a distant location [Wilkins 1988, 263–64]. Thus the reservoir of capital accumulated by the European middle and upper classes could be tapped by investment groups and other syndicates, and the distinction between portfolio and direct investments became blurred. Wilkins [1988, 261] regarded the free-standing company as ‘probably the most typical mode of British direct investment abroad’. But it was an institutional form used wherever financiers and company promoters wished to take advantage of investment opportunities in other parts of the world. By contrast, overseas investments by companies that were already well-established in their home markets (e.g. Singer, Siemens and Nestlé) were much less common, even though they increased from the 1880s [Jones 2005, 20–22, 147–49].

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17 The classic account remains Wilkins [1988].
18 For the importance of portfolio-style investments in aggregating rentier savings, Bairoch [1997, vol. 2, 326].
19 E.g. French railway investments in Argentina, Regalsky [1989]; also Jones [2005, 23–24].
Table 6
National origins of long-term foreign investments in the United States and Canada (percent)

Panel A: United States

<table>
<thead>
<tr>
<th></th>
<th>1899</th>
<th>1914</th>
<th>1929</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>79</td>
<td>60</td>
<td>33</td>
</tr>
<tr>
<td>French</td>
<td>2</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>German¹</td>
<td>6</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Dutch</td>
<td>8</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Swiss</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Other Europeans</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Canadian²</td>
<td>4</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>All Other</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total $ m.</td>
<td>3,145</td>
<td>7,100</td>
<td>4,700</td>
</tr>
</tbody>
</table>

Panel B: Canada

<table>
<thead>
<tr>
<th></th>
<th>1900</th>
<th>1914</th>
<th>1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>85</td>
<td>72</td>
<td>36</td>
</tr>
<tr>
<td>United States</td>
<td>14</td>
<td>23</td>
<td>61</td>
</tr>
<tr>
<td>All Other</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Total $ m.</td>
<td>1,232</td>
<td>3,746</td>
<td>7,614</td>
</tr>
</tbody>
</table>

¹ 1929: mainly held by Alien Property Custodian
² Canada included with ‘All Other’ in 1899.

Sources: Wilkins [1989, table 5.8]; Wilkins [2004, table 2.4]; Urquhart and Buckley [1965, F196–98].

As we have already seen, until 1914 most overseas investment originated in, or was channelled through, Great Britain (even though the Swiss were the greatest investors per capita). From the 1880s, however, as far as the core Wakefieldian societies were concerned British capital was increasingly supplemented by money raised in France, Germany and the United States [Bairoch 1997, vol. 2, 318; Regalsky 2001, 504; Schaefer 1995, 447]. Unsurprisingly, information about the geographical origins and sectoral composition of overseas investments is as uneven as the quantitative record itself. The best evidence of national origins is for the United States. Wilkins’ estimates for 1899, 1914 and 1929 are summarised in Panel A of Table 6. European interest in the new world republic was always considerable. In the late-nineteenth century, for example, the United States was the largest recipient of German investment. Nevertheless, as late as 1899, Britain’s share still completely overshadowed all others [Davis and Cull 1994, 17]. The British proportion, however, had already declined considerably from the 90 percent estimated by one historian in 1861; thereafter, it fell even more precipitately to 1914 [Davis and Cull 1994, table 2.5].
The relative decline of British investment in Canada in the same period was just as marked (Table 6, Panel B). Other European interest in British North America, as in the rest of the Empire except southern Africa, remained limited, extending only to securities like those of the Canadian Pacific Railway, which were the only Canadian stocks known to be circulating in Germany [Schaefer 1995, 419]. But the dominion was already an important destination of U.S. capital. Viner estimated that by 1914 almost a quarter of total overseas investment in Canada originated in the United States, 71 of which percent could be classified as direct [Davis and Cull 1994, 81]. By contrast, Australia and New Zealand continued to be almost exclusively destinations of British capital, although from the 1880s a small number of U.S. companies led by Singer and American Tobacco established sales offices and some manufacturing there. Nevertheless, in contrast to the massive British presence, U.S. direct investments in Australasia were minor [Wilkins 1970, 44, 91, 205, 208–9].

The extent of Britain’s financial penetration of the southern cone before 1914 has led many historians to argue that Argentina and Uruguay were also subject to British imperial power, albeit of an informal kind [Hopkins 1994, 469–84; Cain and Hopkins 2001; Darwin 2009, 135–43]. Ferns went so far as to assert: ‘In a very real sense Argentina was the first community, substantially economically dependent on Great Britain, to achieve Dominion status’ [1953, 63]. In 1890, the president of Uruguay made a similar point more colourfully, likening his position to that of ‘the manager of a great ranch, whose board of directors is in London’ [Winn 1976, 112]. Reliable estimates of the national origins of foreign capital in the River Plate republics are limited but the evidence for Argentina is suggestive enough. By 1914, the cumulative total of new money called in Britain for Argentine securities during the preceding half century was about £350 million [Stone 1999, table 3]. This can only be an approximation of the total stock of British investments because it is not the current market value and excludes investments that by-passed London altogether, like locally-issued mortgage bonds (cédulas), the majority of which were held by non-residents [Davis and Gallman 2001, 684–86]. Depending on the authority one chooses, the British share of total foreign investment was between one-half (a recent estimate) to 60 percent (the contemporary view) [Davis and Gallman 2001, 742; Regalsky 2001, 500]. Regalsky [2001, 500] values French investments in 1913 at 630 million gold pesos (£125 million), including cédulas

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20 One contemporary estimated that 15 percent of the company’s stock was held on the continent, Dilley [2011, 59].
21 The debate is ongoing; for more sceptical views: Thompson [1992] and Knight [1999, 122–45].

22
(hypothécaires), or 19 percent of the total. Unfortunately, there are no comparable estimates of German investments in the republic. Not long after the War, Deutsche Bank, which had a comprehensive overview of the pre-war imperial German portfolio, put the aggregate value of German stocks in Argentina, Chile and Brazil at 800 million marks (£39 million) [Schaefer 1995, 103–6]. The estimate excluded direct investments and probably also cédulas, and can serve only as an (unrealistic) upper boundary to the German stake in Argentina. Nevertheless, whatever the total, it was clearly considerably less than that of Britain or France. As far as the United States was concerned, Lewis [1976, 608–10] quotes contemporary estimates of the stock of outstanding Argentine investments of $2 and $8 millions in 1909 and 1911 respectively. Either way, they were insignificant compared to the European commitments as well as the amounts of U.S. capital in Canada and Central America.

The dynamics of European investment in southern Africa were entirely different from those in the core Wakefieldian societies. British capital flowed naturally to the Cape colony, but German and Dutch investors financed the construction of a railroad from the Transvaal to Delagoa Bay in Portuguese Mozambique [Schaefer 1995, 508–9]. There was also considerable Continental interest in Transvaal gold mining, even though the finance houses running the share market were based in London. The respective national holdings are impossible to estimate and, in any case, fluctuated considerably as securities passed back and forth between the Continent and the City [Schaefer 1995, 512]. According to Kubicek [1979, 175, 178, 190], the French contribution was ‘very important’; Paris syndicates and speculators were ‘largely responsible’ for the boom in Transvaal stocks in the mid-nineties, and by the early twentieth century French investors held up to one-third of the value of the companies controlled by London’s powerful ‘Corner House’ group. The City, however, remained the centre of a cosmopolitan, but essentially, speculative market. When, in 1897, the German trust Adolf Görz & Co. transferred to Johannesburg, the company raised capital in London. According to one German historian: ‘Nothing better illustrated the continuing dominance (ungebrochene Übergewicht) of British capital in financing the South African mining industry than the choice of an issue of this kind’ [Schaefer 1995, 510]. It was also a salutary reminder of London’s unrivalled capacity to mobilise savings for all kinds of investments before 1914.

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23 For more on German participation, Kubicek [1979, 142–54].
24 C.f. Regalsky [1989, 452].
The diversity and the geographical origins of capital flows to the Wakefieldian societies must also be kept in mind when considering the sectoral distribution of the overseas investment in them before 1914. The best evidence is still the Jenks-Simons estimates of capital called in Britain summarised in Panel A of Table 5. With the partial exception of South Africa, what is most striking is the preponderance of foreign capital placed in government bonds and railway securities. Davis and Cull [1994, 22] observe about the United States: ‘Whether the inducement was a desire to hold risky assets, high expected returns, substantial risk adjusted returns, or the dulcet voices of the likes of Jay Cooke, James McHenry, and Henry Villard, the British in particular, and northern Europeans in general, displayed an amazing affinity for the issues of American railroads’. Indeed the prolonged, capital-intensive, and frequently wasteful business of building railways meant that, in one form or another, rail-related investments accounted for most of the capital received by all Wakefieldian societies (as, of course, it did elsewhere) [Bairoch 1997, vol. 2, 322]. Private companies, often with public assistance, took the leading roles in the United States, Canada, Argentina (where railways accounted for one-fifth of French investments by 1913) and Uruguay [Regalsky 2001, table 2]; governments took charge (or mainly did so) in Australia and New Zealand, financing themselves by the sale of bonds.

Important concentrations of foreign capital in sectors other than railways should also be noted: utilities and banking in Argentina and Uruguay; mining in Australia as well as South Africa; and industrial and commercial activities in the United States and Canada. In Canada, much U.S. investment could be described as ‘extensions of the American market’ but also included supply-oriented investments in timber, land and mining [Davis and Cull 1994, 80–81, 96–99]. In all Wakefieldian societies, public authorities also used borrowed money to pay for other utilities and infrastructure, public buildings, and assistance to immigrants and farmers. Wakefieldian investment more narrowly-defined in land, real estate and settlement-related activities took many forms. In the United States, it accounted for 14 percent of foreign investment by 1914 [Davis and Cull 1994, table 2.4 and 28–35]; in Australasia, it was represented by the capital and fixed deposits raised by banks, finance companies and building societies to fund pastoral expansion and urban development during the 1870s and 1880s [Butlin 1964, 160–62; Boehm 1971, 255–57]; in Argentina, it could be

\[25\text{Also see pp. 11–15, including tables 2.2 and 2.4.}\]

\[26\text{For the United States, also see Davis and Cull [1994, 15, 35–37].}\]
found in the foreign holdings of cédulas which absorbed one-quarter of French investment by 1913 [Regalsky 2001, table 2].

Table 7
United States shares of direct and total investment in Argentina and British dominions, 1929 and 1930 percent.

| Region               | U.S. share of combined value of U.S. and British Direct Investments, end 1929 | US share of all foreign investment, 1930
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>19(^1)</td>
<td>26</td>
</tr>
<tr>
<td>Canada</td>
<td>69</td>
<td>61(^2)</td>
</tr>
<tr>
<td>Australia and N.Z.</td>
<td>39</td>
<td>8</td>
</tr>
<tr>
<td>South Africa</td>
<td>12</td>
<td>4(^3)</td>
</tr>
</tbody>
</table>


1 Excludes companies registered abroad.
2 Figures for 1929.
3 For South Africa, U.S. direct investment at the end of 1929 (an ‘approximate figure’) is shown as a share of total foreign investment.

The most important changes in the pattern of international investment after 1914 were fourfold: first, the displacement of Britain by the United States as the main source of new capital; second, the absolute fall in the stock of long-term investments in the United States (see Table 6); third, the disappearance of new German investment;\(^{27}\) and finally the segmentation of international capital markets, with U.S. citizens now the leading investors in their own hemisphere and the City becoming almost exclusively a market for empire borrowers.

During 1920s, almost $9 billion of U.S. private capital was invested abroad. The reinvestment of locally earned profits added further to the stock of American assets [Carter 2006, Ee10 and Ee17].\(^{28}\) By the end of the decade, U.S. nationals owned most of the overseas capital placed in Canada and a quarter of that in Argentina (see Table 7). The weakness of Britain’s balance of payments combined with the Bank of England’s restrictions on foreign issues caused governments in the western hemisphere to shift their borrowings almost exclusively to New York. Empire governments, with the exception of Canada, persisted with

\(^{27}\) The study group of the Royal Institute of International Affairs [RIIA 1937, 198, 216] concluded that, while France remained an important lender, colonial and foreign investments were ‘not so important to the French economy as they were before the war’.

\(^{28}\) Re-invested profits, for example, accounted for the largest proportion of U.S. investment in Australian manufacturing, Forster [1964, 21, 201].
London if at all possible, held there by the lower cost of borrowing as well as a looser regulatory regime [Atkin 1977, 144–56; Attard 2004]. But their voracious demand for capital eventually forced some of them to turn to Wall Street. By June 1929, the Australian federal and state governments had issued £48 million in New York, about one-fifth of the money they had raised since 1919 [Commonwealth of Australia 1930, 261, 282; Vamplew 1987, GF 394]. As a result of its heavy borrowing, Australia overtook Argentina to rank third in the list of international debtors by 1930. Canada, in second place behind Germany, was a considerable distance ahead of both countries. When measured on a per capita basis, however, Canada’s lead over Australia virtually disappeared, and tiny New Zealand overtopped every other country [RIIA 1937, 223].

Finally, three points can be made about the sectoral distribution of international investment in the Wakefieldian economies during the twenties. First of all—as far as it is possible to tell from statistics that are not strictly comparable (see Table 6, Panels A and B)—governments maintained, and may have even extended, their shares of total investment, channelling this into infrastructure and public utilities, while retaining their Wakefieldian functions as promoters of settlement and rural development [Schedvin 1970, 50–51; Sinclair 1976, 184–5; Brooking 1981, 238–39, 241; Clark 1994, 43]. Second, both public and private investments contributed to a fresh cycle of capital formation linked to the new technologies of motor transport and power generation. In Canada and Argentina, for example, investments in electricity supply were undertaken by American companies; in Australia and South Africa, this was undertaken by the state [Wilkins 1974, 131–33; Forster 1964, 21, 209; Clark 1994]. Finally, private investments in sectors like the automobile industry and oil distribution were increasingly market-oriented, attracted as much by the opportunities to supply new consumers as a desire to evade tariff barriers.29

**Conclusion: foreign capital, domestic savings and economic diversification**

In summary, after the First World War overseas investment in the settler economies became more broadly-based and less Wakefieldian in character. The deepening world depression in 1930–31 marked the final passing of the conjuncture that had favoured export-led growth in European migrant societies since Britain’s adoption of free trade during the 1840s. I have

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29 For investments in petroleum production, refining and distribution, Wilkins [1974, 57–58] and for the motor industry [72–76]; see Wilkins [1974] generally for U.S. direct investments in the settler economies. There are no comparable studies of British direct investments, but see Forster [1964, 200–2, 230–32], and Miller [1994] (cited with the author’s permission).
emphasised here the Wakefieldian functions of overseas investment in facilitating settlement and the creation of rural industries. The staggered timing of flows of capital to different regions has been explained by Hall [1963, 198] in terms of a ‘worldwide process of exploiting particular comparative advantages’: ‘When there was more than one new area of land being opened up and when there were obviously a variety of ways in which land could be utilised it was inevitable that not all new areas were likely to have the same comparative advantage at the same time’. In the United States foreign capital supplemented local savings in periods of rapid structural change and compensated for the weaknesses of domestic capital markets in which investors ‘were still hesitant to risk their savings in less familiar enterprises’ [Davis and Cull 1994, 71, 111–12]. In the core Wakefieldian societies in Canada, Australia, New Zealand, Argentina and Uruguay, formal capital markets were often rudimentary at best. Davis and Gallman [2001] go so far as to argue that the development of local financial markets and intermediaries was frequently stunted by the too easy access of public bodies and others to overseas funds. With fewer outlets, domestic saving was discouraged, particularly in countries like Australia where governments were the principal borrowers.30 This argument, however, must be balanced against the absolute limits to local savings (hence the attractions of ‘cheaper’ British money) and the more restricted opportunities for economic diversification before 1930.

Until the global economic crisis that followed the Wall Street crash, the very model of economic growth in the settler world was Wakefieldian in conception. It was obvious to Wakefield [1967, 2–3, 244–45], as well as to later historians of the international economy, that the temperate zones in North America and the southern hemisphere represented a bounteous addition of land to an old world economy rich in capital and labour.31 The dynamic of Wakefieldian investment combined all three factors of production in an extraordinary and sustained transfer of resources. The ‘settler revolution’ indeed replenished the earth [Belich, 2009]. Only when the abundant stream of resources flowing from the new world to the old finally ceased to be welcome in its most important markets could the epoch characterised by that transfer be said to have ended. The legacy to all Wakefieldian societies included an enormous debt burden that exacerbated the catastrophic effects of the collapse of global commodity prices from 1929. Settler economies were becoming sufficiently developed to

30 Their argument is best approached through chapters 1 and 7.
support a more diverse pattern of investment. But capital from overseas would still remain
crucial in that process.

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