

THE UNIVERSITY OF CALGARY

THE POLITICS OF POWER:

Argentine and Brazilian Influence in Paraguayan Affairs,
1880-1930

BY

ROBERT WILTON WILCOX .

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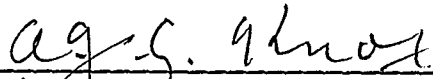
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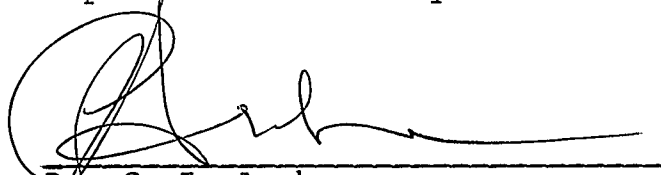
THE UNIVERSITY OF CALGARY

FACULTY OF GRADUATE STUDIES

The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled "The Politics of Power: Argentine and Brazilian Influence in Paraguayan Affairs, 1880-1930," submitted by Robert W. Wilcox in partial fulfillment of the requirements for the degree of Master of Arts.



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ABSTRACT

The Triple Alliance War (1864-1870), which saw the land-locked nation of Paraguay suffer a crushing defeat at the hands of the combined armies of Argentina, Brazil and Uruguay, marked the end of an era. The War left the country bereft of all viable economic and political resources and a once regionally powerful and self-reliant Paraguay was forced to embark upon a pattern of development which was completely at odds with its recent past. Postwar politicians had to literally rebuild the nation from ashes, although throughout the 1880-1930 period, the task would be complicated by interference from Argentina and Brazil.

Dating from the Colonial era, Paraguay had played a role in the competition between Brazil and Argentina for territory and influence in the Río de la Plata region. The Triple Alliance War can be partially explained by this ongoing rivalry. After 1870, geopolitical necessity demanded that both Argentina and Brazil pursue policies of political and economic intervention in the affairs of their shattered neighbour. As a result, Paraguay was reduced to functioning virtually as a satellite of Rio or Buenos Aires.

With one exception, Brazil was able to manipulate the Paraguayan political process to 1904 through its political clients, the Colorado Party, without resorting to direct intervention. Meanwhile, Argentina, which supported the opposition Liberal Party, was able to exploit the 1904 Revolution to unseat the Colorados and establish its own domination. Buenos Aires, which like Rio appeared reluctant to take direct action in Paraguayan politics, was nonetheless obliged to intervene twice to protect its proteges. Both actions proved successful in bringing Argentina's chosen allies to power and were facilitated by significant Porteño control of the Paraguayan economy.

During most of the period, Argentina benefitted from its commanding presence in the local production of yerba maté and the extraction of quebracho tannin, not to mention its domination of Paraguay's trade. Brazil's involvement in Paraguayan economic development was negligible by comparison, a factor that aided Buenos Aires in establishing its influence in the political sphere. Ultimately, these developments frustrated Paraguay's attempts between 1880-1930 to regain its former independent status, and despite significant changes over the last half century, the patterns of the past continue to weigh heavily on Paraguayans today.

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PREFACE

My decision to study Paraguay came after several months of living and travelling in the country between 1974 and 1982. I was quickly captivated by this land of soft breezes and the intoxicating scents of jasmin and lapacho, and when friends introduced me to the enigma of Paraguay's kaleidoscopic past, I was inspired to explore a subject about which relatively little has been written.

After careful deliberation during the course of conducting research, I decided to approach this topic from a political-diplomatic perspective, although I have not neglected the economic component in the process. My principal purpose has been to provide a background sketch of Paraguay's relationship with its more powerful neighbours. However, my decision was also governed by other considerations. As students of modern Paraguay have discovered, there are many serious gaps in the material for the years 1880-1930, especially from the social and cultural standpoint. This is particularly evident regarding sources available in North America.

Therefore, the data I have collected suggest that the dynamics of the period under review were predominantly political. Paraguay's reconstruction, in fact, was heavily

influenced by both internal and external political pressures, primarily those exercised by its two larger neighbours, while economic interests per se were apparently of much less importance to both Rio and Buenos Aires. In order to understand this preoccupation with manipulation of the Paraguayan political process, I have also looked closely at the diplomacy of the period. Consequently, the thesis does not address the socio-economic aspects of Argentine and Brazilian influence in Paraguay to any great extent, though the subject clearly demands further examination at some future date.

Deep thanks must go to Dr. Alberto Ciria of Simon Fraser University for suggesting the theme. I have learned a great deal as a result. I am also indebted to Drs. C.I. Archer, H.W. Konrad and M.B. Brinkerhoff for their humour and interest during the course of my work. To my supervisor, Dr. Graham Knox, I would like to express the sincerest gratitude for his guidance, patience, toil and above all, friendship. My writing would not have been the same otherwise.

I also am grateful to the earnest and genial staff at Inter-Library Loans, through whose hands so much of my research material had to pass. And thanks to Bill French in Austin, who made my visit to the University of Texas more than just a simple research trip.

The deepest appreciation and love I reserve for my wife, Katia. Without her support and insight, my studies undoubtedly would have been more difficult. Finally, I would like to dedicate this study to the people of Paraguay, whose sacrifice and gallantry in the face of generations of exacting adversity deserves profound respect. Avy'a nde retame.

INTRODUCTION

In 1870, Paraguay was in ruins. The land-locked nation had just endured a devastating war waged against its neighbours Argentina, Brazil and Uruguay, and had paid an extremely high price in the process. Of an estimated population of 400,000 in 1864, the year the Triple Alliance War (1864-1870) began, the country had been reduced to about 232,000 souls, well over half of them women and small children.¹ The once-prosperous agricultural and pastoral economy was decimated and starvation and disease stalked the land. Fledgling industries which existed before the War had been completely wiped out. There was, in fact, very little reminder in 1870 that Paraguay had been, only six short years earlier, one of the most powerful and fully independent nations in the Americas. Paraguayans literally had to rebuild their country over again. The reconstruction process would not be easy and would require an unusual amount of energy and dedication from peasant, politician and businessman alike. Conditions in the postwar decade and beyond would make the task extremely difficult to accomplish. The structure of society had to fundamentally change and Paraguay, which had been self-sufficient and prosperous in 1864, followed a totally

different path of development - a bearing that turned out to be more in keeping with the priorities of its neighbours.

Unlike much of Latin America, Paraguay after independence escaped the influence of European economic interests. The Guaraní nation's rulers jealously guarded the country's independent development during the half-century between 1811 to 1864. In some senses Paraguay virtually became a hermit state, cut off from most of the outside world and intent upon developing at its own pace and on its own terms. Over the years, however, the nation cautiously began establishing contacts with its neighbours, particularly Argentina and Brazil, and eventually Europe. As a result, Paraguay's internal prosperity ultimately cultivated a belief among its rulers that it was destined to play a pivotal role in South American international politics. This confidence came to the fore during the latter years of the regime of Carlos Antonio López and that of his successor and son, Francisco Solano López.

Indeed, Paraguay did end up playing a crucial role in regional politics, but not exactly the one its rulers had in mind. In 1864 a Brazilian invasion of Uruguay provoked a similar Paraguayan military incursion into Brazil and later Argentina. The war that ensued completely drained the energies of Paraguayans, who fought long and hard

against overwhelming odds, eventually succumbing to Brazilian forces in 1870. The initial postwar years were ones of misery, corruption, political intrigue and Great Power manipulation. In fact, reconstruction efforts were hindered by Argentine and Brazilian maneuvers to further their own interests; Brazil's prolonged military occupation of the country, which encouraged speculation and fraud; political factionalism; and the lack of any real economic base upon which to stimulate growth. Instead of concentrating on rebuilding the country, the Allies and influential Paraguayans alike preferred to indulge in promoting their own personal economic and political interests, leaving the bulk of the ragged population to fend for itself.

By 1880, Brazilian troops had finally withdrawn from the country and treaties had been signed with the Allies. Left with few resources, Paraguay was forced to consider its future. This necessarily meant taking into account the influence of Brazil and Argentina, both of which continued to show interest in their neighbour's concerns. Throughout the next century, in fact, Paraguay's economic and political development depended to a large extent on the perceptions and actions of decision-makers in the two former Triple Alliance War allies. Overt and behind-the-scenes interference in Paraguayan affairs came

to characterize most of the period between 1880 and 1930, and the fortunes of the country were largely determined by external exigencies. This was in stark contrast to the Paraguay of the prewar years.

The Francia and López Years

Considered a provincial backwater of the Spanish Empire, Paraguay was spared most of the fighting at independence that ravaged its neighbours. The nation won its independence in 1811 without protracted military conflict between the Crown and the Republican movement. At first ruled by a five-member junta, the country was soon plagued by conspiracies led by self-interested politicians. The resulting chaos eventually set the stage for the emergence of highly-respected lawyer and theologian, Dr. José Gaspar Rodríguez de Francia, as leader of the Republic. By late 1812, Francia was able to consolidate control of the neophyte nation and eventually have himself proclaimed "Suprême Dictator of the Republic" (otherwise known as El Supremo) in late 1815. The dictator, also affectionately referred to in Guaraní by the populace as Caraí-guazú (great chief or master), held complete power until his death in 1840.²

As his title suggested, Francia ruled Paraguay as only he saw fit. Opposition, particularly from the Spanish

Peninsulares, was not tolerated. Privileges held during the years of Spanish control were rescinded and most private property was abolished. The bulk of the population, almost all poor peasant farmers, was included for the first time in national development schemes. The Carai cultivated the support of the peasants by travelling among them and hearing their concerns in the native language, Guaraní. Certainly, he was responsible for creating a pride among most Paraguayans in the aboriginal heritage of their country which has endured to the present day, albeit in modified form. Moreover, the economy was rationalized and directed, successfully, from above. In the process, Paraguay became a self-sufficient and relatively prosperous state in a region which was rapidly dispossessing its peasants of land and permitting the gradual entry of international capitalism into local economies.

Throughout the Francia years Paraguay was, in effect, a closed nation. Immigration and emigration was rigidly controlled while the activities of foreign traders were strictly supervised. Fear of the intentions of the Brazilians and Porteños toward his nation persuaded Francia to isolate the country as much as possible from all insidious influences from abroad. Nevertheless, regulated trade was encouraged and Asunción was not reticent in

defending what it considered to be Paraguay's sovereign rights against any attempted incursion from its neighbours. In the north on the Mato Grosso border, Brazilians allied to the local Indians had made several attempts to destabilize the frontier zone, although once Brazilian independence was attained in 1822 these activities diminished significantly, though they did not disappear, despite growing commercial contacts between the two nations. On the southern frontier, continuous civil war in the Banda Oriental (Uruguay) as well as activities by local caudillos, Brazil, and the United Provinces of Argentina affected Paraguay, at least peripherally. The occasional incursion, as in the north, was effectively repulsed by the Paraguayan military and incidents along the boundary shared by Paraguay and the province of Corrientes were not permitted to escalate. Despite threats from abroad, Francia's astute and cool-headed decision-making combined with seemingly endless problems within the United Provinces and serious friction between Buenos Aires and Rio de Janeiro over the Banda Oriental, helped preserve Paraguay's independence and ensured that its unique experiment would continue.³ In the years after El Supremo's death, Paraguay began to emerge as an important entity in the region.

The regime of yet another dictator, Carlos Antonio López (1844-1862), sought to continue the policies of

Francia while easing internal and external controls and allowing Paraguayans some limited contact with the rapidly-modernizing outside world. An industrial program was started under López with the recruitment of European technicians and engineers, mostly from Britain, while the educational system was expanded, at least at the primary level, again with the help of foreign teachers.⁴

Meanwhile, trade with Buenos Aires and Brazil continued to grow steadily as López saw a need to expand Paraguay's commercial base in the late 1840s. The state-directed economic system was further rationalized under the dictator, with the result that cheap Paraguayan yerba maté⁵ and tobacco, which enjoyed regional markets dating back to colonial times, competed favourably in the Buenos Aires market. Imports also increased when López liberalized trading laws somewhat in the 1850s, adding to commercial activity which in many ways confirmed his rule as something of a "golden age" in Paraguayan economic history.⁶ Despite the obvious prosperity, however, the country continued to confront external threats to its independence.

Until the overthrow of Porteño dictator, Juan Manuel de Rosas, in 1852, Paraguay continued to suffer threats from Brazil and the United Provinces. Rosas' blockade of Paraguayan exports by way of the Río de la Plata as well as

border skirmishes with Corrientes over their common frontier, forced López to maintain his forces in constant readiness. After Rosas was removed from power, conditions eased for Paraguay, allowing López's son, Francisco Solano, to engage in mediation between the province of Buenos Aires and the Argentine Confederation in 1859.⁷ Meanwhile, relations with Brazil proved to be a problem throughout López's regime.

The 1840s and 1850s saw several incidents with Brazil over boundaries between the two nations in the Mato Grosso region. Relations became so strained by 1853, in fact, that Rio sent a punitive naval expedition against its smaller neighbour. Fortunately for Paraguay, the expedition could not clear shallow waters in the Paraná River, enabling López to re-open negotiations. A treaty giving Brazil the right of free navigation on the Paraguay River and temporarily settling boundary issues in the Empire's favour, was signed in 1858.⁸ Realizing that to go to war with Brazil would be suicidal, López accepted Brazilian demands. Unfortunately, his son, who succeeded him in 1862, would not follow the same path.

On his deathbed, Carlos Antonio had cautioned Francisco Solano López to avoid war with Brazil at all costs,⁹ but the latter wasted little time in ignoring the advice. An admirer of the impressive military technology

of Western Europe, Solano López believed that Paraguay was destined to play a pivotal role in regional power politics of the time. An arrogant and vain man, he would be presented with his opportunity two years later, when Brazilian forces invaded the fractious Banda Oriental in order to impose their choice for president on that country.

López, in his delusions of grandeur, considered the Brazilian action a provocation to the stability of the entire region and he believed it was up to Paraguay to restore the balance of power. Paraguayan forces then embarked on a successful campaign against the Brazilians in Mato Grosso, while a newly-reunified Argentina was drawn into the war early in 1865 when Paraguayan troops en route to Uruguay crossed Corrientes in defiance of Buenos Aires' wishes. The Paraguayan offensive was singularly unsuccessful as it met a hasty alliance of the Brazilian, Argentine and Uruguayan armies, which by mid-1865 had forced López into an unforeseen protracted war against overwhelming odds.¹⁰

It is unnecessary to review the conduct of the war. Suffice it to say that over the course of six long and bloody years, a strong and prosperous nation was literally beaten to its knees. The population was decimated to at least half of its former numbers (see note 1), and the country's productive capacity was almost wiped out. The

Paraguay of Francia and Carlos Antonio López, which had so very carefully protected itself from outside influences and aggression, was blindly led into needless annihilation by the irresponsibility of an egocentric leader. It would never be the same again. Meanwhile, former foes Argentina and Brazil had joined together in a pact which assured that once the war ended Paraguay would never regain the independence it previously enjoyed.

Dividing the Spoils

The war finally terminated with the death of López on March 1, 1870, although the Allies had already been in occupation of the major part of the country for six months. Yet, until Lopez's death, Paraguayan resistance to the better-equipped Brazilian and Argentine forces survived in the more remote regions. While the dictator no doubt commanded a fanatically loyal following, there was much more to Paraguayan resolve than mere devotion to the self-proclaimed Marshal or a simple sense of patriotism. According to certain articles in a "secret" Treaty of Alliance signed in 1865, much of Paraguay was to be carved up amongst the Allies.¹¹ Most Paraguayans were convinced, then, that they were fighting to save their homeland from being dismembered altogether and, in many ways, they were justified in that paranoia.

The treaty, signed by nations which had, only a few short years earlier, been fighting one another, was intended to rid the region of a man considered to be a dangerous tyrant - López - and at the same time solve all outstanding boundary claims with Paraguay. Unfortunately for the Guaraní nation, it was largely successful. By way of negotiations with a series of puppet and thus largely powerless Paraguayan governments during the decade following the War, Brazil managed to take over 62,000 square kilometres along the frontier with Mato Grosso, including some of the richest stands of yerba trees in Paraguay, while Argentina gained control of almost 75,000 square kilometres, making up what are today the provinces of Misiones and Formosa. All told, Paraguay lost over 156,000 square kilometres of territory, or about 38% of its prewar domain of nearly 410,000 square kilometres.¹² The process by which the Allies gained this territory, however, was not as clear cut as it might appear.

Despite being allies-in-arms during the war, neither Argentines nor Brazilians trusted one another. Traditional rivals in the region, they had only collaborated in order to further what were perceived to be their interests. Seldom did these concur, so that not surprisingly postwar negotiations with Paraguay tended to revive ancient antagonisms. While originally expressing magnanimity by

acknowledging that victory gave no nation the right to dismember its enemy (la victoria no da derechos), Buenos Aires soon changed its opinion. Later, in a hard-line interpretation of the Treaty of Alliance, Argentine diplomats argued that their country was entitled not only to territorial compensation which it did receive, but to the entire Chaco region as well.¹³ Rio de Janeiro, on the other hand, felt that Argentina was entitled to only a part of the Chaco.

The Brazilians believed it necessary to limit Argentine expansion in the area, in order to avoid the creation of an extensive frontier with their Platine neighbour that might well become a battleground in any future conflict between the two Powers. Therefore, the Empire offered to support Paraguay in its territorial negotiations with Buenos Aires if a separate treaty (contrary to the provisions of the Treaty of Alliance) were concluded with Rio. The Treaty, signed in 1872, gave Brazil the disputed territory it sought and in return guaranteed Brazilian support for Asunción in negotiations over the Chaco Boreal.¹⁴ As might be expected, the Argentines were incensed over Rio's separate treaty with Paraguay, which they saw as a genuine threat to future Argentine interests.

Buenos Aires feared Brazil would use the treaty not only to oppose Argentine claims to the Chaco but to absorb Paraguay itself, or at the very least establish a protectorate over the prostrated nation. The result was an intensification of Porteño diplomatic intransigence in negotiations with Asunción and a decision to occupy the Paraguayan Chaco village of Villa Occidental. In fact, exchanges between the two capitals over the following few years were dominated by the Chaco issue, though nothing was resolved until 1876. Meanwhile, according to Harris G. Warren, Argentina engaged in a form of "brinksmanship" with Brazil in an attempt to force the Empire into supporting its claims. Nonetheless, the policy was anything but successful as Rio ignored Argentine bluster, giving the Paraguayans all the assistance they needed. Finally, in 1876 Asunción and Buenos Aires signed a peace treaty that awarded the latter portions of the Chaco while submitting the remaining area to arbitration. Rio was confident that a decision on the Chaco would favour the weaker nation, a prognosis which proved correct when, in 1878, U.S. President Rutherford B. Hayes awarded the Chaco Boreal to Paraguay.¹⁵ Wisely, Buenos Aires accepted this defeat and withdrew its troops from Villa Occidental, which was renamed Villa Hayes in honour of the U.S. President.

Great Power rivalry in the postwar treaty negotiations was a major part of Paraguayan political life until 1878 and continued to be significant for many years after. This was clearly reflected in the Paraguayan internal political arena, where Brazilian and Argentine support of one faction or another helped promote instability throughout the postwar decade, although it was never accompanied by financial aid which could have facilitated Paraguayan economic recovery.

Postwar Conditions

The war left Paraguay a nation largely populated by starving and diseased women and children. The Brazilian army which occupied the country, and particularly Asunción, was generally undisciplined and in no position to implement much-needed reconstruction. The fighting had cost the Empire an estimated 50,000 to 100,000 lives and \$300,000,000 (U.S.), so there was no desire in Rio to incur further expenditure. Moreover, estimates put the Argentine dead at 20,000 and the drain on the Buenos Aires treasury at around \$50,000,000 (U.S.), which left that country with few resources to aid Paraguay, even if the will had been there.¹⁶ But the will on the part of both Allies was non-existent, so Paraguay was left for its returning

anti-López exiles, diplomats, students and war veterans to rebuild.

The immediate postwar years saw a scramble for power among Paraguayans of different political persuasions. Almost immediately two major groupings formed - the Lopiztas, or pro-López politicians, made up of former soldiers and ex-diplomats of the Lopez government, and Legionarios, or former exiles, many of whom had fought against Lopez in a Paraguay Legion attached to the Argentine army. Broadly speaking, the Lopiztas went on to become the Colorado Party and the Legionarios eventually formed the Liberal Party. Since Brazil dominated the country until 1876 by virtue of its army of occupation, the generally pro-Argentine Legionnaires found most opportunities to power blocked. The Lopiztas, on the other hand, though they did not completely trust Rio's intentions, were more disposed to side with Brazilian representatives, fearing Argentina intended to annex their country. Throughout the 1870s, intrigue and scheming appeared to be the political order of the day.

While Paraguayans needed little encouragement from the major powers to mount their conspiracies, the 1872 Brazil-Paraguay Treaty caused the Argentines to support their political clients with even greater enthusiasm than before. The result was that major revolts occurred in

1873-75 which saw virtually open Argentine and Brazilian support for opposing sides. Brazil, because of its role as the occupying power, was in the most favourable position to act if it felt the Empire's interests were threatened. As a result, all Paraguayan regimes during this period enjoyed Brazilian support. Argentina, which frequently attempted to destabilize Brazil's chosen clients, was unable to provide any real logistical support to its friends and consequently ended up watching somewhat helplessly as events in Asunción unfolded to its disadvantage.¹⁷ This continued to be the pattern for many years afterwards, as the postwar decade in many respects set the standard of political activity for generations to come. As a result, the former Allies paid far less attention to the economic realm than to the political.

Aside from remote stands of yerba, Paraguay was left without a viable economic base when the war ended. The cattle industry was decimated, as virtually all animals had been killed during the conflict; tobacco was no longer grown; and living conditions were so difficult that most of the remaining population straggled into Asuncion in the hope of obtaining some relief from the occupation forces. Even subsistence agriculture was in ruins. It would be some years before the country became reasonably

self-sufficient in food again and the people regained their self-respect.

Ironically, one of Paraguay's greatest assets at the time was the fecundity of its inhabitants. Easily supporting an annual demographic growth rate of 3%, the population by 1880 had grown by as much as 70,000 to an estimated 300,000 persons. This appears to have been sustained throughout the following decades, since a census in 1899 counted a total population of approximately 535,000. But prolonged economic stagnation after the turn of the century slowed the rate of population growth when many young men left for Argentina and Brazil in search of work. Still, according to reasonably reliable assessments, in 1925 the country supported some 800,000 inhabitants, which signified a very healthy 2% average annual growth rate over the preceding quarter century.¹⁸ Such rapid growth was necessary following the War in order to establish a more balanced population base for continued economic growth, particularly in the agricultural sector. Unfortunately, determination by the populace to recover demographically was not emulated by decision-makers in the financial realm.

Obviously, one of Paraguay's greatest needs after the War was for finance capital. Reconstruction was impossible without it and since the Allies were not willing or able to

pump massive amounts of capital into the country, Paraguayan legislators turned to the most opulent money market in the world - London. Negotiations were entered into with Waring Brothers in 1871 and 1872 for a loan total of 3 million pounds sterling, although the actual amount confirmed before a banking scandal rocked the London financial exchange in 1872 amounted to only half that sum. Nevertheless, for Paraguay the London loans were disastrous. A total of only 500,000 pounds sterling actually reached the country, largely because commissions, security deposits, negotiators' expenses and embezzlement skimmed off significant amounts before the money even left London. Of the funds that arrived in Paraguay, the bulk was spent on graft, kickbacks, unnecessary personal projects, and to finance the revolts of 1873-74. It was rumoured, for example, that Brazil received 10,000 pounds for helping the Salvador Jovellanos government defeat the revolt of 1873! Meanwhile, the politicians had mortgaged Paraguay's public lands, the broken-down railway, and all government revenue to guarantee repayment of a loan which eventually realized only one-third of the total contracted amount.¹⁹

While the debt was reduced to 850,000 pounds sterling in 1895 in exchange for almost one million hectares of prime agricultural land,²⁰ Paraguay was forced to shoulder

an external financial burden totalling 988,852 pounds sterling in 1900, which was only reduced to 462,590 pounds by 1935. In addition, the country contracted several other external debts over the years, including a loan in 1912 of 440,326 pounds to pay for the 1911-12 Civil War. In 1925, Paraguay's total foreign debt stood at 1,460,908 pounds sterling, an amount which was irregularly serviced until the 1929 world Depression and the Chaco War forced a delay in payment. Such an onerous obligation certainly contributed to the nation's sluggish growth throughout the period.²¹

By 1880, economic conditions had improved little in the ravaged inland nation. Limited success with yerba and hide exports at that time relieved some of the pressure, but the bulk of the population lived in total misery and state finances were anything but solid. Argentine and Brazilian interference and rivalry in Paraguay had produced a country where most politicians placed their personal gain well ahead of the nation's welfare. A prosperous and independent regional power had been reduced to pauper status by a devastating war followed by a postwar decade of intrigue, corruption and general selfishness. As events were to show, conditions improved very slowly after 1880 and the spectre of Brazilian and Argentine interventionism played a significant role in many aspects of Paraguayan

life. Working through their political clients, economic investments and diplomatic representatives, Rio and Buenos Aires played out regional rivalry in the Guaraní republic. Such intrigue tended to retard Paraguay's development between 1880-1930 and ensured that the reconstruction process would not be complete by 1932, when yet another debilitating war descended upon the nation.

NOTES TO THE INTRODUCTION

¹ John Hoyt Williams, The Rise and Fall of the Paraguayan Republic, 1800-1870, (Austin: University of Texas Press, 1979), pp. 116-117; Harris Gaylord Warren, Rebirth of the Paraguayan Republic; The First Colorado Era, 1878-1904, (Pittsburgh: University of Pittsburgh Press, 1985), p. 15. Estimates of the size of Paraguay's population before the war range from a high of 1,337,000 to a low of 200,000. Williams, using the reasonably accurate 1846 census as a guide, which counted 238,862 people, assumed an annual growth rate of 3% over the following 18 years and arrived at the 400,000 figure. Warren bases his postwar numbers on estimates made by the allied Occupation Forces.

² Williams, pp. 29-42.

³ Richard Alan White, Paraguay's Autonomous Revolution, 1810-1840, (Albuquerque: University of New Mexico Press, 1978), pp. 133-140, 162; Williams, pp. 75-79.

⁴ Williams, pp. 124-126, 181-186.

⁵ Yerba maté has been an integral part of life in the region almost from the time of the Spanish conquest. The mildly stimulative tea is made from the dried and crushed leaves of a native Paraguayan tree, ilex paraguayensis. Known elsewhere as Paraguayan tea, the beverage is considered indispensable in Argentina, Uruguay, Paraguay, Chile and southern Brazil. The leaves were originally harvested from wild trees, but today almost all yerba is cultivated in plantations. See Carlos Pastore, La lucha por la tierra en el Paraguay, (Montevideo: Editora Antequera, 1972) p. 214 and Emanuel de Bourgade la Dardye, Paraguay: The Land and the People, Natural Wealth and Commercial Capabilities, (London: George Philip and Son, 1892), pp. 215-221.

⁶ Williams, pp. 129-132, 170-171.

⁷ Ibid., pp. 140-144, 147, 169.

⁸ Ibid., pp. 150-154, 157-160.

⁹ Ibid., p. 195.

¹⁰ Ibid., pp. 197-202, 206-209.

¹¹ Harris Gaylord Warren, Paraguay and the Triple Alliance: The Postwar Decade, 1869-1878, (Austin: University of Texas Press, 1978), pp. 22, 58.

¹² Andres Flores Colombino, La fuga de intelectuales, (Montevideo, 1972), p. 60; Bourgade, Paraguay, p. 233. Paraguay's total area today, thanks to the Chaco War with Bolivia (1932-1935), is 406,752 square kilometres. See Philip Raine, Paraguay, (New Brunswick, N.J.,: Scarecrow Press, 1956), p. 4.

¹³ Warren, Paraguay and the Triple Alliance, pp. 53, 61-62; Roberto Etchepareborda, Historia de las relaciones internacionales argentinas, (Buenos Aires: Editorial Pleamar, 1978), pp. 53-57.

¹⁴ Warren, Paraguay and the Triple Alliance, pp. 114-117; Etchepareborda, pp. 59-60.

¹⁵ Warren, Paraguay and the Triple Alliance, pp. 246-247, 250, 260, 280; Ricardo Caballero-Aquino, The Economic Reconstruction of Paraguay in the Postwar Period: Politics and Property in the Era of General Caballero, 1869-1904, (Ph.D. Diss., Southern Illinois University at Carbondale, 1980), pp. 40-41.

¹⁶ Warren, Paraguay and the Triple Alliance, pp. 26, 30-31; E. Bradford Burns, A History of Brazil, (New York: Columbia University Press, 1980), pp. 234-235.

¹⁷ Warren, Paraguay and the Triple Alliance, pp. 50, 93-94, 110, 113-114, 185-193, 206-214.

¹⁸ Warren, Rebirth, p. 15; Warren, Paraguay and the Triple Alliance, p. 286; Great Britain. Department of Overseas Trade, Report on the Economic and Financial Conditions in Paraguay, September, 1925. Prepared by Frederick W. Paris. (London: His Majesty's Stationery Office, 1925), p. 4. Immigration is not included in these figures because in absolute terms Paraguay received relatively few immigrants. Although statistics are notoriously unreliable for several reasons, it has been estimated the number of immigrants entering Paraguay between 1881-1930 totalled only 25,000. See Lyra Pidoux de Drachenberg, "Inmigración y colonización en el Paraguay, 1870-1970", Revista Paraguaya de Sociología, (Asunción) 34 (Set./Dic. 1975), p. 82. Consultation of Argentine and Brazilian censuses, on the other hand, reveals that in 1914 there were over 28,000 Paraguayans in Argentina, mostly in

the provinces of Formosa and Misiones, and in 1920 some 17,300 Paraguayans in Brazil, the majority in Mato Grosso state. See Flores Colombino, pp. 65-67.

¹⁹ Warren, Paraguay and the Triple Alliance, pp. 138-143; Harris Gaylord Warren, "The Golden Fleecing: The Paraguayan Loans of 1871 and 1872", Inter-American Economic Affairs, 26 (1), Summer 1972, pp. 21-22.

²⁰ Warren, Paraguay and the Triple Alliance, pp. 140-142; Caballero-Aquino, pp. 50-56; Warren, Rebirth, pp. 177-178.

²¹ Great Britain. Diplomatic and Consular Reports. Trade of Paraguay for the Year 1897, (London: Harrison and Sons, 1898), p. 7; Great Britain. Department of Overseas Trade. Report on Economic and Commercial Conditions in Paraguay, November, 1936, Prepared by R.H. Tottenham-Smith. (London: His Majesty's Stationery Office, 1937), p. 5; Great Britain, Report (1925), p. 15; United States. Department of Commerce. Paraguay, A Commercial Handbook. Prepared by W.L. Schurz. (Washington, D.C.: Government Printing Office, 1920), pp. 191-194.

CHAPTER ONE

POLITICS TO 1904: THE COLORADO YEARS

By 1880 Paraguay had moved out of the period of postwar political anarchy and into an era of political personalism closely linked to outside interests. Consequently, this external influence predominated in Paraguayan politics throughout the period under study, although frequently it would be supplemented and modified by individual political ambition.

Factionalism played a crucial role in dictating the growth of partisan politics, and Paraguayans, regardless of outside interference, were prone to intrigue and scheming, as events later proved. Never far away were the representatives of Brazil and Argentina, lending support and advice to opposing sides in an incessant quest for political influence over Paraguay's internal affairs. Harris G. Warren, in his most recent monograph on the 1878-1904 period, describes Argentina and Brazil as political poles acting as magnets to attract rival Paraguayan politicians. He argues that affected by such a "polarity", Paraguay was unable to act independently in the political sphere.¹ He goes on to explain, however, that apart from the 1894 Cavalcanti coup and the 1904 Liberal

Revolution, Brazil and Argentina refrained from direct involvement in Paraguayan politics during the Colorado era.² Nevertheless, hovering in the background were those diplomats full of advice and schemes to further their respective nations' interests. This was done through client Paraguayan politicians, a practice that continued well into the 1920s, although by 1904 Brazil had lost much of its political influence in Paraguay to Argentina.

The Colorado period ending in 1904 has been widely accepted as an era of Brazilian pre-eminence in Paraguayan politics. The 1880s saw the rise of military strongman General Bernardino Caballero, an energetic supporter of Brazilian interests, followed by an internal party coup in 1894 engineered by Brazil. Another golpe in 1902 again furthered Brazilian interests, although ultimately it served only to justify staging the 1904 Liberal Revolution, which helped to reduce Brazilian political influence for many years to come.

The Era of Bernardino Caballero

The withdrawal of Allied troops from Paraguay in 1876 and the resolution of the Chaco boundary question with Argentina in 1878 released Paraguay from its external concerns and allowed politicians and others to concentrate their energies on the unenviable task of reconstruction.

Following the assassination of President Juan Bautista Gill and the murders of several prominent opposition politicians in 1877, a rather shaken group of Republican politicians chose Cándido Bareiro as president in 1878. A founding member of the Colorado Party, Bareiro was by far the most astute politician available at the time.³ His presidency was, nonetheless, troubled by an economic malaise carried over from the withdrawal of Brazilian troops and intensified by severe drought and locust plagues in 1879-80. Politically, the assassination of ex-president Cirilo Rivarola and a poorly planned coup attempt by Liberal adventurer, Juan Silvano Godoi, occupied most of Bareiro's time. The President was undoubtedly embarrassed by Rivarola's murder, but Godoi's action, initially aided by local Argentine officials but unpopular locally, won Bareiro enhanced esteem as Buenos Aires soon realized its mistake and withdrew support, hastening the collapse of the revolt.⁴ Little, however, was ultimately achieved during Bareiro's term, as the President died unexpectedly at his desk in September 1880 after only two years in office.

The surprise of Bareiro's death did not delay rapid political action by General Bernardino Caballero. The crusty hero of the Triple Alliance War, who had built up a reputation as a macho caudillo irresistible to women, was in an excellent position to further his interests. As

President pro-tem of the Senate he was in effect a second vice-president, giving him control over Congress. Furthermore, his participation in the revolts of 1873-74 brought him the respect and loyalty of many of his military colleagues. With such well-placed support it was a simple formality to win the resignation of Vice-President Adolfo Saguier to make way for Caballero's acclamation as President for the remainder of Bareiro's term.⁵ The action met with overwhelming approval within Paraguay in spite of its unconstitutionality. It was praised by the Brazilian Minister in Asunción,⁶ and Rio quite correctly expected Paraguayan government policy to favour Brazil.

Caballero's success was the culmination of a series of events and maneuvers that brought postwar military chieftains directly into power after some earlier disappointments. Throughout the 1880s and 1890s Caballero's presence ensured that civilians would be excluded from the presidency, although they were permitted the luxury of cabinet posts as long as they understood their subordinate position in the system.⁷ The Generals also favoured a pro-Brazilian position carried over from allegiances formed during the 1870s and maintained by Caballero's influence.

At the end of the War of the Triple Alliance, Caballero was captured by Brazilian forces and sent to Rio

de Janeiro where he was well-treated by his Brazilian hosts. There, a mutual friendship grew up between the General and the Viscount of Rio Branco and his son, the future Baron of Rio Branco. The association was sufficiently intimate for Caballero to allow the eventual architect of modern Brazilian foreign policy to transcribe the General's memoirs in Buenos Aires before his return home.⁸ Caballero left Brazil with a favourable impression of the country and its policy makers and the Brazilians saw in him a future ally. During his first two years as president, Caballero faced nagging economic stagnation and the issue of presidential succession. While taking some time to deal with the economy, he wasted no time in promoting his own candidacy for the 1882 election. The rather cynically-named Club Libertad, formed in 1881, proceeded to nominate the General for re-election in 1882, violating the 1870 constitution in the process. The law stipulated that an incumbent president had to wait two full terms or eight years before seeking re-election, but pleading that he was responding to the "will of the masses", Caballero stood as candidate. Not surprisingly, there was no serious opposition and the electoral college chose him without incident.⁹

The hold Caballero and his clique had on government was tight and was aided in some measure by the calibre of

the cabinet. This was particularly so regarding his Minister of Foreign Affairs, José Segundo Decoud. A former Legionnaire who had joined the Lopiztas for reasons of political expediency, Decoud was an invaluable advisor to Caballero and his successors. Considered by many observers to be the most able politician of the Colorado era,¹⁰ Decoud was seen by embittered Liberals as the real power behind successive Colorado administrations.¹¹ Such a view attributed far too much power to an otherwise able man, but it did reflect a popularly-held myth that Decoud would go to any lengths to attain his goal of the presidency, and would contribute to direct Brazilian intervention in Paraguayan politics some years later.

Nevertheless, General Caballero was still very much in control, although he did tolerate some opposition. Permitted little room to maneuver without some form of formal organization, a coalition of politicians, including Benjamín Aceval and future presidents Juan B. Egusquiza and Cecilio Báez, established the Club del Pueblo in 1885.¹² The club was to experience several defections before long, but it did serve to lay the groundwork for future party organizations. It chose General Patricio Escobar, a former member of the Bareiro government and a close friend of Caballero, as its presidential candidate.¹³ This time Caballero decided to follow the constitution and gave

Escobar his support. In so doing he appears to have understood the importance of applying a democratic veneer to the Paraguayan political scene, at least when it came to presidential succession. And the economy, stimulated by public lands sales, had its own veneer of prosperity that tended to moderate criticism from those sectors of society which had a political voice. Besides, Caballero could be sure Escobar would do nothing to alter the political structure of which he was so much a part.

In spite of some limited attempts to reach a modus vivendi with its political adversaries, the newly-elected Escobar government did nothing to restrain its partisans at the local level. Violence during the congressional elections in 1887 resulted in the Opposition's total exclusion from the polls and contributed directly to the organization of an official opposition party later that year.¹⁴ Led by former members of the Club del Pueblo, Benjamín Aceval and Cecilio Báez, the Centro Democrático was inaugurated in July 1887.¹⁵ The Centro was the precursor to the official formation of a Liberal Party in 1894, and appears to have received tacit Argentine support almost immediately.

Not to be outdone by its rivals, the Caballero clique responded the following month by establishing its own formal party structure, the Asociación Nacional Republicana

(A.N.R.). Commonly known as the Colorado Party (see note 2), the organization's membership included Caballero, Escobar, José S. Decoud, and future national presidents Juan G. González and Juan B. Egusquiza.¹⁶ Discounting some simplistic characterizations of the two parties, present-day anti-Liberal Argentine historian, Atilio García Mellid, defines their philosophies in the following terms:

"(C)oloradism was a dynamic force at the service of the nation [while] liberalism was a passive recipient (receptor) of 'civilization'." ¹⁷

"Civilization" was seen to be the penetration of foreign economic and political philosophies, primarily from Europe, passed on by Argentina. As shallow as this interpretation is, it is valuable because it represents the perceptions of generations of Colorado decision-makers and reflects the fundamental chasm between the two parties throughout the period.

As might be expected, the establishment of formal political parties did nothing to reduce antagonism. Succeeding elections were marred by caudillismo as in previous years and the Opposition was even prohibited from seating elected congressmen, while the Government reneged on a promise to field a compromise slate in the 1890 presidential election.¹⁸ Treated as if they deserved no political legitimacy due largely to their ties with

Argentina, many Liberals believed that their only hope of attaining power was by force of arms.

The economic depression which struck Argentina in 1890-91 had a residual effect in Paraguay soon after. Political exclusion and economic downturn soon combined to encourage revolution. Although an insurrectional attempt did not occur until late 1891, conspirators had been planning long before the farcical election of Juan G. González as President in 1890. During the concluding months of Escobar's term, rumours of an impending uprising supported by Argentina had begun to circulate in Asuncion. In an effort to dissuade Argentine participation in the revolt, the Escobar government urged the Argentine Minister of Foreign Affairs "to be vigilant", meanwhile purchasing extra arms and munitions in preparation for the worst.¹⁹ The revolt was then postponed, but the ambitions of such Liberal activists as the ubiquitous Juan Silvano Godoi and the Liberal caudillo, Benigno Ferreira, could not be denied.

The Revolution, which took place in October 1891, might have been viewed by historians as Gilbertian comedy had not some 100 casualties resulted from the confused fighting. The attempt was plagued by a series of errors and miscalculations which revealed the disorganization surrounding its execution. An attempt to kidnap Caballero

from his home failed because the General was at a suburban residence where he usually spent his weekends, while the leader of the Liberal forces was erroneously killed by his own troops. The capture of a key military post was then lost in a surprise counterattack led by the Minister of War and Navy, Colonel Juan B. Egusquiza. These reverses culminated in the rout of the Liberal troops, whose leaders either sought asylum in foreign legations or attempted to cross into Argentina.²⁰ Despite severe government repression, the rebels continued to launch sporadic assaults over the next few months, but by late 1892 government forces had finally succeeded in crushing all remaining resistance.

There appears to be no evidence that Argentina was directly involved in fomenting the revolutionary attempt, although certainly the protagonists had little trouble obtaining arms from across the border or in seeking exile there. Distracted by the economic malaise and its political repercussions at home, Argentina was likely pessimistic about the revolt's chance of success and preferred to wait until a more propitious time. Such a time would be longer in coming than either Argentina or the Liberals expected.

Brazilian reaction to these events was curiously absent. A report sent by the Brazilian minister to

Asunción in March 1891 characterized Paraguayan political conditions as calm, with the country enjoying an open democratic government. The Minister must have been either naive or a fool, although he did reflect a somewhat complacent attitude among Brazilian diplomats toward Paraguay. The revolt, however, seems to have awakened Rio to the realization that Paraguay was anything but an immutable political entity, and that the situation required vigilance.²¹

After the revolutionary attempt, the González government had to grapple with other equally serious economic and political problems. Agriculture had been devastated by drought and locust plagues which began in 1889 and periodically reappeared over the next decade.²² The Argentine depression had led to severe economic and financial repercussions in Paraguay,²³ while both political parties experienced profound ideological breaches in their ranks. In 1892 the Liberal Party split into two factions - cívicos and radicales. The former represented the more moderate elements within the Party, who were led by Benigno Ferreira. They favoured a political accommodation with the ruling Colorados offered by the González government. The radicales, as yet poorly organized and led by future luminaries Cecilio Báez, Eduardo Schaerer and Manuel Gondra, saw revolution as their only route to power.²⁴

Meanwhile, the Colorados also suffered internal dissension. Disagreement over whether to permit a political apertura in the aftermath of the revolt served to split the ruling party into two camps - caballeristas and gonzalistas. The former wanted to continue Caballero's traditional exclusionist policies, while the followers of González saw a need for some accomodation with their political rivals.²⁵ During González's presidency, his policies predominated, but the intra-party conflict was to lead to a major political crisis in 1894.

In a November, 1892 despatch to Rio, the Brazilian Minister in Asuncion expressed confidence in Caballero as Brazil's best choice for president in 1894. He viewed the radical Liberals as vehemently pro-Argentine and as such dangerous to Brazilian interests, while Gonzalez's policy of accomodation with the cívicos was acceptable only so long as Caballero could succeed the incumbent President.²⁶ However, such an ideal pro-Brazilian succession was not to be and hysterical reports soon began arriving in Rio about disconcerting changes in political conditions. This eventually led to the direct intervention of the new Brazilian Minister to Paraguay.

A Special Mission

The question of presidential succession arose once again in 1893-94 with a controversy that had its origin in Colorado internal discord. The architect of much of Paraguay's foreign and domestic policy up to the time, José Segundo Decoud, had been regularly passed over for president by Caballero and his clique of military men. Civilians, and least of all Decoud, who had defected to the Colorados from the early Liberals,²⁷ were not considered trustworthy enough to hold the highest office in the land. But Decoud had an ally in out-going President González, his brother-in-law.²⁸ Irrespective of family ties, González had good reason to support Decoud's candidacy. The aspirant was an extremely capable man, responsible for much of Paraguay's limited growth since 1880. He was also a supporter of González's policy of continued rapprochement with the Opposition. Even so, Decoud's career had been somewhat irregular during the presidencies of Escobar and González. In late 1887, his penetrating criticism of the government on several counts earned him the Ministry of Foreign Affairs in place of the token Liberal, Benjamín Aceval. Yet the new Minister stayed in his post less than a year before he resigned and returned to journalism. With the election of González in 1890, Decoud took over the Finance Ministry but again held office for only a few

months. He resigned the position in July 1891 and in January 1892 was named Paraguayan Minister to Uruguay and Brazil, apparently followed by a posting to Argentina.²⁹

Allegedly, Decoud was in contact with Argentine authorities sometime in 1892 or 1893 regarding his possible candidacy for president. The Argentines, including their minister in Asuncion, seemed quite supportive, especially as some prominent Paraguayan Liberals also supported Decoud's ambition. Buenos Aires feared that Caballero would resume the presidency and steer Paraguay toward an even closer political association with Brazil, something which still unnerved Argentine politicians.³⁰ Such a possibility was especially serious considering Argentina's increasing control over the Paraguayan economy. Decoud soon became aware, however, that he did not have the backing needed to break with tradition, so he wisely threw his support behind a compromise candidate, Juan B. Egusquiza.

Two contenders emerged from the Colorado ranks early in 1894. Caballero, as expected, opted to seek another term and was backed by the Colorado old-guard. Younger members of the party, who were more disposed to accomodation with the Liberals, chose Egusquiza as their candidate. The latter, promoted to the rank of General for his role in the 1891 revolution, was publicly supported by

González and Decoud. The Brazilians, who were close to the situation, seemed willing to accept Egusquiza as a compromise candidate, but openly preferred Caballero as their man. Rumours soon circulated, embellished in reports to his superiors by the Brazilian Minister, that González did not in fact support Egusquiza, but intended to maneuver Decoud into the presidency. Decoud, as a former Liberal and friendly to Argentina, was anathema to Brazilian interests and obviously could not be tolerated in such an influential position. Besides, many policy makers in Rio sincerely believed he favoured the annexation of his country by Argentina. These traditional fears, reinforced by accusations made in 1871 by Juan Silvano Godoi that Decoud had tried to convince Argentina of the need to annex Paraguay,³¹ spurred the Brazilians into action. It seems unlikely the accusations had any basis in fact, but they were pretext enough for the policy makers in Rio to act. As a result, the Brazilian minister in Asunción was withdrawn in March 1894 and replaced by an envoy with a special mission.

Dr. Amaro Cavalcanti was sent to Asunción with one task to perform, which he set about doing immediately. Alienated by President González's continued behind-the-scenes lobbying for Decoud, in spite of his official support of Egusquiza, Brazilian statesmen came to

appreciate the need to prevent any confrontation between the two rival factions of the Colorado Party. A compromise candidate had to be chosen and since Egusquiza appeared quite amenable to Brazil's future needs, he was the obvious choice. Cavalcanti organized a meeting of Egusquiza, Caballero and ex-president Escobar to plot González's overthrow. It was agreed that González would be ousted in favour of Vice-President Marcus Morínigo, who would rule at the behest of the group until Egusquiza could be elected president in August. Three Brazilian gunboats then anchored in Asuncion harbour and troops in Mato Grosso prepared for possible intervention. The Brazilian envoy also bribed police officials and important army officers to withdraw their support of González, which cost the Brazilian treasury some 17,000 pounds sterling.³²

The July 9 coup was bloodless. Apparently caught unawares despite many warning signs, González was quickly persuaded to resign by the conspirators, who hustled him aboard an Argentine merchant vessel bound for Buenos Aires. A manifesto signed by Egusquiza, Caballero and Escobar cynically rationalized the coup as heralding a new era in the country's history whereby its "great disgraces [would] be ameliorated." Vice-President Morínigo was named interim President and in August Egusquiza easily won the election.³³

The events of March to June 1894, while certainly not unprecedented in international politics, reveal the degree of paranoia which tended to persist in relations between Brazil and Argentina. Both nations were undergoing dramatic changes at the time, including the effects of severe economic recession, and in the case of Brazil, the newly-proclaimed Republic was still in a state of political restlessness following the overthrow of the monarchy.³⁴ Apart from concerns about internal unity, Brazil felt particularly uneasy over its relations with Argentina, since Rio suspected Buenos Aires was about to exploit its perceived weakness to gain greater advantage in Paraguay. It was assumed that González actively sought Argentine aid in elevating Découd to the presidency, by military means if necessary. Though it seems González seriously entertained the idea, there is no evidence that Buenos Aires, which also had its own internal problems to deal with, was at all interested. Nevertheless, Rio's evaluation of Argentine intentions was enough to bring about Brazilian action.³⁵ Considering the level of feeling then existing in Paraguay, Warren speculates that in the long run the coup had beneficial effects, as it "may well have prevented a civil war between the generals and so made possible the experiment in political conciliation soon to be called egusquicismo."³⁶

Cavalcanti left Asunción in late 1894 pleased with the success of his mission and confident that the new Executive posed no threat to Brazil. José Segundo Decoud was removed from the Paraguayan political stage as planned, while President Egusquiza had pledged continuing support for Brazil's policies in the Río de la Plata region. But the special envoy and his superiors in Rio soon discovered that their man in Asunción was somewhat more independent and pro-Argentine than expected. Ironically, the Egusquiza regime extended the political conciliation begun by González and moved Paraguay closer to its La Plata neighbour than ever before. Eventually, Brazil would react, but its renewed interest was slow in coming and proved to be too little, too late to stem the inevitable.

Colorados to 1904

Egusquiza's term ushered in a period of relative political freedom, with some prominent Liberals appointed to high-profile, if powerless, positions in government. Egusquiza's tolerance of the Opposition showed an independence of purpose that surprised everyone, not least of all the Brazilians. For the first time Liberals were allowed to participate in Congressional elections, though they responded capriciously by intensifying their internal factionalism. But they were now openly participating in

the political process and many exiles were encouraged to return home. For his part, Egusquiza tried to reduce political tensions by striking a balance in the political arena. His conciliatory strategy, for example, was aptly displayed in mid-1895 when journalistic attacks on his Minister of Finance and interim Minister of Foreign Affairs, Agustin Cañete, brought about the minister's resignations from the two posts. In order to placate both sides of the political spectrum, Egusquiza appointed Liberal Benjamín Aceval as Finance Minister and José Segundo Decoud as Minister of Foreign Affairs.³⁷ The appointments indicated that the President held ultimate power and only those who lent him their direct support had a role in running the country, a circumstance that handcuffed not only the Liberals but the Caballero clique as well.³⁸

Despite the success of their coup, Brazilian policy-makers appeared unwilling to press their advantage. Argentina too, adopted a cautious stance after the 1890-91 Depression and was unwilling to actively pursue additional links with Paraguay in spite of its already significant economic presence in the country. Onerous customs duties on Paraguayan products and usurious freight rates charged by the major shipping lines, which operated out of Buenos Aires, did nothing to help the Paraguayan economy nor did

they bring Paraguay more securely into the Argentine political orbit. Trade protectionism appeared to be a prime Argentine concern in 1894, but Brazil was not prepared to take advantage of the opportunities opened up by Buenos Aires' attitude and offer its Guaraní neighbour a trading alternative.

Against the advice of the new Brazilian Minister in Asunción, Henrique Carlos Ribeiro Lisboa, who had a rare understanding among Brazilians of Paraguayan culture and the country's historical connections to Argentina, Rio did nothing to follow through on the coup. Lisboa believed that Brazil had nothing to fear from Decoud, who had never seriously sought Argentine annexation of his country and who had actually looked to Brazil for some economic support.³⁹ The Minister suggested that due to Paraguay's continued reliance on Argentina for contact with the outside world, it was indispensable for Brazil to break this dependence by building a railway link between Asunción and the Brazilian coast.⁴⁰ Yet no positive action was undertaken by Rio, despite years of rumours and plans, until a road was finally completed more than a half century later.⁴¹ Although accrediting an above-average diplomat to their Embassy in Asunción, Carioca decision-makers seemed uninterested in formulating a long-term policy for

Paraguay. This complacency was to prove disastrous for Brazil in the long run.

Meanwhile, by the mid-1890s the Argentines had overcome the worst effects of the Depression and began building a formidable economic infrastructure that eventually gave birth to a modern nation determined to assert itself internationally and regionally. Paraguay, relying as it did on Buenos Aires for its economic prosperity, soon found itself drawn ever more tightly into the Argentine orbit as a matter of necessity. While Argentina took some time to extend its economic domination into the political arena, the groundwork which would determine future relationships between the two countries had been laid.

Contrary to Brazilian interests, Egusquiza soon embarked upon a program of modernization that involved important Argentine participation. Accommodation with the cívico Liberals initiated during González's term meant the appointment of more Liberals or pro-Argentine businessmen to government posts than ever before. Economic ties with Argentina were strengthened when such Argentine-based enterprises as "Carlos Casado" and "La Industrial Paraguaya" consolidated their interests in Paraguay. Trade with Argentina also increased, and active lobbying on the part of the Paraguayan government with the support of the

Argentine consul-general in Asunción, Sinforiano Alcorta, resulted in the reduction of Porteño import duties on Paraguayan goods in 1897.⁴² It was clear to Egusquiza that Paraguay's prosperity was dependent on the ships which linked Asuncion with the Atlantic Ocean at Buenos Aires. Content to pay lip service to Brazilian political interests but determined to pursue a pro-Argentine economic policy, Egusquiza was following a pragmatic, if not always popular, strategy of development. The policy was successful enough for him to retain control of the presidential succession in 1898.

Egusquiza had won the support of Paraguay's tiny military with his courageous action during the 1891 Revolution, thus enabling him to loosen Caballero's once firm control of the reigns of government.⁴³ During his term, the new President was able to professionalize the service by sending worthy cadets for training in Argentina and Chile. His apparent intent was to de-politicize the armed forces in the belief that over the years they had proven to be an unstable partner in government.⁴⁴ Although in the long run this turned out to be a fruitless exercise, the Army in 1898 stood by Egusquiza's choice of Emilio Aceval as the next president. The succession, however, did not take place without controversy. As usual, there was Colorado rivalry between those supporting Aceval and the

caballeristas, who backed Agustin Cañete as their candidate. Cañete, a major shareholder in La Industrial Paraguaya, had the support of several influential businessmen, while many Liberals, resentful of the manner in which Egusquiza had attained power, preferred Cañete to a continuation of egusquicismo under Aceval. Rumours of another Liberal revolt circulated in April 1898 but apparently Brazilian threats to deploy its Mato Grosso squadron as well as Argentina's decision to restrain its proteges deflated the exuberance of the conspirators.⁴⁵ And while the Brazilian minister favoured Aceval, he decided to keep his preferences to himself in order to avoid openly antagonizing the Argentines, who by this time were showing increased interest in their inland neighbour.⁴⁶ As it happened, the election of Aceval was a formality, with little Liberal participation in the electoral process and virtually no violence.

Aceval, the first civilian president since 1880, presided over a brief period of relative economic recovery, with increasing agricultural output, expanded trade with Argentina and some stabilization of the impetuous peso. These early successes were soon wiped out in November 1899, however, when bubonic plague was discovered in Asuncion. Although likely introduced by Argentine ships, the disease moved Argentine and Brazilian authorities to quarantine all

Paraguayan ports and shipping, effectively shutting down Paraguayan external trade for over seven months.⁴⁷ With the economy stalled, Aceval needed an issue on which to build popular political support. He found it in the decades-old war reparations controversy. Estimated to exceed one billion dollars (U.S.) in 1899, the debt burden was seen as a political issue by Paraguayans.⁴⁸ Seizing an opportunity to increase his popularity at no political cost, the President exploited the public mood by organizing large street demonstrations in front of the Argentine and Brazilian legations to demand repudiation of the debts. He had shrewdly elicited support from both Egusquiza and Caballero, and while not expecting nor receiving a positive response from either Rio or Buenos Aires, his action managed to win him backing from virtually all domestic quarters on an issue which crossed both factional and party lines.⁴⁹

Events in 1900 emphasized Aceval's need for such widespread support, as a cabinet crisis threatened to completely undermine his government. Once again the figure of José Segundo Decoud re-emerged, as rumours and slanders led to accusations of treason against the Foreign Affairs Minister in 1897 and his subsequent resignation in 1900. Never fully trusted by many Paraguayans in spite of his abilities, Decoud came under even greater suspicion in 1897

when Juan Silvano Godoi, his arch enemy, charged him again with attempting to promote Argentina's annexation of Paraguay. The charges were based on correspondence between Decoud and his brother in the 1870s, at a time of great political uncertainty, yet Godoi made it appear the Minister's views had been formulated recently. The political storm created by the "revelations" led to several attempts in 1897 and 1898 to impeach him. Ultimately, they were unsuccessful, as Decoud retained the confidence of his cabinet colleagues, a majority in the Congress and even most of the press. The degree of support was such that ultimately Godoi himself lost credibility.⁵⁰ Nonetheless, stress caused by these episodes must have affected Decoud's judgment, for he then proposed a similar scheme, this time involving the U.S.

In early 1900, Decoud had a meeting with the U.S. Consul in Asunción, John N. Ruffin, to whom he expressed a desire for Paraguay to receive the benefits of the "moral influence" of a more powerful country "to encompass its full development as a nation." An excited Ruffin cabled his report to Washington along with the recommendation to accept what amounted to a protectorate over Paraguay. Fortunately, the U.S. State Department showed no interest in the scheme, and when Decoud's

proposal became public knowledge in March, his career was finished.⁵¹

Reasons for the Minister's action remain unclear. In a recent doctoral dissertation, published in 1980, Ricardo Caballero-Aquino speculates that Decoud was so impressed with the new interventionist role assumed by the U.S. after the Spanish-American War that he believed he could count on U.S. influence in a final, desperate bid for the presidency. The author also suggests Decoud possibly had the tacit support of the Aceval cabinet for the proposal.⁵² Yet, considering Aceval's connections with Egusquiza; his willingness to work with the Liberals; and Decoud's rapid exit from the government after the scheme went public, not to mention Hispanic America's general attitude to the U.S. after the defeat of Spain, it seems highly unlikely the government allowed itself to become involved. A more plausible scenario is that the Minister had become a frustrated politician who saw his dream of achieving the presidency fade with time. He was no doubt encouraged in his delusions by the indiscreet Ruffin, who alienated Paraguayans to such a degree over the years that the new revolutionary government in 1905 finally declared him persona non grata.⁵³ But Decoud's rash intrigues precipitated a cabinet change which would shake the prevailing political order.

Decoud and another minister not involved in the scheme, were replaced with young cívico Liberals. This was an attempt by President Aceval to counter what he perceived to be a growing threat of revolt from his Liberal rivals. The new appointments were resisted by the rest of the cabinet, which threatened to resign, but Aceval managed to persuade them to stay on, while relying on Egusquiza to reconcile the Colorado rank and file. The ailing general had lost much of his influence in the military to the caballeristas, however, leaving Aceval with only marginal support within his own party. The President's continued attempts to placate the opposition by appointing prominent Liberals to important positions, usually abroad, plus the usual discord over executive succession finally alienated Aceval from the rest of the Colorados and eventually brought about his removal.⁵⁴

With the regularity of clockwork, the controversial issue of presidential succession re-emerged in 1901. The conciliatory policies of Aceval and egusquicismo were reprehensible to the caballeristas, who formed a new movement to regain the presidency for the traditionalists in 1902. Dr. Facundo Insfrán, a member of the Senate, was chosen as the caballerista candidate, while the egusquicistas selected Interior Minister Guillermo de los Ríos, who subsequently gave up his cabinet position.

Cabinet vacancies resulting from de los Ríos' departure and another, unrelated, resignation led to inevitable confrontation. The Minister of War and Marine, Colonel Juan A. Escurra, strenuously objected to Aceval's replacements, giving Aceval and Egusquiza the impression that something was afoot. In order to nip the conspiracy in the bud, Aceval asked for Escurra's resignation, meanwhile planning with Egusquiza to appoint the General in Escurra's place and win the support of the Army.

While Aceval and Egusquiza moved quickly, they were no match for Escurra and the Caballero clique. The conspirators took over control of the military on the evening of January 8, 1902, imprisoning Aceval and forcing de los Ríos and Egusquiza into exile. The coup was not properly consummated, however, until Congress gave its rubber stamp approval. This led to a tragi-comic opera shoot-out in the chamber, which left Insfrán dead and several other deputies wounded, including Bernardino Caballero. The shooting inside the building prompted an artillery unit stationed outside by the golpistas to fire on the chamber. Fortunately, no one else was killed, and the bombardment put a quick end to the shooting, inspiring senators and congressmen into voting a speedy endorsement of the takeover.⁵⁵

While there is no evidence of Brazilian complicity in the coup, the new regime adopted policies which gave statesmen in Brazil reason to be satisfied. The growing Argentine influence in Paraguay's economy and among many young Paraguayan politicians, as well as new-found interest shown their weaker neighbour by politicians and diplomats in Buenos Aires, had undoubtedly unnerved Itamaraty (the Brazilian Foreign Ministry). The conciliatory policies of egusquicismo had clearly weakened Brazilian control over Paraguayan politics by allowing pro-Argentine intellectuals in Asuncion to assume control of many sensitive positions in government and the diplomatic service. Brazilian statesmen obviously believed that moral support lent the pro-Brazilian caballeristas in their revolt against Aceval and Egusquiza would be sufficient to reverse the trend in Brazil's favour. In the short run this was true, although Brazilian policy-makers failed to understand that times had changed and that a younger, better-educated and more ambitious sector of the political electorate was anxious to direct Paraguay's future.

Potential conflict over who would assume the presidency was averted when Egusquiza died in mid-1902. The General's death effectively eliminated opposition to the caballeristas, and Escurra was acclaimed without incident. Almost immediately the policies of the new

government sought to re-establish political and economic linkages with Brazil. In one of his first acts as President, Escurra ingratiated himself with Brazilian commercial interests by successfully opposing a plan to increase the duty on Brazilian yerba in transit across Paraguayan territory to Buenos Aires. He further showed his support for the Brazilians by permitting open Paraguayan emigration to Brazil to work in the yerbales, ranches and lumber enterprises.⁵⁶ The policies were especially beneficial to the major Brazilian business concern in Mato Grosso, Matte Larangeira, which was in direct competition in the Buenos Aires yerba market with La Industrial Paraguaya. Escurra's indirect support of Matte Larangeira was anything but popular even among some of his closest colleagues, several of whom had shares in "La Industrial". The policy also caused a severe labour shortage in the Paraguayan yerbales⁵⁷ as workers flocked to Brazil where wages were, at least initially, much higher, and conditions ostensibly better.⁵⁸ The precedent set by the President began to worry many businessmen. Concern increased with time, as Escurra further alienated the business community by expropriating up to one-half of all hide exports; ignoring fraud in the operation of the Currency Exchange (Caja de Conversión); and encouraging corruption in the customs and other government offices

through inept economic policies.⁵⁹ Consequently, the Colonel succeeded in eroding his economic credibility in less than a year and businessmen were soon in contact with the Liberal opposition to aid in plotting his overthrow.

Politically, Escurra found himself in the middle of an acrimonious debate over the rehabilitation of Mariscal López, led by the famous dictator's son. For the most part, there was little support for Enrique Solano López's campaign, but Escurra declared himself in favour of the "re-glorification", to the disgust of both Argentina and Brazil as well as numerous officers and politicians on both sides of the Paraguayan political spectrum. To further complicate matters, political repression was adopted following the discovery of plots against the government. This included the use of torture against such prominent personalities as the sons of General Escobar and the commander of the Concepción garrison, Colonel Zacharías Jara. Both military men reacted predictably, threatening Escurra with revolt if their sons were not released. Even Caballero's son was actively working to overthrow the wasted, corrupt Colorado regime.⁶⁰

Social conditions affecting the rest of the population had also deteriorated during the period. Violent peasant demonstrations in 1903 against arbitrary land evictions led to the 1904 land law, a regressive piece of legislation

which served only to consolidate the extensive latifundio rural structure as well as the foreign ownership of Paraguay's natural and agricultural resources.⁶¹ To add insult to injury, the Chief of the Asunción Police in 1904 banned the wearing in public of certain traditional dress and prohibited on-duty policemen and civilian personnel under his command from communicating in Guaraní, the every-day language of the country.⁶²

The credibility of Coloradismo had been effectively destroyed by the incompetent and reactionary Escurra regime. Brazil, which had initially backed the Government and had benefitted economically as a result, was not only alienated by Escurra's crude policies and tactics but was itself discredited by association. Argentina, meanwhile, had contacted the revolutionary committee formed in 1903 and expressed a willingness to offer indirect aid in the event of an armed insurrection.⁶³ The stage was thereby set for a chain of developments which saw egusquicista Colorados join the newly-united Liberals in a revolution that ended personal politics and ushered in an era of Liberal rule which was also characterized by chronic political factionalism and anarchy.

NOTES TO CHAPTER ONE

Abbreviations

DDPU	Diplomatic Despatches from United States Ministers to Paraguay and Uruguay.
DUSCA	Depatches from United States Consuls in Asuncion.
MDBA-OR	Missões Diplomáticas Brasileiras, Assumpção, Ofícios Recebidos.

¹ Warren, Rebirth, p. 37.

² Ibid., p. 37. The term Colorado refers to the red colours of the Asociación Nacional Republicana (A.N.R.) and is the popular name given the party to this day. The Liberal Party, on the other hand, has sported blue colours and although sometimes referred to as Azul, the term Liberal is far more commonly used.

³ Warren calls Bareiro "the first clearly identifiable Colorado". He argues that in spite of the popular myth that General Bernardino Caballero was the founder of the party, it was Bareiro who laid the groundwork, with the help of José Segundo Decoud, that led to the official formation of the A.N.R. in 1887. Warren, Rebirth, pp. 41-42.

⁴ Gómes Freire Esteves, Historia contemporánea del Paraguay. Lucha de cancellerías en el Plata. (Buenos Aires: n.p., 1921), pp. 50-53; Warren, Rebirth, pp. 46-49.

⁵ Freire Esteves, Historia contemporánea, pp. 53-54; Caballero-Aquino, pp. 103-107, 254.

⁶ Jose de Almeida e Vasconcellos to Pedro Luiz Pereira de Souza, la Sec. No. 1 Res., Asunción, Setembro 8, 1880, MDBA-OR 201/1/16, cited in Warren, Rebirth, pp. 52-53.

⁷ One exception to this rule led to the 1894 Cavalcanti Coup, discussed later.

⁸ Warren, Rebirth, p. 53.

⁹ Freire Esteves, Historia contemporánea, pp. 54-55.

¹⁰ See opinions of various contemporary diplomatic representatives in Warren, Rebirth, pp. 55-56, and Caballero-Aquino, p. 159.

¹¹ Warren, Rebirth, p. 74.

¹² Freire Esteves, Historia contemporánea, p. 60.

¹³ Ibid., p. 60.

¹⁴ Warren, Rebirth, pp. 71-72; Freire Esteves, Historia contemporánea, pp. 62-63.

¹⁵ Freire Esteves, Historia contemporánea, p. 63; Warren Rebirth, p. 73; Caballero-Aquino, p. 245; Atilio García Mellid, Proceso a los falsificadores de la historia del Paraguay, vol. 2. (Buenos Aires: Ediciones Theoria, 1964), pp. 500-501.

¹⁶ Freire Esteves, Historia contemporánea, pp. 64-65; Warren, Rebirth, p. 73; García Mellid, pp. 501-502.

¹⁷ García Mellid, p. 501.

¹⁸ Warren, Rebirth, pp. 75-76, 81.

¹⁹ Ibid., p. 77.

²⁰ Caballero-Aquino, pp. 169-171; Freire Esteves, Historia contemporánea, pp. 71-73; L.T.P., "Revolución del 18 de Octubre de 1891", Revista del Paraguay, (Asunción), 1 (12), 1891, pp. 579-580.

²¹ Warren, Rebirth, pp. 81-83.

²² Ibid., pp. 14, 85.

²³ Freire Esteves, Historia contemporánea, pp. 73-74.

²⁴ Warren, Rebirth, p. 84; Freire Esteves, Historia contemporánea, p. 77-79. The Liberal split was not officially recognized by the party until 1895.

²⁵ Freire Esteves, Historia contemporánea, p. 74; Warren, Rebirth, p. 84. Not unexpectedly, the parties

and factions represented only the elite of the time. The peasantry and other "marginal" sectors of society were not included in the political scenario at all, except when their numbers were needed for pre-determined voting or as soldiers for armed political battles. This was a condition which prevailed throughout the period of study. See Anibal Miranda, Apuntes sobre el desarrollo paraguayo, vol. 1. (Asunción: Cromos S.R.L., 1979), pp. 117-118. For peasant reaction to forced military recruitment, see Rafael Barrett, El dolor paraguayo. (Caracas: Biblioteca Ayacucho, 1978), p. 127, and Harris Gaylord Warren, Paraguay: An Informal History. (Norman: University of Oklahoma Press, 1949), p. 265.

26 Warren, Rebirth, p. 84.

27 Warren, Paraguay and the Triple Alliance, pp. 181-182.

28 Freire Esteves, Historia contemporánea, p. 75.

29 Ibid., pp. 66, 68, 70, 73; Warren, Rebirth, pp. 72, 74, 85-87; Caballero-Aquino, pp. 104-105, 169, 181. Freire Esteves states that Decoud was named Minister to Uruguay and Brazil in January 1892 (p. 73), while Warren claims he acted as Paraguay's representative in Buenos Aires in 1893 (pp. 87, 89, 318 n. 32). Neither writer offers sufficient details to absolutely confirm Decoud's whereabouts during 1892 and 1893.

30 Warren, Rebirth, p. 87.

31 Juan Silvano Godoi, Mi misión a Rio de Janeiro. (Buenos Aires: Felix Lajouane, 1897), pp. 86-96; Warren, Rebirth, p. 55; Harris Gaylord Warren, "Brazil and the Cavalcanti Coup in Paraguay", Luso-Brazilian Review, 19 (2), Winter, 1982, p. 224.

32 Warren, Rebirth, p. 91.

33 Ibid., pp. 90-91; Harris Gaylord Warren, "The Paraguayan Revolution of 1904", The Americas, 36 (3), January 1980, p. 367. Warren found his information on the coup in Missões Diplomáticas Brasileiras, Assumpção, Ofícios Recebidos, Arquivo Histórico, Ministerio das Relacoes Exteriores, Itamaraty, 201/2/5 (MDBA-OR); Caballero-Aquino, pp. 180-183; Freire Esteves, Historia contemporánea, p. 75. Freire Esteves mentions no

Brazilian involvement in the coup.

³⁴ See Burns, A History, pp. 294-295, and James R. Scobie, Argentina; A City and a Nation. (New York: Oxford University Press, 1971), pp. 196-197; Warren, "Brazil and the Cavalcanti Coup", p. 223.

³⁵ Warren, Rebirth, pp. 90-91; Warren, "Brazil and the Cavalcanti Coup", pp. 228, 231-232.

³⁶ Warren, Rebirth, p. 93.

³⁷ Ibid., p. 96.

³⁸ Caballero-Aquino, pp. 183-186; Freire Esteves, Historia contemporánea, pp. 77-78; Warren, Rebirth, pp. 94-96.

³⁹ Henrique Carlos Ribeiro Lisboa to Carlos Augusto de Carvalho, la Sec. No. 1 Conf., Asunción, Janeiro 2, 1896, MDBA-OR 201/2/6, cited in Warren, Rebirth, pp. 96-97.

⁴⁰ Warren, Rebirth, p. 95.

⁴¹ For more on proposals to build a Brazil-Paraguay railway link, see Bourgade, pp. 138-139; N.Y. Times, Nov. 1, 1891, p. 8, column 5; Mario Leite, Do Brasil ao Paraguai; impressões de viagem e de costumes. (São Paulo: Empresa Gráfica da "Revista dos Tribunais", 1940), pp. 149-152. For a rather hysterical view of what such a railway would do for Brazil at the expense of Paraguay, see Enrique D. Parodi, "El Ferro-Carril de la Asunción a Santos", Revista del Paraguay, 1 (10,12), 1891, passim.

⁴² Argentina. Memoria de Relaciones Exteriores presentada al Honorable Congreso Nacional en 1896. (Buenos Aires: Taller Tipográfico de la Penitenciaria Nacional, 1896), p. 78; Paraguay. "Productos paraguayos en las aduanas argentinas", Revista Mensual, 1 (11), Enero 1897, p. 336; Eliseo Reclus, Paraguay; capítulos entresacados de la nueva geografía universal. (Asunción: A. de Uribe y Cía., 1896), pp. xx-xxi.

⁴³ In 1892 the army apparently consisted of 600 men, supported by one small gunboat for riverine operations. Warren, Rebirth, p. 32.

- 44 Caballero-Aquino, p. 186.
- 45 Warren, Rebirth, pp. 103-105.
- 46 Ibid., p. 103.
- 47 Freire Esteves, Historia contemporánea, p. 83; Warren, Rebirth, pp. 107-108.
- 48 Eben M. Flagg to W. R. Finch, Asunción, Feb. 28, 1899, encl., Finch to John Hay, No. 154, Montevideo, Mar. 10, 1899, DDP, T-128/10.
- 49 Caballero-Aquino, p. 190.
- 50 Godoi, pp. 86-91; Warren, Rebirth, pp. 101-102. Godoi's apparent intent was to embarrass the Colorado Party in the 1898 presidential campaign.
- 51 John N. Ruffin to Hay, No. 101, Asuncion, Jan. 4, 1900, DUSCA, T-329/5; Caballero-Aquino, pp. 200-202; Freire Esteves, Historia contemporánea, p. 83.
- 52 Caballero-Aquino, pp. 201-202.
- 53 See A. M. Beaupre to Edward C. O'Brien, Buenos Aires, June 9, 1905, encl., O'Brien to Hay, No. 3, Montevideo, June 9, 1905, DDP, M-128/18.
- 54 Freire Esteves, Historia contemporánea, pp. 83-85; Warren, Rebirth, pp. 108-110; Caballero-Aquino, p. 257.
- 55 Freire Esteves, Historia contemporánea, pp. 85-86; Caballero-Aquino, pp. 203-208; Warren, "The Paraguayan Revolution", p. 369; Warren, Rebirth, pp. 115-117.
- 56 Caballero-Aquino, pp. 211-213; Warren, "The Paraguayan Revolution", pp. 368-369; Warren, Rebirth, p. 120. The open emigration policy only legalized an already common phenomenon. See Memoria correspondiente al ejercicio del sexto [duodécimo] año social de la Sociedad Anónima "La Industrial Paraguaya". (Asunción: Imprensa de la Democracia, 1893; Talleres Nacionales de H. Kraus, 1899), passim.
- 57 Yerba maté plantations.

58 Caballero-Aquino, p. 210.

59 Warren, Rebirth, pp. 123-125; Warren, "The Paraguayan Revolution", pp. 370-372; Caballero-Aquino, pp. 211-213, 257; Freire Esteves, Historia contemporánea, p. 89.

60 Freire Esteves, Historia contemporánea, p. 88; Warren, Rebirth, pp. 122-125; Caballero-Aquino, p. 209.

61 Luis A. Galeano, "Dos alternativas históricas del campesinado Paraguayo: migración y colonización (1870-1950)", Revista Paraguaya de Sociología, 15 (41), 1978, p. 124; Pastore, p. 278. For more details on the law, see Pastore, pp. 276-278.

62 García Mellid, p. 434.

63 Warren, Rebirth, p. 126.

CHAPTER TWO

LIBERAL POLITICS: 1904-1930

With the 1904 Revolution, Argentina's political fortunes improved in Paraguay. Porteño organization and matériel facilitated the triumph of Liberal forces and marked the beginning of what is called the Liberal era (1904-1936). The Revolution initiated a period of sporadic political unrest which included the coups of 1905 and 1908, the bloody civil war of 1911-12, and another civil struggle in 1922-23. Argentina, like Brazil before it, now manipulated much of the country's affairs although direct intervention after 1904 appears to have occurred only during the confusion of the 1911-12 Civil War. At the same time, one should not underestimate the Paraguayan capacity for intrigue. Argentine representatives were naturally intent on guaranteeing their nation's interests, but local politicians and caudillos needed little incentive in furthering their own objectives. This was particularly true during the first twenty years of Liberal rule. Factionalism was even more pronounced in Paraguayan politics after 1904 than it had been earlier and made outside interference that much more problematical for the big powers.

Changing of the Guard

On the night of August 4, 1904, the "Sajonia", a warship recently purchased by the Paraguayan government, set sail from the Buenos Aires provincial capital of La Plata loaded with arms and carrying some 300 determined activists. Ostensibly without the knowledge of the Argentine authorities, the "Sajonia" made for the Parana River under command of a Paraguayan serving in the Argentine navy, Lieutenant Manuel Duarte. The ship entered Paraguayan waters on August 9 and, two days later, was engaged in combat by a government vessel, the "Villarrica", off the Paraguayan town of Pilar. The encounter was brief but destructive for the government, ending in the surrender of the "Villarrica" and easy capture of the town by revolutionary forces.¹ The opening shots in a drawn out revolutionary war had been sounded, heralding a new if not entirely auspicious era in Paraguayan history.

At first, easy victories by the insurrectionaries deluded the actors, since they lacked the resources to capture Asuncion and defeat the main government forces. A revolutionary headquarters was then established at Pilar and the invaders set about increasing their strength and support by setting up a provisional government. The conflict accomplished the near-impossible by uniting radical and cívico Liberals, and Benigno Ferreira assumed

overall leadership for the duration of the fighting.² During the course of the Revolution, many supporters surreptitiously left Asunción for the Argentine Chaco, heading afterwards to Pilar to join the rebel forces. Among them were several egusquicista Colorados who had been denied access to power by Escurra and the caballeristas. They included Guillermo de los Ríos and Emilio Aceval, both instrumental in financing the initial stages of the Revolution.³ By the end of September, they were joined by Escurra's Vice-President, Manuel Domínguez.⁴ The Government, meanwhile, depended on the support of Generals Escobar and Caballero who continued to direct the defence of Asunción despite the fall of most other parts of the country to the rebels.

In late August, the northern city of Concepción capitulated without a fight as did the strategic towns along the river, Villeta and Villa Hayes. Inhabitants in the interior of the country seemed willing to side with the Liberals as soon as they were approached, leaving the government isolated in Asunción and Encarnación. Early in the war, the capital was threatened when revolutionary ships began bombarding government positions within the city, but the Diplomatic Corps negotiated an agreement between both sides to refrain from shelling Asunción in order to protect the lives of civilians and the property of

their nationals.⁵ Encarnación, on the other hand, was ignored by the Liberals until October, when it was finally besieged and captured after a brief battle.⁶ In spite of these setbacks and its inability to dislodge revolutionary troops from the towns surrounding Asunción, the Ecurra government refused to surrender. Gomes Freire Esteves blames Caballero and Escobar for this,⁷ although it must be remembered that at the time, it was widely believed Brazil would eventually respond to the government's desperate pleas for support and supplies.

The 1904 Revolution has been viewed as simply a classic confrontation between the Brazilian-supported Colorados and the Liberals backed by Argentina. As a basic thesis this is valid, although few revolutionary situations are ever so straightforward. In fact, much more was involved. It is inconceivable that the outfitting of the "Sajonia" in Argentina could have been done without the knowledge of local authorities. Indeed, as was suggested in a Montevideo newspaper, the arms removed from the government arsenal in La Plata had the direct participation of an Argentine Member of Congress. And when the Uruguayan Minister to Buenos Aires protested, in the belief the ship was headed for Montevideo, the Argentine Minister of Foreign Affairs, Dr. José Terry, responded by defending the legality of the arms acquisition as long as customs duties

were paid. He advised the Uruguayan to simply monitor the destination of the ship.⁸

Once the Revolution was in full swing, Buenos Aires again extended its hand, guaranteeing refugees safe transit to Argentina via its Asunción legation. Once on the Argentine side of the Paraguay River, it was an easy matter for the exiles to head to the port opposite Pilar and cross over, swelling the ranks of active revolutionaries.⁹

Meanwhile, in the early stages of the conflict, Argentine merchant vessels heading for Asunción were boarded with impunity by the insurrectionists. Only repeated Paraguayan government protests forced Argentine authorities to place the vessels under naval protection.¹⁰ It was also a simple endeavour for the revolutionaries to find sources of financing, especially as the conflict dragged on. Funding from expatriot Paraguayans was essential and in November fund-raisers in Buenos Aires came up with enough money to keep the Revolution alive.¹¹ Argentina did nothing to hinder this or other transfers of capital from Argentine banks, adding to its catalogue of covert actions in support of the Liberal Revolution.

In contrast, the Escurra government could count on little outside aid despite Brazilian interest in keeping the Colorados in power. It was obvious to Itamaraty that the Argentine government had committed itself to supporting

the Revolution outright and the policy makers in Rio were unwilling to risk confronting Argentine power over what they considered to be an irreversible situation. The Brazilian Minister of Foreign Affairs, Caballero's old friend the Baron of Rio Branco, had been in office since 1902 and was dedicated to resolving Brazil's boundary disputes and other concerns diplomatically. He feared no Argentine annexation of Paraguay by this time, in spite of such rumours then circulating in Asunción, and so was willing to accept a fait accompli. No doubt he was encouraged in this by the presence of Argentine gunboats, which conveniently remained anchored beside their Brazilian counterparts throughout the Revolution.¹²

The pot was effectively kept boiling, however, by the busy U.S. Consul in Asunción, John N. Ruffin, who reported to the State Department that the Ecurra government had asked for a U.S. gunboat to help keep the river open and free of revolutionary ships. He suggested that Brazil was willing to act in concert with the U.S. and to help supply the Paraguayan government if Washington were so inclined.¹³ In spite of President Roosevelt's aggressive policy toward the Caribbean Basin at the time, Paraguay was hardly an important concern of the U.S. government and the request was ignored. And whether Brazil was disposed to cooperate in such an unlikely alliance is doubtful anyway,

considering the U.S. representative's diminishing credibility. Ruffin may have assumed Brazil would participate in overt gunboat diplomacy in concert with the U.S., but perceptions in Rio de Janeiro were undoubtedly more realistic than those held by the pro-Escurrea Consul. In the end, Brazil provided no significant material aid to Escurrea and the Caballero clique, so with the fall of Encarnación in late November all hope for the Colorado government faded.¹⁴

The peace treaty of December 12, 1904 signed aboard an Argentine naval vessel formalized the unconditional surrender of the Government.¹⁵ The Liberals won practically all of their demands: prohibition of Colorado access to elections for the time being; reorganization of the army; greater powers for the Asunción police; and new elections for most Congressional seats.¹⁶ Juan B. Gaona was made interim President, with the powerful Liberal caudillo, Benigno Ferreira, pulling the strings.

Although the Revolution owed its success in part to Argentine intervention, all sectors of Paraguayan society were also ready for a change. Economic stagnation and corruption had antagonized the business community, while a normally docile peasantry, battered by economic conditions and alienated by decades of neglect, felt compelled, for the first time, to vent its frustration in the political

realm. As far as the bulk of Paraguayan citizenry was concerned, the Escurra government was not only politically and economically bankrupt, but a moral failure as well. Once Argentine aid and involvement were assured and Brazil's inability or unwillingness to help Escurra became clear, the Revolution was bound to succeed. Yet, little changed with the rise of the Liberals to power, as political instability continued to be the sorry legacy of Paraguay's history.

Liberals to 1911

Following the Revolution, Paraguay suffered through a period of political and economic uncertainty caused largely by factionalism within the Liberal Party. The new Gaona government inherited a depleted treasury with which to satisfy expensive damage claims filed by property owners,¹⁷ and to make matters worse, customs dues and taxes had not been collected for months, in spite of the ability of most exporters to pay. Postwar inflationary pressures and a sluggish economy were aggravated by flooding, locusts, endemic smuggling and the previous administration's policy of printing excessive amounts of currency.¹⁸ As if that were not enough, Gaona was forced to deal with a customs service scandal in late 1905 involving high-ranking members of his own party. And when the President opposed an

attempt by Parliament in December to vote itself a social club out of public funds, the Radical Liberals reacted by instituting a Congressional coup that placed Cecilio Báez in the President's chair.¹⁹

Both the interim term of Báez and the Ferreira presidency which followed, were forced to deal with a continuing economic crisis exacerbated by poor harvests and a persistent threat of conspiracy. Ferreira, however, managed to stabilize the economy and expand trade with Argentina and Europe as well as encourage foreign investment in the nation.²⁰ But the biggest challenge faced by the inexperienced Liberals clearly came in the political arena. Confronted by a Liberal Party split by internal factionalism as well as a restless Colorado Party desperate to regain some credibility, Ferreira's regime was a precarious one indeed. Constant intrigue indulged in by both opposition groups plagued the government. At the centre of nearly every plot was the figure of newly-promoted Lieutenant Colonel Albino Jara. A military man of impeccable conspiratorial credentials, Jara took advantage of Ferreira's decision to distance himself from the army after he became President. Commanding a loyal following in the army and assured of the combined support of disaffected Radicals and Colorados (rare bedfellows indeed), Jara soon maneuvered himself into a position of

power. With the moderate chief of staff, Major General Manuel Duarte, away in Europe buying arms, Jara staged a bloody coup in July 1908, replacing Ferreira with González Navero and sending many supporters of the former government into exile.²¹

In his 1921 history of Paraguay, Gomes Freire Esteves argued that the Ferreira administration's lack of contact with the public and its continued repression of political opponents were the principal causes of the 1908 coup. He goes on to say that the emerging power and arrogance of Finance Minister, Adolfo Soler, who increasingly had the ear of the President, was the catalyst which finally galvanized the conspirators into action.²² Alexander MacDonald, writing in a 1911 travelogue, attributed the coup in part to the recruitment of Argentine and Uruguayan officers into the army, who allegedly treated their troops more harshly than their Paraguayan counterparts.²³ MacDonald's analysis is unsubstantiated, but it does suggest a possible stimulus for Jara's support among the military recruits.

Regardless of the treatment of soldiers by individual officers, Argentina took the coup seriously. An account in the New York Times claimed the U.S. Minister to Uruguay and Paraguay, William O'Brien, reported that the Argentine legation in Asunción was under constant surveillance by

Paraguayan troops, with the result that Argentina threatened to land marines, ostensibly to protect the 100 or so Paraguayans who had taken refuge in its embassy. O'Brien also reported the arrival of additional Argentine war vessels at Asuncion.²⁴ Hence, it would appear from the Minister's communique that the new government certainly did not enjoy Argentine support, especially as it included elements known to be hostile to Buenos Aires. Nevertheless, Argentina was apparently unprepared to intervene at that point, preferring to adopt a wait-and-see attitude. Meanwhile, according to Freire Esteves, the Paraguayan ambassador to Rio de Janeiro was involved in the overthrow. Although the author conveniently refrains from suggesting the Brazilians were implicated, the possibility there may indeed have been a connection requires further investigation.²⁵

The first order of business for the new government was to consolidate power, apparently at any cost. Under the direction of Jara, a state of siege was extended well into 1909, while imprisonment, forced exile, press censorship and torture became part of government policy. Even the judiciary was forced to submit to the will of the military. Political emigration skyrocketed to a level never before seen in Paraguay.²⁶ In such circumstances, more scheming was inevitable and not unexpected. An invasion launched

from Argentina and Brazil by the Colorado Party in mid-1909 met with a highly-organized government counterattack that defeated it in short order. The Jara-controlled government proved to be too strong for its enemies and at the time direct help from Argentina or Brazil was not forthcoming. As far as the neighbouring Powers were concerned, a policy of tolerance for revolts launched from their territory and acceptance of the defeated as exiles when these failed was considered prudent. For the sake of appearances it was important to seem indifferent to Paraguay's internal political wrangles in 1909, although this feigned neutrality would soon be stretched to the limit.²⁷

True to Paraguayan tradition, the ruling clique quickly showed signs of serious divisiveness within its ranks. A power struggle between Jara and the civilian Adolfo Riquelme prompted Manuel Gondra to run for the presidency in 1910 as a compromise candidate. He was easily elected and took over as president in November 1910. Almost immediately he attempted to relieve some of the political pressure by posting Riquelme and Jara abroad. Jara refused to go so the President was obliged to include both men in his cabinet. Early the following year Gondra decided that, with the help of Riquelme, he would attempt once more to have Jara sent overseas, since he was considered not only a liability to the credibility of the

Radicals but dangerous to the future of many aspiring politicians. The wily Colonel, however, anticipated Gondra's action and executed a coup with the support of some cívico politicians, including Cecilio Báez and Manuel Domínguez.²⁸ This action initiated a new period of turmoil that drained Paraguay of much of its political lifeblood and led to a brief break in diplomatic relations with Argentina.

Recurring Civil War, 1911-1912

The years 1911-12 must stand out as one of the cruelest and most wasteful periods in the history of Paraguay. Following Jara's coup in January 1911, the country underwent a state of virtual anarchy. Faction after faction sought to control political power by force of arms, and the confusion of the Civil War ended only after all sides had exhausted themselves completely. The new Jara government was made up of a hodge-podge of idealists and opportunists, most of whom were on the fringes of the Liberal Party. Their hold on power was soon challenged by forces led by Adolfo Riquelme and supported by Gondra and Eduardo Schaerer. Garrisons stationed in the south and north of the country acted in concert with an invasion force launched from Argentina, but soon encountered stiff opposition from troops loyal to the Government. In less

than a month the insurrection had been defeated on all fronts and its leader, Riquelme, captured and summarily executed by Jara.

A reign of terror under Jara's personal direction followed. The repression soon provoked intense criticism from abroad, particularly from the Argentine press, and eventually forced a majority of senators and deputies to renounce their posts. The President's severity was such that it induced members of his own government to overthrow him in July and send him into exile in Buenos Aires some \$30,000 (U.S.) richer. The succeeding administration was made up of an uneasy alliance of remaining members of Jara's government, Colorados and former cívico Liberals, now named democráticos, with Liberato M. Rojas serving as president.²⁹

Not satisfied with the make-up of the new government, the Radical Liberals under the political leadership of Manuel Gondra began to plan yet another invasion from Argentina. In Asuncion, an attempt to unite the Radicals (popularly named Gondristas) with the democráticos failed, forcing many Radicals into exile. Once abroad, the exiles soon became new recruits for the Gondrista forces led by Eduardo Schaerer and financed by Manuel Rodríguez, a Portuguese citizen residing in Argentina. Rodríguez, who had several business interests in Paraguay, had sought to

overthrow the government of González Navero in 1908, but when his financial subsidies to the rebels produced no results, he turned to the Radicals in 1911. He offered Schaerer some 300,000 gold pesos in return for economic concessions once the Radicals assumed power. Schaerer accepted and the insurrection was soon well-equipped with the latest in equipment and arms.³⁰

The uprising was launched in November 1911, provoking a series of actions and counteractions that served to drag the country down into further political chaos. While the Rojas government seemed to understand the danger, it took no steps to deal with the Gondristas in Pilar, who then extended their revolutionary network into the countryside. In January 1912, a bloodless coup by the Asunción police and some previously imprisoned Radicals overthrew Rojas and insurrectionary troops were quickly moved into the capital to defend it against counterattacks. Several days later, however, well-armed supporters of Rojas attacked a superior revolutionary force and succeeded in overrunning the city. The defeated Radical troops then managed to escape on Argentine ships anchored in the harbour, which provoked a serious diplomatic rift between Paraguay and Argentina. Rojas was then able to return to Asunción from his brief exile in Argentina, at which point he acceded to Colorado control of government policy. Meanwhile, Colorado troops

drove the Radicals from the southern stronghold of Humaitá, opening up a southern front and the way for the return of Albino Jara.

The officers in charge of the southern Colorado troops were loyal Jaristas. In league with the democrático Liberals, Jara returned to Paraguay and assumed command of the Humaitá force with the intention of launching a dual campaign against the Rojas government and the Radicals. The Colorados then replaced Rojas in February with Dr. Pedro Peña. The Radical forces, still the strongest in Paraguay, responded by instituting a two-pronged attack on Asunción from the south and north. In order to protect themselves from attack by Jara, now behind them at Encarnación, the southern Gondrista force tore up railway tracks and destroyed telegraph lines on its march northward. The assault on Asunción lasted ten days, culminating in a Radical victory in late March. The short-lived Colorado government and army officers took refuge on a Brazilian ship which conveyed them into exile in Corrientes. Once more, González Navero assumed the presidency, with Gondra and Schaerer serving in the cabinet. The new regime's first order of business was to deal with advancing Jarista troops, who controlled the interior from Villarrica to Encarnación. In early May the main Jarista force was lured into an ambush in the town of

Paraguari and virtually wiped out. Jara was killed in the battle, depriving his followers of their raison d'être, and the Radical insurrection of November 1911 finally triumphed.³¹ The Civil War had torn Paraguay apart and in the process revealed how fratricidal factionalism had come to dominate the political arena. In such chaotic and emotional conditions, it would be hard to believe external forces had not been involved. Both Argentina and Brazil obviously had their favourites, and the two rivals exerted influence more or less where it appeared most advantageous.

As one might expect, Brazil was at a distinct disadvantage in furthering its own interests compared to Argentina. For the most part, the various factions scrambling for power were opposed to Brazil regaining any influence in Paraguay, with the notable exception of the Rojas-Peña governments, which confronted Argentina during the conflict. Brazilian ships, along with their Argentine counterparts, patrolled the river to protect their nationals, prevent any bombardment of Asunción, and aid in the rescue of political refugees. Compared to Argentina, the Brazilian presence during the Civil War was considerably weaker, and therefore kept a lower profile. In this way Itamaraty succeeded in maintaining a more consistent level of neutrality, even in the face of occasional rebel attacks on its ships. The Brazilian

Foreign Ministry, still dominated by the Baron of Rio Branco, appears to have deliberately distanced itself from the conflict, no doubt due to the more active Argentine role. As a result, the Brazilians accepted a subordinate position in the events convulsing their neighbour.³²

The Argentines, on the other hand, were deeply involved in supporting their favourites throughout the Civil War. Along with their Brazilian counterparts, Argentine ships prevented bombardment of Asunción by either faction, at the same time that they patrolled the rivers to protect commerce. Interference with the movement of Argentine merchant vessels on the Paraguay and Paraná Rivers drew repeated protests from the Argentine Minister in Asunción, which usually elicited promises of compensation by the Paraguayan government. As conditions worsened throughout 1911, violations and abuses escalated. By November, Argentine authorities were fed up with the Rojas government and had made the decision to actively support the Gondrista Liberals while maintaining a facade of neutrality. The policy included allowing the Radicals to use Argentine territory without hindrance for preparation of supplies and from which to mount the November invasion. Argentine warships were also instrumental in protecting Radical boats or refugees and in preventing Jarista or Colorado vessels from intercepting

their enemies on the rivers. Exile in the Argentine legation was considered an indirect ticket to rebel headquarters in Pilar, and the presence of important Argentine commercial concerns in the Chaco provided Buenos Aires with the pretext for repeated diplomatic protest and an excuse for action.³³

An escalating series of events during the Civil War led to the rupture of diplomatic relations between Argentina and Paraguay in late January 1912. This followed the detention of an Argentine merchant ship; forced military recruitment of quebracho workers in the Chaco; Argentine naval aid in the evacuation of the defeated Radical forces in January 1912; and finally, alleged attacks on Argentine vessels in Asunción harbour.³⁴ Neither party could be said to be innocent in the diplomatic quarrel that took place, as excessive national and personal pride was very much evident in the exchange of notes that led to the withdrawal of the Argentine Minister. Argentine demands for satisfaction from a Colorado government hostile to its neighbour's interests and insistent upon asserting a rather negative Paraguayan nationalism could only end in a showdown. However, Paraguay, in the throes of an internecine struggle, was in no position to seriously challenge its powerful neighbour and policy-makers in Buenos Aires were only too aware of that fact. Argentine

demands were soon met. Had the Gondra Liberals kept power in January 1912, it is almost certain that few problems would have developed between Argentina and Paraguay. The Radicals were Argentina's choice for government while the Jaristas and especially the Colorados were considered antagonistic to Argentine interests, requiring Buenos Aires to pursue a policy of destabilization where possible. Without Argentine aid, on the other hand, the Radicals would have been much harder pressed to win the war and very likely Paraguay would have suffered the tragedy of an even more protracted civil struggle.

The Argentines were no saviours, however, since their actions were motivated by real and perceived interests which translated into encouraging their chosen allies and impeding the activities of all others, especially those who may have wanted to restore closer ties with Brazil. At the root of Argentine policy during the conflict was the need for continued Paraguayan subservience to Argentine interests at Brazil's expense. The success of that strategy in the 1911-12 Civil War was to determine the nature of Paraguayan politics for several decades to come.

Years of Change, 1912-1930

The end of the recent conflict ushered in a period of relative stability for Paraguay that was seriously

challenged only once prior to the Chaco War with Bolivia. The Radical government soon elected Eduardo Schaerer to the presidency in late 1912 and for the first time since 1898 the president was allowed to finish his term. Schaerer's leadership was challenged in 1915, but the attempted coup, which succeeded in briefly capturing the President, was a fool's adventure that ended in exile for the perpetrators.³⁵ No serious repercussions followed, and Schaerer even granted some of the rebel demands for fairer treatment of the Opposition. His major problem, however, was not political, but involved the economy. Having won the war, the Radicals were forced to pay back the loan from Rodríguez and to deal with labour agitation, which protested inflation and shortages brought on by the conflict.³⁶

Economic conditions in Paraguay from 1912 through World War I were difficult. The Rodríguez loan, which had mysteriously risen to two million pesos from the original 300,000, precipitated a spate of bankruptcies when the government utilized assets of the monetary conversion fund to honour its obligation.³⁷ The European War had a mixed effect on the Paraguayan economy. On the one hand it stimulated exports of animal products and quebracho extract, but at the same time caused inflation within the country, particularly in the price of foodstuffs. Currency

devaluation in 1916, which reduced export earnings; industrial strikes that affected the verbales in particular; as well as drought and locust plagues in 1917 further shook the economy and increased dissatisfaction among various sectors of society.³⁸

The government, while forced to deal with a non-political barracks revolt in 1918, was further destabilized by economic conditions following World War I. Export contracts were cancelled and production had to be cut back severely, resulting in depressed conditions in the labour market together with a rapid depreciation of the paper money. The disbursement of public service salaries was delayed indefinitely in 1919 while payment a year later was still months behind schedule. The cost of living for the average person in the urban centres became intolerable, precipitating a "money strike" by labour unions and merchants alike in March 1920. In addition, the country reeled from the effects of serious flooding and a banking crisis in 1920, not to mention a scandal in the customs service caused by high level corruption and smuggling.³⁹ Conditions further deteriorated during 1920 and 1921, with the result that Manuel Gondra's government was soon convulsed by a current of unrest not seen for a decade.

In the political arena, the Liberal Party split again in 1920. The supporters of Gondra aligned themselves on

one side while those of former-President Schaerer formed a rival group. The rift forced President Gondra to resign just over a year after taking office, although the official explanation for his action cited the Party's dissatisfaction with his cabinet. His successor, Dr. Eusebio Ayala, proceeded to rationalize the Paraguayan economy and reduce the inflationary spiral that the World War had produced. The new president's attempts to reconcile opposing Liberal factions, however, proved fruitless, and in May of 1922 a revolt led by Colonel Adolfo Chirife and supported by Eduardo Schaerer broke out. After a series of engagements on the outskirts of Asuncion won by the Government, the civil conflict then settled into a series of erratic skirmishes lasting over a year. Things finally came to a head in a pitched battle for Asunción in July 1923, when government forces defeated the rebels by bombarding their positions in the capital from a warship, forcing the leaders to seek refuge and exile in Argentina.⁴⁰ In spite of the weakened economy and the issues it raised, the 1922-23 civil conflict was fought primarily on political grounds. Liberal factionalism led party members to assume irreconcilable positions which ultimately ended in armed confrontation. As in all these conflicts, the spectre of Brazilian and Argentine intervention loomed large.

William J. O'Toole, the U.S. Minister in Asunción during the conflict, considered Argentine and Brazilian policy at the time to be "principally one of opposition to each other." According to O'Toole, this was simply a continuation of the past. The Minister reported that Argentina unofficially supported the rebels because:⁴¹

"Eduardo Schaerer,...who is now the political leader of the insurgents, has always favored Argentina and her nationals, and...the present Government of Paraguay has actively sponsored the construction of a rail outlet through Brazil to terminate the domination of Argentina...[which] may have military value for Brazil."

The Minister went on to list numerous efforts by both countries in aiding their respective clients. According to his despatches, Argentina allegedly made public its refusal to sell arms to the government; offered political asylum to rebel sympathizers when no threat was apparent; turned a blind eye to all rebel arms deliveries from Argentine soil unless reported by the Paraguayan government; supported German protests demanding compensation for property damage to their legation; lent support for negotiations between the sides at a time when the rebels had gained an advantage; and through its Minister in Asunción, Dr. Olascoaga, expressed unreserved confidence in a rebel victory.

Rio, on the other hand, had its Minister in Asunción offer rather direct advice to the Government on such

subjects as the inadvisability of complying with the election law; who to send as ambassador to a centenary conference in Rio de Janeiro; and the need to purchase arms. The Minister also intervened in the diplomatic confrontation between the government and the German Chargé d'Affaires; openly criticized the Argentine position during the civil conflict; and attempted to influence the diplomatic corps in Asunción in favour of the government's position.⁴²

O'Toole observed that the Paraguayan government's strategy toward the Powers was essentially based on tradition, which attempted to play them off against one another in order to gain advantage for Paraguay. The Minister discovered, however, that several leading politicians, including President Eusebio Ayala, were beginning to accept a more sophisticated analysis. This view recognized that in the long run any policy which exploited party politics to gain short-term favour from either Brazil or Argentina was inherently disadvantageous to Paraguay. The fear of annexation by either Power was still strong and these more provident Paraguayans expressed to O'Toole the hope that a broader strategy of closer relations with a country like the United States would guarantee Paraguay's independence.⁴³

Irrespective of this growing sophistication in Paraguayan political circles, basic circumstances changed little. Argentina and Brazil continued to support rival factions in Paraguay while the Paraguayans themselves still felt it necessary to balance one power against the other, in the belief that this was the only effective way to protect national sovereignty. Time would modify but never quite erase that concern. And it is significant to observe that Argentina, for the first time since 1904, apparently supported the losing side, although no visible loss of influence or prestige followed. By this time Argentine economic interests had become so important it was no longer feasible for Paraguayan politicians to choose their foreign allies as capriciously as before. Brazil, which supported the government in the conflict, seemed to gain little besides a reduction of tensions between Rio and Asunción, although the victory of Itamaraty's clients may have tempered Argentine opportunism regarding Brazil's internal problems at the time. Nevertheless, the conflict proved without doubt that Paraguay was as securely locked into the Argentine sphere of influence as ever.

Wearied by the incessant political instability, Paraguayans managed to live in relative political harmony for the next decade. The economy expanded steadily, having recovered rapidly from the civil conflict, while the

authorities managed to increase exports and state revenues, reduce the foreign debt and institute some relatively progressive land and labour legislation.⁴⁴

The recovery was short-lived, however, as growing tensions with Bolivia, caused by a series of border skirmishes in 1928, coupled with the impact of the 1929 world Depression served to slow down the country's economic growth, although the political scene continued to function comparatively smoothly. It was only in 1931 when demonstrators protesting Asunción's indecisive policy toward Bolivia were machine-gunned, that the seriousness of political tensions in the country became clear. Additional skirmishes with Bolivia in 1932 finally forced President Aceval to take action by going to war in August.⁴⁵ This effectively closed an epoch of Paraguay's history and presented a new set of conditions that would greatly influence future development. In fact, both the War and the era which followed hastened the collapse of established political institutions and gave rise to a reassessment of the country's traditional foreign alignment. The next fifty years would see a slow erosion of some of the more overt examples of outside interference in Paraguayan politics as most of Latin America began to work toward ensuring the sovereign rights of all nations in the region, large or small. Within Paraguay, however, individual party

interests were oblivious to this trend, encouraging a prolongation of political factionalism and enmity which has persisted to the present day.

Political interference in Paraguayan internal affairs after the War of the Triple Alliance won Argentina and Brazil immediate strategic advantages, although it certainly did little to promote a stable political climate in that country. A major influence in the formulation of Brazilian and Argentine foreign policies was the mutual fear that one's rival might gain an irreversible hold over the Guaraní nation, which could then serve as an impediment to either Power's regional interests. Internal Paraguayan stability appeared to be of little import when placed beside what its neighbours must have perceived as strategic necessity. The two Powers were careful, however, not to become inextricably involved in the labyrinth of Paraguayan politics. Only in 1894, 1904 and 1911-12 was direct intervention deemed necessary, although both Argentina and Brazil continued to play favourites throughout the period and permitted insurrectionary activity to proceed from their territories with little interference. To justify these actions Rio and Buenos Aires could always argue that they acted within the norms of international law, but a closer examination of their diplomatic decisions and activities reveals that these norms were distorted and

manipulated to serve national interests, as is customary in relationships between major powers and their weaker neighbours.

NOTES TO CHAPTER TWO

Abbreviations

DDPU	Diplomatic Despatches from United States Ministers to Paraguay and Uruguay
DUSCA	Despatches from United States Consuls in Asuncion
PRBO	U.S. Department of State. Records Relating to Political Relations Between Brazil and Other States, 1910-1929

¹ Freire Esteves, Historia contemporánea, pp. 92-93.

² Ibid., p. 94.

³ Ibid., p. 89.

⁴ Ibid., p. 97.

⁵ John N. Ruffin to John Hay, No. 162, August 23, 1904, Asunción, DUSCA, T-329/6.

⁶ Freire Esteves, Historia contemporánea, p. 97.

⁷ Ibid., p. 96.

⁸ "El Siglo" (Montevideo), August 12, 1904, encl., W.R. Finch to Hay, No. 768, Montevideo, August 15, 1904, DDP, M-128/17.

⁹ Waldemar C. Korab to Hay, No. 172, November 26, 1904, Asunción, DUSCA, T-329/6.

¹⁰ "El Pais" (Asunción), September 29, 1904, encl. Ruffin to Hay, No. 167, Asunción, October 7, 1904, DUSCA, T-329/6. The Escurra government declared the rebel ships to be "pirates", but Argentina rejected the claim as contrary to international law.

¹¹ Freire Esteves, Historia contemporánea, p. 97.

¹² Warren, Rebirth, pp. 131-133; Korab to Hay, No. 172, Asunción, November 26, 1904, DUSCA, T-329/6.

¹³ Ruffin to Hay, No. 163, Asunción, September 8, 1904, DUSCA, T-329/6. Allegedly, both the Minister of Foreign Affairs, Antolín Irala, and Caballero himself independently sent letters to Rio requesting the intervention of Brazilian gunboats. See Ateneo Liberal, Historia política del Paraguay, período 1870-1904. (Asunción: n.p., n.d.), p. 30.

¹⁴ Warren, "The Paraguayan Revolution", p. 380; Freire Esteves, Historia contemporánea, p. 97.

¹⁵ As a final act of stubbornness, Bernardino Caballero had personally refused to accept defeat and was willing to fight on with whatever resources and soldiers were still available to him. Only when the Argentine Minister, Alejandro Gueselaga, issued an "unspecified threat" to the old general, did he give in. See Caballero-Aquino, p. 219 and Korab to Hay, No. 174, Asunción, December 16, 1904, DUSCA, T-329/6.

¹⁶ Caballero-Aquino, p. 220; Freire Esteves, Historia contemporánea, p. 97.

¹⁷ Ruffin to Hay, No number, Asunción, June 10, 1905, DUSCA, T-329/6.

¹⁸ Rodolfo Ritter, "La cuestión monetaria en el Paraguay", Revista del Instituto Paraguayo, 6 (54), 1906, passim.

¹⁹ Freire Esteves, Historia contemporánea, pp. 101-102; Ruffin to Elihu Root, Nos. 219 and 221, Asunción, December 12 and 20, 1905, DUSCA, T-329/6.

²⁰ Freire Esteves, Historia contemporánea, pp. 105-107.

²¹ Ibid., pp. 104-110; N.Y. Times, July 6, 1908, p. 4, column 6.

²² Freire Esteves, Historia contemporánea, pp. 106-107. Freire Esteves appears to show favour toward the coup.

²³ Alexander K. MacDonald, Picturesque Paraguay. (London: Charles H. Kelly, 1911), p. 385. MacDonald downplayed the events of 1908, probably because his book was written to encourage British immigration to Paraguay.

- 24 N.Y. Times, July 10, 1908, p. 7, column 4.
- 25 Freire Esteves, Historia contemporánea, p. 110.
- 26 Ibid., pp. 112-113.
- 27 Ibid., pp. 114-115.
- 28 Ibid., pp. 115-116.
- 29 Ibid., pp. 117-122; N.Y. Times, December 26, 1911, p. 5, columns 2,3.
- 30 Freire Esteves, Historia contemporánea, pp. 121-122. Rodríguez's first attempt to buy a government saw him support future members of the Democratic Liberals against González Navero, who was now his ally in the attempt to overthrow a Democratic Liberal-supported government! For concessions to Rodríguez following the Civil War, see Domingo Laino, Paraguay: de la independencia a la dependencia. (Asunción: Ediciones Cerro Cora, 1976), pp. 147-148. For some financial details of the loan and background on Rodríguez holdings, see Teodosio González, Infortunios del Paraguay. (Buenos Aires: Talleres Gráficos Argentinos L.J. Rosso, 1931), pp. 124-127.
- 31 Freire Esteves, Historia contemporánea, pp. 122-128; N.Y. Times, May 14, 1912, p. 3, column 7.
- 32 Brasil. Ministerio de Estado das Relações Exteriores. Relatorio apresentado ao Presidente da República dos Estados Unidos do Brasil, 1912-1913. (Rio de Janeiro: Imprensa Nacional, 1913), p. 8.
- 33 Freire Esteves, Historia contemporánea, p. 127; Arsenio López Decoud, La Verdad sobre los Intereses Argentinos en el Paraguay. (Buenos Aires: Talleres Gráficos de la Cía. Gral. de Fósforos, 1912), passim; Luis Vittone, Dos siglos de política nacional (siglos XIX-XX); aspectos y episodios sobresalientes. (Asunción: n.p., 1975), pp. 288-289; N.Y. Times, January 25, 1912, p. 3, column 3; The Times (London), March 3, 1911, p. 5, column 3.
- 34 Details of the break are discussed in Chapter Three.
- 35 N.Y. Times, January 3, 1915, Sec. II, p. 3, column 2; Freire Esteves, Historia contemporánea,

pp. 132-133; Freire Esteves, along with his brother, Luis Freire Esteves, was directly involved in the attempt.

³⁶ Natalicio González, El estado servidor del hombre libre. (México, D.F.: Editorial Guaranía, 1960), pp. 99-100.

³⁷ González, Infortunios, pp. 125-133; García Mellid, p. 474. For more on the banking scam see González, Infortunios, pp. 129-133.

³⁸ Miguel Angel González Erico, "Estructura y desarrollo del comercio exterior del Paraguay: 1870-1918", Revista Paraguaya de Sociología, 12 (34), Set./Dic. 1975, pp. 136-137; Dr. Luis Freire Esteves and Juan C. González Peña, El Paraguay constitucional, 1870-1920. (Buenos Aires: Empresa Gráfica del Paraguay G. Peña y Cía., 1921), pp. 135, 137; W. Jaime Molins, Paraguay: crónicas americanas. (Buenos Aires: Establecimiento Grafico "Oceana", 1916), p. 246; Miranda, p. 172; Freire Esteves, Historia contemporánea, pp. 136-138; W.H. Koebel, Paraguay. (London: T. Fisher Unwin, 1919), p. 282.

³⁹ N.Y. Times, March 30, 1920, p. 5, column 3; Miranda, pp. 171-172; Freire Esteves, Historia contemporánea, p. 139; Freire Esteves, El Paraguay constitucional, pp. 183-184, 189-190.

⁴⁰ Raine, p. 220; N.Y. Times, October 31, November 2, 6, 1921, June 1, 7, 9, 12, 1922, April 9, July 10, 13, 1923; The Times (London), July 19, November 18, 1922.

⁴¹ William J. O'Toole to Charles E. Hughes, No. 732.34/2, p. 3, Asunción, September 23, 1922, PRBO, M-526/2.

⁴² Ibid., pp. 3-5. The diplomatic rivalry between Argentina and Brazil during the 1922-23 civil conflict is also discussed in Chapter Three.

⁴³ Ibid., pp. 5-6.

⁴⁴ Manuel J. Cibils, Anarquía y revolución en el Paraguay; vórtice y asíntota. (Buenos Aires: Editorial Américalee, 1957), p. 30; Liebig's en el Paraguay. Libro de homenaje en el centenario de la fundación de la Liebig's Extract of Meat Company, Ltd.,

1865-1965. (Zaballos-Cué [Paraguay]): n.p., 1965),
p. 96; Miranda, p. 179; Raine, p. 221; The Times
(London), July 31, 1922, p. 7, column 3.

⁴⁵ Miranda, p. 189; Raine, p. 221; The Times
(London), December 18, 1929, p. 21, column 1; Warren,
Paraguay, pp. 299-304.

CHAPTER THREE

DIPLOMATIC INITIATIVE

External interference in the Paraguayan political process could not and did not exist in a vacuum. Perceptions, aspirations and strategies in Rio and Buenos Aires naturally played a large part in determining the outcome of events influenced by Argentine and Brazilian pressure. They also played a significant role in the relationships between the two Powers regarding postwar Paraguay. Fear of one another's ambitions forced both nations to act feverishly in the diplomatic realm to further their respective interests. This meant that, where possible, diplomacy was employed in place of military intervention in order to avoid direct confrontation, a circumstance neither country desired. Such diplomacy took on many forms, depending on conditions at the time, and frequently relied upon the abilities and judgment of particular diplomatic representatives in Paraguay. Nevertheless, guidance from Rio de Janeiro or Buenos Aires through these diplomats usually prevailed and any shift of policy was immediately felt in Asuncion.

Argentine and Brazilian rivalry in the Plata region required that pressure be brought to bear on the small

nations of Uruguay and Paraguay. Interference in internal politics was one vehicle for such pressure, and while within Paraguay success depended to some extent on prevailing political conditions, for the most part the Powers were not disappointed in their efforts. An important factor determining the degree of intervention in Paraguay's internal affairs was the manner in which the rivals viewed one another. While dramatic reversals of Brazilian and Argentine foreign policy did not occur, notable shifts did take place which indicated changing local conditions as well as the need to avoid potential confrontation.

Great Power Rivalry

Following the postwar negotiations which increased distrust between Argentina and Brazil over one another's respective intentions in the area, it was inevitable the former allies would continue to pursue policies that tended to enhance the possibility of an outright confrontation. Dispute over the possession of the Missions territory, in what is now the present-day Brazilian state of Paraná, only exacerbated suspicions and intensified mutual fears about the other Power's expansionism. For much of the 1870s war was considered a genuine possibility, and consequently the future of Paraguay as a nation was thought to be at risk.¹ To the relief of most, tensions diminished in the 1880s,

due in part to political pressures from within the respective Powers. This was followed by economic problems in Argentina and the creation of the Republic in Brazil, leading ultimately to arbitration and an award in favour of Brazil in 1895.² Overall diplomatic strategy underwent some refinement during this time, however, as both nations began to develop new foreign policies which would be more responsive to both conditions at home and abroad.

During the postwar decade, Argentine foreign policy toward its neighbours fluctuated between conciliation and belligerency. The separate peace treaty signed by Brazil and Paraguay in 1872 angered the Argentines and was an important factor in determining subsequent policies pursued by Buenos Aires. In response to the Treaty, Argentina reiterated long-standing territorial demands on the Chaco, thereby placing itself in direct opposition to Brazilian policy toward Paraguay.³ In Buenos Aires' view, Brazil had to be prevented from realizing its imperial designs on the area. This meant consistent opposition to any and all Brazilian interests in both Paraguay and Rio's other spheres of influence. The Porteños firmly believed that in the Río de la Plata region Argentina had to maintain a balance of power, which required a reinforcement of the country's military capacity to withstand any serious threat from Brazil.⁴ In the mid-1870s, however, Argentina relaxed

its belligerency as the threat of a military confrontation with Brazil became very much a reality. The new Avellaneda government in 1874 sought to defuse tensions and deal with its neighbours through negotiation. As a result, the Casa Rosada peacefully accepted an 1878 arbitration decision awarding part of the disputed Chaco to Paraguay.

Yet, early belligerency apparently had its rewards. According to Argentine historian, Roberto Etchepareborda, the possibility of armed conflict with Brazil over both nations' intentions in Paraguay was averted by the combination of the Argentine military build-up under Sarmiento and Avellaneda's policies of peace.⁵ Buenos Aires had at least partially checked what it perceived to be Brazilian expansionism, thereby presuming Argentina had become as potent as its Luso-American neighbour in the serious game of South American power politics. Seemingly satisfied with this apparent success, decision-makers in Buenos Aires then chose to pursue a new foreign policy that in some ways turned away from the Americas toward Europe.

Until the turn of the century, Argentina tended to look upon the world with European eyes. The influence of Britain in the economic sphere and of such doctrines as social darwinism in the intellectual realm had a direct impact on Argentine policy-making for many years.

Consequently, the Americas took a back seat to Europe and regional concerns commanded much less attention than they had in previous years.⁶ This more relaxed view of regional matters no doubt contributed to the loss of the Missions arbitration and elicited a negative reaction among many intellectuals in Buenos Aires. Characterizing the new policy as suffering from an "armchair" (arbitrista) approach, one Argentine writer, Ernesto Quesada, protested at the time that in its relations with Paraguay, his country simply reacted to momentary difficulties without a strategy for follow-up. Quesada considered Buenos Aires' inaction to be "naive" (cándida), although he admitted this followed largely from the conflictive nature of Argentina's internal politics, which hindered the adoption of any firm action. He added that "not infrequently [many politicians] seemed pleased to see [diplomacy] fail."⁷ Apprehension about Brazil's real intentions was no doubt still dominant in the average Argentine diplomat's mind, although incorporation of European ideals and customs was considered to be the fastest and most effective way of building a modern and internationally-respected Argentina. Later, however, when European diplomacy embraced the doctrine of increasing militarism, Argentina dutifully followed suit.

The rhetoric of imperialism and the arms race so prevalent in Europe at the turn of the century had its echo

in Argentina. Many Porteños believed in the need to build a strong navy to prepare for possible expansion in South America, based on the racist doctrine of the superiority of the "neolatin" white Spanish race. The Italian and French occupations of Tripoli and Morocco were taken as blueprints to follow in any future bid to recreate the old Spanish Viceroyalty of the Río de la Plata. Support would be solicited from most of the other Spanish-speaking South American republics in order to achieve an end which would likely mean war with Brazil. It was also essential to encourage bilateral contacts in the region, specifically in order to sabotage U.S. and Brazilian efforts to create a hemispheric panamericanism.⁸ Naval power was the key to such a policy while active economic links would provide the mortar with which to cement a closer union with Uruguay, Paraguay and Bolivia.⁹ The appointment of Estanislao Zeballos as Argentine Foreign Minister in 1906 heralded the translation of ideology into action and soon led to strained relations with Brazil.

Before his appointment, Zeballos was an active proponent of Argentina's use of naval strength in the economic domination and moral leadership of its weaker neighbours. He saw Chile as a natural ally in Argentina's "civilizing destiny" and believed that any Brazilian influence in the region had to be met with real or

threatened force.¹⁰ Such an assertive nationalistic policy inevitably provoked a major diplomatic dispute with Brazil which occurred in 1908.

Rio de Janeiro had also been seduced by the European philosophy of imposed "civilization" through naval power and was about to acquire three battleships from Britain. Zeballos interpreted the intended purchase as a direct challenge to Argentina, in spite of Brazilian assurances to the contrary, so without his government's authorization he attempted to form an alliance with Chile designed to pressure Brazil into giving up one of the ships. Naturally, policy-makers at Itamaraty were outraged and vehemently protested Zeballos' plan. The Argentine Foreign Minister was described in the Rio press as a "dangerous paranoid". Even the Brazilian Foreign Minister, the Baron of Rio Branco, reacted out of character by approaching the U.S. to take over Brazilian diplomatic functions in Buenos Aires should relations be severed.¹¹ The diplomatic stand-off, which also included friction over Argentina's occupation of Martín García island in the River Plate estuary, eventually forced the Figueroa Alcorta government to remove Zeballos from his post later that year in order to reduce tensions. While Etchepareborda argues that a personality conflict between Zeballos and Rio Branco made confrontation inevitable,¹² it is clear that the Argentine

Minister's provocative attitude toward a powerful neighbour preoccupied with consolidating its frontiers through arbitration, provided the major catalyst to discord between the two Powers.

Argentine foreign policy after Zeballos nonetheless continued to follow the world trend, albeit more cautiously, but the Great War in Europe soon put an end to such regional imperialistic delusions. And the rise of the Radical Party to power in 1916 ushered in a period of diplomacy which employed the rhetoric of Argentine nationalism while simultaneously pursuing a policy of peaceful co-existence with its neighbours. Argentina's focus was redirected toward the Americas and increasing attention was paid to the concerns of its neighbours. The nation's economic evolution and the shock of World War I on its immigrant population tended to nurture a more sophisticated Argentina and decision-makers responded by adopting policies which, though still founded on bilateralism were, in Lynn Bender's words, "largely passive", stressing non-intervention in other nations' affairs.¹³ Though there is some debate over this interpretation of Radical diplomacy, especially the handling of Argentina's weaker neighbours, in terms of relations with Brazil the long-standing antagonism between Rio and Buenos Aires had certainly been reduced. During

the period overall, Argentine diplomacy had effectively gone through three stages, encompassing confrontation and indifference; militarism and a bias toward Europe; and finally the nation's rediscovery of its place in the Americas. Brazil, for its part, passed through a series of similar transitions.

In the years immediately following the Triple Alliance War, Rio pursued a foreign policy which sought to consolidate the Empire's frontiers and deny Argentina any room for expansion. This meant ensuring that Paraguay and Uruguay would continue as buffer states and that Argentina would be prevented from realizing its claim to the Chaco Boreal. As seen previously, Brazilian policy caused an inevitable reaction from Buenos Aires and increased the threat of confrontation between the two former allies. Once the menace of war passed, Brazil moved to solidify its position in the Plata region. Good relations with Bolivia, Paraguay and Uruguay in order to secure its southern and western borders became an important element in the Empire's policy, although little was done to enhance the nation's long-term influence in the region.

With the establishment of the Republic, decision-makers in Rio, like their Argentine counterparts, turned their attention to Europe. The French positivist philosophy which is emblazoned on the Brazilian flag to

this day (Ordem e Progresso) came to dominate Brazilian intellectual and diplomatic thought. Events in the Americas, even when they could potentially affect Brazil's security, took a second place to issues on the other side of the Atlantic.¹⁴ As the Republic developed, however, it became increasingly clear that a resolution of its numerous boundary questions was necessary. Once the Baron of Rio Branco was recalled from Europe to head the Brazilian negotiation team, arbitration of the disputes became standard policy. Brazil was soon awarded the Missions territory in 1895 as well as a sizeable piece of French-claimed territory on the northeastern periphery of the Amazon basin in 1900.¹⁵

When Rio Branco was appointed Foreign Minister in 1902, arbitration and conciliation became the cornerstone of Brazilian foreign policy. Drawing on his experience in the 1895 and 1900 arbitrations, the Baron was singularly successful in several others during his ten years as Foreign Minister, resolving all of the nation's remaining territorial questions and emphasizing the principle of arbitration in the solution of Latin American international disputes.¹⁶ Brazil, under his influence, eventually assumed a leadership role in Latin America and actively strengthened its ties with the United States in the process.¹⁷ Over time, this policy ultimately managed to win

allies throughout the Americas as long-standing suspicions of Brazilian intentions gradually dissipated.¹⁸ The Minister expounded his philosophy of panamericanism in harmony with the Monroe Doctrine, which he felt was a necessary tool in protecting the sovereignty of all Latin American nations, large or small.¹⁹ Yet Rio Branco did not isolate his country from Europe, as the build-up of military power, particularly naval, was also an important part of his vision of Brazil's future role in the hemisphere.

Brazilian policy of support for the sovereignty of small nations, while commendable, was hardly based on altruism. The only serious dispute Rio Branco faced in the region at the time was the altercation with Estanislao Zeballos and Argentina. The development of a navy and increasing support for Uruguay in its dispute with Argentina over Martín García island was partly an indirect attempt to protect Brazilian access to its important interior state of Mato Grosso. The island was essential for control of the Plata estuary and Buenos Aires viewed possible Uruguayan possession as constituting de facto Brazilian control - a serious consideration in the event of war between the two Powers.²⁰ Zeballos' dismissal, however, restored normal relations between the Powers and satisfied Rio Branco that Argentina would eschew direct action in the

region. Nonetheless, the Baron continued to believe Brazil's leadership role could only be maintained if his country became militarily powerful, as was the case in Europe. This quest for martial strength did not, surprisingly, have as direct a relevance to South America as many believed at the time, and served to permit Brazil the luxury of pursuing its diplomatic goals both in Europe and the Americas, a strategy that did not take hold in Buenos Aires until years later.

After the Baron's death in 1912, Rio de Janeiro continued to follow the principles he had laid down. Peaceful solution of disagreements and support for the rights of small nations have formed an essential part of Brazil's foreign policy to the present day, although the country tended to observe more isolationist tendencies between the time it withdrew from the League of Nations in 1926 and entered World War II in 1942.²¹

As explained before, once the Triple Alliance War was over, Brazil strived to maintain Paraguay as a buffer state against possible Argentine expansion. Rio worked to guarantee Paraguay's territorial sovereignty in order to keep a balance of power in the region, for which it expected passive acceptance of Brazilian influence in local politics. Naturally, this placed Argentine interests in Paraguay at a disadvantage and so Buenos Aires had to make

a considerable effort to establish its influence where previously there had been little. Following the postwar years of tension between Argentina and Brazil over the peace accords with Paraguay, Argentina chose to place more emphasis on its relations with Europe. This meant that while Paraguay was not ignored by Buenos Aires, other areas were considered more important. The decision to temporarily turn away from the Americas allowed Brazil to consolidate its position in Paraguay virtually unchallenged during the 1880s and 1890s. By the turn of the century, however, Brazilian supremacy tended to be an illusion since both Argentines and Paraguayans were beginning to seek closer economic as well as political ties at the expense of Brazil and its political clients.

The philosophy of the Zeballos generation rested on the assumption that Argentine economic penetration of its weaker neighbours was the key to hemispheric influence.²² Paraguay, as it turned out, offered fertile ground for such a policy, since its external trade was entirely dependent on a river system which passed through Argentine territory. By the 1904 Revolution, Buenos Aires' domination of the Paraguayan economy was sufficient to outweigh Brazilian political influence and permit the rise of the Liberals to power. Brazil, now under the guidance of the Baron of Rio Branco, had taken its dominance in Paraguayan affairs too

much for granted, especially after the 1894 Cavalcanti Coup and the apparent restoration of Brazilian control in 1902. Coupled with Rio Branco's policies of arbitration and conciliation, Carioca complacency allowed the Porteños to enter Paraguay virtually unopposed, thereby undermining Rio's influence for many years to come.

Argentine political control in Paraguay was soon put to the test during the 1911-12 Civil War, when local political factionalism led to confrontation between Buenos Aires and Asunción and caused a brief rupture in diplomatic relations. A combination of Argentine diplomatic arrogance toward Paraguay and the traditional hostility of the Paraguayan Foreign Minister, a Colorado, to all Porteño interests provoked the dispute. The break was brief, however, demonstrating the degree of control Argentina effectively exercised over its neighbour at the time. And Brazil, still dominated by Rio Branco, wisely made no effort to intervene in a situation that otherwise might have escalated into a regional confrontation.

After the passing of Rio Branco, Brazilian analysts expressed dissatisfaction with their country's subsequent attitude toward Paraguay. Little had actually changed with Rio Branco's death, as Brazilian foreign policy continued to follow the course set down by the Baron, but Itamaraty's interest in its neighbour appeared to decline. In a series

of articles published in 1917, a Rio newspaper, Jornal do Commercio, regarded as the semi-official news organ of the Brazilian government, complained that Brazil ignored Paraguay diplomatically. While Argentina, with its enormous investment in the country, allegedly sent the most experienced members of its diplomatic corps to Asunción, Itamaraty often deigned to send only junior diplomats.²³ Unlike Rio Branco, who had even gone to the trouble of urging the U.S. to post a permanent diplomatic representative to Asuncion,²⁴ subsequent Brazilian decision-makers seemed reluctant to continue the Baron's interest in their neighbour. At one point they had even left the Asunción embassy without an ambassador for a period of three years!²⁵ The newspaper articles were not without effect, however, as later that year a high-ranking Rio diplomat finally was sent as the Brazilian Minister to Paraguay.²⁶

Throughout this period, Buenos Aires maintained a high profile in Paraguay, encouraging and expanding investment and disseminating Argentine culture. The Radical Party's rise to power in Argentina initiated a period of increased Argentine nationalism at home and the adoption of more subdued and sophisticated policies abroad. Unlike its predecessors, the Radical administration did not consider its neighbours to be satellites, therefore direct

intervention was no longer considered appropriate. This was amply demonstrated during the events leading up to the 1922-23 civil struggle in Paraguay. Leaders of the revolt requested Porteño arms and other forms of aid in order to launch their adventure, but were turned down by President Yrigoyen. The Argentine president set a precedent for future governments when he sent the plotters a telegram in September 1920, stating:²⁷

"With profound conviction and faithfully interpreting the national spirit, it has become my strict rule of conduct that as long as the Argentine Nation is presided over by me, I will not tolerate even the slightest activity in support of internecine struggles (desgarramientos) in our brother nations."

While tacitly recognizing his nation's earlier interventionism, Yrigoyen had initiated a new direction in Buenos Aires' policy toward Paraguay, although evidence confirms that Argentina continued to support its favourites in the above-mentioned conflict, albeit in a less conspicuous fashion than had been the case in the past.

Times, however, had changed considerably, and by the 1920s and 1930s both Brazil and Argentina had come to realize that they were part of a new international order which demanded a certain accountability for their actions in neighbouring nations. This meant that Paraguay and the other weaker nations of South America were given the

opportunity to assert themselves and thereby become more independent in both the diplomatic and political arenas. In Paraguay this refreshing development did not diminish continued Argentine control over the Paraguayan economy, but it did serve to encourage a certain freedom of action which previously had been restricted. Over the fifty years reviewed, attitudes and methods in nearly every aspect of diplomatic interaction had changed, although much the same ends were still being sought, usually to Paraguay's detriment.

Several issues arose between the Guaraní republic and its neighbours during the 1880-1930 period, including unresolved boundary problems; negotiations over Paraguay's dispute with Bolivia concerning the Chaco Boreal; and the onerous war reparations demanded from Paraguay by Rio and Buenos Aires following the Triple Alliance War. These concerns, while relevant to Asunción's relations with its two largest neighbours, had little long-term effect on Paraguay's development throughout the period, since for the most part nothing concrete was done to settle them until well after 1930.

In the political arena, on the other hand, diplomacy was used as a vehicle to further Great Power ends with little regard for the real welfare and development of Paraguay. This was especially the case when Argentine and

Brazilian support for local clients often determined the outcome of internal Paraguayan political battles, notably during the coup of 1894 and the civil upheavals of 1904 and 1911-12.

Political Interference

After the withdrawal of Brazilian troops from Paraguay in 1876, it was up to the resident Brazilian and Argentine ministers to oversee their governments' policies in Paraguay. Of necessity this meant that to maintain influence in the political arena they had to be prepared to apply diplomatic pressure of one kind or another. In some cases influence was direct and undisguised, in others it was more subtle and more difficult to document. Yet throughout the period, there were only three occasions - 1894, 1904 and 1911-12 - when outright political intervention accompanied diplomatic pressure. In all three instances, the chancellery exerting the strongest influence achieved its goal of replacing one political group with another. Nevertheless, internal and external conditions varied over the years and the outcome of interference could not always be predicted. Only when either Brazil or Argentina showed a willingness to employ military force could they be sure the group they were sponsoring would emerge triumphant. Nonetheless, both Powers were usually

anxious to avoid any situation which could lead to open confrontation with one another.

As indicated earlier, Brazil's influence over Paraguayan politics after 1880 was extended from the immediate postwar years with the support of Bernardino Caballero. Brazil concentrated almost exclusively on trying to prevent Argentina from gaining a political foothold in Paraguay which could be used later as a stepping-stone to annexation. Through Caballero's initiatives, access to the presidency and legislative power was denied the opposition Liberals, who enjoyed the backing of Argentina. The result was that Brazil, which was undergoing dramatic political transformation at the time, relied upon its political allies in the country to promote its interests. In the 1880s, apparent economic prosperity within Paraguay made this task relatively easy, but the regional financial crisis of 1890-91 gave rise to events that soon forced Rio to re-evaluate its relaxed attitude to conditions in Paraguay.

The abortive 1891 revolution made it abundantly clear to all observers that conditions within Paraguay were far from ideal. While there appears to be no evidence that Argentina was directly involved in the attempted uprising, there is little question its participants had tacit support from Buenos Aires. For example, continued revolutionary

activity originating in the neighbouring Argentine province of Formosa after the movement itself had collapsed in Paraguay, prompted Asunción to launch formal diplomatic protests so that Argentina was eventually obliged to arrest and intern all refugees in the area. At the same time, the kidnapping of one of the revolutionaries in Formosa by a Paraguayan officer led to an Argentine protest and the eventual return of the victim to Argentine jurisdiction.²⁸ For the first time since the 1870s relations between Paraguay and Argentina were noticeably strained, if only temporarily, but this prompted Brazil to categorize the episode as one of unwarranted Argentine interference. While it is clear that Argentina was hardly in a position at the time to take over Paraguay as alleged, even had it wanted to, the diplomatic exchanges encouraged Brazilian statesmen to pay greater attention to their Guarani neighbour than they had been doing. This probably contributed to their near-hysterical reaction to the issue of presidential succession in 1893-94.

The assignment by Rio of Dr. Cavalcanti to Asunción in 1894, with the expressed intent of overthrowing the government if necessary, reflected the paranoia which was widespread in Brazilian diplomatic circles at the time. The Brazilians apparently believed rumours which predicted that Jose Segundo Decoud, if elected president, would

sanction Paraguay's annexation by Argentina. Relying on past perceptions but ignoring more recent realities, Brazil was determined to prevent any possible loss of influence in Paraguay. In this, the new Republic had the active support of Paraguay's military strongmen, who were determined to hold onto power at any cost. Under the circumstances, it was an easy matter for the conspirators to replace President González with Juan B. Egusquiza, aided as they were by the presence of Brazilian gunboats in Asunción harbour and the glitter of Brazilian gold.²⁹

Rio's action in Paraguay was a clear response to a perceived threat. The possibility of war with Argentina over the Missions territory meant that Brazil had to be sure Paraguay would not support Argentina in the conflict. There was also the need to deprive rebels in Mato Grosso of a safe haven in Paraguay.³⁰ But the major reason behind the coup was undoubtedly fear that Decoud was an annexationist and that Buenos Aires was behind his candidacy. This belief was reinforced by rumours in early 1894 that Decoud was negotiating with the Argentine government to send warships to Asunción to counteract the presence there of Brazilian gunboats.³¹ Hence, Cavalcanti, convinced that he would have to act quickly, urgently requested from Rio the monetary and military means needed to carry out the coup. Foreign Minister, Dr. Alexandre Cassiano do Nascimento,

promptly guaranteed the finances and warships Cavalcanti required, and with such material reassurance, the Brazilian envoy had little trouble in engineering the overthrow, regardless of the possible threat of Argentine retaliation.³²

By the time the coup was ready, however, Cavalcanti was virtually certain that Argentina would do nothing to prevent it from succeeding. Despite the rumours, no Argentine gunboats had been sent to Asuncion, as political problems at home preoccupied decision-makers in Buenos Aires. In fact, many Argentines were more interested in the upheaval within Brazil itself, which it was hoped would break up the neophyte Republic.³³ By comparison, Paraguay was considered so unimportant at the time that Argentine diplomats showed little interest in their landlocked neighbour.³⁴ Nonetheless, Cavalcanti's paranoia about political conditions in Paraguay served to guide his actions and the envoy acted in order to further what he regarded as Brazil's strategic interests in the area.

Following the coup, more level-headed observers, including Cavalcanti's replacement in Asunción, saw the Paraguayan political situation in a somewhat different light. As long as Brazil continued to ignore Paraguay's growing economic dependence on Argentina, coups such as that of 1894 were merely stop-gap measures which could do

no more than postpone the inevitable.³⁵ This became abundantly clear to the man who benefitted most from the overthrow, Juan B. Egusquiza. Once in office, Egusquiza essentially continued the economic policies of his predecessors and the political accommodation strategy with the Liberals which had so unnerved Rio de Janeiro. If Brazil were unwilling to compete with Argentine economic dominance of Paraguay, then it was inevitable Paraguayan politics would follow a course that would ensure some advantage for the nation's economy.

During the following ten years, Argentina began to match its growing economic influence with an increase in diplomatic interest. For the first time, senior diplomats were sent to Asuncion in an attempt to cultivate a more active Argentine presence. In some ways this was merely a reaction to events in 1894 but it also revealed an attempt to match the calibre of Brazilian representation, which had normally been of high quality. At the same time, Brazilian interest in its neighbour, curiously enough, began to decline. While Argentina upgraded its representatives and strengthened its economic influence, Brazil contented itself with sustaining the status quo, making no attempt to extend its economic interests into Paraguay.³⁶ It is not clear why Rio began to lose interest in its neighbour, but by the turn of the century and in spite of a renewal of

official partiality toward Brazil following the 1902 coup, statesmen in the Carioca capital had lost much of the respectability they once enjoyed among many of Paraguay's politicians.

Although partly a response to former Finance Minister José S. Decoud's irrational schemes in 1900 for a U.S. protectorate over Paraguay, the 1902 coup only deepened tensions within the Colorado Party.³⁷ And throughout the rest of Paraguay, Colorado illegitimacy was confirmed by the Escurra government's venality and incompetence. Even though Brazil benefitted economically from the new government's policies, diplomats found they could not support a regime which had lost all meaningful contact with the people.³⁸ When it became apparent that a serious revolt was being planned with Argentine backing, Brazil realized it had nothing to gain by sustaining the dictatorship, and refrained from becoming involved in the revolution that ensued. This proved to be a crucial factor in the ultimate victory of the Liberals over the Colorados in 1904.

From the beginning, Argentine involvement in the 1904 Revolution was critical. The outfitting of the rebel ship "Sajonia" in La Plata; Buenos Aires' cover-up of clandestine rebel activities of which they were clearly aware; stalling tactics in dealing with obvious violations

of territorial and navigational neutrality; and lastly, continuous aid through the Argentine legation to rebel sympathizers in Asuncion, all contributed to strengthen the Liberal revolutionaries in their battle with the Colorado government. Ironically, Brazilian resolve not to confront Argentina over the issue greatly facilitated the success of the insurrection, thereby virtually guaranteeing the ultimate overthrow of the Colorados.

As discussed in Chapter Two, the Argentines permitted the sale of arms to the revolutionaries and deflected frantic Uruguayan fears the guns were intended for rebels in their country by suggesting to the Uruguayan Minister in Buenos Aires that he keep watch over the destination of the weapons.³⁹ Obviously that destination was Paraguay, not Uruguay, and the advice uttered by the Argentine Minister of Foreign Affairs, Dr. José A. Terry to the Uruguayan representative, revealed how deeply the Argentine government was involved in aiding the revolution. Argentina's true sentiments were revealed when Asunción learned about the existence of the rebel ship and sent Buenos Aires a strongly-worded protest. Only then did the Argentine government belatedly send gunboats, which conveniently arrived too late to intercept the vessel.⁴⁰ Considering Terry's earlier remarks to his Uruguayan colleagues, the absurdity of Buenos Aires' official

position is revealed by his cynical declaration: "Our attitude toward Paraguay is the same as toward Uruguay. For us there exist no revolutionaries, but only friendly governments."⁴¹ Clearly, the Ecurra government was not considered friendly, since Argentine activity in support of the insurrection continued throughout the conflict.

Use of the Argentine legation by revolutionary supporters as a safe "pipeline" to rebel headquarters outside of Asuncion was encouraged by Buenos Aires,⁴² in spite of repeated Colorado protests. Furthermore, Argentine naval vessels sent into Paraguayan waters ostensibly to protect their national interests, especially merchant shipping, tended to look the other way when revolutionary representatives boarded Argentine merchantmen and removed cargo destined for the Ecurra government.⁴³ Excesses, however, such as the attempt to remove a Paraguayan government delegate from an Argentine merchant ship in Paraguayan waters, were generally prevented by Argentine authorities,⁴⁴ although the naval commander was cautioned to act with discretion, since Buenos Aires was "obviously unwilling to risk the chance that Ecurra might receive military supplies."⁴⁵ Brazil, on the other hand, while doing nothing to help Ecurra, refused to permit the rebels to search any of its boats and even provided naval vessels to convoy regular Brazilian shipping in and out of

Mato Grosso.⁴⁶ Considering the volume of Brazil's trade with Paraguay compared to the latter's more extensive economic liaisons with Argentina, Rio's obstinacy meant little to the revolutionaries and led only to desperate pleas for aid from Asunción, to no avail.

The victorious Revolution brought Argentina's clients to power and excluded the Colorados from the political process for many years to come. The success of Argentina's interventionist policy was apparent, although during the conflict observers held differing views as to the roles being played by both Buenos Aires and Rio. Cecil Gosling, British Consul in Asuncion, reported early in the fighting that Argentine interest in annexation inspired the Revolution, but he felt Brazil would eventually act to prevent such a situation from developing.⁴⁷ On the other hand, William Finch, U.S. Minister to Paraguay and Uruguay, reported that President Quintana of Argentina had allegedly sent a veiled warning to Brazil not to interfere with Argentine "interests".⁴⁸ As if to confuse the issue, acting U.S. Consul in Asunción, Waldemar C. de Korab, later repeated rumours that Argentina and Brazil had reached a secret agreement to divide Paraguay between them.⁴⁹

Despite such fears of a regional conflict, there is no evidence that Brazil and Argentina were headed for violent confrontation or were negotiating secret pacts to dismember

Paraguay. On the contrary, it appears Brazil had no desire to oppose Argentina's interests at that time - a fact that was made clear once it became known that Itamaraty had rejected U.S. Consul, John N. Ruffin's preposterous plan to establish an American protectorate over Paraguay with Brazilian military support.⁵⁰ In fact, although the Brazilian Minister in Asunción, Itiberê da Cunha, sent despatches to Rio calling for increased vigilance of Argentina's activities in Paraguay, he also endorsed the idea of non-intervention by his country, which had the effect of undermining possible Argentine attempts to damage Brazil's reputation in the region.⁵¹ Meanwhile, the Baron of Rio Branco continued his policy of regional conciliation, largely because he "no longer feared that Argentina entertained serious ambitions to reconstitute the old Viceroyalty of La Plata."⁵²

The Argentines, for their part, were equally willing to allay Brazil's fears about Buenos Aires' long-term goals for the region. This was done by publishing proof that rumours of Brazilian aid to Escurra had been spread by Paraguayan provocateurs.⁵³ However, Buenos Aires was intransigent when it came to the terms of surrender of the Escurra government. Brazilian efforts to negotiate an end to the fighting won no cooperation whatsoever from the Argentine Minister in Asunción, Alejandro Gueselaga, who

refused to accept anything less than the Colorado government's unconditional surrender.⁵⁴ Eventually he got his way, in spite of the need to coerce Bernardino Caballero into accepting defeat,⁵⁵ although Paraguayans were made to suffer through four months of hardship and deprivation as a result. The emerging theory involving the promotion of Argentine dominance in the region through the use of naval power, which was a fundamental part of Estanislao Zeballos' thinking during his years as Foreign Minister, was first tested in Paraguay in 1904. Although it never became central to Argentine diplomatic policy, it did contribute to the growth of a good deal of Porteño arrogance during the Civil War of 1911-12.

The tumultuous events of 1911-12 gave rise to a situation in which the Paraguayan government found itself at odds with Argentina throughout much of the fighting. Buenos Aires, like most Paraguayans, became fed up with the continuing intrigues of Albino Jara and after his January 1911 coup, decided to support the Radical Liberals led by Adolfo Riquelme, Eduardo Schaerer and Manuel Gondra. Following the execution of Riquelme in March after his abortive attempt to topple Jara, Argentine pressure on successive Paraguayan governments increased. By January 1912, relations between Asunción and Buenos Aires had deteriorated to such a dangerously low level that when the

fiercely nationalistic Colorado regime challenged Argentina's attempts to influence developments within the country, diplomatic relations were severed. Nonetheless, the rupture was brief, as was the Colorados' hold on power, but the incident was indicative of relations between certain sectors and interest groups on both sides of the border and it revealed more clearly than anything the degree of power Argentina wielded over the Paraguayan political process.

The first incidents involving the two nations during the conflict occurred in March 1911, when Paraguay's seizure of three Argentine merchant ships in Paraguayan waters brought forth an Argentine protest, backed by a 12-hour ultimatum, and the deployment of additional military forces along the border. Asunción quickly released the ships, and tensions were eased,⁵⁶ only to heat up again in August during the Rojas administration, when another incident involving an Argentine boat engaged in smuggling occurred. The vessel, detained by Paraguayan authorities in Encarnación while sailing from Asunción to Argentine and Brazilian ports on the Upper Paraná River, was accused of carrying goods not listed in the cargo manifesto. Since Encarnación was an area in open civil conflict, according to the Paraguayan government, its authorities had been instructed to be vigilant, and

although the ship was not proven to be carrying arms, any contraband was considered highly illegal and would be treated as such. In a statement that would serve to set the tone of diplomatic relations throughout the War, the Argentine Foreign Minister, Ernesto Bosch, chastized the Paraguayans on the grounds that:⁵⁷

"...contraband can be easily prevented, without the use of force, with the simple presence of customs guards on board the boats that ply between Paraguayan ports, as Argentina and Brazil have done."

Bosch's implication was, among other things, that Argentine boats would never indulge in such smuggling! Eventually, Argentine pressure forced the Paraguayans to accept the declarations of the ship's captain, especially his denial of any wrongdoing, and in November of that year Buenos Aires was informed that its protests would be acted upon and the offending customs officials punished.⁵⁸ Naturally, the Porteños were delighted, although the incident would pale in comparison to events that occurred during the final weeks of 1911.

In November and December, a series of complaints was received in Buenos Aires from Argentine administrators of several Chaco tannin factories along the Paraguay River about abuses perpetrated on their employees by government river patrols. The nature of the outrages varied. In some

cases the establishments were fired on, in others workers were taken prisoner or beaten by the soldiers, and in one notable case, a foreman was forcibly locked up in his own punishment cage. Apart from these references to the brutal and arbitrary treatment of their workers, the administrators also reported operations were virtually paralysed because labourers had been either pressed into military service or had fled into the interior to avoid conscription. A newspaper campaign was mounted in Buenos Aires by the quebracho company directors with the intention of pressuring the Argentine government to denounce the incidents. Late in December, the Argentine Minister in Asuncion, Martínez Campos, filed his government's protest, requesting that the harassment stop and reminding the Paraguayan government such acts threatened good relations between their respective countries.⁵⁹ In his reply, Paraguayan Foreign Minister Antolín Irala promised to investigate, but he also reminded the Argentines that many complaints were exaggerated, and that, considering the abnormal situation at the time, abuses could be expected. He also defended his government's right to recruit its own citizens for military service whenever it was deemed necessary.⁶⁰

Martínez Campos' response acknowledged Paraguay's right to conscript its citizens, but the Argentine

questioned any license to cause material and personal damage in the process. This in turn prompted Irala to justify his government's actions at the quebracho ports on the grounds it was feared the revolutionaries were successfully recruiting the local workers. In any case, the Paraguayan Minister contended, the total number drafted by the government was an insignificant percentage of the factories' aggregate workforce. Concerning the foreman, Irala explained that the man had been incarcerated in the punishment cage to give him a taste of his own medicine. The Minister added:⁶¹

"In a word, judging by information received by my Government, the workers (peones) are reduced to true slaves, something which our authorities cannot permit to occur in [Paraguayan] territory."

Paraguay's actions were also defended during the Civil War in a publication by Arsenio López Decoud, who challenged the quebracho companies' right to complain about violations when they, themselves, were guilty of serious abuses which were common knowledge throughout Paraguay:⁶²

"Those companies which today protest about violence against their workers seem to forget the brutalities their foremen regularly commit against the workers, punishing them like slaves and hunting them with guns when they go beyond the limits of their enormous fiefdoms (feudos)."

In the wake of these exchanges, Irala proposed a joint Argentine-Paraguayan commission to investigate the treatment of employees at the factories, but Buenos Aires chose to ignore the suggestion.⁶³

Another incident involving the capture of an Argentine merchant carrier by a Paraguayan warship in early December 1911, further strained diplomatic relations, especially after Antolín Irala took over as Foreign Minister later that month. While apologizing and promising to punish the guilty officials, Irala attempted to play down the seizure by arguing that since the country was in the throes of virtual anarchy, his government could not be held responsible for all actions of its subordinate officials. When Martínez Campos rejected Irala's apology as inadequate and demanded reparations as well, the Paraguayan Minister chided the Argentines for failing to act in a "proper" manner, since their vessels had also committed "abuses" for which Buenos Aires had made no atonement. Martínez Campos then demanded an explanation of Irala's statement and in a report to his own Minister of Foreign Affairs, Ernesto Bosch, labelled the Paraguayan government's attitude "anti-Argentine, as demonstrated by the daily assaults committed [by it] against Argentine interests." He also continued to press the issue, apparently irritated by what he regarded as Irala's aggressive attitude.⁶⁴

One of the major issues of the Civil War for the Paraguayan government, especially during the brief Colorado administration, was the assistance given escaping exiles by Argentine ships. In December, Martínez Campos advised the Paraguayan government that an Argentine merchant vessel had taken aboard a number of political refugees who had sought the protection of the Argentine flag, and he formally requested permission for the ship to leave Paraguayan waters with them. According to Irala's reply, the men in question did not deserve political asylum since they were either draft dodgers or subversives. He also implied that Argentina was aiding revolt against his government by harbouring them. Martínez Campos coldly rejected the Paraguayan Minister's argument, explaining that Argentina considered the men to be victims of political persecution (políticos perseguidos). Furthermore, according to the Porteño diplomat, he had only informed the Paraguayan authorities about the men's presence on the vessel to conform with the requirements of international law.⁶⁵ The issue appeared to flounder on that point, although it resurfaced in mid-January 1912 following the surprising rout of the Gondrista faction.

The triumph of Colorado troops over the Radical Liberals after a short-lived coup in early January produced a mass exodus to the safety of Argentine merchant ships.

anchored in Asunción harbour. The vessels, guarded by their own navy, accepted a total of some 400 Radical combatants, most of whom hurriedly boarded the ships still bearing their arms. The Colorado government, through Foreign Minister Irala, protested the Argentine action and condemned the exiles as deserters from the Paraguayan army. Martínez Campos defended the decision of the Argentine flotilla to protect the men, arguing that as far as his government was concerned, the fleeing exiles were simply "citizens without any military standing (carácter) who, having fought and lost, had sought the protection of our flag." The Argentine naval commander, Admiral Eduardo O'Connor, looked upon the Paraguayans as revolutionaries fighting for their ideals and added that to give them up to the local authorities would represent favouratism rather than neutrality in the conflict. According to O'Connor, Argentina had never turned away any person requesting asylum regardless of political orientation. He then justified the rapid exit of the boat carrying the exiles, a merchant vessel commissioned for the occasion, on the grounds that sanitary conditions aboard ship were deteriorating rapidly.⁶⁶

Irala offered to negotiate the issue based on the Montevideo Treaty of International Penal Law, but once more the Argentines chose to remain silent. He later received

information from an Asunción policeman who claimed that he and several others had allegedly been forced to board the Argentine ship by their commanding officer and were prevented from leaving by the Argentines until he was able to escape. The Paraguayan Vice-Consul in Formosa, Argentina, likewise reported that the majority of exiles aboard the Argentine vessel had been allowed to leave the boat at Colonia Cano, opposite Radical headquarters at Pilar, in order to rejoin their rebel compatriots on the Paraguayan side of the river.⁶⁷ Such an obvious breach of neutrality only added to the already bitter relations between Paraguay and Argentina and contributed greatly to the even more heated exchanges that were to follow.

Relations were irreversibly damaged in mid-January when a Radical boat using an Argentine naval vessel as cover was nonetheless shelled by the newly-victorious Colorado forces. Infuriated by the obvious danger to his nation's ship and the blatant lack of respect shown its "neutral" vessels, Martínez Campos warned Asunción that if the "outrages" were not prevented "the Admiral [would] deal with them (los contrarrestará) using his own resources (elementos)."⁶⁸ Irala promised to investigate the shelling but also expressed the hope that Argentine ships would withdraw from the combat zones, thereby "avoiding the possibility of being within range of shots not directed

their way." When Irala tried to explain that in their enthusiasm the soldiers had ignored his government's orders, the Argentine Minister disdainfully accused him of trying to "elude the question", adding that Argentina was "not disposed to tolerate" such excuses. In an angry reply, Irala indicted Argentina for continued complicity in Paraguay's many revolutions, listing several incidents from the contemporary Civil War, which included charges Buenos Aires was giving direct aid to the Radicals in Pilar and elsewhere. In denouncing the Argentines, his despatch read:

"At this time I categorically declare to Your Excellency that my Government will not back down (ceder) under pressure, but is, and always has been, prepared to give satisfaction and ample reparations whenever (toda vez que) it is presented with claims founded in law and duly verified."

Irala offered to meet Martínez Campos about the situation and to have the disputes decided, if necessary, by international arbitration. Martínez Campos immediately relayed Irala's note to Buenos Aires, which promptly instructed him to inform the Paraguayans that if they did not withdraw the note within 24 hours relations would be suspended. Apparently, the Paraguayan Minister's only response was to protest the refusal of Argentine naval ships to accord the customary honours due a head of state

when President Rojas returned to Asunción. Apparently, Martínez Campos received the protest as he was about to leave the country, but explained later that since Rojas had left Paraguay as an exile and had returned in the same manner, he was not entitled to normal diplomatic courtesies.⁶⁹

Relations were officially broken off on January 25, 1912. They were not restored until Irala was relieved of his post and the Government had apologized for its Foreign Minister's behavior. A commission was set up to investigate the incidents, which led to the re-establishment of diplomatic ties between the two nations on February 19, 1912.⁷⁰ Regardless of the political hue of their government, Paraguayans could not withstand strong Argentine pressure, so that ultimately the wishes of Buenos Aires were nearly always fulfilled. Less than a month later the weakened Colorado government fell to Radical forces after heavy fighting, thereby allowing the group directly supported by Argentina to regain power. In May, the Radicals reinforced their hold on the government by defeating the rival Liberal faction under Colonel Jara. This finally brought the Civil War to an end.

Analysis of incidents involving the two nations and the notes which passed back and forth between them reveals that for the first time in several years Argentine

authority in Paraguay had been seriously challenged. Understandably, the statesmen in Buenos Aires were not pleased and were determined to suppress the "upstarts" in Asunción. While there is evidence of strained relations between the two capitals well before the end of 1911, the situation did not reach the crisis stage until early in the New Year. Following military actions against the Argentine quebracho establishments in the Chaco, newspaper publicity in Buenos Aires obliged the Argentine Minister of Foreign Affairs, Ernesto Bosch, to adopt a blatantly threatening posture with the Paraguayan government. He warned that:⁷¹

"...if we don't learn soon and with the utmost certainty (á ciencia cierta) what the purposes [of the attacks] were, we will be forced to exchange our friendly conduct for extreme measures, such as recalling our diplomatic representation."

He followed this threat with an order to the Argentine Navy to investigate the Chaco incidents on its own.⁷²

In his published account of the deterioration in relations, Irala argued that while most governmental action in the Chaco had been justified due to the presence of "revolutionaries" in the area, no abuses had in fact occurred during his term. In one of his notes to Martínez Campos, Irala expressed the hope that rebel propaganda in the Buenos Aires press would be ignored and that joint arbitration between the two countries could be arranged.⁷³

In yet another note in January, the question of Argentine diplomatic aid to Paraguayan exiles was raised when an Argentine naval officer was accused of leading a group of defeated Radicals under guard from the Argentine legation to a visiting warship anchored in Asunción harbour. Apparently no notice of their intentions had been given Paraguayan authorities by the Argentines.⁷⁴ The Paraguayan Minister complained that such action was typical of Argentine behavior at the time, and even though Irala later made repeated efforts to reduce the tense atmosphere, Martínez Campos' demands were deliberately stepped up.

Irala viewed the incident of the 400 exiles taken aboard the Argentine ship as a turning point in the confrontation. Meanwhile, his reply to Martínez Campos' accusation that he was "eluding the question" over Argentine charges that its ships had been subject to shelling, was not well-received in Buenos Aires. As a result, the Argentines began to actively work toward humbling the Colorado government. Irala's accusation of Argentine complicity in both the 1911-12 Civil War and earlier rebellions proved to be the last straw for Buenos Aires, even though the Paraguayan Minister continued to defend his claims on the grounds that history would vindicate him. He believed Argentina was morally at fault, and to support this view Irala cited the arguments of the

Swiss international jurist, Alphonse Rivier, who reasoned that weaker nations had the right to insist that stronger states prohibit the organization of international conspiracies on their soil.⁷⁵ The ex-Foreign Minister argued his case from a juridical point of view, but clearly Argentine decision-makers of the time were not as interested in the finer points of law as they were in acts of submission.

In reviewing the literature available, it appears that the entire dispute developed and escalated as a result of intransigence on both sides. Argentina was deeply committed to supporting the Radical Liberals under Manuel Gondra and Eduardo Schaerer. This meant stepping up harassment of the Rojas cívico government once the Gondristas began their bid for power. When the Colorados effectively took over control of the Rojas government in early January 1912, and Dr. Antolín Irala was named Foreign Minister, confrontation became inevitable. A loyal Colorado married to a Brazilian, Irala, who had also served as Foreign Minister in the Escurra regime, may have believed he had a score to settle.⁷⁶ Buenos Aires, no doubt aware of his anti-Argentine feelings, interpreted everything he did in that light. As far as it was concerned, the Paraguayan Minister presented an obstacle to Argentine policies which had to be overcome. While using

relatively mild diplomatic language, Irala nonetheless refused to take Argentine claims at face value, something which clearly infuriated Martínez Campos and his superiors. They were accustomed to being accorded a certain degree of deference by their Paraguayan counterparts, and Irala's actions in defense of his government merely drove Buenos Aires to demand more concessions than ever. Consequently, Argentina seems to have become intent upon forcing the issue, to the point of either bringing the government down or, at the very least, obtaining Irala's resignation. Unfortunately, the proud Paraguayan Minister played right into their hands when he openly accused Buenos Aires of providing direct support to the Radicals. This gave the Argentines the excuse they needed to cut relations. Under the circumstances, Irala may not have had any other choice, since in the end Argentina achieved everything it had been seeking. It was not long, however, before Paraguay's brief period of defiance was replaced by a return to its required humility.

Throughout the diplomatic quarrel, Brazilian reaction was curiously muted. In the course of joint river patrols with Argentine naval units to prevent bombardment of Asunción, Brazilian ships were fired upon as well. Yet no diplomatic protest seems to have been launched. Brazilian boats also participated in spirited refugees into exile in

Argentina but, with the exception of the overthrow of the Colorados in March 1912, Rio never intervened to the extent of its Argentine counterparts.⁷⁷ Yet, widely held beliefs that Brazil was passively supporting the Colorados served to drive the more numerous refugees of other political persuasions into the arms of the Argentines. Itamaraty, true to the principles of conciliation espoused by the Baron of Rio Branco, was clearly intent upon avoiding any confrontation with Argentina, especially considering the dangerously low level of relations reached between the two countries a mere four years earlier. Nevertheless Rio, according to Irala at least, denied Admiral O'Connor's claims that Brazil supported Argentine military action in response to the shelling of its ships.⁷⁸ Apparently, Itamaraty was unwilling to make Argentina's interference in the Civil War any easier than necessary. It stopped short, however, of taking any action that would unduly embarrass Brazil's relations with Argentina, a pattern that was still evident in yet another Paraguayan civil conflict ten years later. Fortunately for most of those involved, on this occasion Buenos Aires opted for a less confrontational posture.

During the 1922-23 conflict, Argentine and Brazilian diplomatic representatives again actively supported their chosen political clients. Times had changed, however, as

this was the era of peaceful Argentine diplomacy initiated by Hipólito Yrigoyen and the Radical Party. Unlike the situation a decade earlier, Argentina was no longer prepared to openly assist rebellion in Paraguay, as Yrigoyen had made clear in his 1920 diplomatic note.⁷⁹ Nevertheless, Buenos Aires remained fully aware of its interests in the Paraguayan economic and political milieu and was not unwilling to lend support to certain political groups when necessary.

The Argentine government, as detailed in Chapter Two, had been involved in supporting Radical rebels under Eduardo Schaerer. Its modus operandi was relatively simple and provides a classic example of indirect diplomatic interference. Pressure, for instance, was applied where it would most embarrass the existing government, including reviving the earlier practice of granting political asylum to its enemies; encouraging third parties to sell arms to the insurgents; supporting peace talks when Schaerer's forces appeared to have the upper hand; and publicly refusing the Paraguayan government's requests for arms. Argentina also chose to ignore rebel violations of its own territory, particularly the abduction to Paraguay of several members of the Paraguayan Consulate in Posadas, who were investigating illegal arms shipments to the insurgents through that city. Buenos Aires launched no protest and

apparently did nothing to secure the release of the hostages.⁸⁰

In another example, the Argentine Minister in Asunción, Dr. Olascoaga, encouraged the German Chargé d'Affaires to press the Paraguayan government to pay for damage inflicted on the German legation by vandals. Apparently Olascoaga, in his capacity as Dean of the Diplomatic Corps in Asuncion, convinced the Germans to demand some military action against the perpetrators of the outrage, in spite of the anti-German climate prevalent in Paraguay at the time. According to William O'Toole, the U.S. Minister in Asunción, public feeling against Germany was so strong the government was powerless to accord the Germans satisfaction, even if it had wanted to. Tensions were so high that the German representative ran the risk of being expelled from the country.⁸¹ The Argentine ambassador's obvious purpose was to see the Paraguayan government embarrassed, apparently at any cost, but President Ayala was able to win support from a not totally unexpected quarter.

In spite of a brief deterioration in Brazilian-Paraguayan relations early in 1922 caused by unrestrained jubilation among some Paraguayan writers over the death of the Conde d'Eu (considered to be the architect of Paraguay's destruction in the Triple Alliance War),

relations returned to normal during the 1922-23 civil struggle.⁸² Throughout the strife, the Brazilian Minister to Asuncion continued to support the administration in power. In fact, it was Brazilian intervention that finally resulted in an "adjustment of the differences between the Paraguayan and German Governments", and helped avert a possible rupture in relations between the two countries. In the process, the Brazilian embassy continued to offer the government advice and lobbied energetically on its behalf among the Diplomatic Corps. Since the Ayala administration expressed interest in expanding Paraguayan-Brazilian commercial and transportation links by way of a projected Asunción-Santos railway, Rio was more than willing to lend it diplomatic and moral support.⁸³ Provided Brazil could act unobtrusively to reduce at least some of Argentina's influence over their mutual neighbour, then Itamaraty believed the effort should be made.

Surprisingly, after a year of fighting, the Ayala government succeeded in defeating the insurrectionaries, even though they were aided throughout by Argentina. This turn of events did not seem to upset Buenos Aires unduly, as it suffered no long term loss of prestige or economic power in Paraguay as a result. The fact that Argentina's economic and political presence in Paraguay was not weakened by the defeat of its political clients reveals how

profoundly the Porteños had become involved in all aspects of the country's internal affairs. The Brazilians, on the other hand, were reluctant to depart from the counsel of Rio Branco and challenge Argentine hegemony in Paraguay by any other than diplomatic means. This becomes abundantly clear when one realizes that it took more than a generation before a road between Asuncion and the Brazilian border was finally constructed. Only then did Argentina's influence in Paraguayan internal affairs begin to diminish.

Diplomatic interference in internal political matters was clearly necessary in order to maintain an influence over Paraguayan political development, and as events unfolded, resident diplomatic representatives from Argentina and Brazil acted quite naturally to further their countries' interests. This strategy usually proved quite successful, especially for the Argentines after 1904. In fact, much of Paraguay's long-term political growth depended on the diplomatic policies of its neighbours and can be said to have developed according to Buenos Aires' or Itamaraty's interest or indifference at any given time. In the economic sphere, such interference was somewhat more complicated, since private individual entrepreneurs were also involved. These business concerns linked to Argentine governmental policies were instrumental in determining the

path of development Paraguay was to take during the 1880-1930 era.

NOTES TO CHAPTER THREE

Abbreviations

DDA	Diplomatic Despatches from United States Ministers to Argentina
DDPU	Diplomatic Despatches from United States Ministers to Paraguay and Uruguay
DUSCA	Despatches from United States Consuls in Asunción
MDBA-OR	Missões Diplomáticas Brasileiras, Assumpção, Ofícios Recebidos
PRBO	United States. Department of State. Records Relating to Political Relations Between Brazil and Other States, 1910-1929
PRO/FO	Public Record Office - Foreign Office (Great Britain) Diplomatic Despatches

¹ "El Porvenir" (Asunción), Aug. 6-Sept. 10, 1882, pp. 31, 62-64. In a series of weekly articles, the writer (possibly editor Pedro Miranda) created dialogues which spoke for the countries involved, describing what he viewed as each nation's intentions in the dispute. Argentina was portrayed as peaceable and conciliatory, but Brazil was viewed as aggressive and menacing. In the scenario presented, Brazil even threatened to drag Paraguay into any future war!

² Burns, A History, p. 321.

³ Warren, Paraguay and the Triple Alliance, pp. 117-119, 280; Ramón Cárcano, La Guerra del Paraguay (1941), cited in Etchepareborda, p. 57. Warren explains that the British Minister to Asuncion in 1872 reported deliberate Argentine delay in signing an agreement with Paraguay so as to win more Chaco territory. This spurred Brazil to violate the wartime agreement between the Allies and sign a separate treaty with Asuncion. The Minister felt Argentina had only itself to blame as a result. Warren, p. 119. Cárcano arrived at basically the same conclusion.

⁴ Etchepareborda, pp. 53, 61-77; Lynn Darrell Bender, "Argentine Foreign Policy: History of a Chameleonic Nationalism", Revista Interamericana (Puerto Rico), 63 (1976), p. 317.

⁵ Etchepareborda, p. 54.

⁶ Juan Carlos Puig, Tendencias de la Política Exterior Argentina (1970), cited in Etchepareborda, p. 114.

⁷ Ernesto Quesada, La Política Argentino-Paraguayo. Historia de la Diplomacia Nacional (1902), cited in Etchepareborda, p. 114.

⁸ Bender, p. 317.

⁹ Etchepareborda, pp. 81-85, 121-129.

¹⁰ Ibid., pp. 127-129.

¹¹ Ibid., pp. 81-85, 135-138.

¹² Ibid., p. 142.

¹³ Bender, p. 318; Etchepareborda, pp. 11-12, 121-122.

¹⁴ Paraguay-Brasil: Pela confraternização americana. (Rio de Janeiro: n.p., 1928), pp. 78-79; Expedito Resende, "A evolução da política exterior do Brasil", Revista Brasileira de Política Internacional (Rio de Janeiro?) 18, (69-72), 1975, p. 120.

¹⁵ Burns, A History, p. 321.

¹⁶ Helio Lobo, O Pan-Americanismo e o Brasil, ser. 5, v. 169, Biblioteca Pedagógica Brasileira. (São Paulo: Companhia Editora Nacional, 1939), np.

¹⁷ Burns, "Tradition and Variation in Brazilian Foreign Policy", Journal of Inter-American Studies, 9 (2), April 1967, pp. 197-199.

¹⁸ Brasil. Ministerio das Relações Exteriores. Introdução as obras do Barão do Rio-Branco. Prepared by Arthur Guimarães Araujo Jorge. (Rio de Janeiro: Imprensa Nacional, 1945), pp. 227-228.

¹⁹ Burns, "Rio Branco e a sua politica externa",

Revista de História (São Paulo), 28 (58), 1964, pp. 369-375; "Grotius", "Mirajes Internacionales", Los Anales del Gimnasio Paraguayo (Asunción), 3, (Febrero 1919), pp. 211-212. The identity of "Grotius" is not revealed.

20 Etchepareborda, pp. 147-148.

21 Burns, A History, pp. 330, 354-355; "Grotius", p. 209.

22 Etchepareborda, p. 128.

23 Jornal do Commercio, Setembro 11, 1917, Rio de Janeiro, cited in "Notas Americanas", Revista de la Escuela de Comercio (Asunción), 3 (40-43), Diciembre 1917, pp. 843-844.

24 Burns, A History, p. 327.

25 Jornal do Commercio, Setembro 11, 1917, Rio de Janeiro, cited in "Notas Americanas", p. 844.

26 "Vida Diplomática - Paraguay-Brasil", Revista de la Escuela de Comercio, 3 (32-37), 1917, p. 517.

27 Cited in Vittone, p. 290.

28 Isidoro Ruiz Moreno, Historia de las Relaciones Exteriores Argentinas, 1810-1955. (Buenos Aires: Editorial Perrot), 1961), p. 136.

29 Warren, "Brazil and the Cavalcanti Coup", pp. 232-233.

30 Ibid., p. 233.

31 Ibid., pp. 230-231.

32 Ibid., cited, p. 230.

33 Ibid., p. 223.

34 Ibid., p. 228.

35 Henrique Carlos Ribeira Lisboa to Carlos Augusto de Carvalho, la Sec. No. 1 Conf., Asunción, Janeiro 2, 1896, MDBA-OR 201/2/6, cited in Warren, Rebirth, pp. 96-97. For details of Brazilian organization of the coup, see Chapter One.

- 36 Warren, Rebirth, p. 105.
- 37 For details of Decoud's exploits, see Chapter One.
- 38 Caballero-Aquino, pp. 207-208.
- 39 Finch to Hay, No. 768, Montevideo, August 15, 1904, DDPU, M-128/17.
- 40 Argentina. Diario de Sesiones, Cámara de Diputados. No. 39, Agosto 29, 1904, pp. 6-7, encl., A.M. Beaupre to Hay, No. 39, Buenos Aires, September 14, 1904, DDA, M-69/38; Freire Esteves, Historia contemporánea, p. 93.
- 41 Argentina. Diario de Sesiones, Cámara de Diputados. No. 39, Agosto 29, 1904, p. 11, encl., Beaupre to Hay, No. 39, Buenos Aires, September 14, 1904, DDA, M-69/38.
- 42 Waldemar C. de Korab to Loomis, No. 172, Asunción, November 26, 1904, DUSCA, T-329/6.
- 43 John N. Ruffin to Loomis, Nos. 166-168, Asunción, September 30, October 7, 14, 1904, DUSCA, T-329/6.
- 44 Ruffin to Loomis, No. 163, Asunción, September 8, 1904, DUSCA, T-329/6.
- 45 Warren, Rebirth, p. 130.
- 46 From "El Pais" (Asunción), Octubre 14, 1904, encl. Ruffin to Loomis, No. 168, Asunción, October 14, 1904, DUSCA, T-329/6; Warren, "The Paraguayan Revolution", p. 379; Warren, Rebirth, p. 132.
- 47 Cecil Gosling to Haggard, Asunción, August 16, 1904, encl. in Haggard to Lansdowne, Paraguay No. 6 Conf., Buenos Aires, August 12, 1904, PRO/FO, 59/62, cited in Warren, "The Paraguayan Revolution of 1904. ", p. 378.
- 48 Finch to Hay, No. 785, Montevideo, October 18, 1904, DDPU, M-128/17.
- 49 Korab to Loomis, No. 172, Asunción, November 26, 1904, DUSCA, T-329/6.

50 Ruffin to Loomis, No. 163, Asunción, September 8, 1904, DUSCA, T-329/6. See also Chapter Two.

51 Itiberê da Cunha to Rio Branco, 2a Sec., No. 13 Res., Asunción, Outubro 29, 1904, and same to same, 2a Sec. No. 17 Res., Asunción, Dezembro 2, 1904, MDBA-OR, 201/2/8, cited in Warren, Rebirth, pp. 131-132.

52 Warren, Rebirth, p. 133.

53 Ibid., p. 132.

54 Ibid., p. 131.

55 See Chapter One, note 81.

56 The Times (London), March 3, 1911, p. 5, column 3, March 4, 1911, p. 8, column 4, March 6, 1911, p. 5, column 5.

57 Argentina. Memoria de Relaciones Exteriores y Culto presentada al Honorable Congreso Nacional correspondiente al año 1911-1912. (Buenos Aires: Imprenta y Casa Editora "Juan A. Alsina", 1912), p. 59.

58 Ibid., pp. 46-67.

59 Ibid., pp. 125-129, 154-155.

60 Antolín Irala, Negociaciones Paraguay-argentinas; sus antecedentes. (Asunción: Talleres de Zamphirópolis y Cia., 1912), p. 21; Argentina. Memoria (1911-1912), pp. 155-157.

61 Argentina. Memoria (1911-1912), pp. 157-158; Irala, pp. 25-27.

62 López Decoud, pp. 2-3. López Decoud wrote this pamphlet originally as a letter to the Buenos Aires newspaper, "La Nación", published on January 13, 1912. López Decoud, p. 10.

63 Irala, pp. 25-28.

64 Argentina. Memoria (1911-1912), pp. 134-153.

65 Ibid., pp. 86-93.

66 Ibid., pp. 94-110.

- 67 Irala, pp. 51-55.
- 68 Argentina. Memoria (1911-1912), p. 79.
- 69 Ibid., pp. 170-186.
- 70 Ibid., pp. 189-192.
- 71 Ibid., p. 115.
- 72 Ibid., pp. 159-164.
- 73 Irala, pp. 30-38.
- 74 Ibid., p. 48.
- 75 Ibid., pp. 66-70. Irala incorrectly refers to Rivier as Belgian.
- 76 Warren, Rebirth, p. 123; Freire Esteves, Historia contemporánea, p. 123.
- 77 Freire Esteves, Historia contemporánea, p. 127; Ruiz Moreno, p. 141.
- 78 Irala, pp. 15-16.
- 79 See Vittone, p. 290 and earlier in this chapter for Yrigoyen's pronouncement on the subject.
- 80 William O'Toole to Charles E. Hughes, No. 732.34/2, pp. 3-6, Asunción, September 23, 1922, PRBO, M-526/2.
- 81 Ibid., pp. 3-6.
- 82 Ibid., pp. 1-2.
- 83 Ibid., pp. 3-6.

CHAPTER FOUR

THE ECONOMIC DETERMINANT

Serious attempts to rejuvenate Paraguay's war-ravaged economy did not begin until the 1880s. The nearly decade-long Brazilian occupation of the country did nothing to stimulate Paraguayan economic development since sutlers to the Brazilian army monopolized all trade and successfully ignored Paraguayan law, undermining the few independent entrepreneurial efforts attempted by locals. With the subsequent withdrawal of Brazilian troops in 1876, Paraguayans were left to rebuild their homeland on their own. Lacking the financial and human resources necessary to effect an immediate reconstruction, decision-makers in Asunción felt a need to set their sights on attracting foreign investment. As a consequence, a new economic era began which profoundly altered the structure of Paraguayan society.

The sizeable loans contracted in London in 1871 and 1872 left Paraguay in a precarious financial position by 1880. Further loans were not practical and impossible to negotiate, yet the government needed to find some way to generate income. President Bernardino Caballero and his clique saw a solution to the problem by tapping into the

most valuable resource Paraguay possessed at the time - its state-owned lands. Between 1883 and 1900, the bulk of the nation's territory was sold off to private investors, the majority of whom were foreigners. In fact, the character of Paraguay's postwar economic development was forged by these sales, which encouraged foreign speculators and legitimate entrepreneurs alike to enter the country and buy up what had previously been a jealously-guarded patrimony. The government's decision planted the seeds of foreign control over the Paraguayan economy, a hold which was further solidified with the establishment and development of important agricultural industries in the years that followed.

Besides land, Paraguay's overall wealth has traditionally been based on renewable natural resources and agriculture. During the regimes of Dr. Francia and the two Lopezes, the major economic activities of the nation were the production of yerba and cattle raising. While the War effectively despoiled these industries, efforts were made soon after the cessation of hostilities to restore them to prewar levels. It was not an easy task, since cattle stocks were down from an estimated two million animals in 1864 to some 15,000 head by 1869, and the most productive yerba lands had been ceded to Brazil by the Treaty of 1872.¹ Only during the decade of the 1880s did efforts to

redevelop these industries begin to bear fruit. Most investment came from abroad, particularly Argentina and Britain, and was instrumental in founding the country's largest industrial concern, the yerba giant La Industrial Paraguaya, as well as several large ranching enterprises.

Ranching did not become a significant industry for several decades, however, as stocks took time to be replenished and international attention to the region was for the time being focused on developing the pastoral industries of Argentina, Uruguay and southern Brazil. Yet, as ranching grew more important in Paraguay's neighbours, so did another industry that was a by-product of the cattle business - exploitation of quebracho wood. Between 1900 and 1913 the Paraguayan Chaco, along with its counterpart in Argentina, became the principal world supplier of tannin used in the treatment of hides. During these years, in fact, quebracho became more important to Paraguay than yerba, and could in many ways be compared to the Brazilian rubber boom of the same era. Due to the monocultural nature of the nation's economy, these product fluctuations were graphically reflected in its trade patterns throughout the period under review.

All Paraguayan trade was necessarily channelled through Argentina. The Parana and Paraguay River systems were the nation's only links to the outside world until a

railway connection with Buenos Aires was completed in 1913. Even communication with the populated areas of Brazil was by way of these routes until a road finally linked Asunción with São Paulo and the Brazilian coast in the 1950s. Of necessity, then, Paraguay had to depend on the Argentine river system for its transportation outlets. But the Gaucho nation was also its major trading partner and not only took most Paraguayan exports, particularly yerba, but also supplied much of Paraguay's raw material and light manufacturing requirements. This mutual dependence was prevalent throughout the period and beyond, and proved more enduring than governments and political parties. The pronounced Argentine-Paraguayan economic connection produced a curious element in the Paraguayan trade equation - the almost total absence of Brazil. Duplication of Paraguayan products with many produced in Brazil and the lack of direct transportation links between the two nations no doubt accounted in large measure for the paucity of Brazilian investment in its neighbour. Nevertheless, as a rule it appears Brazilian entrepreneurs and statesmen chose to ignore economic opportunities in Paraguay, despite Rio's political clout in the country until 1904.

Perceptions of what the country held for them played a major role in determining how its neighbours and foreign investors viewed economic opportunities in Paraguay.

Taking advantage of its naturally dominant position by virtue of geography, Argentina controlled the trade and saw to it that most of the investment either originated in or passed through Buenos Aires. In economic terms, Paraguay in the half-century between 1880-1930 was a satellite of its larger Platine neighbour. Meanwhile, Brazil for its part, chose to direct entrepreneurial energies almost exclusively toward developing its own vast interior. These circumstances profoundly affected the course of Paraguayan national development as a result.

The Land Laws of the 1880s

The extent of territory retained by Paraguay after the war totalled 16,590 square leagues, including 840 leagues of yerbales, 7200 leagues of pasture land and 8550 leagues of forest.² Of this a mere 261 square leagues were privately owned, leaving virtually all lands in the hands of the state. During the early 1870s, some attempts were made to sell land to those who occupied it, but purchase conditions were far too restrictive for destitute peasant farmers to meet.³ In 1875 and 1876, newly-adopted property laws required proof of title (an absurd condition considering the history of property holding in the country) or in lieu of that allowed each occupant up to a year to purchase the land, at which time fifty percent of the price

had to be paid in gold! Since these laws proved unrealistic for peasant agriculturalists and the Paraguayan government alike, the Argentine civil code was introduced, almost verbatim, into Paraguayan law in 1877. While the code tended to protect squatters, the situation in Paraguay at the time permitted abuses to occur, often with the acquiescence of government officials. Other laws in 1878 and 1880 served to define more specifically the character of land tenure and usage, but the state refused to heed requests for an inventory of the nation's land base in order to clear titles once and for all.⁴ As a result, peasant proprietors, many of them female household heads, were regularly forced off land their families had occupied for decades.

Nonetheless, the volume of land sales remained insignificant until the 1880s, since opportunities for investment were far more attractive in countries like Argentina and Uruguay. Only with a regional economic downturn and the sale of virtually all accessible lands in Argentina by the early 1880s, did investors begin to turn their attentions elsewhere. Desperately in need of revenue, the Caballero government decided to take advantage of the decline in the Argentine real estate boom by passing a law in 1883 which opened up Paraguay's lands to foreign buyers. In 1885 further legislation expanded sales,

thereby setting the stage for foreign ownership of the bulk of Paraguayan territory within two decades.

The land act passed in 1883 offered buyers unlimited tracts of terrain at prices lower than those which had prevailed in Argentina earlier. Aside from hope that it would generate immediate income for the government, the intent of the law was to provide a framework for the transformation of Paraguay from a smallholding society into one made up of large estates. As explained in the May 7, 1884 issue of "La Reforma", the government believed that:⁵

"the country had to begin [with] ranching before it [could engage in] agriculture in the real sense (extensión) of the word; as it is necessary to be an agricultural [producer] before an industrial one. That is how all countries have developed (formado) and reason indicates that Paraguay must follow the same path."

The example of massive capital investment absorbed by Argentina in the previous decade was obviously in the forefront of Asuncion's philosophy of political economy.

Despite its optimism, the government derived much less income from the sales than expected, which led to the promulgation of a further law in 1885 to replace the 1883 act. The new law effectively dealt the death blow to smallholding properties in Paraguay. Land was divided into five classifications, as opposed to three in the 1883 act,

and sale prices were reduced. Peasant farmers were given a longer period to buy the land they worked, but unlike the 1883 law, the government offered no guarantee a plot would not be sold to a third party before the occupier could enter into legal possession. Rents were raised again.⁶ The legislation effectively opened up the floodgates to foreign and domestic speculators. Land seen and unseen was snapped up in a voracious orgy of greed, and hastily-formed banks lent money with an abandon rare even for that time.⁷

Within fifteen years, there was virtually no land left to be bought. Close to 16,000 square leagues had been sold, most of it within the first decade, for just over \$10,000,000 (U.S.), or less than 40 cents a hectare.⁸ Of some 15 million hectares bought up by foreign groups in the eastern part of the country, over 5,500,000 hectares was held by eleven individuals. Several towns and villages were mistakenly included in the parcels sold.⁹ In the Chaco, 79 individuals or corporations bought over 7000 square leagues of territory, at an average of \$1.28 (U.S.) per league.¹⁰ Important purchasers during the boom included the future yerba giant, La Industrial Paraguaya, which acquired over 2,600,000 hectares of forest and pasture land along with another 850,000 hectares of verbales.¹¹

Not surprisingly, these land sales dramatically changed the structure not only of Paraguay's economy but

its society as well. As stated earlier, it was believed that the sale of the national patrimony to large-scale investors would stimulate the economy and renew the development of a native cattle industry, as well as increase yerba production. It was also hoped that immigrants would then be attracted and colonization would open up the undeveloped interior. Yet in every respect, the sales were a failure. Although relatively strong cattle and yerba industries ultimately did develop in Paraguay, it proved to be at the expense of a vital natural resource - the nation's peasantry.

Without the financial resources necessary to buy the land they worked, thousands of peasant farmers were forced off their plots and either ended up as salaried workers in the latifundios and verbales that came to dominate the landscape, or else crossed over to Brazil and Argentina in search of work.¹² Those who managed to stay on the land were more often than not reduced to the position of tenant farmers on vast estancias or as cowhands for the ranches. In the myopia of the 1880s, the Caballero regime completely ignored the need for an established small-scale rural economic structure. Nor was this need met in later years, because the precedent set by the 1883/1885 land laws was followed, albeit on a smaller scale, by succeeding generations.

In the short term, the sales did little to stimulate actual use of the land, although the Government seemed to believe that the rampant speculation which resulted represented a healthy interest in the land for its productive capacity. However, as Carlos Warren reports in his Emancipación económica americana, XVIII (1946), of some 29 million hectares gobbled up in the sales of 1885-86, 25 million were resold, divided up or left fallow after their acquisition.¹³ And low government-pegged prices only fueled speculation since the real value of the land increased as much as ten-fold over the years, while the state continued to sell at 1885 rates.¹⁴ In effect, the Paraguayan economy gained little from the sales, since the climate of the time encouraged fiscal corruption and a squandering of the minimal revenues collected. Meanwhile, successive governments suffered countless budget deficits and inflationary spirals brought on, at least in part, by economic conditions fostered by the land sales. Despite the hopes of the country's rulers, this economic atrophy would not be overcome with the establishment of large-scale yerba and tannin operations.

Yerba - Privatization and Monopoly

Before the Triple Alliance War, Paraguay's major export product had been yerba maté. The external market

was almost exclusively in Buenos Aires, and in spite of an expansion in production of the tea in Argentina and Brazil during the regime of Dr. Francia, by 1860 Paraguay was exporting some 4,500,000 pounds of the highly regarded beverage annually.¹⁵ The industry, which had relied almost exclusively on harvesting the leaves of wild trees (a practice which continued until the 1920s), was brought to a standstill by the war. The absence of sufficient manpower to work the yerbales during the conflict persisted even after hostilities ceased, and it was only in the mid-1870s that production of any significance was resumed.

In the 1872 treaty with Brazil, Paraguay was forced to give up some of its best stands of yerba, located in the Ygatimí River valleys which form part of present-day Mato Grosso.¹⁶ Nevertheless, Paraguay managed to retain the bulk of its yerbales, although serious production did not resume until the 1880s. Throughout the 1870s, yerba was harvested by small-scale lessees, who paid a tax to the government for the privilege.¹⁷ Production grew very slowly during this time, and the Government eventually came to regard its revenues from this source as falling far short of the industry's potential.

The 1885 land act included the sale of existing yerbales. The law put the yerba stands up for auction to the highest bidder at the same time that it denied the

municipalities their traditional rights to collect rents.¹⁸ Naturally, the small renters could not compete with foreign capital flowing into Paraguay, and within five short years the bulk of available yerbales passed into the hands of the few. In this process one company, La Industrial Paraguaya, acquired over 850,000 hectares during 1886 alone.

Founded in 1886 with initial capital of one million pesos fuertes, "La Industrial" quickly began to pay back its original investment. By the company's own figures, it earned a profit of 722,217 pesos curso legal in 1892, while producing some 275,000 arrobas of the semi-refined tea.¹⁹ In 1898 totals reached almost 375,000 arrobas while the value of the crop had increased to over 7 million pesos c/l.²⁰ By this time the company had refining mills in Buenos Aires and Rosario and had made some effort to establish plantations with a view to reducing its reliance on the wild and often scattered trees. A list of local stockholders included such well-known politicians as Bernardino Caballero and Patricio Escobar, while future Liberal president, Juan B. Gaona, and bankers Jorge Casaccia and Antonio Plate served as directors. Founding capital came from Britain, but entered Paraguay through Buenos Aires banking houses and the Banco Mercantil in Asuncion. Both Gaona and Plate were also directors of the

Mercantil, which financed the bulk of the company's activities.²¹

During the following decades, the enterprise expanded its operations, accumulating capital of over 5 million gold pesos by 1920, including over 10,000 head of cattle and hundreds of boats and carts for transportation of the yerba.²² In 1910, some 5 million kilos of the tea were produced and total personnel had reached 5000. The company's holdings allegedly comprised over 13% of the entire land mass of the eastern region of Paraguay, while it controlled nearly 75% of the country's yerba production.²³ As the consummate symbol of Paraguay and its economic regeneration, "La Industrial" came to enjoy the highest prestige in the nation.

Other yerba producers, though nowhere near the size of "La Industrial", did provide some competition in an otherwise monopolistic situation. Two of the most important were Domingo Barthe and Matte Larangeira. The former, a French immigrant, had acquired 520,000 hectares of property during the land boom, half of which was in verbales, and by 1916 he had become the owner of an additional four to five hundred leagues in the Upper Paraná River area. Nonetheless, most of his land was exploited for its rich timber resources, since he apparently realized the futility of large-scale competition with "La

Industrial" in the yerba trade.²⁴ On the other hand, Matte Larangeira, with the majority of its operations in Mato Grosso, seemed to enjoy challenging Paraguay's yerba giant.

Matte Larangeira was organized by ex-sutler Tomás Larangeira in 1879, after he received a Brazilian government concession of verbales in former Paraguayan territory.²⁵ Although it held a comparatively small amount of land in Paraguay, the company's Mato Grosso operations presented serious competition to "La Industrial" in the Buenos Aires market. With access to over 1600 square leagues of land in Brazil, and exporting close to 2 million kilos of yerba to Buenos Aires annually by 1890, Matte Larangeira soon began to cut deeply into the Paraguayan enterprise's share of Argentine sales.²⁶ In a protectionist move, legislators in Asuncion were persuaded by "La Industrial" to eliminate the Brazilian firm's right to transport its yerba duty-free from Mato Grosso across Paraguayan territory to the Paraguay River. As a result, commercial and trade treaties with Brazil were renounced in 1897-98, in part to protect "La Industrial".²⁷

After 1902, "La Industrial" suffered a temporary setback in its "tea war" with "Larangeira", when the new regime of Colonel Juan A. Escurra actively curried favour with Brazilian economic interests. Despite pressure from the Paraguayan company and many politicians and

businessmen, Escurra refused to approve legislation that would have given "La Industrial" a better chance to compete against "Larangeira" in the Buenos Aires market. As a result, the Paraguayan industry suffered a decline in its share of earnings in Argentina as well as a labour shortage at home, when many workers emigrated to the better-paid "Larangeira" verbales in Brazil.²⁸ Due to internal management problems in 1904, however, the fortunes of "Larangeira" took a turn for the worse, so the company's headquarters was moved to Buenos Aires.²⁹ There, it managed to increase its share of the Argentine market at the expense of "La Industrial", which was gradually forced to rely solely on the local Paraguayan market, where it has continued to dominate to the present day.

During the late nineteenth and early twentieth centuries, yerba came to symbolize Paraguay's durability as a nation while "La Industrial" represented the means to the country's regeneration. After the 1904 Revolution, however, the indispensable Paraguayan tea would be overshadowed on the local economic scene by a more profitable but less durable product - quebracho - and a more sophisticated era of development began.

The Quebracho Colorado Boom

The 1885 Land Act also encouraged the development of the future tannin industry, because vast tracts of land located in the wild Chaco Boreal, with its forests of valuable quebracho colorado, were auctioned off. Foremost among the purchasers was Carlos Casado del Alisal, a Spaniard who had made a modest fortune in Argentine banking before the Triple Alliance War, and whose investment in Paraguay established something of an empire. In 1886, Casado bought the largest parcel of land in the country, comprising 3000 square leagues, or over 22% of the total territory of the Chaco, for one million gold pesos. It was not long before he began exploiting its quebracho trees, to produce Paraguay's first tannin.³⁰

Essential in the treatment of hides, tannin had originally been extracted from the bark of the European oak. The quebracho (taken from the Spanish quebra hacha, or axe-breaker, and so called because of its extreme durability), it was soon discovered, contained much higher concentrations of tannin than oak, thus permitting considerably greater yields per tree. This was particularly true of the quebracho colorado or red quebracho. The unspoiled expanses of the Argentine and Paraguayan Chaco held extensive forests of quebracho trees so that by the turn of the century the tannin industry

experienced a major boom. The region supplied virtually all of the world's tannin until the late 1930s when an alternate source provided by the South African mimosa (acacia) and European chestnut came on stream.³¹

Nonetheless, between 1890 and 1930 quebracho proved to be a vital industry in the region, and the potentially lucrative profits attracted significant investment to Paraguay, particularly from Argentina. By virtue of his land acquisition in the Chaco, Carlos Casado was the first to take advantage of the region's opportunities and his endeavours provided a major stimulus to further investment by other entrepreneurs.

In 1889, Casado received a ten-year concession to exploit quebracho extract in the Paraguayan Chaco. This included permission to import machinery and chemicals free of duty, while all other taxes were waived for the duration of the concession.³² The factory, which he set up at the river port of Puerto Casado on the Paraguay River 300 kilometres north of Asunción, was patterned on those established some years earlier in the Argentine provinces of Corrientes and Santa Fe.³³ By 1903, Casado's company was not only producing 600 metric tonnes of extract a month, but it also harvested other timber and operated its own shipping service.³⁴ When the entrepreneur died in 1899, ownership passed to his son, José, who proceeded to sell

off some of the family's vast land holdings, while expanding quebracho production. In 1904, five major international interests acquired nearly 1,700,000 hectares of Chaco land from Casado for six Argentine pesos per hectare. This signified a 3500% increase in the value of the property in less than twenty years, a staggering amount even in those heady days of land speculation!³⁵ With the proceeds from these sales, José Casado formed another company in partnership with the Argentine shipping magnate, Nicolás Mihanovich, to exploit the quebracho and cattle potential of the area. Operations were centred at Puerto Sastre, on the Paraguay River just north of Puerto Casado.³⁶

By 1911, close to 4000 tonnes of quebracho extract was being produced annually at Puerto Sastre, while Puerto Casado processed some 5400 tonnes in 1913.³⁷ During the 1920s, a boom period in the industry, operations at the locations each produced as much as 7000 to 15,000 tonnes of extract annually, and together employed a total of nearly 2000 workers.³⁸ The Casado establishments continued to prosper into the 1930s, although the Chaco War and a slowing of world demand during the Depression of the 1930s caused production to drop to insignificant levels.

While the Casado family initiated the quebracho industry in Paraguay, it was by no means the only

significant operator. Growing out of José Casado's sale of Chaco lands in 1904, several enterprises began to process the profitable quebracho extract. Most originated in Argentina or were funded in Buenos Aires and included such establishments as Quebrachales Fusionados, Sociedad Forestal de Puerto Guaraní and The New York and Paraguay Company, among others. According to government data, they held a combined capital of 7,600,000 gold pesos in 1915, more than double the estimated 3 million gold peso net worth of Puerto Casado and Puerto Sastre combined.³⁹

Ownerships were transferred back and forth over the years, but overall the most important among these firms in terms of production was Quebrachales Fusionados. Until the late 1920s, it was by far the largest company of its kind in Paraguay after the Casado operations (including those in Puerto Sastre). Formed in 1906 by a group of Argentine investors, "Fusionados" commenced operations in both Paraguay and the Argentine Chaco the following year. The company purchased a total of 116 square leagues of territory and established two factories, Puerto Max and Puerto María, in the Paraguayan Chaco. It was originally capitalized at 7,000,000 Argentine pesos, but over 5 million of that was invested in Paraguay. By 1910, the two Paraguayan locations were producing close to 10,000 tonnes of quebracho extract annually, a figure which grew steadily

until the 1920s.⁴⁰ The factory sites, as with all other large quebracho operations, functioned as company towns, employing in excess of 1000 workers and providing all the amenities of such establishments. They were also linked by an efficient rail network between the factories and forests.⁴¹

Ruthless competition in the 1920s between "Fusionados" and its major rival in Argentina, The Forestal Land, Timber and Railways Company Limited, ensured the ultimate demise of the Paraguayan-based operation. In the early 1920s "La Forestal", the largest quebracho producer in the world, was behind a series of maneuvers that sought to take control of most of the market by absorbing its smaller competitors. By 1926, the Anglo-Argentine giant controlled almost 50% of Argentine exports, which forced "Fusionados" to close its operations at Puerto María the following year. Early in the 1930s, "La Forestal" was able to buy out its Paraguayan-based rival and most of the operations were transferred to Argentina.⁴²

While much of the capital to develop the Paraguayan quebracho industry originated in Britain or the U.S., it was almost always channeled through Buenos Aires. This meant that for most of the operators, banking houses in that city handled their finances. Obviously, this was especially true for the Argentine firms involved, most of

which were financed by the Banco de la Nación Argentina. The bank itself owned over 164,000 hectares in the Chaco during the years 1910 to 1920.⁴³ Another important player was the giant Argentine commercial firm of Bunge and Born, a key investor in several enterprises within the industry, including Puerto Sastre and The New York and Paraguay Company. It also had considerable influence in the Argentine political scene.

Yet Paraguay was obviously missing out on some healthy revenue. The country was a major world producer of tannin between 1905 and 1930, but as in Argentina, the industry contributed little to the national economy. Overhead costs were minimal because land taxes were either low or non-existent, and most companies were able to import processing materials duty free.⁴⁴ Borrowing from the dependency theories of Brazilian economist Henrique Fernando Cardoso, Luis Romero describes the region as constituting an "enclave economy". Little money had been invested in the area; company stores forced small entrepreneurs out of the picture; wages, in any case, proved to be too low to provide any purchasing power for the work force; and most food consumed by the workers was produced on the companies' own land. Profits were usually returned directly to Buenos Aires or invested elsewhere, leaving little to "trickle down" into the general

Paraguayan economy. Romero concluded that for Argentina: "this feature (característica) of the enclave in the production of tannin...was fundamental in shaping regional backwardness."⁴⁵ His observation applies equally well to Paraguay. The situation was only marginally better in the more traditional cattle-raising sector.

Cattle Production - A New Era Begins

Like yerba, ranching was important to the Paraguayan economy long before the War of the Triple Alliance. During the regimes of Francia and the Lopezes, all ranches formerly owned by the Spanish Crown were taken over by the state and most private property was nationalized. During this period hides became one of Paraguay's important exports, along with yerba and tobacco,⁴⁶ as the cattle population grew, totalling as many as 2 million head by 1864. The war, however, decimated the estancias, leaving virtually no cattle alive.⁴⁷ The industry literally had to begin again, with imported stock.

Most cattle brought into Paraguay immediately after the war came from the Argentine provinces of Corrientes and Entre Ríos. Irene Arad estimates that by 1877 there were as many as 200,000 head in the country, a total which further increased to 700,000 within ten years.⁴⁸ Most ranchers were Paraguayans or recently-arrived immigrants

from Argentina. The relative ease in raising cattle in Paraguay combined with centuries-old regional traditions of animal husbandry, made the industry popular and socially prestigious for those who had any money to invest. The land sales of 1885 greatly facilitated this growth of pastoral latifundios, since ranching was seen by the Caballero government as the key to Paraguay's development. As in Argentina and Uruguay earlier, most cattle were raised for their hides, while meat production played a secondary role at best.⁴⁹ Only at the turn of the century, with the introduction of salted meat plants financed from abroad, did the cattle industry begin to exploit the vast resource at its disposal.

In 1900, an animal census revealed that there were 2,283,039 head of cattle in the country, roughly the same number that had existed in 1864.⁵⁰ Cattle raising had prospered since 1870 thanks to a steady market for hides. In fact, by 1900, 23% of all Paraguayan exports were semi-processed hides.⁵¹ Nonetheless, the indiscriminate waste of other animal products attracted more far-sighted entrepreneurs into the country to take advantage of processing animals in their entirety. As a result, Paraguay's first salted meat plant (saladero) was set up in 1901, to be followed almost immediately by other plants in 1903. It was not long before the country began to export

jerked beef to the markets of Cuba and Brazil, where there was still a taste for the coarse meat.⁵²

The saladeros were a blessing to the Paraguayan economy because they stimulated better livestock raising practices, which previously had relied on inefficient traditional means of breeding and production.⁵³

Nevertheless, until modern canning plants were established, the local beef industry could not possibly compete in the Río de la Plata region. Only a world war would provide enough profit incentive for such a venture to be attempted.

As in many other parts of the world, the Great War guaranteed handsome profits in the export of meat and leather products. Paraguay was no exception. The first meat extract plant was set up in 1909 by German interests, but continued to be a modest operation until World War I, when political and economic conditions arising from the war forced it to close its doors. Partially as a response, the Paraguayan government in 1915 began offering incentives to entrepreneurs willing to establish refrigerated plants. In this way, several large enterprises were attracted to the country. While these companies chose to concentrate almost exclusively on canned meat rather than the frozen product, livestock processing for food products increased substantially during the war years. Of a cattle population estimated to be 6,500,000 in 1918, over 45,000 animals were

processed in the canning plants during that year - a figure which more than doubled to 98,000 in the succeeding twelve months. This meant that over 5 million kilos of meat were exported in 1919 alone, an impressive amount for a country which only four short years earlier had no canning plants whatsoever.⁵⁴

Long term prospects, however, were less than optimistic. The cessation of hostilities in Europe created an immediate glut in the world market, causing local production to decline and forcing three meat plants to shut down.⁵⁵ In addition, massive exports during the war of both meat and hides, coupled with the anarchy of the 1922-23 civil conflict, had reduced the cattle population to less than four and one half million head by 1924.⁵⁶ Moreover, the civil war seriously retarded investment until 1923, at which time new refrigerated plants were established.

Much of the rejuvenation of the cattle industry after 1900 was due to the activities of two firms - Liebig's Extract of Meat Company and the Société La Foncière du Paraguay. Organized in 1898 by French interests, "La Foncière" was the largest ranching operation in the country and by 1910 owned over 150,000 animals distributed over fourteen estancias.⁵⁷ The company concentrated on cattle breeding in addition to extensive production for the salted meat market. In the long run, however, reliance on salted

meat was a mistake, since by 1930 high tariffs placed on the product in Cuba, virtually the only market left for jerked beef, forced all salted meat plants in the Río de la Plata region out of business.⁵⁸ With its large stock of cattle, "La Foncière" continued to raise animals for the canning and refrigeration plants, but the loss of its profitable overseas market forced the company to gradually wind down operations over the following years.

By contrast, Liebig's Extract of Meat Company proved to be a major success story in Paraguay. Based in Uruguay, this English enterprise entered Paraguay in 1895, confining itself largely to cattle raising until after World War I. Over the years, "Liebig" acquired almost 400,000 hectares of land and by 1920 pastured up to 95,000 head of cattle, giving it a healthy base from which to launch a processing plant.⁵⁹

The economic downturn in Paraguay during the early 1920s revealed several weaknesses in the Paraguayan economy, and especially those of the cattle-processing industry. Attempts at diversifying the industry into meat extract and refrigerated plants during and immediately after World War I were undermined by the postwar depression. Nevertheless, encouraged by generous government tax and duty concessions, "Liebig" purchased an idle plant in 1923 and by 1927 was producing over 1.6

million kilos of harino de carne (meat meal) and almost 600,000 kilos of meat extract.⁶⁰ The industry continued to expand over the years until it became Paraguay's primary foreign exchange earner and helped put the country on the map internationally. In the process, "Liebig" grew to be Paraguay's major producer until quite recently, and was known to North American and British consumers through its familiar brand labels.

As a whole, the cattle sector failed to live up to the expectations of its sponsors, despite extensive foreign investment in the industry, and it did not stimulate sustained Paraguayan economic expansion. At the outset, large land parcels were sold off in the hope of developing an export trade in cattle products. While this certainly evolved as the cattle herds grew, the system failed to offer the bulk of Paraguayans any real benefits. Most enterprises were self-sufficient in virtually all their needs, requiring very little from other sectors of the economy; employment opportunities for the many peasants dispossessed of their land by the expanding ranches were minimal; and inflation was chronic, caused in part by the resale of land, as well as export-oriented pressures exerted by the large yerba, quebracho and ranching concerns. Meanwhile, these large firms sent most of their profits out of the country, perpetuating a cycle of endemic

economic stagnation and rural poverty which plagued the country for decades.⁶¹ Basically, Paraguay played host to several scattered enclave economies which contributed virtually nothing to national development and the state coffers, in spite of what appeared to be a healthy volume of import-export trade. In fact, the nation's economic dependence was even further exacerbated by its unbalanced patterns of trade.

Consolidation of Dependence

As might be expected, Paraguay traded in those items which the dominant sectors of the economy produced, such as yerba, quebracho and cattle products, although tobacco, too, enjoyed an important and lucrative market abroad. Most exports went to Argentina, where by virtue of its geographical location, Buenos Aires played a further role of transshipping the bulk of Paraguayan exports to other destinations as well. And many of Paraguay's imports came from Argentina, particularly after the latter's secondary industries came on stream during the First World War.⁶² Under the circumstances, Paraguay could do little more than make the best of a bad situation. In some respects it appeared the land-locked nation benefitted from its trading dependency on Argentina, but in reality the pattern of exchange between the two served to perpetuate Buenos Aires'

dominance until the alternate route to the Atlantic through Brazil was finally opened in the 1950s.

In the 1870s, when Paraguay had little to trade, almost all imports came into the country through sutlers to the Brazilian occupation army. Consequently, local business interests were unable to seriously enter the market until Brazilian troops left in 1876 and the yerba industry was reactivated on a significant scale. Much of the country's land, following the land measures of the 1880s, was transferred to foreign entrepreneurs, thereby paving the way for monocultural industrial and agricultural production geared to the export market. The first of these to be exploited was, of course, yerba.

Exports of yerba in 1870 were estimated at roughly 1,800,000 kilos. For a country that was only just emerging from a devastating war, this figure is overly impressive. Consequently, it must be viewed with some skepticism, especially since yerba exports throughout the 1870s apparently fluctuated between a low of 1,542,000 kilos in 1873 and a high of 3,880,000 kilos in 1879.⁶³ At any rate, Paraguayan yerba soon found a ready market in Argentina and throughout the entire period of this study yerba producers saw no reason to seek other markets. Such a complacent attitude eventually caused Paraguayan producers to suffer intense competition from other sources, and by 1920 the

nation's yerba had become relatively insignificant in the Buenos Aires marketplace. Nevertheless, this was a gradual process, and for several years yerba continued to enjoy a dominant position in Paraguay's export trade. (See Table 1). Between 1881 and 1886, when the yerba industry was expanded and eventually monopolized by La Industrial Paraguaya, exports fluctuated little, remaining around 5 million kilos annually.⁶⁴ By 1900, this total had risen to over 6 million legal exports, although Argentine statistics for the same year counted close to 9 million kilos of Paraguayan yerba entering that country. The discrepancy was no doubt because Argentine data included smuggled yerba, which apparently made up a significant proportion of total Paraguayan exports.⁶⁵ But yerba exports peaked at this time, due to subsequent competition from Brazil, which managed to take over the bulk of the Argentine market.

Over the next three decades, Paraguayan yerba's share of the overall Río de la Plata market gradually declined until in 1918, for example, Argentina imported 3,600,000 kilos from Paraguay, compared to over 54,000,000 kilos from Brazil.⁶⁶ Despite temporary success in increasing Paraguay's share of the Argentine market during the 1920s, by the time the Chaco War broke out the Guaraní yerba could no longer compete with Brazilian and the home-grown

Table 1
Paraguayan Exports by Product

YEAR	YERBA (thousands of kilos)	QUEBRACHO EXTRACT (thousands of kilos)	CATTLE PRODUCTS		TOBACCO (thousands of kilos)
			HIDES (units)	PROCESSED MEAT (thousands of kilos)	
1870	1800	-	19,767 (1873)	-	467 (1873)
1881	4969	-	45,561 (1882)	-	2360
1883	6228	-	-	-	2904
1886	4429	664 (1895)	-	-	4160
1900	6319 (Paraguayan figures) 8890 (Argentine figures)	1316	222,444	-	2996
1905	3897 (Paraguayan figures) 6692 (Argentine figures)	5583 (1906)	285,531	1129 (1906) [jerked beef]	3627
1910	2883 (Paraguayan figures) 2338 (Argentine figures)	11,538	303,447	2015 (1911) [jerked beef]	5118

Table 1 (cont'd)

YEAR	YERBA (thousands of kilos)	QUEBRACHO EXTRACT (thousands of kilos)	CATTLE PRODUCTS		TOBACCO (thousands of kilos)
			HIDES (units)	PROCESSED MEAT (thousands of kilos)	
1915	4709 (Paraguayan figures) 6414 (Argentine figures)	18,308	290,692	1430 [jerked beef] 8[canned beef - 1913]	7125
1920	4451	22,000	198,965	1201 [canned beef] 1023 [beef jerky]	8084
1925	9278	64,662	398,405	148 [beef extract] 1244 [beef jerky]	8675
1932	6338	49,604	300,614	6046 [all meat products]	6454

Sources: Freire Esteves, *El Paraguay Constitucional*, pp. 164, 165, 170, 174, 200, 201; Great Britain, Department of Overseas Trade, *Report (1936)*, pp. 23-24; Great Britain, Department of Overseas Trade, *Report (1923, 1925)*, p. 23; Great Britain, Diplomatic and Consular Reports, *Trade and Industry*, p. 24; *Liebig's*, p. 82; *Paraguay Monthly Review*, 1 (1901), p. 22; Pillado, *Estudio*, p. 116; United States, Department of Commerce, *Paraguay*, pp. 76, 92, 96; United States, Department of Commerce, *The Paraguayan Market*, pp. 7, 23.

Table 2
Paraguayan Official Import and Export Trade by Country
(figures in thousands of gold pesos: 1 gold peso = \$.96 U.S.)

YEAR	ARGENTINA				BRAZIL				URUGUAY			
	IMPORTS	%	EXPORTS	%	IMPORTS	%	EXPORTS	%	IMPORTS	%	EXPORTS	%
1879†	480	50	748	47	-		-		-		-	
1885†	160	11	1,472	88	-		-		-		-	
1890†	336	12	1,724	48	-		-		-		-	
1895†	100	4	1,824		-		-		-		-	
1902	307	13	2,470	61	4.3	.2	-		7.3		-	
1906	1,089	17	1,136	42	40.6	.6	20.3	.7	39.5	.6	500	18.5
1910	697	11	2,858	62	43.3	.7	159	3.4	45.9	.7	532	11.5
1915	1,026	32.8	5,758	64.8	12	.4	45	.5	40.4	1.2	908.7	10.2
1920	1,090	8.3	8,885	58.5	*		*		367	2.8	1424	9.4
1925	4,500	35	12,349	86	143	1.1	6.5	.04	295	2.3	542	3.8
1932	2,487	39	6,634 5,511 (in transit)	52 42.8	72.5	1.1	5.6	.04	49.8	.8	*	

Legend: † Figures for these years are not particularly reliable.
* No data available.

Table 2 (cont'd)

YEAR	UNITED KINGDOM				GERMANY				UNITED STATES				TOTALS	
	IMPORTS	%	EXPORTS	%	IMPORTS	%	EXPORTS	%	IMPORTS	%	EXPORTS	%	IMPORTS	EXPORTS
1879 [†]	-		-		-		-		-		-		956	1,582
1885 [†]	-		-		-		-		-		-		1,477	1,661
1890 [†]	-		-		-		-		-		-		2,726	3,564
1895 [†]	-		-		-		-		-		-		2,460	2,121
1902	898	37	*		182	7.5	*		113	4.7	*		2,426	4,046
1906	1,681	26	.3	.01	1,500	24	765	28	340	5.4	7.5	.03	6,324	2,695
1910	2,696	42	15.6	.3	1,141	18	905	19	319	5	2.1	.05	6,419	4,617
1915	1,033	33	313	3.5	217	6.9	6.9	.1	282	9	480	5.4	3,128	8,891
1920	2,606	20	480	3.1	355	2.7	-		3,130	24	1,325	8.7	13,118	15,185
1925	2,194	17	181	1.3	1,353	9.5	214	1.5	1,907	15	91.4	.6	12,948	14,316
1932	766	12	.0012	-	512	8	112	.9	823	12.8	67.5	.5	6,418	12,873

Legend: † Figures for these years are not particularly reliable.

* No data available.

Sources: Freire Esteves, *El Paraguay Constitucional*, pp. 196, 215; Great Britain, Department of Overseas Trade, *Report (1936)*, pp. 10-11; Great Britain, Department of Overseas Trade, *Report (1923)*, pp. 15, 19; Great Britain, Diplomatic and Consular Reports, *Trade and Commerce (1902)*, pp. 7-8; Paraguay, *Memoria (1932)*, pp. 45-47; United States, Department of Commerce, *Paraguay*, pp. 159-161; United States, Department of Commerce, *The Paraguayan Market*, pp. 10-11.

Argentine product. Paraguay never regained a significant place in the international marketplace.⁶⁷

When quebracho extract production came on stream in 1900, tannin exports exceeded 1,300,000 kilos. The industry grew modestly over the next few years, reflecting to some extent a relatively soft market overseas, and the uncertainties faced by Paraguayan exporters during the civil conflicts of 1904 and 1911-12. (See Table 1) Yet, by 1910 over 11 million kilos of the extract had been sent to Argentina, although much of this was subsequently reshipped to Europe and the United States, where it was frequently sold under an Argentine label.⁶⁸ The First World War stimulated intense production of the extract for the regional and overseas hide industry, so that for a while there appeared to be an unlimited market in the carnage mills of Europe. In fact, 1917 was a key year for the Paraguayan quebracho industry, when almost 30 million kilos of tannin were sent abroad.⁶⁹ Exports stagnated during the post-world war depression, but by 1922, in spite of the 1922-23 civil conflict, they had surpassed their wartime peak by reaching 37,800,000 kilos. The 1920s turned out to be a veritable boom period, with exports climbing to 64 million kilos in 1925, after which a gradual decline set in. By 1932, exports had fallen to slightly less than 50 million kilos of extract,⁷⁰ which surprisingly enough, were

largely unaffected by the Chaco War, although by that time the industry began to suffer strong competition from other sources of tannin.

In discussing the export of quebracho, it is important to mention that the product was shipped abroad in log form as well as being processed within the country to produce tannin. This was especially true in the early years when quebracho blanco was in demand throughout Argentina for use as railway ties. Nonetheless, the bulk of Paraguayan quebracho exports was used for the manufacture of tannin.⁷¹ In 1895, 11.5 million kilos of quebracho logs were sent downriver, a sizeable amount compared to the 664,000 kilos of extract exported the same year. The export ratio of logs to extract gradually began to turn in favour of the processed product over the years, so that by World War I extract dominated the market. In 1925, for example, over 64 million kilos left the country, compared to only 2,364,000 kilos of logs.⁷² Not long after, the importance of quebracho logs declined to the point where they no longer held a significant place in the overall market.

Once the livestock industry began to recover from the devastation of the Triple Alliance War, production and exports once more followed the regional tradition of concentrating almost exclusively on hides. From a modest beginning in 1873 of just over 20,000 hides exported, the

industry had expanded by 1900 to the point where over 220,000 hides left the country. By the turn of the century hide exports, destined largely for markets in Germany and France, remained stable with only minor fluctuations over the following two decades, averaging around 260,000 units per year.⁷³ Later exports, which had found a market in the U.S. by the 1920s, had increased to more than 300,000 hides a year with a peak of almost 400,000 in 1925. (See Table 1) This healthy export level was sustained until the end of the Chaco War, when virtually all of Paraguay's exports suffered significant declines.⁷⁴

Processed meat exports did not really begin until 1901, when salted meat found a ready market in Cuba. By 1911, Paraguayan saladeros were exporting over 2 million kilos of jerked beef, although with World War I, the industry suffered some restriction of its overseas sales. The canned meat industry, on the other hand, experienced an impressive boom in demand during the war, and exports jumped from a mere 8000 kilos in 1913 to 1.2 million in 1920.⁷⁵ (See Table 1)

The period immediately after the war produced a crisis in the processed meat export market, so that until 1924 virtually no canned beef or the newly-produced beef extract was exported. Jerked beef had begun to feel the effects of increasing local beef production in its traditional market

in Cuba, and by 1930 the Paraguayan industry had been totally ruined by high Cuban import tariffs. Meanwhile, canned beef and beef extract production began a slow recovery from the setback at the end of the War, combining with other meat products to account for over 6 million kilos of meat and its by-products exported in 1932.⁷⁶ Though the Chaco War restricted exports somewhat, its influence was not enough to adversely affect what had become an important and well-established export industry.

It is impossible to leave a discussion of Paraguayan exports between 1880 and 1930 without mentioning tobacco. Though not a product yet monopolized by large foreign interests, tobacco eventually became nearly as important an export item to Paraguay's economy as yerba. In fact, after the 1904 Revolution, bulk exports began to exceed the Paraguayan tea. Sold mostly in Argentina until after World War I, Paraguayan native tobacco, however, could not compete with premium quality leaves from Cuba or Java. Yet after the importation of Cuban seeds and "know-how" in 1900, a better leaf was grown which began to challenge even many Cuban varieties in the European market by 1920, although most consumers were led to believe the product came from Havana.⁷⁷

In the post-Triple Alliance War years, tobacco was second only to yerba in exports. Soon after, its share of

total exports rivaled that of yerba, having increased from under 500,000 kilos in 1873, to over 4 million kilos by 1886.⁷⁸ (See Table 1) Nevertheless, sales declined due to Argentine restrictions on regional imports in the 1890s and because of the notoriously harsh quality of the Paraguayan product. Improved grades grown in the early 1900s led to an expanded market in Europe and by 1915 over 7 million kilos of tobacco were exported. This figure remained fairly constant over the next few years, although by the 1930s Paraguay's relatively small place in the world tobacco market was successfully challenged by better and cheaper tobaccos from Asia.⁷⁹

In terms of imports, it would be pointless to list the numerous classes of goods Paraguay purchased abroad during the period, though because of the country's undeveloped economy, it remained almost totally dependent on imports of all manufactured goods. This included heavy machinery and chemicals for the quebracho factories, which were allowed in tax-free, as well as most processed foodstuffs. Many of these items came from Argentina, but many others, particularly the more highly-processed goods, were obtained from Europe, and later the United States. For this reason it is better to briefly categorize Paraguay's imports between 1880-1930 by country. Unfortunately, it has not been possible to secure data for each country before 1902,

so that only the most general picture can be given of imports for the Nineteenth Century. In addition, Paraguayan statistics for the entire period tend to be very unreliable. One of the reasons for this was the existence of widespread smuggling between Argentina and Paraguay. Also, many imports are classified as Argentine, when in fact they were simply transshipments of goods from other countries. This was often the case with exports as well, which were sent abroad via Buenos Aires but were characterized in most Paraguayan statistical tables as exports to that country.

According to Luís Freire Esteves, the value of imports rose only gradually between 1879 and 1901, and fluctuated considerably thereafter until World War I, when a general economic up-swing resulted in a significant rise in imports.⁸⁰ Without doubt, the fluctuations merely demonstrated Paraguay's excessive dependence on Argentina as its major trading partner, even though notable trade was also carried on with Europe after 1900. (See Table 2) The inland nation's principal sources of imports and markets for exports in Europe were Great Britain, France and Germany. Only after 1920 did the United States significantly enter the picture. Brazil, by comparison, had virtually no important trade with Paraguay at any time during the 1880-1930 period, a curious situation given

Rio's interest in asserting its influence over Paraguay's internal political affairs. In fact, the marked contrast in the attitudes of Brazil and Argentina toward trade with their smaller neighbour was a salient factor in the latter's development during the entire period, particularly after 1900.

Argentina and Brazilian Attitudes

As we have just seen, Argentina had little trouble dominating Paraguay's external trade after the Triple Alliance War. Data in Table 2 demonstrate that Argentina absorbed the bulk of all Paraguayan exports throughout the period, although until the late 1920s most imports originated in Europe. While geography and the nature of Paraguayan products tended to guarantee Argentina's influential role in the economy of its neighbour, there was also a certain amount of effort made in Buenos Aires to ensure Paraguay would not become an independent economic entity. Often, Paraguayan decision-makers cooperated, willingly or unwillingly, in that endeavour.

In order to encourage foreign purchase of Paraguayan lands, the Caballero administration in 1885 passed a law permitting the free circulation of Argentine gold coins within the country. The Paraguayan paper peso was then pegged to this currency, causing Paraguay's embryonic

banking system to grow out of the strength of the Buenos Aires economy. This excessive dependence on Argentina was graphically illustrated during the Platine depression of 1890-91, when trade between the two nations fell off drastically and Paraguay's internal economy floundered. As a consequence, several banks and merchant houses went bankrupt, inflation skyrocketed, and land was sold off at rock-bottom prices to foreign speculators.⁸¹

Higher Argentine import taxes levied in 1894 on Paraguayan products, particularly tobacco and yerba, again struck hard at the Paraguayan economy and did much to encourage the already profitable business of smuggling. Many tobacco growers, in the main small or medium-sized agriculturalists, were forced to turn to other crops since the cost of producing and marketing the leaf became prohibitive to all but the smugglers. Both nations began to lose a great deal of potential revenue as a result, but thanks in part to the appeals of the Argentine Consul in Asunción, Sinforiano Alcorta, the tobacco and yerba taxes were significantly reduced in 1896 and 1897.⁸² Such corrective action helped the tobacco and yerba growers in the short run, but the obstacle of high Argentine import duties on all Paraguayan products remained over the following two decades. It was not until 1916 that major efforts were made to resolve the problem.

The unusually favourable economic circumstances in the Río de la Plata region during World War I prompted legislators in Buenos Aires and Asunción to consider reviewing their respective trade policies. At the time, it was believed in some circles that a free trade treaty between the two nations would have a mutually positive effect on their economies. Restrictive import tariffs, for example, had come to prevail to such an extent that many businessmen began to lobby their respective governments in the hope of winning some tax relief for their goods. At the outset of negotiations in 1915-16, Paraguay requested tariff protection for certain locally-produced items, but Argentina immediately rejected the idea, demanding totally unrestricted free trade. Asunción, however, insisted on the need to protect its fledgling industries, and in the end a compromise was reached whereby several Paraguayan products would be protected for five years. Many Paraguayans now hoped that the treaty would finally permit the nation's agricultural, pastoral and forestry products to enter the Argentine market at competitive prices, thereby stimulating increased production at home and ending the ubiquitous contraband trade.

Nonetheless, the accord never progressed past the drawing board, as the Congresses of both countries refused to ratify it. Clearly, the issue of free trade was not so

simple as the negotiators first believed, since important lobby groups acted to protect their interests. In Paraguay, these included small manufacturers and the sugar growers, whereas in Argentina the yerba and tobacco planters expressed their reservations.⁸³ As a result, the same traditional problems continued to plague the flow of trade between the two nations, not least of which was smuggling.

Contraband has always been a problem for the Paraguayan economy. Efforts to restrict the activity by even the most zealous legislators proved to be futile in the face of hundreds of kilometres of uncontrolled frontier shared with Argentina and Brazil, coupled with an eager connivance on the part of local officials. This is illustrated by the discrepancies between Paraguayan export and Argentine import statistics throughout the period. Data from Buenos Aires consistently revealed that Argentina imported more from Paraguay than the latter nation had apparently exported!⁸⁴ To make matters worse, the illicit trade often involved a number of prominent local business interests.

For example, an article published in the daily newspaper, "El Liberal", in late 1916 openly accused the quebracho and yerba exporters of deliberately flaunting the law to avoid paying customs taxes. In addition, the

article estimated that as many as 50,000 to 100,000 hides were being smuggled out of the country annually, while in 1905, judging by Argentine import statistics, there were indications that as much as 75% of yerba imports from Paraguay had entered that country illegally. By 1916, informed observers believed that revenues lost through smuggling totalled as much as 30% of annual customs earnings.⁸⁵

Yet contraband was only one symptom of a larger problem. Statistics from both nations, regardless of their discrepancies, show that Paraguay maintained a favourable overall trade balance with Argentina throughout the years 1880-1930. Normally, this should have benefitted the Paraguayan economy, but in fact the figures are misleading. As a matter of policy, Argentina levied a 30% surcharge on Paraguayan imports, thereby inflating the overall import value of the goods and making it appear Asunción was earning more from its exports than it actually was. Moreover, revenues collected by Paraguay from Argentine entrepreneurs compared to profits extracted from the country, usually by the same businessmen, always favoured the latter. For example, Guillermo Tell Bertoni, a Paraguayan economist, explained that according to official data, between 1911 and 1930 Paraguay averaged a favourable annual balance of trade with Argentina of over 1.8 million

gold pesos. Taking just the 30% surcharge into consideration, however, that total was reduced to a mere 178,000 gold pesos. Bertoni, who then compared the income Paraguay received from Argentine businessmen active in the country against the capital repatriated to Argentina by Porteño investors, concluded that Paraguay actually suffered a total deficit of 6.5 million gold pesos between 1927 and 1930 alone.⁸⁶ If this were the case, it is small wonder the country developed so slowly between 1880 and 1930!

Another important indicator of the Paraguayan economy's dependence on Argentina was, of course, its complete reliance on the Porteño-dominated transportation system. Until 1913, when regular train ferries were established to connect Argentina and Paraguay's rail network at Encarnación, Paraguay had relied on the Paraná River system for its external trade routes. In practice, this meant the inland nation was dependent on what shipping plied the rivers. As of 1886, most river vessels belonged to La Platense Flotilla Company, a British operation which dominated steamship service on the Paraguay and Paraná Rivers until forced out of business in 1892. British capital, nonetheless, continued to play an important role in local shipping through two companies - Lloyd Brasileiro and Lloyd Argentino - until by the turn of the century

traffic came to be monopolized by the Austro-Hungarian Consul in Buenos Aires, Nicolás Mihanovich. The Consul was soon able to expand his operations by creating the Compañía Argentina de Navegación, Nicolás Mihanovich, Ltda., backed by over 2.6 million pounds sterling of capital.⁸⁷

Paraguayan exporters and importers were completely dependent on "Mihanovich" ships to carry their goods, leaving them vulnerable to exploitation, a not uncommon occurrence. During the Platense Company's brief period of dominance, Paraguayan shippers complained bitterly that rates levied on freight between Asunción and Buenos Aires were the same as those charged for goods carried between Europe and the Argentine port.⁸⁸ The situation did not improve after the Mihanovich family arrived on the scene, since the company's monopolistic practices caused rates to increase even more. Between 1910 and 1930, for example, average charges for freight carried between Buenos Aires and Asunción varied between five and eight times higher than those assessed on cargoes carried between Buenos Aires and Europe. Some goods were charged as much as 30 times more for the river journey than between the continents! As might be expected, such exorbitant levies did much to hinder the development of Paraguayan trade throughout the period, as well as to inhibit the growth of indigenous industries.⁸⁹

Generally, Argentina's trade with Paraguay, while critical for the latter, proved to be of minor importance to Buenos Aires. According to statistics compiled in 1915, Paraguay's share of its larger neighbour's external commerce was an insignificant 1.1%, whereas Argentina made up close to 50% of Paraguay's foreign trade.⁹⁰ Nevertheless, the Guaraní nation continued to be economically important for Buenos Aires, due largely to the substantial investment opportunities offered in its agricultural and forestry sectors. While much of the capital invested in these areas came from Buenos Aires, it often did not originate there. Argentina, it must be remembered, was itself economically dependent on another, more powerful country, namely Great Britain. Between 1860 and 1913, for example, Argentina absorbed 42% of all investment capital flowing out of London, something in the order of \$5 billion (U.S.).⁹¹ A small amount of this filtered directly into Paraguay through the Paraguay Railway Company and The Anglo-Paraguay Land Company,⁹² but a much more significant amount found its way into the country by way of majority capital in companies registered in Buenos Aires. Among the most important of these were "La Industrial", "Liebig" and "Mihanovich".

Not all, and perhaps not even most, Argentine investment in Paraguay was backed directly by British

capital, but the dominance of Great Britain in the Argentine economy makes it possible to conclude that in many ways Argentina acted as a conduit for Anglo investment in the region, while Paraguay, in its turn, served as a Porteño "sub-colony linked to the hegemonic centre [Britain] through Buenos Aires."⁹³ Studies to date suggest, however, that British interest in Paraguay was peripheral to its overwhelming involvement in Argentina's economic structure. Even less could be said about Brazil's economic relationship with Paraguay.

Overall Brazilian trade with Paraguay remained insignificant for most of the period. Rio seemed to ignore Paraguay economically in favour of encouraging trade links with Europe and engaging in its own internal economic development. Nevertheless, the one significant Brazilian market for Paraguayan trade was apparently in Mato Grosso. According to a recent study by Harris G. Warren, admittedly incomplete records covering the years 1891-93 suggest that contrary to what has hitherto been believed, Paraguay's trade with the isolated Brazilian state was substantial. The data suggest that between 10 and 15% of all Paraguayan exports went to Mato Grosso, while 5 to 6% of the country's imports originated in that state.⁹⁴ Taking the flourishing smuggling trade in the border region into account, there is some justification for thinking the actual exchange of

goods may have been higher. However, since Paraguay's exports into Mato Grosso were apparently transfer shipments of manufactured goods from Argentina or abroad, while locally-produced items had no real market in either area because they were largely the same, there appears to have been little basis for any significant long-term trade between the two regions.

This must have been on the minds of Paraguayan legislators in 1897 when the nation's links with Mato Grosso were under review. Smuggling in the border area prompted a government investigation of trade relations with Brazil, in an attempt to find ways of promoting legal commercial exchange between Paraguay and Mato Grosso.⁹⁵ One is thus encouraged to speculate that trade with Mato Grosso was not all that significant. At any rate, the investigation led to the cancellation of the 1883 commercial treaty with Brazil, an action brought on, according to Rio, by the trade imbalance Paraguay apparently suffered with Mato Grosso.⁹⁶ This was no doubt a reference to the duty-free transshipment of yerba and timber across Paraguayan territory destined for Buenos Aires, where inevitably they ended up competing directly with identical goods from Paraguay.

For whatever reason, commercial relations between Paraguay and Brazil after 1897 stagnated. Rio soon found

it expedient to expand shipping links into Mato Grosso using its own carriers, although no doubt smuggling through Paraguay continued to account for a sizeable amount of the state's total trade for many years to come. Throughout the period, Brazilian legislators, including the Baron of Rio Branco, seemed to ignore the advantages of closer commercial links with their neighbour, while Paraguayans appeared content to maintain their dependent trade relationship with Argentina. During the First World War some calls were made in Brazil to forge stronger trade ties with Paraguay, but for the most part these fell on deaf ears. It was only after the visit of Getúlio Vargas to Asunción twenty years later that the two nations showed any signs of establishing significant economic liaisons.⁹⁷

Essentially, the lack of trade between the two countries reflected the fact that very few goods were produced in either country which interested the other. Moreover, Paraguay's tiny market and the difficulty of communications discouraged even the most adventurous Brazilian traders. In the end, the only viable connection was with Mato Grosso, but even this was largely reduced to smuggling, hardly a realistic stimulus to the overall Paraguayan economy.

On further analysis, it becomes clear that when Paraguayan products met any competition in Argentina, they

too suffered a decline in their sales, irrespective of the quality of the commodity. This was equally true for yerba in the early 1920s when the Argentine plantations came into production; tobacco at various times throughout the period; and for quebracho by the end of the 1920s. In the face of these obstacles, Paraguay was constantly obliged to either look for new products or else seek out other markets in order to sustain a reasonable level of exports.

This dismal history of restricted production and retarded economic development was largely due to Paraguay's unfavourable geographical location, which placed the country at the mercy of a regional marketplace dominated by Buenos Aires. Considering these circumstances, the degree of economic control Argentina held over its inland neighbour is not altogether surprising, and in retrospect was clearly inevitable. Consequently, much of the blame for Paraguay's relative economic stagnation throughout the period and beyond, can be laid at the door of Buenos Aires, which consistently acted either to hinder Paraguayan development or demonstrated indifference to its neighbour's economic development and well-being.

NOTES TO CHAPTER FOUR

¹ Irene S. de Arad, "La ganadería en el Paraguay: período 1870-1900", Revista Paraguaya de Sociología, 10 (28), Set./Dic. 1973, pp. 184,187; Warren, Paraguay and the Triple Alliance, p. 116.

² Pastore, p. 178; Warren, Rebirth, p. 169. For purposes of land valuation in Paraguay, the square league was measured as 1769 hectares or 4365 acres. See Bourgade, p. 239 and Warren, Rebirth, p. 330, n. 5.

³ Teresa Zárate, "Parcelación y distribución de las tierras fiscales en el Paraguay (1870-1904)", Revista Paraguaya de Sociología, 10 (26), Enero/Abril 1973, p. 125.

⁴ Pastore, pp. 180-182, 186-187, 191-192, 209.

⁵ "La Reforma", Mayo 7, 1884, Asunción, cited in Pastore, p. 217.

⁶ Pastore, pp. 221-225.

⁷ Freire Esteves, Historia contemporánea, p. 68.

⁸ Warren, Rebirth, p. 171.

⁹ Pastore, pp. 255-256.

¹⁰ Warren, Rebirth, p. 171; Pastore, p. 253.

¹¹ Pastore, p. 254.

¹² Galeano, pp. 122-123, 129, 137; Pastore, p. 257; Caballero-Aquino, p. 261.

¹³ Carlos Warren, Emancipación económica americana, XVIII, Montevideo, 1946, cited in García Mellid, p. 484; Caballero-Aquino, p. 131.

¹⁴ Caballero-Aquino, p. 237; Arad, p. 198.

¹⁵ Williams, p. 171.

¹⁶ Bourgade, p. 218.

¹⁷ Warren, Rebirth, pp. 204-205.

18 Pastore, pp. 230-232.

19 Laino, Paraguay: de la independencia, pp. 58-59, 74. Memoria, "La Industrial Paraguaya" (1892), pp. 13-14 17. Curso legal, written c/l, meant legal tender and referred to virtually all money in circulation, including coins from other nations. The indiscriminate use of different monetary values in the compilation of statistics has made accurate estimates of financial earnings and expenditures virtually impossible. See Warren, Rebirth, p. 234. In this case, we can use c/l only as a representation of financial movement and not as a hard economic indicator. At the time, the peso fuerte, or silver peso, was roughly equal to 66 cents (U.S.). The gold peso was worth 96 cents (U.S.). Pesos fuertes were normally written as \$f. The aroba was equal to 25 pounds or just under 12 kilos. See Bourgade, p. 239.

20 Memoria, "La Industrial Paraguaya (1899), pp. 9-10; Paraguay. "Sociedad anónima yerbatera "La Industrial Paraguaya"", Revista Mensual, 2 (23), Enero 1898, p. 330. According to Ramón de Olascoaga, translator of Eliseo Reclus' book on Paraguay, there were only 5 million pesos c/l in circulation in the entire country in 1896! See Reclus, p. xxxiii.

21 Warren, Rebirth, pp. 103, 125; Caballero-Aquino, pp. 233-235; Harris Gaylord Warren, "Banks and Banking in Paraguay, 1871-1904", Inter-American Economic Affairs, 32 (2), Autumn 1978, p. 52.

22 Warren, Rebirth, p. 206; Luis Freire Esteves, El Paraguay, p. 168.

23 Freire Esteves, El Paraguay, p. 192; Laino, Paraguay: de la independencia, pp. 157, 188-189; Ricardo Pillado, Estudio sobre el comercio argentino con las naciones limítrofes. (Buenos Aires: Imprenta de Juan H. Kidd y Cía., 1910), pp. 117-118; Molins, p. 154; Ramón Monte Domecq', La República del Paraguay en su primer centenario, 1811-1911. (Buenos Aires: Compañía Sud-Americana de Billetes de Banco, 1911), pp. 211-212; MacDonald, p. 342.

24 Molins pp. 100, 114-115; Monte Domecq', p. 375; Caballero-Aquino, p. 235; Warren, Rebirth, p. 171.

25 Temístocles Linhares, História Econômica do Mate Coleção Documentos Brasileiros. (Rio de Janeiro: Livraria José Olympio, 1969), p. 150; Warren, Rebirth, p. 206; Mario Monteiro de Almeida, Episódios históricos da formação geográfica do Brasil; Fixação das raias com o Uruguai e o Paraguai. (Rio de Janeiro: Irmãos Pongetti Editores, 1951), p. 411 and footnote.

26 Brasil. Ministerio da Agricultura., Ervais do Brasil e ervateiros. Documentário da vida rural, no. 12. Prepared by Virgílio Corrêa Filho. (Rio de Janeiro: Serviço de informação agrícola, 1952), p. 60; Linhares, p. 153; Warren, Rebirth, p. 206.

27 Paraguay. Revista Mensual, 3 (25), 1898, pp. 11-12; Freire Esteves, Historia contemporânea, p. 81; Great Britain. Paraguay; Report (1897), pp. 4-5.

28 Warren, Rebirth, pp. 206-207; Caballero-Aquino, pp. 210-213.

29 Monteiro de Almeida, p. 417 (n).

30 Warren, Rebirth, pp. 171, 210-211; Laino, Paraguay: de la independencia, pp. 159, 173-174, 208; Caballero-Aquino, p. 229; Pastore, p. 253; Gaudencia Yubero, El Paraguay Moderno. (Asunción: Talleres Nacionales de H. Kraus, 1915), p. 240(a).

31 Luis Alberto Romero, "El ciclo del tanino en Argentina", Revista Paraguaya de Sociología, 14 (38), Enero/Abril 1977, pp. 166-167, 170.

32 Freire Esteves, Historia contemporânea, p. 68; Caballero-Aquino, pp. 244-245; García Mellid, p. 471; Yubero, p. 240(a).

33 Gaston Gori, La Forestal (La tragedia del quebracho colorado). (Buenos Aires: Editorial Proyección, 1974), pp. 49-50. Warren cites information that credits the Casado operation with being the first in the world. Warren, Rebirth, p. 211. Gori likely has more accurate information. At any rate, the industry began almost simultaneously in Argentina and Paraguay.

34 Warren, Rebirth, p. 211.

35 Laino, Paraguay: de la independencia, p. 171, 208; Caballero-Aquino, p. 229. At the time, the Argentine peso was at par with the U.S. dollar. The

sales reduced Casado holdings to 12.7% of Chaco territory. Laino, p. 159.

³⁶ Warren, Rebirth, p. 211; Freire Esteves, El Paraguay, p. 321.

³⁷ Laino, Paraguay: de la independencia, pp. 172, 176; Freire Esteves, El Paraguay, pp. 319, 321; Monte Domecq', pp. 279-280.

³⁸ Juan Natalicio González and Pablo Max Ynsfrán, El Paraguay contemporáneo. (Asunción: Editorial de Indias, 1929), p. 144; M.A. Colle, El Drama del Paraguay. (Buenos Aires: Editorial Claridad, 1935?), pp. 83-84; Warren, Paraguay, p. 272. During the latter half of World War I, Paraguay couldn't exploit its forests fast enough and had to import quebracho logs from Argentina in order to keep the factories producing. Freire Esteves, El Paraguay, p. 170; González Erico, "Estructura", pp. 151-152. Carpenter reports that in 1925 there were potentially 70 million tonnes of quebracho logs in Argentina and only 3 million in Paraguay. Frank G. Carpenter, Along the Parana and the Amazon; Paraguay, Uruguay, Brazil. (New York: Doubleday, Page and Co., 1925), p. 61.

³⁹ Miranda, pp. 167-168.

⁴⁰ Monte Domecq', pp. 283-286; Laino, Paraguay: de la independencia, pp. 177-178; Yubero, pp. 250-250(b).

⁴¹ Monte Domecq', pp. 283-286; Yubero, pp. 250-250(b).

⁴² Romero, pp. 161-163; González, El Paraguay contemporáneo, p. 107.

⁴³ Molins, pp. 180, 242; Monte Domecq', p. 298.

⁴⁴ López Decoud, pp. 5-6. Decoud, in fact, alleged that land taxes collected by the Paraguayan government from all international interests in the Chaco amounted to a meagre 300,000 gold pesos annually!

⁴⁵ Caballero-Aquino, pp. 244-245; Romero, pp. 164-165, 177.

⁴⁶ Williams, pp. 93-94.

⁴⁷ Arad, pp. 184, 187.

- 48 Ibid., pp. 189-190.
- 49 Ibid., pp. 184, 193-195; Pastore, p. 257; Freire Esteves, Historia contemporánea, p. 80; Liebig's, pp. 59, 61, 79-80. According to Miranda, p. 153(n), modern Paraguayan historian, Efraím Cardozo, wrote Liebig's.
- 50 Liebig's, p. 79. There may have been many more as Arad explains that most ranchers deliberately underestimated the number of cattle in their possession in order to avoid paying higher taxes. See Arad, p. 214.
- 51 Arad, p. 214.
- 52 Liebig's, pp. 81-83. Salted meat plants concentrated exclusively on producing jerked beef for export in bulk.
- 53 Miranda, pp. 155-156; Arad, p. 205.
- 54 Freire Esteves, El Paraguay, p. 173; Liebig's, pp. 88-90.
- 55 Liebig's, pp. 88-89.
- 56 United States. Department of Agriculture. Agricultural Survey of South America; Argentina and Paraguay. Prepared by Leon M. Estabrook. Bulletin No. 1409. (Washington, D.C.: Government Printing Office, June, 1926), p. 87.
- 57 Monte Domecq', pp. 339-340; Yubero, pp. 251-252.
- 58 Liebig's, p. 114; Warren, Paraguay, p. 281.
- 59 Liebig's, pp. 71-73, 77; Laino, Paraguay: de la independencia, pp. 131-132; Freire Esteves, El Paraguay, p. 177.
- 60 Warren, Paraguay, p. 281; Gonzalez, El Paraguay contemporáneo, p. 106.
- 61 Miranda, pp. 153, 156.
- 62 Scobie, p. 177.

⁶³ Freire Esteves, El Paraguay, p. 165. These latter figures are likely understated due to smuggling. Read on for details.

⁶⁴ Ibid., p. 165.

⁶⁵ Ibid., p. 165; Pillado, p. 116. I have not been able to locate figures for 1887-1899.

⁶⁶ U.S. Department of Commerce. Paraguay, A Commercial Handbook, pp. 96-97.

⁶⁷ Great Britain. Department of Overseas Trade. Report on the Economic and Financial Conditions in Paraguay, September, 1923. Prepared by Frederick W. Paris. (London: His Majesty's Stationery Office, 1928), pp. 7, 19; Great Britain. Report (1925), p. 13; United States. Department of Commerce. The Paraguayan Market. Prepared by Rollo S. Smith. Trade Information Bulletin, No. 490. (Washington, D.C.: Government Printing Office, 1927), pp. 7, 23; Great Britain. Report (1936), p. 21.

⁶⁸ Freire Esteves, El Paraguay, p. 201.

⁶⁹ Ibid., p. 201; Paraguay. Dirección General de Estadística de la Nación. El Comercio Exterior Paraguay en los años de 1914 a 1918. (Asunción: Talleres de Ariel, 1919), p. 16.

⁷⁰ Great Britain, Report (1923), pp. 8, 19; U.S., The Paraguayan Market, pp. 8, 23; Great Britain, Report (1936), p. 24.

⁷¹ U.S., Paraguay, p. 87.

⁷² Paraguay Monthly Review (Asunción) 1, (1901), p. 22; U.S., The Paraguayan Market, pp. 8, 23.

⁷³ Freire Esteves, El Paraguay, pp. 174, 223.

⁷⁴ Great Britain, Report (1923), p. 9; Great Britain, Report (1925), p. 13; U.S., The Paraguayan Market, p. 23; Great Britain, Report (1936), p. 23; U.S., Paraguay, p. 76.

⁷⁵ Liebig's, p. 82; Great Britain. Diplomatic and Consular Reports, No. 5403, Trade and Industry of Paraguay, 1913, 1914. (London: Foreign Office, 1914), p. 24; Great Britain, Report (1923), p. 19.

⁷⁶ U.S., The Paraguayan Market, p. 23; Great Britain, Report (1925), p. 21; Great Britain, Report (1936), p. 23.

⁷⁷ Koebel, p. 292.

⁷⁸ Freire Esteves, El Paraguay, p. 164-65. Although the figures are notoriously suspect, it is safe to say that the price of yerba exported was generally higher than tobacco until the turn of the century, when tobacco became more expensive per kilo than the Paraguayan tea. Still, throughout most of the 1880-1930 period yerba earned more for the Paraguayan economy than tobacco, due to larger export volumes.

⁷⁹ Warren, Rebirth, p. 199; Freire Esteves, Historia contemporánea, p. 79; Freire Esteves, El Paraguay, p. 164; Great Britain, Report (1923), pp. 9-10, 19; U.S., The Paraguayan Market, p. 23; Great Britain, Report (1936), p. 20-21.

⁸⁰ Freire Esteves, El Paraguay, p. 196.

⁸¹ Miguel Angel González Erico, "Desarrollo de la banca en el Paraguay (1870-1900)", Revista Paraguaya de Sociología, 9 (25), Set./Dic. 1972, p. 140; Miranda, pp. 128-129.

⁸² Argentina. Memoria (1896), p. 78; Paraguay. "Productos paraguayos", pp. 334-336.

⁸³ Molins, pp. 234-237; Carlos Torres Gigena, Tratados de Comercio concluidos por la República Argentina, 1812-1942. (Buenos Aires: Ediciones Centurión, 1943), p. 265; U.S., Paraguay, pp. 162-163.

⁸⁴ See Pillado, pp. 115-116.

⁸⁵ "El Liberal" Noviembre y Diciembre 1916, cited in González Erico, "Estructura", pp. 131-132; Argentina. Memoria (1896), pp. 282-283.

⁸⁶ Guillermo Tell Bertoni, Estudio sobre el intercambio mercantil y sobre las demás vinculaciones económicas paraguayos-argentinas. (San Lorenzo [Paraguay]: Imprenta y Ediciones Guaraní, 1936) pp. 4-6. Bertoni claims the surcharge was 50%, but this must be a misprint since his own data approximate the 30% figure. This is partially confirmed by Pillado, who in 1910

reported Argentine surcharges of 30% on yerba and 25% on wood products. See Pillado, pp. 115, 118.

87 Warren, Rebirth, pp. 187-188; Yubero, pp. 325-326; Bourgade, pp. 129-131; Freire Esteves, El Paraguay, pp. 301-302.

88 Bourgade, p. 131.

89 González, Infortunios, p. 283; Laino, Paraguay: de la independencia, pp. 148-149; Lopez Decoud, p. 8; Miranda, pp. 155-156.

90 Freire Esteves, El Paraguay, p. 213. Freire Esteves states that Argentina accounted for 95% of Paraguay's trade, but this figure is certainly too high, even when taking contraband into consideration. By consulting other data which are more reliable and also discount transit trade, I have come up with what is hopefully a more reliable figure. See U.S., Paraguay, pp. 159-161.

91 Aldo Ferrer, La economía argentina. (Buenos Aires: Fondo de Cultura Económica, 1975), p. 104.

92 Warren, Rebirth, pp. 177-178.

93 Miranda, pp. 136-137.

94 Warren, Rebirth, pp. 223-224.

95 Paraguay. "El libre-cambio con Matto Grosso", Revista Mensual, 2 (17), Julio 1897, pp. 164-165.

96 Brasil. Ministerio de Estado das Relações Exteriores, Relatorio apresentado ao Presidente da República dos Estados Unidos do Brasil, 1897-1898. (Rio de Janeiro: Imprensa Nacional, 1898), pp. 24-25, 202-205.

97 Jornal do Commercio, Rio de Janeiro, Setembro 11, 1917, Cited in "Notas Americanas", p. 842; Lucio Meira, "Brasil-Paraguai: uma experiência de cooperação administrativa", Revista Brasileira de Política Internacional (Rio de Janeiro?), 1 (2), 1958, p. 5.

CONCLUSION

In retrospect, the domination of Paraguay by its two powerful neighbours after the War of the Triple Alliance should come as no surprise. The country was prostrate and completely subject to the designs of the victorious Allies. No viable economic activity had been spared the devastation of the War and no political institutions remained intact to coordinate reconstruction. The fate of Paraguay was very much in the hands of its conquerers.

Unfortunately, the primary interest of both Argentina and Brazil was not in the reconstruction of their former enemy. As far as the Allies were concerned, victory only hastened the return of their traditional rivalry. Fear of one another's expansionist tendencies in the region caused statesmen in Rio and Buenos Aires to treat the Guaraní nation as a buffer state and make use, whenever possible, of its neophyte political groups as instruments to further their own Great Power interests. This in turn exacerbated an already vigorous enmity between Paraguay's political factions and tended to divide the country's politicians into pro-Brazilian and pro-Argentine factions.

Before Paraguayans even had time to adjust to defeat, the nation's political destiny had been sealed. Backed by

one Power or the other, two parties soon emerged whose sole raison d'être seemed to be to prevent one another from attaining power. During the confusing postwar decade of the 1870s, the party supported by Brazil gained predominance, largely due to the presence of Brazilian occupation forces. Argentina's clients, therefore, were excluded from the political arena, much to the chagrin of Buenos Aires. This continued to be the state of political affairs for some twenty-five years, until in 1904 an Argentine-backed revolution overthrew the incumbent government. From then until the Chaco War, Paraguay was ruled by a succession of pro-Buenos Aires politicians which, however, did not prevent continued internal factionalism from turning the 1904-1923 period into one of political turmoil and intrigue.

Both Rio and Buenos Aires sought to control events in Paraguay by means of quiet diplomacy, knowing full well that direct military intervention in the affairs of their weaker neighbour might spark a regional conflict which neither Power could afford. This strategy proved to be quite successful, as direct intervention was resorted to on only three occasions. In 1894, concern that a pro-Argentine politician might assume the presidency induced Rio to engineer a coup in Asunción which replaced the incumbent president with their own man. No reaction

was expected from Argentina, nor was it forthcoming. In 1904, however, dissatisfaction with the corrupt and incompetent rule of the Brazilian-supported Colorado Party led to a successful revolution armed and financed by Buenos Aires, which permitted the Liberal Party to assume political leadership of the country. Itamaraty, aware that its clients had lost all credibility, declined to help keep them in power.

But the Liberals were not a cohesive force. Their apparent solidarity during the Revolution quickly dissipated, with the result that political chaos soon engulfed the country. Nowhere was this more apparent than during the confusion of the 1911-12 Civil War, which Argentina exploited to support its favourites against the others. In the process, Buenos Aires exerted intense diplomatic and economic pressure on successive governments, a strategy that eventually provoked a brief break in diplomatic relations with Asunción. But the policy paid off when Porteño-backed rebels ultimately took power. Yet, despite overt Argentine interference in Paraguayan affairs, Brazil made no effort to counter its rival's actions. Obviously, circumstances had changed considerably in the region.

The foreign policies of Rio and Buenos Aires toward Paraguay tended to vary over the years, largely to meet

changing conditions. By the turn of the century Brazil's greatly enhanced international stature and increasing economic prosperity served to allay Itamaraty's earlier fears of Argentina and allowed decision-makers to focus more attention on internal affairs. At the same time, Buenos Aires was quick to take advantage of Rio's apparent lack of interest in Paraguay to establish its own dominance in that country's political development. Consequently, by 1911 there was little doubt which Power had the greatest influence in the affairs of the riverside nation.

At first glance it appears curious that Brazil, which had so actively cultivated its influence in Paraguay throughout the latter part of the Nineteenth Century, would allow its traditional rival to establish control over a nation whose strategic location was potentially so important for Brazilian interests in the region. A major reason, however, was Argentina's ability to exercise greater influence over Paraguay by virtue of its geographical location. Linked to its southern neighbour by language and history, the inland nation was also dependent on the La Plata river system for access to the world. Rio had no easy way of effectively competing with such natural geographical ties, so that Paraguay's economy was forced to rely on river transportation for its external commerce. As a result, the Porteños exploited their control of the

system to channel virtually all of Paraguay's regional and overseas trade through Buenos Aires.

Besides these links, the nature of Paraguay's economy and its products invited increasing Argentine participation in its weaker neighbour's economic development. Argentine investment as well as the pull of the Buenos Aires market for Paraguayan goods virtually guaranteed that Paraguay would become dependent on the Porteños. Brazil, on the other hand, was unable or unwilling to offset the Argentine advantage, although it is curious Rio did nothing to weaken Buenos Aires' stranglehold on Paraguay's trade by heeding the calls of various groups to construct a rail line between Asuncion and the Brazilian coast.

Nevertheless, Argentine dominance over the Paraguayan economy did very little for that country's real development. Profits were regularly syphoned off by private investors; high customs tariffs on Paraguayan imports were maintained by succeeding Buenos Aires governments; most large-scale industry operated in enclaves independent of the general economy; and prohibitive freight rates made shipping goods along the Paraná River a costly undertaking for Paraguayan producers. In fact, no effort was made by either the Argentine Government or its entrepreneurs to alleviate their neighbour's dependent status. The net result was an overall climate of economic

stagnation, despite the high profile development of extractive industries such as yerba, quebracho and livestock. And just when the general economic picture began to brighten in the late 1920s, Paraguay was suddenly debilitated by the combined effects of a world depression and the Chaco War.

Not unlike Ireland's connection with Great Britain, the Argentine-Brazilian control of Paraguayan political and economic affairs between 1880 and 1930 provides a classic case study of "Dependency" long before the concept became the focus of modern politico-economic analysis. Similarly, the relationship between Paraguay and its larger neighbours at that time partially fits the geopolitical model of "sub-imperialism" advanced by modern Latin American theorists. This concept throws some light on Brazil's recent dependence on the United States, a relationship which in turn has been extended by Brasilia to its penetration and domination of the economies and politics of its weaker neighbours, particularly Bolivia, Paraguay and Uruguay.¹ Many years earlier, Argentina was in a similar position. Throughout most of the period under review, Paraguay demonstrated economic and political subservience to its southern neighbour, which at the same time was highly dependent on British investment capital and markets.

Although the application of such theories to the Paraguayan situation has not been the focus of this thesis, it is hoped the study will help explain that beleaguered country's role as one of Latin America's foremost victims of intra-regional rivalry. After 1870, a once-thriving and dynamic nation was forced to undergo a humiliating and unnecessary impoverishment to satisfy the ambitions of its more powerful neighbours. In many ways, Paraguayans still must bear that legacy today.

NOTES TO THE CONCLUSION

¹ For more on "sub-imperialism", see Paulo Schilling, Brasil va a la guerra, (Buenos Aires: Schapire Editor, 1974) and Domingo Laino, Paraguay: fronteras y penetración brasileña, (Asunción: Ediciones Cerro Corá, 1977).

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