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The great depression in Argentina, Brazil and Uruguay: revisiting vulnerabilities and policies

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Citation

Gerona Morales, M. E., & Sosa Clavijo, S. M. (2015, October 1). *The great depression in Argentina, Brazil and Uruguay: revisiting vulnerabilities and policies*. Retrieved from <https://hdl.handle.net/1887/35598>

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Issue Date: 2015-10-01

VII. Uruguay in between

Uruguay constitutes a special case study because it is a small economy with favourable natural endowments, sparse population in comparison with a vast area of natural pasture and has a good strategic position between two key countries in South America, Argentina and Brazil. Following the League of Nations' estimates for 1928, the country had 187 thousand square kilometres and a population of 1.8 million inhabitants. Furthermore, although it was - and still is - fifteen times and forty-five times smaller than Argentina and Brazil respectively³⁰⁹. It was ranked highly in terms of wealth with a per capita GDP similar to Argentina, and four times higher than Brazil³¹⁰. And due to its relatively high standards of culture from its mostly European-descended population, as well as its particular geopolitical situation, the country was internationally known in its own right as 'the Switzerland of America'. A land of which politicians used to say that '*como el Uruguay no hay*' ('there's nowhere like Uruguay')³¹¹.

Historically, the country had been a battlefield for Portuguese and Spaniards during colonial times and between Argentina and Brazil during the nineteenth century, but by the twenties, the River Uruguay and the River Plate constituted natural borders with Argentina, and the land border with Brazil was mostly settled. As in the case of Argentina, by the twenties Uruguay was an export-led economy of primary goods with significant trading ties to European countries, being the UK its main export market, and a strong importer from the US. Secondly, it was –and still is– an urbanized economy whose social structure, as mentioned, was based on European immigration. In this regard, the immigrants did not find employment in the rural sector with the result that they remained in the city of Montevideo prompting its development as the nerve centre of the country. As Vaillant (2004, p. 156) recalls, economic activity circulated around the cattle farming activities, and the production of agricultural commodities. There are three key elements to understand the historical roots of the country's integration to the world: prairie, border and port. They reveal comparative advantages in the relative abundance of factors of production suitable for food production (prairie), its relative size in relation to its neighbours

³⁰⁹ According to the League of Nations Yearbook of 1929 (1930) in 1928 Argentina had 2.8 million square kilometres and 10.9 million inhabitants and Brazil had 8.5 million square kilometres and 39.1 million inhabitants.

³¹⁰ Per capita GDP figures from Maddison (2010) in dollars of 1990 for 1928: Argentina, 4,291 dollars; Uruguay, 3,906 dollars; and Brazil, 1,158 dollars.

³¹¹ This expression was used in the course of a speech in 1949, did President Luis Batlle Berres express euphoric sentiments of satisfaction with the state of the Uruguayan nation (Finch, 1991).

and geography which places it as a strategic natural node in the Plata basin (border), with an historic link with the northern world, especially Europe (port). Indeed, the main natural port of the country and also its capital, Montevideo, remained the centre of economic activity and accounted for almost half of the Uruguayan population. It was also -and still is- a strong competitor of the Buenos Aires port, a fact that has always been underlying the bilateral relations.

At the end of the nineteenth century, Uruguay was a Nation that had completed its basic institutional framework. The defeat in 1904 of the rebellion of Aparicio Saravia signalled the end of the era of regional strongmen (*caudillos*) and the definitive consolidation of the authority of the central government, so that during the first two decades of the twentieth century Uruguay was able to consolidate its democracy. The political system relied on the two traditional multi-class parties, *Colorado* and *Blanco* (or National), the former with a stronger urban political base especially in Montevideo, and the latter in the countryside and cities and towns elsewhere. Both of them supported legislation to benefit workers and the socially disadvantaged. However, the *colorados* were more efficient in taking political advantage due to their more urban-oriented political base that provided strong support from class-based organizations³¹². Uruguay was also recognized because of its political stability, prosperity and achievements in terms of high levels of welfare and social justice even when compared to European countries. This outstanding position was consolidated under the leadership of the President José Batlle y Ordóñez³¹³, a statesman and leader of the *Colorado* party who at the beginning of the twentieth century had initiated within this party a movement known as *batllismo*, of profound influence in Uruguayan politics until nowadays.

With these preliminary comments on Uruguay, in this chapter, firstly we introduce the reader to the political and economic context of Uruguay at the end of the twenties and the early thirties. Secondly, from the complex situation of the country by that time, we highlight the importance of the external sector for Uruguay's economy, describing its economic structure, analysing its vulnerabilities and presenting some policies.

i. A paternalistic State's guidance

Perhaps the most outstanding feature of Uruguay during the twenties is that under the guidance of the *batllismo* and thanks to the particular social structure (urbanized and mostly integrated by immigrants), Uruguay was characterized by significant political and legislative achievements in comparison with the other countries of the region. Indeed, by that time, the role of the government in the economy was very important. The *batllismo* basically maintains that in order to develop the country and society the government must control basic aspects of the economy by means of state monopolies, as well as creating an ample body of social laws; with a view to consolidating a strong middle-class society under the shelter of a mighty economy and a welfare State, interventionist and redistributing of wealth. However, it can be said that the *batllismo* was

³¹² See Finch (1991, p. 196).

³¹³ José Batlle y Ordóñez was President of the Republic during 1903-1907 and 1911-1915.

more a national style or ideology rather than a political programme within the *Colorado* party. As a very schematic way of understanding of the Uruguayan economy, the bulk of the country's relative richness was generated in the countryside, then appropriated by the cities, especially Montevideo –its capital-, and then redistributed to the growing public sector through an increasing number of public servants and to the urban society through the welfare State created by the *batllismo*. Several researchers, such as Finch (1991) argue that the influx of immigrants not only boosted the development of the urban economy, but also accentuated the political tensions between the primarily export-oriented interests and the substantially urbanized society. The clever management of these tensions by José Batlle y Ordóñez³¹⁴ was one of the most outstanding strengths of the *batllista* policies. The governing *Colorado* party was not only supported by the landowning class, but managed efficiently as honest mediator between the demands of the this class, the emerging influential middle classes and the increasingly self-conscious urban working masses represented by trade unions and left-wing political groups. Indeed, Batlle boosted the role of the State as arbitrator among the conflicting social classes and secured relative social stability, by enacting income-redistributing legislation during the times of economic prosperity and policies such as industrial protection, expansion of the public sector, extension of the educational system and the promotion of entrepreneurship and social mobility³¹⁵. In addition, the *batllismo* promoted the development of the tourist infrastructure in the capital and on the Atlantic coast, opening the door for the attraction of Argentine tourism that from there on became a new and significant source of revenues for the country³¹⁶.

In March 1927 Juan Campisteguy from another main competing branch of the *Colorado* party, the *riveristas*, won the elections and assumed the presidency of the Republic for the term 1927-1931³¹⁷. However, the President was in a way handicapped. According to the Constitution of 1918, approved by plebiscite on November 25th, 1917 and in force since 1919 - the executive power was shared by the President and the *Consejo Nacional de Administración* (CNA - National Council of Administration-). The Council was composed of nine members elected by popular vote for six years who could not be re-elected without an intermediate two years between the election and dismissal from office. The CNA was renewed by thirds every two years, and was in charge of education, public works, labour, industry, finances, health care and the general budget of the Nation. This complex institutional framework allowed the *blancos* to participate in government decisions without endangering the *de facto* monopoly of the *colorados* in the presidential elections.

Regarding the economy, Uruguay counted several comparative advantages. It profited from its favourable natural endowment, its extensive natural pastures and its natural port, along with its

³¹⁴ During the twenties, Batlle remained an important influential figure, although for most of the period he did not occupy any official post. During the presidency of the *batllista* José Serrato (1923-1927), Batlle was elected to preside over the CNA for second time in 1926 but resigned in favour of Luis C. Caviglia (Rela, 2009a, p. 324).

³¹⁵ See Finch (1991, p. 196).

³¹⁶ See Bertino et al. (2001a, p. 8).

³¹⁷ In 1927, the cabinet was integrated by Eduardo Acevedo Álvarez (Finance, *batllista*), Pablo Ma. Minelli (Industry, *batllista*), Venancio Benavídez (Public Works, *vierista*), Enrique Rodríguez Fabregat (Public Education, *sosista*). For more details, see Rela (2009a, pp. 326-327).

favourable social structure supported by political and legislative attainments. However, during the twenties, the country went through two stages, one of recession (1920-1925) and another of acceleration with heavy indebtedness (1925-1929). On the one hand, its reduced internal market was heavily dependent on exports of primary goods and imports of manufactured goods, oil and capital. After the expansion of world demand for Uruguayan export goods during the First World War, difficult times arrived. After 1920 it suffered a severe economic contraction, as it could not escape the ‘commodity lottery’ that hit all other Latin American countries, tormented by the fast swings of the international commodity prices and the plunging demand from the developed world. This crisis lasted until 1925, and was followed by a sustained recovery that ended when the US and the European core economies fell into crisis. On the other hand, Uruguay also increased its indebtedness level since 1925, which added to the country’s vulnerability. In 1926, in a decision questioned for compromising national sovereignty, Uruguay contracted with US banks a 30 million dollars loan known as ‘Hallgarten’³¹⁸. Regardless of the criticism, the *batllista* government channelled those funds to implementing active policies oriented to trade, tourism, transport and finances. The port of Montevideo was modernized so that it could become a regional hub, national roads and railways were expanded and credit lines were extended for development projects³¹⁹. The country also had been an important recipient of foreign capital from the UK and the US. Around 78% were British investments, mainly in transport services such as railways and trams; 14% US investments mainly in meat-packing plants; 2% were German and the remaining 6% belonged to several nationalities³²⁰.

Even though the government sought the effective consolidation of the national market and its integration into the international ones, its policies were far from open market-oriented. The public sector deepened its involvement with the national economy by means of the creation of state-owned companies in key strategic sectors. By the end of the twenties, the expansion of the State as an economic agent (*estatismo*) was evident and legislation accompanied that evolution, a trend that had evolved since the second half of the nineteenth century and was accentuated during the Batlle y Ordóñez administrations.

Especially important for the Uruguayan economy was the establishment of the *Frigorífico Nacional* (National Meat-packing Plant) in 1928. Indeed, the government lacked mechanisms to influence the main economic activity, since most aspects of the meat business were controlled by the core countries’ interests. For example, in 1927, the Freight Conference assigned to the US 60.9% of the holdings, 22.1% to the British and 3% to the Argentineans. There was indeed a trust policy, and the local cattle producers were irrelevant in the price decision-making process. The freight within Uruguay was monopolized by the trains owned by foreign capital and the salting houses were established in the north of the country (5 in total) or in the Brazilian State of Rio Grande do Sul (25 in total). Furthermore, the power of the Argentinean producers pressured the Uruguayans, and made them in a way dependent. Those reasons led the government to

³¹⁸ See Nahum (2008, p. 121). For more detailed information about the Uruguayan foreign debt see Nahum (1995).

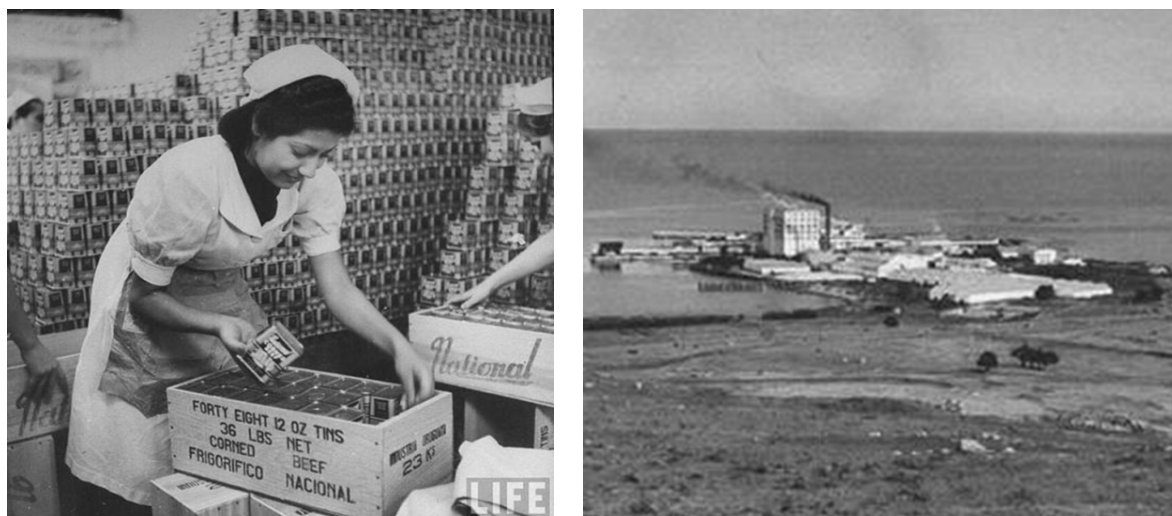
³¹⁹ See Bertino et al. (2001a, p. 8).

³²⁰ See Jacob (1977, p. 73).

create the *Frigorífico Nacional*, with the aim of defending both the interests of the Uruguayan producers against the voracity of the meat trust by paying better prices as long as the export conditions allowed it, and of the consumers by allocating meat by-products³²¹.

It also was meant to improve the quality and competitiveness of the meat products as compared with the Argentine ones and to boost the acceptance of the national produce in foreign markets³²². In this respect, the Uruguayan diplomats maintained that the government followed a comprehensive program of rationalization of meat production, industrialization and marketing. The national meat-packing plant built at the Port of Montevideo (most probably by British concerns) would unify the port's outgoing flow of meat from its original industrialization and with a final regard to facilitate Uruguay's participation within the framework of an eventual general 'cartel' of production and marketing sponsored -with clear integral understanding- by the experts of the Ministry of Agriculture of the UK³²³. The concurrence of this and other meat-packing plants allowed for a significant growth of the industry, so that export values were boosted until 1930.

Picture 1 Uruguay: Meat-packing plants



Note: on the left, a worker packing corned beef from the *Frigorífico Nacional*; and on the right, the North American *Frigorífico Swift* in Montevideo.

It is possible to say that Uruguay was by far the most active country in terms of the creation of public owned monopolies as compared with Argentina and Brazil. In October 1931 the *Administración Nacional de Combustibles, Alcohol y Portland* (ANCAP) was created in order to monopolize the production of alcohol; to import, refine and trade oil and its by-products; and to manufacture cement -*portland*-. The creation of ANCAP was a direct result of the agreement in the same year called '*Pacto del Chinchulín*' ('Pork-barrel Pact'), a term coined by the influential *blanco* politician Luis A. de Herrera which alluded to the distribution of public jobs between the *colorado batllista* party and the *non-herrerista* sector (*nacionalistas*

³²¹ See Barrios Pintos (1978, p. 237).

³²² See Acevedo Álvarez (1934, p. 74).

³²³ See private memorandum dated October 22nd, 1932, from the Uruguayan Embassy to London sent to Mr Craigie at the Foreign Office, in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.

independientes) from the *Blanco* party according to the proportion of votes. Thus, this was probably the clearest sign of the ‘paternalistic’ aspect behind the public entrepreneurship. Not surprisingly, this move found strong opposition from powerful oil companies such as Shell and Standard Oil and their governments, which made diplomatic representations³²⁴. In this regard, the British diplomats indicated that there was considerable concern at the position which had arisen from the setting up by the Uruguayan government of the trading company ANCAP, which had been accorded special privileges, and at the declared intention of the Uruguayan legislature to create an oil monopoly that would provide 50% of the gasoline consumption from the refinery which ANCAP was proposing to erect. The creation of national companies with special privileges, or of a monopoly, was bound to have a detrimental effect on the interests of British oil companies, both from the point of view of the financial loss which the companies would suffer, and on the broader grounds that the adoption of such a trading basis would have a serious effect on the British oil industry in all its branches³²⁵. Eventually, the foreign companies prevailed in their efforts and managed to avoid the ANCAP monopoly over the oil business, but the fact is that this company contributed from then on and up to our days in strengthening the small national economy.

By the end of the twenties, the State controlled the banking sector and several public utilities, with one of the most prominent being the *Administración Nacional de Puertos* (National Port Administration), which controlled the state monopoly of all services at the Port of Montevideo, and by 1931 it was also in charge of the administration of the ports of Nueva Palmira and Colonia. The *Administración General de las Usinas Eléctricas del Estado* (UTE) was also created in 1931 as the only supplier of electricity and in 1932 the key thermo-electrical power station *Batlle y Ordóñez* started work in Montevideo. This company was also in charge of the expropriation of the private telephone companies, with the aim of installing a monopoly over telecommunications in the country, for which it later was renamed *Administración General de las Usinas y Teléfonos del Estado*. The national airline company *Primeras Líneas Uruguayas de Navegación Aérea* (PLUNA) was set up with a mixture of public and private capital³²⁶. It is also worth mentioning the *Cooperativa Nacional de Productores de Leche* (CONAPROLE, National Cooperative of Milk Producers), created in 1935 as a monopoly on the pasteurization, distribution and marketing of dairy products, which has had a positive impact on the industrial sector until the present day³²⁷.

Turning to the fiscal situation, the second half of the twenties was a phase of what Uruguayans described as ‘*vacas gordas*’ or ‘fat cows’. Between 1924 and 1928 strong economic activity was reflected in soaring tax revenues, so that a surplus of more than 9 million pesos was generated. This surplus, which represented between one-fifth and one-sixth of the annual expenditure, was not only the result of improving customs revenues collected from unprecedented import levels

³²⁴ See Nahum (2008, p. 143).

³²⁵ See minutes of meeting “Position of British Oil Companies operating in Uruguay”, in “Uruguay-UK. Commercial Negotiations”, BT 11/294 (1934).

³²⁶ See Rela (2009b, p. 404).

³²⁷ See Nahum (2008, p. 143) and Rela (2009b, p. 404).

but also of the outstanding performance of domestic taxes in a context of a widening domestic market, with indirect taxes being the leading collectors³²⁸. Although in essence the system inherited from the nineteenth century was not changed so much, some innovative measures such as the increase of the rural and urban property tax and the increase of the inheritance tax became a highly sensitive issue for the livestock farmers' sector, which mobilized in face of the 'tax avalanche' and the 'fiscal ferocity'³²⁹.

The improvement of the tax revenue performance allowed a corresponding expansion of the public expenditure, which accounted during the twenties for around 20% of GDP. Between 1923 and 1929, in real terms, the expenditure had increased to an annual accumulated rate of 5.4%. However, this growth was modest considering that in 1927 the public expenditure of the central government reached the pre-war figures and that in 1929 it only exceeded 15% of the 1913 level (considering constant pesos). Moreover, during the two decades of *batllismo*, the public expenditure growth rate was less than proportional to the increase of public servants due to the access to the service for low wage earners, such as soldiers and policemen³³⁰. Thus, some researchers conclude that the 'conservative Republic' not only managed to uphold the reformist boost of the *batllismo* but also kept low the share of public expenditure in the aggregate demand. It is even possible to point out that most of the policies applied during this period were essentially liberal in style.

Even though foreign trade was partially regulated through the protectionist legislation, severe state control mechanisms over exports and imports were not in place. Furthermore, in general terms, the monetary and exchange markets continued operating without major regulations, beyond the guiding role performed by the state-owned *Banco de la República Oriental del Uruguay* (BROU, Bank of the Republic). The capital market also operated according to the liberal criteria without any major political intervention³³¹.

Regarding the labour market, it is important to highlight that in those years the foundations of the welfare State were built. Thus, education, health assistance, housing construction and social security became priorities for the government and increased their coverage nationwide. The *batllismo* promoted key social legislation at a moment when the workers' unions were far from unified, but retained a considerable degree of organization and mobilization. The introduction of social benefits such as the eight-hour working day, the ban on child labour, a compulsory weekly day off, the reduction of working hours in some sectors (e.g. the 'English week' in the trade sector in 1931), among others, became achievements not only for Uruguay, but for Latin America as a whole. And this progress placed Uruguay at the vanguard of the world in terms of working rights. However, during the *batllista* era and until 1933 there was no wage regulation, with two exceptions: the minimum wage for the farm worker according to a law of 1923 and the minimum wage for the workers of the meat-packing plants introduced by a law sanctioned in

³²⁸ See Bertino & Bertoni (2003, p. 18).

³²⁹ See Bertino et al. (2001a, p. 8).

³³⁰ See Bertino & Bertoni (2003, p. 19).

³³¹ See Bertino et al. (2001a, p. 9).

1930³³². However, and as a setback brought by the crisis, in 1932 the restrictive policy on immigration was enacted to fight against unemployment, and was very controversial, because it hid the politic and racial aspect of denying entry to undesirable persons, namely blacks, gypsies, Asians, etc.³³³.

Nevertheless, the cohesion of the early years of the *batllista* golden age was coming to an end. The economic crisis was reflected in Uruguayan political life in the strained relations between the two major branches of the executive power, the presidency and the CNA. Furthermore, the political panorama was shaken in October 1929 by the decease of Batlle y Ordóñez, so that not only the economy would be put to a test, but also the political system. Without the great conciliator of the *batllismo*³³⁴, as we will see, political tensions started to erupt, with splintering forces and internal dissention within the *Colorado* party. The panorama is well summarized in a few words by the *herrerista-blanco* newspaper *El Debate*: "...memory of a time of moral misery and political corruption"³³⁵.

ii. Structural vulnerability and policies

Although from the data collected by the League of Nations (1942, pp. 140-141) it is possible to calculate that in 1928 the Uruguayan trade only represented 3.2% of Latin American exports and imports, the country was known by its agro export-led profile and its high export level relative to its size. In a similar way to Argentina, according to figures from the International Trade Statistics from the League of Nations, Uruguay had the UK as its main customer with an average share in its total exports of 28.8% during the period 1928-1934 and an annual average trade surplus of around 7 million dollars. Other important European trading partners were Germany, France, Italy and Belgium with shares between 6% and 14%. The US was its main supplier³³⁶ and consumed 8.2% of Uruguayan exports in that period, resulting in an annual average trade deficit of around 8 million dollars. In addition, at a regional level the trade was more concentrated with Argentina with an average share of 11% and to a lesser extent with Brazil with a share of 3%. Thus, this country was highly exposed to changes in those markets, and especially to the British one.

³³² See Bertino et al. (2001a, pp. 9-10).

³³³ See Nahum (2008, p. 136).

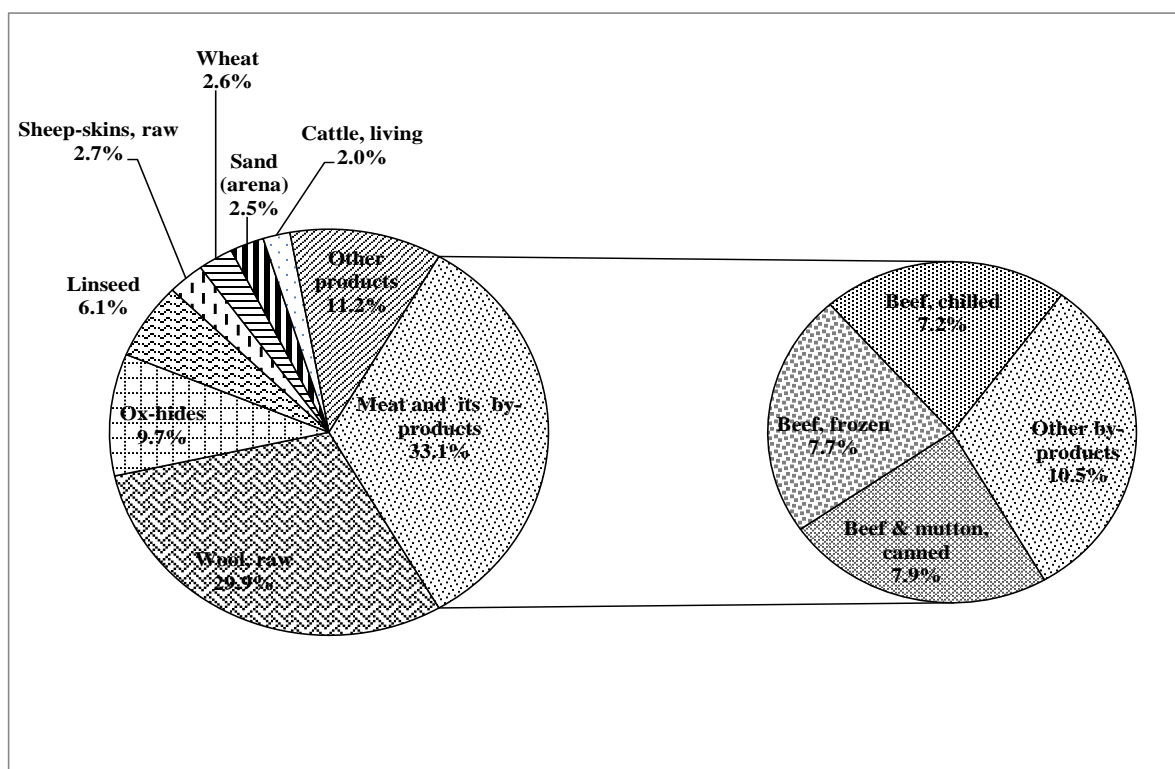
³³⁴ After the death of Batlle, the negotiations between the two main *Colorado* party factions, *batllistas* and *riveristas*, stopped and the political forces were reorganized into: *batllistas netos* grouped around César Batlle Pacheco (son of José Batlle y Ordóñez), Domingo Arena, Francisco Ghigliani and others; the group *Avanzar* led by Julio César Grauert (1902-1933) founded the previous year, and the *anticolegialistas* groups lead by Manini Ríos. Furthermore, in 1929 Nepomuceno Saravia from the *Blanco party* disagreed with the policy of the *Colorado* party and attempted a revolutionary uprising in the North of the country which was condemned by its own party's Directory (Rela, 2009a, p. 329). For a more detailed account of the political events, see for example Rela (2009a).

³³⁵ This information was taken from Rela (2009b, p. 405).

³³⁶ As mentioned in the chapter on Argentina, the US share was much smaller in the trade of the 'non-tropical agricultural countries' of Latin America (Argentina, Paraguay and Uruguay) than in the two other groups ('mineral-producing countries' and 'tropical agricultural countries' which includes Brazil) whose production was more complementary to that of the US. By 1928, the US absorbed around 8% of the exports of the non-tropical agricultural countries against about half the exports of the tropical agricultural countries (League of Nations, 1942, p. 54).

Another factor that made Uruguay's foreign trade vulnerable to changes in international prices and access conditions for commodities, prompting a bargaining position in trade negotiations, was the high dependence on a few key products. Uruguay exported mainly livestock goods. In Figure 10 we show that for the period 1928-1934 the structure of Uruguayan exports was mainly concentrated in raw wool and meat with its by-products (fundamentally beef) representing a joint share of around 63%, followed by ox- hides and sheep skins (12.4%) and products from arable agriculture such as linseed and wheat (8.7%). And if one sums up all of the cattle farming-related products and by-products we obtain a share of 78%. This fact made the Uruguayan economy not only vulnerable to the shifts in demand from a few foreign markets on those very few products, but also to the natural conditions and diseases that from time to time affected the production.

Figure 10 Uruguay: Exports by principal articles (average share 1928-1934)



Source: calculated from International Trade Statistics, League of Nations, various years. Note: original figures in Uruguayan pesos, converted to dollars by applying exchange rates from Maubrigades (2003) and Vaz (1984).

With regard to the degree of geographical diversification of the Uruguayan exports, as Table 32 shows, similarly to Argentina, practically all chilled beef was exported to the UK and the other key export products were generally exported to the UK, France, Germany, Italy and the US; but it should be stressed that the jerked beef mostly had as its destination Brazil and Cuba.

Furthermore, the meat business was heavily controlled by foreign interests, like in Argentina, with the main difference being that the latter did not have a national meat-packing plant. In this regard Uruguayan diplomacy explained that the foreign meat export trade worked on the lines of the South American Freight Committee that was constituted from London representatives of all the meat-packing plants operating in Uruguay and Argentina, which was called 'The River Plate

Conference'. This conference met from time to time and decided on the volume of meat to be shipped through the River Plate as a whole during specified periods; Messrs. Kaye Sons & Co. who acted as brokers for the South American associated shipping lines, were then requested to arrange the necessary freight for the quantity that was to be shipped and they made arrangements for the shipping service to lift this tonnage from the River Plate. When this committee was created a definite percentage or quota was allocated to each meat-packing plant and the meat interests concerned agreed to ship within the limit of those quotas. The purpose of those arrangements was to sell cheaply, abundantly and to avoid high prices, for that would bring in fresh capital to participate in the privileged position they had managed to impose upon the affected South American countries. However, as some of those meat interests owned more than one meat-packing plant it did not necessarily follow that each plant would ship the percentage allocated to it, as the meat interest concerned had the power to ship the whole quota from even one of their meat-packing plants. That situation was to the detriment of the country where the non-working plants would be situated, such as the English and Dutch plants at Las Palmas and the 'River Plate British and Continental Meat Company' plant at Zárate, which were both closed down and the percentages originally allocated to these plants shipped through other meat-packing plants³³⁷.

Table 32 Uruguay: Export concentration of key products

Period	Product	Destination
1915-1939	Chilled beef	UK (96% - 100%)
1929-1934	Frozen beef	France (39%), UK (25%), Italy (16%)
1928-1934	Canned beef	UK (50%), US (36%)
1928-1939	Frozen mutton	UK (88%)
1928-1934	Jerked beef (<i>tasajo</i>)	Brazil, Cuba*
1928-1934	Dried sheep skins	France (82%)
1926-1934	Dried ox-hides	Germany (35%), Italy (26%), UK (16%)
1926-1939	Salted ox-hides	Germany (43%)
1929-1933	Wool	Germany (23%), UK (20%), France (16%)

Source: Jacob (1977). * Information about percentage share by destination in total exports was not found. Since 1928 the exports of this product declined very quickly due to the presence of the meat-packing plants.

In relation to Uruguayan imports, they were mainly raw materials, energy (coal, naphtha, kerosene, fuel oil, gas oil and crude oil) and manufactured products such as vehicles. The main suppliers were the US - provider of vehicles (90%) and naphtha (34%) -, the UK - chief provider of coal (94%) -, Germany, France, USSR and Latin American countries such as Argentina, Brazil, Mexico, Peru, and Venezuela³³⁸. In the case of the US, imports were more than twice as much as exports to that country. In fact, during the period 1928-1934 the US had

³³⁷ See private memorandum dated October 22nd 1932, from the Uruguayan Embassy to London sent to Mr. Craigie at the Foreign Office in "Uruguay-UK. Ottawa Agreements on Uruguay trade, Uruguayan Treaty Negotiations with the UK" in FO A.5984/1864/46, BT 11/114.

³³⁸ Figures were taken from Jacob (1977, pp. 21-31).

an average share of around 20% of the total Uruguayan imports (this share being 30% in 1928), followed by the UK (17.8%), Argentina (11.8%), Germany (10%) and Brazil (8.4%), as well as other European countries such as Belgium (4.7%), Italy (4.4%), France (3.6%) and Spain (3.3%), among others³³⁹. And this particular structure of commerce boosted claims from the main export destination of Uruguayan produce, the UK. This country strove to balance the bilateral trade at the expense of the Americans by requesting, among other concessions, a warranty of a share on the existing market for coal, coke and solid fuels manufactured from coal, as well as better access conditions and tariffs for British cars and textiles. As we will see, those concessions would only be in exchange for keeping the access of Uruguayan meat to the British market³⁴⁰.

Because livestock was the main source of revenue for the economy, as previously mentioned, another source of vulnerability was nature. According to Bertino & Tajam (2000, pp. 26-28), by 1927 the government was dealing with the 'foot-and-mouth' disease in animals (among other diseases such as ovine mange), which jeopardized Uruguayan exports. As a consequence, and to prevent the disease from spreading, the government banned the mobilization of animals with this disease and their use for the production of meat, with this sort of meat only allowed to be used for the production of canned food. As we will see, like in the case of Argentina, this disease eventually affected Uruguayan exports to a highly protectionist key market, the US, and that explains why at the end of 1934, this country reduced significantly its share in Uruguayan trade flows.

At the end of the twenties, a new package of projects for the recovery of public land or the settlement of former farmers back from the cities to the countryside caused a rapprochement between the livestock farmers and the government, but it was not finally put in practice³⁴¹. Instead, the government implemented measures to boost and improve technically the agricultural and livestock sectors. By 1929, the program of genetic improvement of the livestock was put into effect by the CNA prompting the *mestización vacuna*³⁴² by means of premiums (*primas*) established for the best meat quality. In this regard, according to the Census of 1930, the complete *mestización* of the bovine stock was achieved by that time³⁴³. However, since 1930 the stagnation of beef production was apparent because of animal diseases, lack of genetic improvements and investment and excessive reliance on extensive cattle farming³⁴⁴. The deterioration of the 'agro' was alarming and an additional problem was the shortage of forage material. Thus, in order to promote a systematic improvement of the natural pastures and to boost productivity the *Sección Plantas Industriales y Forrajeras de La Estanzuela* (Industrial

³³⁹ Figures were taken from International Trade Statistics of the League of Nations (various years).

³⁴⁰ See minutes of the meetings of the commercial negotiations held from 1933 and 1935, in "Uruguay-UK. Commercial Negotiations", BT 11/294.

³⁴¹ See Bertino et al. (2001a, p. 7).

³⁴² *Mestización* is a process by which creole cattle is crossed with particular breeds in order to improve the genetic quality of the local cattle. By that time it was very common to cross creole cattle with British breeds. For more detailed information, see Bertino & Tajam (2000).

³⁴³ See Nahum (2008, p. 165).

³⁴⁴ See Bertino & Tajam (2000, pp. 26-28).

and Forage Plants Section from *La Estanzuela*)³⁴⁵ was created to research new techniques of land management and to incorporate them into production³⁴⁶.

There were also some attempts to defend producer margins pressured by the intermediaries and consumers. In this regard, for the case of the meat trade, it is worth mentioning the influence of the *Frigorífico Nacional* since 1928, and the brief intervention in the commercialization by the BROU to face specific events for the grains (maize and wheat) during 1928-1930³⁴⁷. The government also extended the protection policy to the farmers in the commercialization chain. The main instrument applied was the purchase of harvests by the State and the fixation of minimum prices (e.g. the purchase of cereals at fixed remunerative prices) as occurred later in Argentina; as well as the creation of the *Mercado de Frutos* (Fruit Market) in order to speed up the process of commercialization of the products. Furthermore, with the purpose of providing cheap credit to farmers the *Sección de Crédito Agrícola* (Department of Farming Credit) was created within the BROU³⁴⁸. The *terrista* regime (after 1933) continued with these policies and adopted new ones of dubious effectiveness. For example, a few days after the coup, Terra decreed compulsory cultivation by imposing a surcharge on the property tax paid by those landowners that did not cultivate a certain percentage of lands, but the consecutive postponements in the establishment of the surcharges left the measure without effect³⁴⁹.

Although the country did not export significant quantities of industrial products, by the end of the twenties Uruguay was prosperous enough to build a vigorous domestic market. Among the small republics, only this country could establish modern manufacturing with companies attracted by the concentration of population and high income in its capital, Montevideo³⁵⁰. The urban growth of previous decades allowed for an economy that proportionate to its size, became one of the most industrialized in Latin America³⁵¹. According to the Industrial Census of 1930, 59% of industries were established in the period 1919-1929, but they were relatively small, with only 2.4% of the industries operating with more than 100,000 pesos as capital. But perhaps the most important feature of the Uruguayan industry was that it was overwhelmingly locally oriented and heavily dependent on foreign inputs. Indeed, 99% of the industries of the sample³⁵² operated for the domestic market, and 47% of them incorporated as input imported and national raw materials, 28% imported raw material and 25% national materials³⁵³.

Regarding the scope of the industrial policies during the twenties, their relevance in terms of effective results has been questioned as in Argentina. There was a lack of a general and long-

³⁴⁵ By that time '*La Estanzuela*' was the official seedbed known as 'Plant Breeding and Seedbed National Institute *La Estanzuela*', whose director was the German scientist Alberto Boerger who was contracted by the Uruguayan government in order to work in the genetic improvement of the country, taking as reference the advanced knowledge in the US and Germany.

³⁴⁶ See Nahum (2008, p. 125).

³⁴⁷ See Bertino et al. (2001a, pp. 6-7).

³⁴⁸ See Nahum (2008, p. 142).

³⁴⁹ See Bertino et al. (2001a, p. 10).

³⁵⁰ See Bethell (1994, pp. 103-104).

³⁵¹ See Finch (1991, p. 153).

³⁵² The sample of the Industrial Census of 1930 was 7,403 industries, representing 94% of the total establishments in the country (Jacob, 1977, p. 51).

³⁵³ See Jacob (1977, pp. 51-52).

term planned industrialization policy. Instead, policies were characterized by particularism and sometimes by short-termism. Even so, the industrial protectionist policy applied by the *batllismo*, which dated from the previous century (e.g. the customs law of 1888) but that was extended and deepened, was the government's main mechanism to promote industrialization. And the key policy instruments included the imposition of tariffs on imports of manufactured products competitive with national production and the extension of benefits granted to imports of raw materials, machinery and industrial inputs. For those purposes, the Law of 1912 provided protection to new industries³⁵⁴ and the Law of *Reaforos* of 1923 updated tariffs that had remained unchanged since the nineteenth century. Furthermore, the law of industrial privileges of 1919 (an extension of the Law of 1885) and its modifications of 1921 established incentives for entrepreneurship that developed new production lines. Other related industrial policies included preferential credit for industrial development; technological support to boost university education in knowledge fields related to industrial production, scientific research and its technological application by public institutions; and the supply of three-phase electric energy³⁵⁵. Then, in 1930 the law of industrial privileges was extended and deepened and a law of 'compulsory label' was enacted in order to identify the national products and to promote them within the population. Moreover, by 1931 the ban on the import of some articles considered as competitive with the national industry was added to the imposition of exchange control and the ban on foreign firms to freely send their profit abroad³⁵⁶. And probably the textile industry was the most protected since the local wool-manufacturing industry was a natural development in the sense that the raw material -wool- was grown in the country. Thus, it was the central pillar of Uruguayan industrial development and was conducted very efficiently, and for that reason it was not possible "to expose the industry to the destructive influence of foreign imports"³⁵⁷.

iii. Conclusion

Uruguay is interesting for its strategic position between its major South American neighbours, Argentina and Brazil. Its political system relied on the two traditional multi-class parties. One of these parties, the *Colorado* party, managed by the twenties to ensure political stability under the guidance of the policies of José Batlle y Ordóñez and also thanks to the particular social structure and significant political and legislative achievements. However, there were institutional tensions between the presidency and the National Council of Administration that would eventually create instability.

³⁵⁴ The law of October 12th 1912 referred to the protection of new industries by means of benefits granted administratively to the manufacturing companies that settled in the country. Those benefits were: liberation and reduction of taxes on primary products when they were introduced with industrial destinations, tax exemptions for the first installations of equipment, exemptions for the real estate contribution for ten years for the same companies and granting of the rights of temporary admission and drawback. It also authorized the executive authority to restore the taxes when the industry produced the imported raw materials (Faroppa, 1969, p. 112).

³⁵⁵ See Bertino et al. (2001a, pp. 7-8).

³⁵⁶ See Nahum (2008, p. 142).

³⁵⁷ See U.9th minutes of a meeting held at the Board of Trade on July 10th, 1934, in "Uruguay-UK. Commercial Negotiations", BT 11/294.

Uruguay needed foreign loans to support its development, being an example the so-called 'Hallgarten' loans with the US. Similarly to Argentina, it was also an important recipient of foreign capital mainly from the UK.

There was a strong involvement of the government in the national economy by means of the creation of state-owned monopolistic entities in key strategic sectors, including meat, petroleum, ports, electricity, etc. Interventionism was also by means of an industrial protectionist policy that included the imposition of tariffs on imports of manufactured products competitive with national production and the extension of benefits granted to imports of raw materials, machinery and industrial inputs.

Although there was protectionist legislation, strict state control mechanisms over exports and imports were not in place. Furthermore, in general terms, the monetary and exchange markets operated without major regulations

However, as in the cases of Argentina and Brazil there were strong vulnerabilities that in the case of Uruguay were magnified because of its limited internal market. The UK was its main customer. The structure of Uruguayan exports was strongly vulnerable to the market swings of raw wool and meat. Cattle farming-related products and by-products constituted almost 80% of total exports. Also as in Argentina, the meat business was heavily controlled by foreign interests. And cattle illnesses such as the 'foot-and-mouth' disease in animals jeopardized Uruguayan exports.

The case of Uruguay seems to be different in the sense that there was some more institutional stability, probably due to the fact of being a smaller country. It was easier for the central government to keep the country united and the government administration running as usual. However, through trade channels the vulnerabilities were strong, because it was more dependent on meat exports than Argentina. And although it did not have such a strong dependence as Brazil on a single crop, it did not enjoy the advantage of a bigger presence in world affairs or the obviously bigger Brazilian internal market. Nevertheless, the relatively more resilient political system and institutional stability emerge as elements that could outbalance our conclusions regarding the complex vulnerabilities involved.

With this chapter, we end our analysis of Argentina, Brazil and Uruguay in context during the twenties and the early thirties. Now, in the next part we address the Great Depression itself in those countries, but this time from a more comparative approach.