

# **The London School of Economics and Political Science**

*Social Networks and Entrepreneurship: The British Merchant Community of Uruguay, 1830-1875*

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A thesis submitted to the Department of Economic History of the London School of Economics for the degree of Doctor of Philosophy, London, August, 2014.

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## Abstract

This thesis provides an overview of the social and entrepreneurial careers and strategies of merchants during the first modern “commercial” era, 1830-75. It examines merchants as migratory entrepreneurs during the integration of peripheral regions into the transatlantic economy via commerce, technology transfer, and ideology. Merchants organized, operated and expanded overseas commerce, importing textiles and exporting pastoral products. They used a variety of strategies and firm structures to discover and exploit niches in a competitive, developing market. They also influenced the process of economic development and state building as capitalists and risk-bearers, financing both production and politics. Based on archival material from diverse collections in both the United Kingdom and South America, the research offers a qualitative account of the entrepreneurial activities of the British merchant elite in Uruguay. It uses case studies of British immigrant entrepreneurs, whose privileged access to capital and technology allowed them to expand the market for imported products and to exploit upstream opportunities in modernizing export production. Uruguay's distinctive institutional and geographical characteristics allowed merchants to access markets, maximize their social and political connections, and to hedge political and market risks. British merchants used Montevideo as an alternative regional port to Buenos Aires, and the implications of this opportunity have been underexplored in the literature. In establishing and expanding their operations in Uruguay, merchants gained region-specific capital in the form of geographically fixed upstream investments, market knowledge, and positions in elite networks. The social connections of Anglo-Uruguayan merchants were essential in providing resources and influence for their entrepreneurial activities, but were also their point of entry into the contest over the economy and polity of the River Plate region. British merchants' incentives changed towards engagement in the political and ideological struggles of the Uruguayan civil war, the *guerra grande* of 1839-51, as they contested political outcomes by acting as suppliers, financiers, and lobbyists. This involvement created an Anglo-Uruguayan subset of River Plate merchants, who went on in subsequent decades to reshape the economy through investment and entrepreneurship.

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## Table of Contents

<b>Title Page</b>	1
<b>Declaration</b>	2
<b>Abstract</b>	3
<b>Acknowledgments</b>	4
<b>Table of Contents</b>	5
<b>Tables and Figures</b>	7
<b>Glossary</b>	8
<b>Map of Uruguay, 1875</b>	10
<b>1. Introduction</b>	11
Motivation	12
Periodization	14
Methodology	16
Sources	17
Contribution	19
Overview	21
<b>2. Literature Survey</b>	24
Entrepreneurship	24
Firm Structure and Transaction Costs	30
Business History: The Latin American Context	36
Social Networks and Merchant Trade	42
Informal Empire and Business History	49
Uruguay and the New Institutional Narratives	52
Political Economy	55
Regional Historiography	57
Synthesis	64
<b>3. Historical Background</b>	67
Colonial Period	68
The Invasion of 1807	73
Artigas and the Patria Vieja	75
Cisplatine Period	77
Ponsonby and the Treaty of Montevideo	79
Oribe and Rivera	81
The Guerra Grande, 1838-51	83
Between the Wars	88
Flores and the Paraguayan War	91
The Revolution of the Lances and the Rise of Latorre	94
<b>4. Uruguay in Regional Context</b>	96
Economic Geography of Uruguay	99
Demographics of Uruguay	103
Political Factions: Blancos and Colorados	106
Money and Credit	108
Tariffs	116
Commercial Overview	118

<b>5. Social Networks and Entrepreneurship</b>	124
The Entrepreneurial Community	125
Firm Structure: Networks and Partnerships	127
Being Inglés	128
Establishing the Community	130
Elite Connections: The Jacksons of Uruguay	133
Family Networks: Samuel Fisher Lafone	137
International Commercial Networks	140
The Case of Anderson Macfarlane and Co. Hughes	143
Immigrant Entrepreneurship: Richard Bannister Hughes	145
Conclusion	155
<b>6. Crisis and Speculation</b>	157
Literature and Background	158
Composition of the Sociedad Compradora	163
The Contracts and Returns	165
Neutrality versus Intervention	171
Aftermath and Legacy	174
Conclusion	175
<b>7. Rural Entrepreneurship</b>	178
Rural Modernization in Regional Context	181
Diversification and Upstream Investment	183
Rural Entrepreneurship among British Merchants	186
Land Prices	190
Management and Delegation	191
Saladeros and Rural Industrialization	193
Sheep and Wool	196
Labour Problems	199
Policing and Crime	202
British Merchants and the Asociación Rural	204
The Return of Crisis Conditions: 1869-1875	206
Conclusion	208
<b>8. Conclusion</b>	211
Contribution	212
Firms, Organization, and Networks	214
Entrepreneurship and Historical Contingency	215
The Role of Merchants in State Formation	216
<b>Appendices</b>	222
<b>Sources and Bibliography</b>	247

## Tables and Figures

Table 1: Capital Outlay for a Sheep Raising <i>Estancia</i>	189
Figure 1: <i>Saladero La Teja</i>	195
Table 2: Sheep and Cattle Owned by British <i>Estancieros</i> in Uruguay, 1864	198
Table 3: British merchants appearing on the List of Approved Merchants, <i>Sociedad Compradora de los Derechos de la Aduana</i> , 1844	222
Table 4: Anderson Macfarlane and Co.: List of Correspondents	223
Figure 3: Siblings of Samuel Fisher Lafone	224
Figure 4: Samuel Lafone's Connections in the River Plate	225
Figure 5: Figure 5: Family Network of John Jackson	226
Table 5: Population of Uruguay	227
Table 6: Rural Exports and Prices, 1829-62	228
Table 7: Import tariff rates, 1829-61	229
Table 8: Balance of Trade, 1829-42	230
Figure 6: Balance of Trade, 1829-42	230
Table 9: Imports, 1830-35	231
Table 10: Exports, 1830-42	232
Table 11: Wheat Production, 1855-72	233
Table 12: Maize production, 1855-72	234
Table 13: Balance of Trade by Destination, 1869	235
Table 14: Export Composition, 1869	236
Table 15: <i>Tasajo</i> Exports from the River Plate	237
Table 16: Buenos Aires and Montevideo hides exports, 1815-82	238
Table 17: <i>Tasajo</i> exports, Buenos Aires and Montevideo	239
Table 18: Wool exports, Buenos Aires and Montevideo, 1829-82	240
Figure 7: <i>Tasajo</i> exports, Montevideo, 1829-82	241
Figure 8: Hides exports, Montevideo, 1815-82	241
Figure 9: Wool exports, Montevideo, 1829-82	241
Table 19: British Exports to Montevideo, 1846-79 (2 pages)	242
Figure 10: Pictures of the British Community in Uruguay (part 1)	244
Figure 11: Pictures of the British Community in Uruguay (part 2)	245
Figure 12: Pictures of the British Community in Uruguay (part 3)	246

## Glossary

Arroyo Grande, Battle of: Fought Dec. 6, 1842. A decisive victory for the *Blancos*. Led directly to the siege of Montevideo.

Banda Oriental: A term for the east bank of the Río Uruguay; a geographical reference roughly identical with the state of Uruguay.

*Barraca*: A warehouse, typically owned by wholesalers of export produce.

*Blanco*: Uruguayan political party, originally referring to the followers of Oribe during the *guerra grande*. Seen to be more conservative, rural, and aligned with Argentine Federalism than the *Colorados*.

*Caudillo*: A local political or military strongman who attracts a popular following through charismatic and clientelistic leadership.

Cisplatine: The name for the Banda Oriental during the period of Portuguese and Brazilian rule, 1820-28.

Cisplatine War: The 1825-28 conflict between Brazil and the United Provinces that led to the creation of Uruguay as a separate state.

*Colonos*: Colonists, in most cases immigrants procured by colonization schemes in Europe. The title was used in the 1830s as a cover for the continuance of slavery.

*Colorado*: Uruguayan political party, originally referring to the followers of Rivera during the *guerra grande*. More urban, and politically oriented towards Brazil, Europe, and Argentine Unitarians.

*Comercio de tránsito*: The transit trade via Montevideo along the tributaries of the River Plate, notably with Entre Ríos, Corrientes, and the interior of Brazil.

*Cursista*: Those who supported inconvertible paper currency ("curso forzoso") during the debates of the 1860s and 1870s; opposed to the *oristas*, who supported a gold standard.

*Doctores*: The urban, intellectual elite faction of the political parties. Originally associated mostly with the *Colorados*, and opposed to *caudillos* and *caudillismo*.

*Ejido*: State-owned lands.

*Entrepôt*: A port specializing in re-exports. Montevideo is this for much of the River Plate basin.

Entre Ríos: The Argentine province adjacent to the Banda Oriental. Dominated politically by the *caudillo* Justo José de Urquiza from 1842-70.

*Estancia/Estanciero*: A rural estate/estate owner.

*Federales* (Federalists): Argentine political faction, favouring decentralization of power to the provinces. Frequently allied with the Uruguayan *Blancos*.

*Fusión*: The 1850s political faction that attempted to transcend the *Blanco/Colorado* party divide. Associated with Andres Lamas and Bernardo Berro.

*Guerra grande*: A regional and international conflict lasting from 1839-51, centring on an Uruguayan civil war between Oribe's *Blancos* and Rivera's *Colorados*. Notable for Argentine, Brazilian, British and French intervention, the extended siege of Montevideo, 1843-51, and leading into the battle of Caseros and the overthrow of Rosas.

*India Muerta*, Battle of: Took place March 27, 1845, leading to a decisive rout of Rivera's forces and marking the end of combat in the interior during the *guerra grande*.

*Littoral*: The areas along the Atlantic coast and the River Plate, accessible by water.

*Nueva clase alta rural*: The new group of landowners who purchased rural estates during the price collapse following the *guerra grande*. Largely composed of immigrant merchant-*estancieros*.

*Oriental/Orientales*: Inhabitants of the Banda Oriental; roughly synonymous with Uruguayan/Uruguayans.

*Orista*: Supporter of a gold standard during the currency debates of the 1860s-70s. Opposed to the *cursistas*, who supported inconvertible paper money.

*Particulares*: Contracts, usually loans, arranged with individual actors or firms.

*Patacón*: A unit of account, corresponding roughly to 1/16<sup>th</sup> of an ounce of gold, or an ounce of silver.

*Patria Vieja*: The independent Uruguayan state during the time of Artigas' government, 1815-20.

*Patriciado*: The traditional elite class of Uruguay, established by the early inhabitants during the late Spanish colonial period, as described by historian Carlos Real de Azúa.

*Peso fuerte*: See *patacón*.

*Principista*: An urban ideologue, governing according to liberal principles rather than political pragmatism.

*Revolution of the Lances*: A rural rebellion from 1870-72, led by *Blanco* leader Timoteo Aparicio. It failed to overthrow the government, but wartime losses led to the law and order coalition behind the 1876 takeover of Lorenzo Latorre.

*Río Grande do Sul*: The southernmost province of Brazil. Similar economically to Uruguay, with substantial cross-ownership and migration across the border.

*Saladero*: A plant for salting and drying meat into *tasajo* or *charque*. Originally requiring very little capital and crude technology, they became larger more sophisticated during the 1840-60s.

Salto grande: A waterfall on the Río Uruguay, preventing direct navigation of the river, though portage trade did allow access to Brazil. The town of Salto is located next to the waterfall.

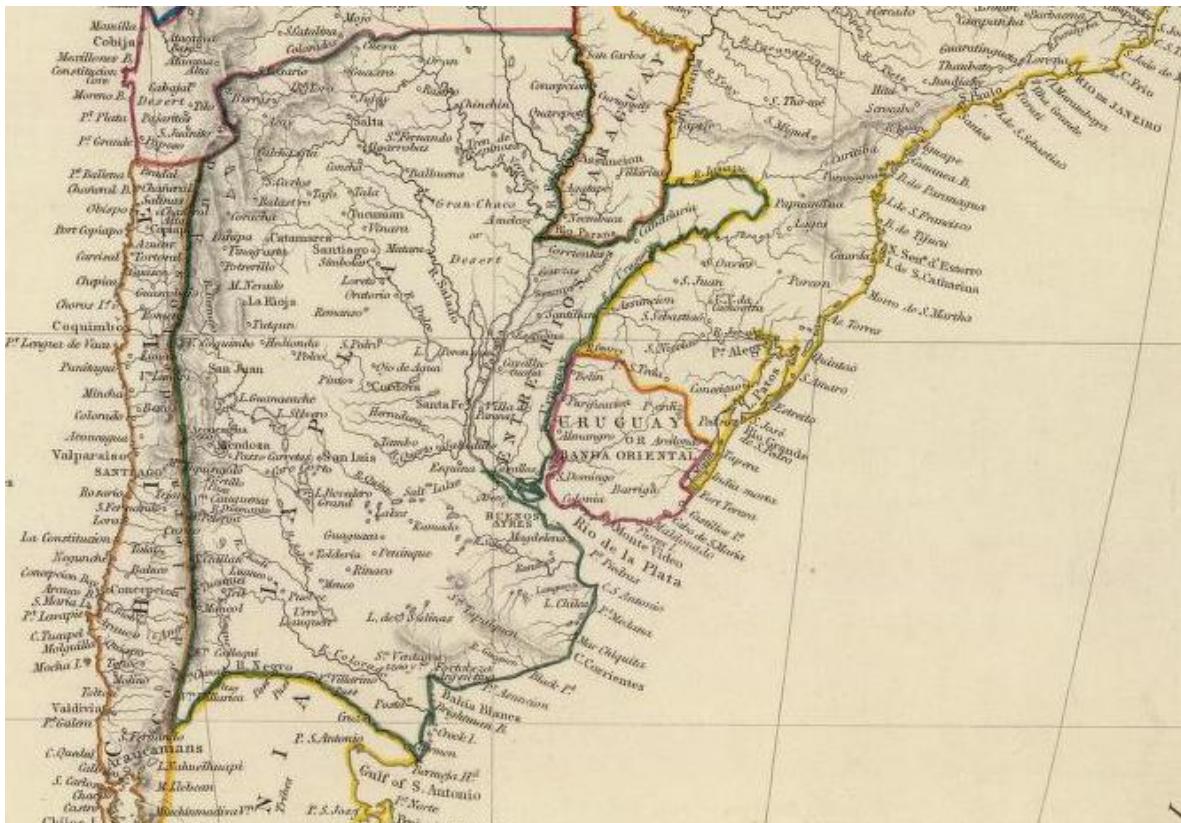
*Tasajo*: Dried beef jerky, produced in a *saladero*, and sold to feed slaves in Brazil and Cuba. Also known as *charque*.

*Treinta y tres*: The thirty-three *Orientales* who began the 1825 insurgency that led to the independence of the Banda Oriental from Brazil. Led by Juan Lavalleja, with Manuel Oribe as second in command.

*Unitario* (Unitarian): Argentine political faction, favouring centralization of power under a national government in Buenos Aires. Frequently allied with the Uruguayan *Colorados*.

Vuelta de Obligado, Battle of: Confrontation between the Anglo-French fleet and the Argentine Confederation on the Paraná River during the *guerra grande*, November 20, 1845. A minor victory for the British and French, it temporarily opened the river, but did not accomplish any larger strategic objectives.

## Map of Uruguay, 1875



Source: David Rumsey Historical Map Collection, [www.davidrumsey.com](http://www.davidrumsey.com)

## Chapter 1: Introduction

In the 19<sup>th</sup> century, merchants were the vanguard of international entrepreneurship. Highly mobile, socially connected, well-informed and bold about taking risks, they transformed the organization of trade from the corporate, state-dominated 18<sup>th</sup> century, to the post-Napoleonic era of small, flexible, private partnerships. They sought out opportunities in the interstices of the global economy, finding the places where a profit could be turned by someone with the right product, the right information, or the right strategy. In doing so, they changed the shape of the world economy, increasing trade, exploiting comparative advantage, and generating economic growth. This thesis examines one small group of merchants, the British community in Uruguay, during the mid-19<sup>th</sup> century. It follows the history of two interrelated processes: the development of the Uruguayan economy and the integration of British merchants into the fabric of that economy, from 1830, at the dawn of Uruguayan independence, until 1875, the beginning of the era of large-scale foreign investment.

The social networks of British merchants were the primary method by which they obtained the credit, information and trust necessary to perform entrepreneurial functions. This was because the undeveloped situation of the Uruguayan economy posed substantial problems for entrepreneurship generally, as a young state with weak judicial and enforcement powers made both markets and formal institutions unreliable. This forced merchants to adopt substantial hedging and risk mitigation strategies, as well as to rely on social networks. However, low levels of development were also an indicator of capital scarcity, relative to the abundance of land and unimproved livestock. This scarcity of capital was not only an opportunity for high rates of return, but also to shape a potentially prosperous locale at a time before economic patterns had been fixed. Those entrepreneurs with the capabilities and resources necessary to overcome these obstacles were well-positioned to seize the opportunities of this high-risk situation. Merchants had to manage the barriers of distance, culture, and an uncertain business environment. But the potential rewards were large. Entrepreneurs with pre-existing networks, and those who could forge trust-generating social links, were the best able to adapt to local instability, acquire region-specific expertise, and manage their business interests across long distances. The British merchants of Uruguay were at the forefront not only in the development of international trade, but also in the production of new commodities, the increasing intensification of capital, the development of public infrastructure, and the emergence of a formal financial sector.

## Motivation

In business history, Uruguay has been largely neglected as a case study, both during the initial phase of enthusiasm for business history in the 1970s, and in the more recent resurgence. This is understandable, since Uruguay is a small country, and therefore lacks the potential of its larger neighbours to sustain research projects. Its source base is small, and its relevance to the larger questions of business history is not obvious. However, there are good reasons to push back against this marginalization. First, Uruguay is, and has always been, an outlier among Latin American countries in terms of relative development. Gross domestic product per capita was higher than any country in Latin America in the 19<sup>th</sup> century, and remains among the highest today. The comparative income figures of Angus Maddison<sup>1</sup>, which are for Uruguay based on the work of Bértola et al.<sup>2</sup>, must be taken as little more than a ballpark estimate for this period, given the paucity and quality of the macroeconomic data available. Nevertheless, they show Uruguay as the highest income country in the region up until the Barings crisis of 1890, when the faster recovery of Argentina from the crisis causes it to overtake Uruguay for the first time. This suggests that Uruguay was a regional leader in development, especially prior to the export-led boom of the first globalization. This headline figure is reinforced by estimates of energy consumption per capita,<sup>3</sup> the spread of companies,<sup>4</sup> literacy and schooling<sup>5</sup>, and a host of other metrics showing Uruguay as the most advanced country in the region.

Uruguay's developmental precocity and subsequent relative decline are studied elsewhere in the economic history literature.<sup>6</sup> However, if we are to ask what was distinctive about the country during the mid-19<sup>th</sup> century period when its relative advantage over its neighbours was most prominent, one feature that may have some explanatory power is the prevalence of British merchants, who were integrated into the economy more deeply than elsewhere in Latin America.

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<sup>1</sup> Angus Maddison, *Maddison Project Database*, available online at <http://www.ggdc.net/maddison/maddison-project/home.htm>.

<sup>2</sup> Luis Bértola et al., *El PIB de Uruguay*. (Montevideo: Universidad de la República, 1998).

<sup>3</sup> Reto Bertoni et al., "El desarrollo energético de España y Uruguay en perspectiva comparada, 1860-2000," *Revista de Historia Industrial*, no. 41 (2009), and Mar Rubio et al., "Energy as an indicator of modernization in Latin America, 1890–1925," *Economic History Review*, vol. 63, no. 3 (Aug. 2010), 769–804.

<sup>4</sup> Leslie Hannah, "A Global Census of Corporations in 1910," CIRJE Discussion Paper (February 2013), available online at <http://www.cirje.e.u-tokyo.ac.jp/research/dp/2013/2013cf878.pdf>.

<sup>5</sup> Elena Mariscal and Kenneth Sokoloff, "Schooling, Suffrage and Inequality in the Americas, 1800-1945," in Stephen Haber, ed., *Political Institutions and Economic Growth in Latin America: Essays in Policy, History, and Political Economy* (Stanford: Hoover Institution Press, 2000).

<sup>6</sup> Henry Finch, *A Political Economy of Uruguay since 1870* (London: Macmillan, 1981), Luis Bértola, "An Overview of the Economic History of Uruguay since the 1870s," accessed online at <https://eh.net/encyclopedia/bertola-uruguay-final/>.

Peter Winn, who has written the most insightful and extensive work on the topic based on theories of informal empire, casts Uruguay as being drawn into the British economic sphere over the course of the 19<sup>th</sup> century.<sup>7</sup> Winn describes this as being a slow and halting process prior to the 1880s, mediated through immigrant merchants during the 1840s, and through Brazilian dominance in the 1850s and 1860s, before finally coming fully into British economic orbit during the late 19<sup>th</sup> century. However, as Winn is careful to emphasize, it is not at all clear that even the informal influence of Britain was dominant, at least prior to the age of steam. While Britain was always a major trading partner, and in most years the largest, it was far from the only one. The country traded with a diversified group of European countries, including France, Spain, Belgium, and the Italian and German states. The local merchant elite reflected this diversity of trading partners. British merchants were among the wealthiest and most influential in the city, but they were only one group in a cosmopolitan mixture of ethnicities and origins.

Merchants are, by definition, connecting agents, links between people and places. In the case of British merchants in Uruguay, their primary connection was the transatlantic one, between the River Plate and Britain. Within Britain, the merchants of Montevideo tended to come from the north of England, or from Scotland. The home ports of their partners, their family firm, or their agents, tended to be either Liverpool or Glasgow, with connections to Belfast, and the manufacturing areas of Manchester and the Scottish lowlands. It was less common for merchants to deal directly with London, and rare to have firms from the rest of the country. It was from these regions that merchants came to Montevideo, typically at first as commercial apprentices or as representatives of established houses.

As is widely recognized in the literature, the entrepreneurship of British merchants across multiple sectors of the Uruguayan economy was important in its early development, and may help explain its high per capita income relative to other Latin American countries. British merchants were among those persistently responsible for the introduction of new methods, products, markets, and organizational forms over the course of the 19<sup>th</sup> century.<sup>8</sup> Small, flexible commercial houses made the markets of the River Plate trade, peddling a variety of manufactured goods, and

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<sup>7</sup> Peter Winn, *Inglaterra y la Tierra Purpúrea: a la Búsqueda del Imperio Económico (1806-1880)* (Montevideo: Facultad de Humanidades y Ciencias de la Educación, 1997) and “British Informal Empire in Uruguay in the Nineteenth Century,” *Past and Present*, No. 73 (November 1976).

<sup>8</sup> For the classic texts which highlight the importance of merchants in the economy, see: José Pedro Barrán and Benjamín Nahum, *Historia rural del Uruguay moderno: 1851-1914* (Montevideo: Ediciones de la Banda Oriental, 1967-78), Lucía Sala de Touron, Rosa Alonso Eloy and Julio C Rodríguez, *El Uruguay comercial pastoril y caudillesco* (Montevideo: Ediciones de la Banda Oriental, 1983-1991). For the role of the British specifically, see: Peter Winn, *Inglaterra y la Tierra Purpúrea, (1806-1880)*.

purchasing the hides and wool produced in the interior. As Raúl Jacob notes, the boundaries of the political entity of Uruguay were much more limited than the economic space accessible from Montevideo.<sup>9</sup> It was the *entrepôt* of choice not only for the Uruguayan hinterland, but also much of the Argentine littoral, as well as parts of the Brazilian interior. As will be seen in chapter four, intermediation was especially pronounced during times of conflict, as Montevideo made an ideal alternative port to Buenos Aires in the River Plate trade. But even in peacetime, merchants relied on the *comercio de tránsito*, the transit trade with the interior beyond the borders of the country. The predominance of merchants and the predominant role of trade in this economy had consequences for the political economy of the region, and David Rock suggests that these differences are critical to unravelling the differences between Uruguay and Argentina in state development.<sup>10</sup> Understanding the interaction between the economic, social, and political role of British merchants during this transitional period is the primary aim of this thesis.

### Periodization

The period covered in this thesis spans from 1830 until 1875. The beginning of the period is justified by the final emergence of Uruguay as an independent state, having been liberated from Brazilian rule in 1828 with the end of the Cisplatine War through mediation of the British diplomat, Lord Ponsonby. In 1830 the first Uruguayan constitution was signed, creating an Uruguayan state in legal and institutional terms. This marks a change not only in the sovereign status of Uruguay, but also in the political and military structure of the region, with the retreat of Brazil from Platine affairs, and the end of the early liberal experiment in Argentina. Much of what is distinct about British merchants in Uruguay particularly stems from how they positioned themselves relative to this new regional order. Those that saw trade and investment opportunities in the newly-independent Uruguayan state, or who opposed the rise of Juan Manuel de Rosas as governor of Buenos Aires and de facto leader of the Argentine Confederation, migrated early in the 1830s to Montevideo. This is not to suggest that such merchants severed their ties with Buenos Aires, which was certainly not the case, but rather that they took advantage of the opportunity to diversify their activities, either because they saw Montevideo as a potentially prosperous region, or simply to hedge against problems in Buenos Aires. The firms established in Uruguay were not always subsidiary or branches of the main Buenos Aires houses. In many of the cases examined in this thesis, it was the junior partners and younger siblings who were left in or sent to Buenos

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<sup>9</sup> Raúl Jacob, *Más allá de Montevideo: Los caminos del dinero* (Montevideo: Arpoador, 1996), 27.

<sup>10</sup> David Rock, "State-Building and Political Systems in Nineteenth-Century Argentina and Uruguay," *Past and Present*, No. 167, Vol. 1 (2000).

Aires.<sup>11</sup> 1830 stands as a convenient break date in the political, military and commercial environment, and it is with that break that this thesis begins.

The end of this period is also marked by a change in the political and economic environment. There are several key events during or near to 1875, all symptomatic of a change in the nature of Uruguay's economy, both domestically and in international context. Uruguay's 1871 flotation of a sovereign bond on European markets was the dawn of the overseas investment age, where foreign bondholders financed state, rail, and infrastructure. Uruguay had not participated in the earlier 1820s investment boom, since it was neither independent nor politically stable during the period, and so the 1870s represents the first major direct infusion of foreign capital into Uruguay.<sup>12</sup> This change in financial relations gradually reduced the role of the old merchants to consultation and intermediation, rather than entrepreneurship or management. Steam shipping and telegraph communications improved direct communications. The global commercial crisis of 1873 caused widespread bankruptcies among merchant firms, and marked the twilight of the merchant house as the dominant economic force.

The turbulence and economic disruptions led Colonel Lorenzo Latorre to mount a military coup against the civilian government, establishing a military government that would rule for fifteen years, and oversee a major expansion of state power. The development of a professionalized military eroded the personalist, negotiated process of military, political, and financial influence of the *caudillo* era.<sup>13</sup> In seizing power, Latorre was supported by the landowning and investing class of Montevideo, comprised in large part of foreign merchants who had diversified their holdings into upstream sectors. In the process of expansion, their interests changed from being largely insulated from rural unrest, to being profoundly interested in the establishment of law and order in the countryside.<sup>14</sup> With this political and institutional shock, a coherent Uruguayan state began to form, and the country entered into a new, more globalized, era. Merchants thus acted as a bridge between the era of commercialization at the end of the 18<sup>th</sup> century, and the first globalization of the late 19<sup>th</sup> century. They filled a need for the functions of

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<sup>11</sup> This was the case for both the Lafone and Tomkinson families, as will be examined in chapter five.

<sup>12</sup> An earlier attempt by Baron Mauá in 1864 to float a bond on London markets met with little success. See Benjamín Nahum, *La Deuda Externa Uruguaya: 1864-1930*. (Montevideo: Ediciones de la Banda Oriental, 1994), 13-17.

<sup>13</sup> Fernando López-Alves, *Between the Economy and the Polity in the River Plate: Uruguay, 1811-1890* (London: Institute of Latin American Studies, 1993).

<sup>14</sup> José Pedro Barrán, *Apogeo y crisis del Uruguay pastoril y caudillesco, 1839-1875* (Montevideo: Ediciones de la Banda Oriental, 1977).

overseas trade, connecting local production to international markets, and situating the country in the goods and capital flows of the international economy.

### Methodology

The theoretical approach of this thesis combines four closely related streams of thought. The questions are both business history questions, about how merchants acted in, and reacted to, Uruguay during its integration into the Atlantic economy in the mid-19th century, and also broader economic history questions about the role played by merchants in the process of state building, institutional change, and economic development. The first theoretical topic is entrepreneurship. Agents contribute to the process of economic change by making choices and exercising judgement, and this process is necessary to understanding merchant behaviour in a rapidly evolving market. The second is a theory of firm structure, pertaining to how institutional and market conditions determine the organization of economic activity. The question of diversification and upstream investment is given particular attention, as it is these processes that transform merchants' economic and social role, transforming both the scope of their operations and the nature of their interests. Third is an understanding of how individual merchants and firms interrelate, forming networks, which themselves have structures shaped by social and economic forces, both in their home communities in the industrializing north of Britain, and in the River Plate. Last, there is an open question of how the economic environment as a whole moulded the behaviour of merchants through institutions, the rules that governed the interaction among the agents in the economic system. While these questions are large and daunting, and the argument presented here will not attempt to provide a final synthesis of these ideas, it will draw insights from prominent authors in these literatures in order to apply them to the specific case of the British merchants of Uruguay.

In order to tackle these questions, this thesis examines specific conjunctures in history, combining thematic case studies with a loosely chronological analytic structure. The main chapters concern major developments in how British merchants invested and organized their resources, as they became more deeply integrated into the economy. Most of the information and nearly all of the analysis is qualitative in nature. Data about particular agents and events is brought together from a variety of contemporary sources, forming an historical narrative. This narrative is then subjected to analysis in terms of entrepreneurial agency, asking what opportunities or pressures merchants were responding to, what resources and capabilities they were accumulating, and what strategies they may have been pursuing. The objective is to describe and explain the

entrepreneurship of particular merchants and of the merchant community more generally, and how this co-evolved with the Uruguayan economy. Plausible hypotheses are described and evaluated in context, if not formally tested.

The choice of largely qualitative methods of narrative construction and analysis is due largely to two constraints: a relatively thin base of secondary literature, and a lack of consistent data series. The latter are largely restricted to the statistical sources available only after the publications of Adolfo Vaillant in the 1870s.<sup>15</sup> Retrospective figures from these and other statistical sources have been used where possible, but strong doubts remain about their consistency and reliability. Individual chapters go beyond constructing narratives and begin to more carefully analyse hypotheses explaining the strategic choices of the merchant community for plausibility. While it is not possible in most cases to identify the motivations, capabilities and behaviours of merchant firms, the sources suggest areas where inferences can be tentatively made on the basis of the preponderance of evidence collated from a variety of sources.

### Sources

Finding archival sources for examining the business history of merchants in Uruguay is challenging. In order to approach the topic from a variety of angles, this thesis examines a wider range of sources than only merchant documents. Due to the overall paucity of data, the chapters are organized in order to make use of the available information from those sources which do present information about particular times, places, and themes. Sources from both sides of the Atlantic have been selected to give breadth to the analysis, combining both private and government sources. These include: merchant letter books, United Kingdom consular records, Uruguayan government archives, family correspondence collections, genealogical data, press accounts, almanacs and pamphlets.

Merchant papers in the form of letter books and account books are the obvious source for material information about the operation of merchant houses during the period. There has, however, been little effort to preserve these documents. Family archives do not appear to have survived to any great extent. Despite some substantial help from the family and descendants of

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<sup>15</sup> Adolfo Vaillant, *La República Oriental del Uruguay (América del Sud) En la Exposición de Viena* (Montevideo: La Tribuna, 1873).

the merchants in this study,<sup>16</sup> a single complete archive remains elusive.<sup>17</sup> The letter book of Anderson MacFarlane is found in the National Archives at Kew gardens, and is drawn upon in chapter five. However, this source covers only a small period (1845-50) of intense conflict and naval blockades. While it provides insight into merchant behaviour, it hardly represents the ordinary experience of a merchant house during more normal conditions. Evidence drawn from analyses based on Argentine houses from the same period can assist in drawing plausible generalizations, but these will not help us find the distinctive experience of Montevidean merchant houses. It may confuse Buenos Aires-specific factors with general conclusions about the whole River Plate, blurring whatever distinctions exist through source bias.

Government archives from Uruguay offer another potential avenue for investigation. There exists fragmented but substantial documentation from the Uruguayan state chronicling its interactions with the merchants who were its key financiers, and contractors for projects such as infrastructure, colonization, and military provision. Notarial archives also contain volumes of legal documentation. These provide insight into those elements of merchant life that cross into the formal legal system, including protested bills, powers of attorney, and land sales. There is more information available to be gleaned from notarial sources than has been examined in this thesis. However, they are severely limited in that they do not provide access to the day-to-day operations of the firm, and give a highly selective picture of firm activity.

Consular archives from the United Kingdom have been previously examined by other scholars to study British involvement in Uruguay.<sup>18</sup> Nevertheless, this thesis draws upon reports and correspondence contained within these records in order to illuminate certain topics, such as the land and livestock holdings of British nationals in Uruguay, and the damages claimed to the Anglo-French commission in the wake of the *guerra grande*. These records also provide evidence of the ways in which merchants used their influence with the consuls in order to lobby the British government, obtain privileges and protections, and voice their protests both against the Uruguayan government, and against British foreign policy decisions that harmed their interests.

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<sup>16</sup> The assistance of the Hughes family especially has been invaluable, but while some documentation has been preserved, there appears to be no remaining archive of the merchant house, rural estate, or collection of correspondence.

<sup>17</sup> One notable exception to this is the Catalan merchant Jaime Cibils, whose family archives have been extensively examined in Alba Mariani, *Los extranjeros y el alto comercio: un estudio de caso, Jaime Cibils i Puig (1831-1888)* (Montevideo: Universidad de la República, 2004).

<sup>18</sup> David McLean, *War, Diplomacy and Informal Empire: Britain and the Republics of La Plata, 1836-1853* (London: British Academic Press, 1995), Peter Winn, *Inglaterra y la Tierra Purpúrea (1806-1880)*.

Pamphlets and press accounts have been used in this thesis to understand the discourses surrounding the role of Britain and Uruguay. Merchants (and their proxies among pamphleteers) declared their positions, justifying them with appeals to facts, common sense, and high-minded ideals, while casting those of contrary opinions as perfidious and self-interested. This back-and-forth sketched out the positions held by various groups of merchants, at least as they presented themselves publicly. The relationship between public posturing and private contract-making is especially interesting during wartime. The British community in the River Plate was split into factions, along the grounds of ideology, family and social affiliations, and material interests. Disentangling these factors is difficult, as they interacted with each other; merchants who were ideologically inclined tended to side with one elite faction against another, extending loans and becoming socially interconnected, which may have in turn reinforced and reshaped their ideological commitments. It is through the use of these published, polemical sources that we can examine these interconnections, through comparison with other primary materials.

### Contribution

The primary contribution of this thesis is to provide an overview of British merchant entrepreneurship in Uruguay in the mid-19<sup>th</sup> century. In this, it follows a longer tradition of literature about the merchants of the River Plate trade, beginning with Ferns<sup>19</sup> and Platt,<sup>20</sup> and continued by Reber,<sup>21</sup> Jones,<sup>22</sup> Lewis,<sup>23</sup> and most recently by Llorca-Jaña.<sup>24</sup> It also speaks to a broader story about how initially trade-focused merchant houses evolved in response to threats and opportunities. Merchants made use of the lower cost of capital afforded by their access to trade credit to extend loans to local elites, firms, and governments. The information accumulated through trade allowed merchants to mitigate the risks of lending in an underdeveloped, but rapidly expanding, market. They also diversified into complimentary activities to trade, or even left the merchant trade entirely to pursue other opportunities. Some diversified into finance, insurance, shipping and other services. Others, seeking to capitalize on economies of scope, or

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<sup>19</sup> Henry Stanley Ferns, *Britain and Argentina in the Nineteenth Century* (Oxford: Clarendon Press, 1960).

<sup>20</sup> D.C.M. Platt, *Latin America and British Trade, 1806-1914* (London: Adam and Charles Black, 1972).

<sup>21</sup> Vera Blinn Reber, *British Mercantile Houses in Buenos Aires, 1810-1880* (Cambridge, Harvard University Press, 1979).

<sup>22</sup> Charles Jones, *International Business in the Nineteenth Century: the Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton: Whitesheaf, 1987).

<sup>23</sup> Colin Lewis, "British Business in Argentina," *London School of Economics Working Papers in Economic History* Working Paper 26/95 (1995).

<sup>24</sup> Manuel Llorca-Jaña, *The British Textile Trade in South America in the Nineteenth Century* (Cambridge University Press: Cambridge, 2012).

regional specific knowledge, diversified into primary and secondary production.<sup>25</sup> In this, it follows the work of Rippy on British investment in Uruguay,<sup>26</sup> as well as Crossley and Greenhill on investment in the beef industry.<sup>27</sup>

These studies, however, have typically treated Uruguay and Montevideo as a footnote in the discussion of the larger River Plate community, centred in Buenos Aires. While it is fair to consider the two communities as interconnected and fluid parts of a larger whole, there are nevertheless distinctive (and often opposite) opportunities and threats on the two sides of the River Plate, due to the ever-shifting conditions of local political and military conflict. There are also critical differences in the scope and capabilities of the state in the two areas, which means that the interactions between British merchants and the state cannot be presumed as identical. Lastly, as two sovereign states, they each have distinctive policies, creating opportunities for tariff arbitrage and trade competition. There is thus a similar, but nonetheless distinct, narrative to be told about how British merchants developed in Uruguay, which will both compliment and contrast our existing understanding of merchant behaviour more generally.

The major exceptions to the dearth of English-language publications on the economic history of Uruguay are Peter Winn and Henry Finch. Winn focuses mostly on later periods, and through the theoretical lens of informal empire.<sup>28</sup> As such, this thesis provides both context and narrative for interpreting the role of the British in Uruguay. It engages with older literatures concerned with British informal empire in the region, but focuses primarily on the changing role of merchants as entrepreneurs and investors, rather than as agents of British power. Finch's magisterial political economy of Uruguay begins only in 1870. The influence of merchants in this analysis is as background to the investment age, rather than as the primary objects of study.<sup>29</sup> While the economy had been shaped up until that point by merchant influence, the role of British merchants in this later period is less, as the influence of the Uruguayan state, of large landowners (some the descendants of earlier merchants) and foreign investment eclipsed their formerly predominant role.

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<sup>25</sup> Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford: Oxford University Press, 2000), 291.

<sup>26</sup> J. Fred Rippy, "British Economic Activities in Uruguay: An Example of Profitable Foreign Investment," *The Journal of Business of the University of Chicago*, vol. 25, no. 2 (April 1952), 124-129.

<sup>27</sup> Colin Crossley and Robert Greenhill, "The River Plate beef trade," *Business Imperialism, 1840-1930 : an Inquiry based on British Experience in Latin America* ed. D.C.M. Platt (Oxford: Clarendon Press, 1977).

<sup>28</sup> Winn, "British Informal Empire in Uruguay."

<sup>29</sup> Henry Finch, *A Political Economy of Uruguay since 1870* (London: Macmillan, 1981).

Alongside its contributions, it is worth delineating the limits of this study. Sources about the topic are limited, and fewer than anticipated at the beginning of my research into the topic. There is a great deal about the British merchants of Uruguay that is left unexplored, and could be picked up in future work. The chronological focus of the thesis is very much on the years 1830-64. The span of 1865-75 included to allow for consideration of the later stages of the careers of a particular generation of merchants born in the 1800s and 1810s, rather than to give a full analysis extending into the 1870s. There is only cursory analysis of the role of merchants as entrepreneurial midwives for the transition from an economic landscape dominated by trade-oriented merchants, either in individual proprietorships or small partnerships, to one dominated by joint stock companies investing in large infrastructural projects, multinational banks, and industrial production.

This thesis also focuses on a relatively narrow group of merchants, either those for whom the sources were more plentiful, or who left substantial footprints in non-archival sources, despite the lack of records. Merchants and firms with operations too small or transient, or which kept only to trade and left little in the way of sources, are given short shrift. On the opposite end of the spectrum, George Drabble, the merchant-banker-investor who had been a merchant as early as the 1840s, but is primarily known for his role in directing the large-scale banking and railroad investments of the 1870s and 1880s, is not examined in depth, nor is the firm he headed, the London and River Plate Bank.<sup>30</sup> His career has received substantial treatments in the context of those later contributions, and transcends the Uruguayan context in any case. The remaining merchants discussed as cases are not necessarily representative of merchants in general in Uruguay. The analysis therefore must be understood as examining the entrepreneurial careers and social networks of the merchants with the largest impact on the economy as a whole, and whose influence extended the furthest into non-trade sectors.

### Overview

The thesis is divided into eight chapters. Chapter one introduces and outlines the thesis. The following three chapters provide the foundation, theoretical basis, and historical background for interpreting British merchants in Uruguay. Chapter two presents a literature survey and the theoretical framework that informs the analysis. This is divided into several sections, covering the theory of social networks as pertaining to trade and entrepreneurship, the business history of

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<sup>30</sup> Part of the reason for this omission is that, unlike other parts of this period, it is well-covered elsewhere. See: David Joslin, *A Century of Banking in Latin America* (London: Oxford University Press, 1963).

Latin America, and existing analyses of British merchant activity in the River Plate region. Chapter three offers a brief chronological narration to provide the necessary historical context for interpreting later chapters. It is drawn largely from secondary literature on Uruguayan history to show the flow of political, military and economic events that provided obstacles and opportunities for merchant entrepreneurship. Chapter four explores the county-specific context of Uruguay in the mid-19<sup>th</sup> century. It provides a qualitative and partly quantitative analysis of the institutional, geographic, demographic, monetary, and economic factors that shaped the strategic business environment.

Chapters five, six and seven represent the core of the research. Chapter five is constructed around several case studies of British merchants and merchant firms, examining the ways in which they used networks for entrepreneurial purposes. It shows the ways in which merchants were integrated into networks: inter-firm merchant networks for facilitating the transatlantic trade; and local elite networks, where family ties linked them both to their merchant peers, and to the Uruguayan political and economic elite. Securing trusted counterparties was only one use for networks, which served a variety of entrepreneurial functions, from access to credit, information, skilled labour, and markets, to secure joint investment projects among merchant families. A variety of primary sources are brought to bear here, including letter books, collections of family papers, material from bank archives, newspapers, notarial records, and government documents. These chapters also draw extensively from genealogical research conducted by both Uruguayan and British scholars to map out the complex interrelations forged through family ties. The connections between the British and River Plate trade networks is not well developed in the existing literature, which tends to focus either on the intermarriage between merchants and River Plate elites, or on the networks of merchants, producers, and financiers in the industrializing regions of Britain. This thesis attempts, notably with the case of the Lafone and Jackson families, to bridge that gap.

Chapter six shows how merchants interacted with the state as financiers, speculators, and lobbyists during a critical juncture, the Uruguayan civil war (*guerra grande*) of 1839-51. This chapter draws largely on contracts between merchants and the *Colorado* government in Montevideo during the siege of the 1840s, exploring the evolution over time of the loans, projects, purchases and negotiations. Particular attention is given to the *Sociedad Compradora de los Derechos de Aduana*, a joint-stock company founded as a tax farming enterprise to manage the collection of customs revenue, in exchange for a 50% share of incoming funds. This chapter also

examines the social composition of the directorship of the *Sociedad*, showing the links with the mercantile network of Samuel Lafone. This group was critical for their efforts to convince the British government to intervene on behalf of the government in Montevideo, as well as for their role in funding the continued struggle against the *Blanco* party, and its allies, the Argentine Federalists under Rosas. British merchants thus played a critical role in shaping one of the defining conflicts of both Uruguayan and regional state formation. Their intervention offered benefits for insiders, but was controversial with the larger River Plate merchant community, suggesting that the determinants of merchants' interests was not a simple matter of shared class or ethnic goals, but also ideological affiliation, and of pre-existing social ties. These mapped onto partisan and clientelistic networks that were in conflict with one another, creating a level of commitment to local political causes and leading both to rifts within the community of British merchants, and to lucrative-but-risky opportunities for insider dealing.

Chapter seven explores the upstream investments of merchants into the rural economy, transitioning from port-centric traders, to rural industrialists investing in the meat salting (*saladero*) industry, and increasingly, becoming key members of the landowning class. The post-independence economy of the River Plate was an emerging economy built on the extensive expansion of hide production. As the growth possibilities of extensive cattle ranching were slowly exhausted, new capital-intensive methods were necessary to secure further growth in the rural economy. The innovations of British merchant-*estancieros* at the high value-added margin of landownership included the introduction of improved breeds of sheep and cattle, wire fencing, and machinery for meat processing, and attempts to introduce commercialized agriculture. Alongside other progressive landowners, they sold not only hides to markets in the United Kingdom, but wool to continental Europe, and jerked beef to Cuba, and Brazil, and explored the possibility of expanding markets for Uruguayan beef to Europe. This change in products, production methods, and markets slowly transformed the Uruguayan economy from an entirely hides-driven economy of cattle ranches to a diversified pastoral producer, hosting Latin America's first industrialized meat processing firm, Liebig's Extract of Meat Co. Chapter eight concludes the thesis, drawing together insights from the earlier chapters and synthesizing an overall evaluation of the role of British merchants in Uruguay in the mid-19<sup>th</sup> century.

## Chapter 2: Literature Survey

This chapter provides an overview of the literatures which this thesis draws upon, in order to establish the scholarly precedents behind the work, and to contextualize the ways in which it makes contributions to existing strands of research. The survey will provide different perspectives on the topic of British merchants in Uruguay in the mid-19<sup>th</sup> century. It will begin with the theoretical considerations behind the analysis of merchant behaviour, which will be subdivided into four parts: institutions, firm structure, social networks, and entrepreneurship, moving from the broad, social setting to the individual merchant. It will then proceed to examine historical works dealing first with merchant trade in 19<sup>th</sup> century Latin America, the literature on the role of merchants in the processes of institutional development, and the role of British merchants in the Uruguayan economy, and finally, on the overall role of Britain and the British in the region. The implications of these previous bodies of literature will then be briefly synthesized, providing motivation for the larger thesis.

### Entrepreneurship

Popular conceptions of the entrepreneur involve a heroic figure, starting from nothing and rising to wealth and fame through innovation, hard work, and a deft hand in sculpting the raw material of luck into a profitable product. This tale serves at least two important functions: to encourage the idea that anyone can become successful, and to exalt the reputation of existing successful entrepreneurs by framing their story as rags-to-riches. Heroic, “swashbuckling” personal characteristics are emphasized; the entrepreneur shares little in common with the cautious, calculating *homo economicus*.<sup>31</sup> This model of the entrepreneur was most strongly endorsed by Schumpeter, who emphasized the dynamic, pattern-breaking role of the entrepreneur, who interrupts the steady drift towards equilibrium by introducing something new: an idea, a process, a market, a product.<sup>32</sup> The entrepreneur thus stands at the heart of the process of economic development, fulfilling a function critical to long-run growth by preventing the horizon of possibilities from converging on a steady state.

Caution is warranted when interpreting the entrepreneur in a heroic light.

Entrepreneurship is an economic function, and critical to growth, but it does not always succeed.

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<sup>31</sup> This description is taken from the introduction to Mark Casson, *The Entrepreneur: an Economic Theory* (Oxford: Martin Robertson, 1982) 1-6.

<sup>32</sup> Joseph Alois Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (Cambridge: Harvard University Press, 1934).

Two issues arise with the individualistic, visionary model of the entrepreneur. First, it fails to account for the “graveyard” of failures, in the language of Nicholas Nassim Taleb.<sup>33</sup> For every successful entrepreneur, there are no doubt dozens of failures, whose talent was insufficient, whose timing was wrong, or whose luck simply did not hold out. Having not made a substantial impact on the economic landscape, they have necessarily fallen beyond the sight of the economic historian. Second, its emphasis on the progress from poverty to wealth obscures any initial advantages that the entrepreneur already possesses. The heroism of the entrepreneurial tale would be substantially diminished by the implication that the entrepreneur does not necessarily fit the Carnegie-like tale of personal achievement.

The clearest modern articulation of a theory of entrepreneurship comes from the work of Mark Casson.<sup>34</sup> In his book *The Entrepreneur*, he considers the void in the theory of entrepreneurship.<sup>35</sup> Neoclassical theory, in the strictest terms, has no role for the individual entrepreneur. As a precondition of the necessary mathematics, it deals only in frictionless, abstract aggregates. Fundamentally, the value of the entrepreneur is in perceiving and chancing previously obscure economic opportunities. The accumulation, processing, and judicious use of limited information are fundamental to the entrepreneurial role. A theory which assumes perfect information assumes the entrepreneur out of existence. When everyone is flawlessly rational and possesses equal foresight and information, the entrepreneur is both everyone, and no one. This explains the difference in emphasis between common portrayals of the entrepreneur, and the predicted behaviour of the economically rational individual, as they inhabit different worlds.

For Casson, the defining feature of the entrepreneur is judgement. Opportunities exist in any given historical economic situation, but they are characterised by uncertainty. It is the management of this uncertainty that distinguishes the entrepreneur from the economically rational individual. This is distinct from Schumpeter’s conception in that it does not necessarily involve pattern-breaking. Judgement can just as correctly be exercised in the replication of existing models. In Casson’s model, entrepreneurial opportunities come in two kinds: arbitrage, and innovation. The merchant is a kind of arbitrageur, buying and selling commodities produced and

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<sup>33</sup> Nassim Nicholas Taleb, *The Black Swan: The Impact of the Highly Improbable* (London: Allen Lane, 2007).

<sup>34</sup> To give a few examples from an extensive bibliography by Mark Casson and collaborators on the topic: Mark Casson, *The Entrepreneur: an Economic Theory* (Oxford: Martin Robinson and Company, 1982), Mark Casson, “Entrepreneurship and Business Culture,” in *Entrepreneurship, Networks and Modern Business*, edited by Jonathan Brown and Mary B. Rose (Manchester: Manchester University Press, 1993), and most recently, Mark Casson and Catherine Casson, *The Entrepreneur in History: From Medieval Merchant to Modern Business Leader* (Palgrave Macmillan: 2013).

<sup>35</sup> Casson, *The Entrepreneur*, 9.

organized by others to make a profit. In this role, merchants were intermediaries, functioning as bridges between groups, places, or even times. The innovator, by contrast, is directly involved with the management of resources.<sup>36</sup> Entrepreneurs are interested in exploiting opportunities using the skills and resources at their disposal, and can move from one type of opportunity to another, or combine various kinds of entrepreneurship in order to make their profits. They may remain at the level of arbitrage, functioning as linkages between other agents, or they may integrate production, services and other activities into their business.

In this thesis, merchants are seen as both arbitrageurs and innovators, exercising both the equilibrium-seeking and equilibrium-breaking modes of entrepreneurship. It was not at all the case that the River Plate trade was a simple, well-understood commodity-for-manufacture trade, requiring only knowledge of price differentials in order to profit. Success in this market required extensive exploration of both supply and demand, and organization in terms of auxiliary services like finance, shipping, packing, and insurance. Learning how to manage these functions and adapting appropriately was important to driving down costs.<sup>37</sup> These functions involve managing scarce resources of information and credit in an innovative way, in addition to the pure arbitrage component of exploiting market price differentials.

Under the interpretations in the theoretical literature, the entrepreneur is not an inventor. What may appear to be novel, the “innovation” of the entrepreneur is the application of a known superior method to existing economic problems and situations. The creation of such methods is a different function. While the innovator of a given improvement may also be its inventor, this is not essential to the idea of the entrepreneur. Their task is to insert themselves into existing processes and modify them to increase their efficiency. The entrepreneur profits by claiming a portion of the gains from the superior allocation of resources. International differences in endowments, thought of in the broadest terms, create opportunities for this kind of entrepreneurial arbitrage. In the simplest model, factors and goods flow amongst countries with differing endowments in order to equalize either the prices of those factors, or the prices of the goods produced with them. However, endowments need not be thought of only in terms of natural resources, or elementary factors of production. Institutions, culture, and information can be factors, amenable to entrepreneurial change. Even entrepreneurship itself can act as a factor. As Casson writes, “If two

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<sup>36</sup> Casson, “Entrepreneurship and Business Culture,” 36.

<sup>37</sup> These underappreciated issues of region-, commodity- and product-specific learning are explored in great detail in Manuel Llorca-Jaña, “Knowing the shape of demand: Britain’s exports of ponchos to the Southern Cone, c. 1810s – 70s,” *Business History*, Vol. 51, No. 4 (2009): 602-621, and Llorca-Jaña, *British Textile Trade*.

countries differ in their endowments of entrepreneurship then there will be a tendency for improvements to originate in the country with the most abundant endowment of entrepreneurs. A corollary of this is that where indigenous entrepreneurs are scarce, it will be left to foreign entrepreneurs from the economically successful country to enter the backward country and improve the allocation of resources.”<sup>38</sup> The merchants that are the subject of this thesis are the agents in this process of entrepreneurial migration, from Britain, where opportunities had largely been exploited, to Uruguay, where they were relatively abundant.

There is an enduring association, going back at least to Max Weber’s “entrepreneurial spirit” embodied in Calvinist thought, that entrepreneurship is not equally shared by all societies, nor by all members of a society, but is concentrated in certain minority groups. While the original Weberian theory was explicitly a religious one, others have extended the concept to include ethnic minorities, or other distinct social groups. One common way of looking at this phenomenon is from the axiom that restrictions breed creativity, that is to say, that being a minority is itself a potential source of “entrepreneurial spirit.” This idea is picked up by Casson: “One of the most interesting features of successful entrepreneurs is that they are frequently drawn from minority groups in society-groups that find alternative avenues of social advancement closed to them.”<sup>39</sup> However, in developing his theory of entrepreneurship, he does not offer any particular reasoning as to why this is the case. As with most economic theories, it is difficult to explain or model why an apparent disadvantage could actually be an advantage. Path-dependence could offer an explanation, with most potential entrepreneurs from higher-status social groups entering into other, more immediately beneficial career paths, thus preventing them from becoming entrepreneurs. However, this seems at odds with the diversity of historical entrepreneurs: while it may be conspicuous how many entrepreneurs have minority origins, it is far from universal.

The implications for the case of European merchants in Latin America in general, and the British in Uruguay in particular, are clear. They were the product of an expansionary, entrepreneurial culture of trade and production, migrating outwards from the industrial and commercial regions in the north of England and the south of Scotland. They were the standard bearers for the industrial revolution’s influence in the world periphery, equipped both economically and culturally to bring new products and new ideas to developing regions. It is possible to interpret the British community in Uruguay in a Weberian sense, as a community of

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<sup>38</sup> Casson, “Entrepreneurship and Business Culture, 11.

<sup>39</sup> Ibid, 12.

protestant outsiders, bearers of the capitalist ethic of production.<sup>40</sup> They were never a large settler group, and British migrants only ever represented a small minority of the population. While population figures are not very reliable about the origins of foreigners, it seems safe to say that the British population in Uruguay never amounted to more than 1% of the total.<sup>41</sup> They were the type of minority who might be expected to engage in entrepreneurship: small but endowed with the necessary resources.

Where the theory does not offer an adequate explanation is in connecting minority status with restricted social advancement. The British in Uruguay were not an oppressed minority, but a favoured one, with ample opportunity for intermarriage and assimilation. The daughters of elite families regularly married British merchants, and their children in turn intermarried with other influential figures in the local mercantile and political communities. European contacts, access to credit, diplomatic influence, and sheer wealth were all resources that British merchants could offer in exchange for local Uruguayan social influence. These advantages far overwhelmed any latent xenophobia in the local elite. This was in any case only a small factor in cosmopolitan Uruguay, where most inhabitants were less than a few generations removed from European colonists. The existing elite was less entrenched than in the older colonies of Spanish America, even less than other areas of new settlement, such as Argentina.

Typically for a region of very recent development, society in early 19<sup>th</sup> century Uruguay was of a less fixed character than elsewhere in the world. Populations were small and of recent immigration, and institutions were therefore not well established. As a colony, Uruguay had been little more than a border region, an undeveloped area at the murky frontier between the Spanish and Portuguese colonial empires. Montevideo had been primarily a military outpost, whose purpose was to provide a harbour and a natural point of resistance against Portuguese encroachment and smuggling. The elites of the old viceroyalties and of the Catholic Church were not strongly entrenched, even by comparison with its neighbour Buenos Aires, and still less with

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<sup>40</sup> Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons and Anthony Giddens (London: Unwin Hyman, 1930), accessed online from the University of Virginia, <http://xroads.virginia.edu/~HYPER/WEBER/header.html>. Interestingly, Weber himself writes that “Even in the nineteenth century its classical representatives were not the elegant gentlemen of Liverpool and Hamburg, with their commercial fortunes handed down for generations, but the self-made parvenus of Manchester and Westphalia, who often rose from very modest circumstances.” The British merchants (and indeed the Hamburg merchants) of Uruguay nevertheless fulfil both roles, making use of their established commercial connections, and in a few cases their inherited wealth, to build their entrepreneurial empires.

<sup>41</sup> Andrés Lamas, *Los ‘Apuntes Estadísticos’ del Dr. Andrés Lamas* (Montevideo: El Siglo Ilustrado, 1928), and Juan Rial Roade, *Estadísticas Históricas de Uruguay 1850-1930* (Montevideo: CIESU, 1980).

the old colonial centres in Lima or Mexico City.<sup>42</sup> As such, when independence began, Uruguay's status was, if anything, more turbulent than other regions of the former Spanish empire. Patterns of power and order did not have deep roots. This could be exploited by the various groups who attempted to seize power, often successfully, though seldom with lasting effect. The remnants of the Spanish forces, the British, the French, the Argentines, the Brazilians, and a host of local *caudillos* vied for both formal and informal control over Montevideo during the first half of the 19<sup>th</sup> century.

This ongoing political instability was crippling for growth. The enforceable property rights and secure markets in goods and services that the New Institutional Economics has identified as key factors in development were conspicuously absent. *Caudillos* looking to feed armies, to reward followers, and to make alliances were notoriously mercurial about legal obligations. Pragmatic, on-the-ground factors ruled the day, rather than any formal system of legal, political and economic rights. Investments with long time horizons and low-but-secure payoffs had little chance of success, whereas short-term, opportunistic, risky behaviour could yield tremendous gains – or ruinous losses. This chaotic environment provided a wealth of opportunities for the risk-seeking entrepreneur. The twists and turns of the political and military situation could be exploited. *Caudillos* and revolutionary governments required funds, which could be advanced at extremely high interest rates, though inseparable from the accompanying risk. Land stripped of its value by war or expropriation could be bought at bargain prices.

Overall, the image of Uruguay in the mid-19<sup>th</sup> century should not be one of a static society, requiring foreign entrepreneurship to break out of a centuries-old colonial stagnation. It was a new society, constantly changing, having yet to settle on a solid form. The malleable topography of the political, social and economic landscapes could all be shaped by the revolutionary, the ideologue, the *caudillo*, or the entrepreneur. Alliances and enmities between individuals from these groups could launch a new direction for the country, or shatter an existing one. The fight to control the attribution of all kinds of resources, both economic and otherwise, was heated and constant, with no obvious winning side until the end of the 19<sup>th</sup> century.

In this chaotic situation, the ends of profit maximization may have been clear enough, but the potential means were diverse. Charles Jones develops the argument that the merchants of the River Plate, along with their counterparts across the increasingly interlinked world of trade,

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<sup>42</sup> Carlos Real de Azúa, *El Patriciado Uruguayo* (Montevideo: Ediciones de la Banda Oriental, 1981).

formed an international merchant bourgeoisie, a class shaped by the early 19<sup>th</sup> century explosion in commerce. Their values were Cobdenite, cosmopolitan, individualistic and pacifist; their utopia was a world of free trade, without borders, and without wars. Jones gives several cases of international ports where this new class was formed.<sup>43</sup> Buenos Aires is among his examples, but Montevideo could fit the pattern just as easily, if not more so. However, any analysis of the merchants in Uruguay that relies on social class as determining actions based on shared interest or ideology will fall short in explaining the diversity of strategies pursued. There was certainly no consensus at the time about how best to pursue class interests. Many merchants preferred a strategy of neutrality, hoping that diplomatic influence would protect their property rights, whereas direct interference would expose them to risk. Others, as examined in chapter six, took a much more direct interest in local affairs, taking sides and wielding their influence to create a political situation more amenable to their interests. Despite broadly shared goals, there were ample disagreements about the means to be exercised in order to achieve them.

#### Firm Structure and Transaction Costs

Organizational forms are a type of technology, which must be invented and adopted like any other technology. An organizational form might have potentially reduced transaction costs for a given firm, but have been unknown and therefore unusable at the time. However, the early modern period is replete with examples of different organizational forms: guilds, corporations, commendas, partnerships, clans, cooperatives, nascent state enterprises, and so on down an enormous list of potential organizational forms. Far from being without alternatives, there was an embarrassment of riches of known organizational forms theoretically available to merchants by the beginning of the 19<sup>th</sup> century. Nevertheless, small, family-oriented partnerships with flexible, negotiated governance structures dominated the business landscape in the mid-19th century. What forces shaped firm structure in this period? What were the advantages of smaller firms? The cases of the 18<sup>th</sup> and 19th centuries carry potential lessons for the understanding of firm organization which offer a different perspective on the optimal organization of business, an adaptive rather than teleological model.

The general trend in the analysis of firm structure has been away from a teleological “Whig history” narrative. The focus of Alfred Chandler, long dominant in business history narratives, was on examining the past in terms of how the fragmented, family-oriented structures

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<sup>43</sup> C. Jones, *International Business*.

of the 19<sup>th</sup> century were replaced by their more efficient modern counterparts, characterized by vertical integration and hierarchical, professional management. More recent work moves towards a theory based on the adaptations of firms to specific conditions determined by their region, their point in history, and by their previously chosen paths. Lamoreaux, Raff and Temin critique the Chandlerian model heavily on these grounds, calling for a reinvigoration of business history by incorporating an explicitly evolutionary approach to examining firm structure based on transaction costs, not seen as a phenomenon generalized to all places, but particular to specific situations, and suggesting different solutions.<sup>44</sup> Langlois has also contributed a similar, but slightly adapted thesis to this debate that the late 20<sup>th</sup> and early 21<sup>st</sup> centuries have seen the undoing of the type of vertically integrated firm that Chandler proposed as superior for modern production.<sup>45</sup> As market integration increases and firms no longer rely as much on coordination through vertical integration, the advantages of scale and scope diminish, and the advantages of flexibility reassert themselves. If the Chandlerian firm is no longer necessarily seen as an endpoint, but rather as the correct adaptation for a particular time and place, then it necessarily raises questions about the era that preceded it, as much as the one that follows.

Research into the evolution of merchant firms has progressed by synthesizing business history with the New Institutional Economics. This combination has provided new theoretical tools for tackling the problems of business organization and behaviour which were not adequately answered by neoclassical economic theory. The institutionalist view is grounded in the ideas of Ronald Coase, who opened this line of thought with the 1937 essay "The Nature of the Firm," set out the puzzle of firm structure with some deceptively simple questions: Why do firms exist at all, instead of collections of free contracting individuals? If prices structure markets, why are some transactions and not others carried out within, rather than between, firms? Coase claimed that the boundaries of a firm are determined by the activities that can be performed at lower cost within a firm than through the outside market.<sup>46</sup> Firms can internalize certain functions, notably coordination and information gathering, bypassing the market and potentially improving efficiency, thus justifying their existence in an economic sense.

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<sup>44</sup> Naomi R. Lamoreaux, Daniel M. G. Raff, Peter Temin, "Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History," *The American Historical Review*, Vol. 108, No. 2 (April 2003), 404-433, and "Against Whig History," *Enterprise & Society*, Vol. 5, No. 3 (September 2004), 376-387.

<sup>45</sup> Richard Langlois, "The Vanishing Hand: the Changing Dynamics of Industrial Capitalism," *Industrial and Corporate Change*, Vol. 12, No. 2, (April 2003), 351-385.

<sup>46</sup> Ronald Coase, "The Nature of the Firm," *Economica*, Vol. 4, (Nov. 1937): 386-405.

As for what firm structures will emerge from this process, the broad principle at work here is adaptive. Successful firms will be those with the right organization matched to the right situation. Those with unsuccessful organization will fail to meet the costs of capital, and be driven out of operation. The broad umbrella term of “transaction costs” stands in for many different kinds of costs faced by firms, but these can also be broken down into informational costs, coordination costs, contracting costs, expropriation risk, and so on. Various innovations and adaptations can reduce these inherent costs. The theory therefore predicts a kind of selection: firms whose strategies and structures are best able to mitigate costs of operating in a given location or trade will have a relative advantage over their competitors. At a micro level, this suggests an analysis of both the firm structure and the strategies adopted by merchant firms in order to minimize these costs.

A classic 1950 article by Armen Alchian<sup>47</sup> suggests examining changes in business behaviour by analogy to biological evolution. Rather than a self-conscious motive of profit maximization determining firm strategy at some mathematically predetermined optimum, Alchian suggests that firms, like organisms, either flourish or fail in a given environment. It is those that survive the rigors of the competitive process that establish the standard firm strategies and structures. Even absent any planning or foresight, economic agents will adopt strategies suited to their environments; those that do not behave in a manner which generates “realized positive profits” will be outcompeted and eliminated, leaving only firms whose behaviour and structure matches the environment. According to Alchian, even for the best informed agent, a strategy only leads to a distribution of potential outcomes.<sup>48</sup> Some strategies may be fatal to the firm due to high variance in outcomes – firms cannot hedge against all risks, and riskier strategies may be more likely to result in bankruptcy, even if they have higher average returns. Others may simply fail to produce the necessary profits to survive, and be outcompeted by others in the same market. The cost of capital keeps all firms under threat of failure, and acts as the economic equivalent of selective pressures.

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<sup>47</sup> Armen A. Alchian, “Uncertainty, Evolution, and Economic Theory,” *The Journal of Political Economy*, Vol. 58, No. 3 (June 1950), 211-221.

<sup>48</sup> To this, one might add a Knightian distinction between risk and uncertainty. Some strategies have a known distribution of outcomes, even if the result is itself unknown, which suggests a combination of risk-averse behaviour in order to reduce the known chance of disaster and rational profit maximization averaged over potential outcomes weighted by their probability. A framework incorporating uncertainty, on the other hand, would require entrepreneurs to exercise judgement (not reducible to known probabilities) about the likelihood of events. Frank Knight, *Risk, Uncertainty and Profit* (Boston: Houghton Mifflin, 1921)

The work of Oliver Williamson in particular has explored the various issues surrounding firm structure: integration and disintegration, internal and external markets, agency and ownership.<sup>49</sup> For Williamson, transaction costs are the “friction” in the economic system that organization is supposed to minimize. Contracting, in all its various forms, is the tool by which this is accomplished. His analysis encompasses both the *ex ante* costs of contracting, that is to say, the costs of making contracts, and, perhaps more importantly, the *ex post* costs of contract enforcement, from failure due to non-compliance, or through the costs of legal redress.<sup>50</sup> The forms of organization that will prevail in a given system are determined by how well they negotiate the various commitments and threats that determine the incentives of the negotiating parties. The limits of cooperation, competition and integration are largely determined by the costs of auditing and managing, for which there is some optimal size of firm, below which there are gains from increasing scale, and above which, losses from bureaucratic costs. Williamson’s work has inspired entire literatures of analysis on transaction costs and institutions, and their role in economic growth.

These questions have generated a wealth of discussion about alternate forms of business organization. If we cannot assume individual, indivisible economic agents, then who makes economic decisions for the complex entities that result? Why are those decisions transmitted and carried out, modified, or ignored? What is the glue that holds individuals together into firms, and together into an economy? For large-scale cases, involving groups, organizations, countries and multi-national trades, these questions are generally approached from the level of institutions. The questions then become: what are the institutions that foster trust, either through enforcing contracts or other, less formal means, which allow for the development of economic decision making? In answering these questions, historians, sociologists, anthropologists and economists have looked to historical examples of informal networks, operating at the level of social linkages rather than formal contracts, which can be stable absent a reliable system of legal enforcement.

From the individual perspective, this is a subset of the theory of entrepreneurship. How, having reached the limits of a business controlled directly and completely by one person, do entrepreneurs extend their “private kingdom”?<sup>51</sup> Under what circumstances do individuals come

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<sup>49</sup> Oliver Williamson, *The Economic Institutions of Capitalism* (Macmillan: New York, 1985).

<sup>50</sup> Williamson, *Economic Institutions of Capitalism*, 388.

<sup>51</sup> The phrase “private kingdom” is from Joseph Alois Schumpeter, *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (Cambridge: Harvard University Press, 1934), 93.

to trust one another sufficiently to overcome the “fundamental problem of exchange,”<sup>52</sup> to take the steps from self-sufficiency through to exchange, and finally to delegation and agency? There are two keys to this problem. First is situational contingency: each period in history, legal system, institutional heritage, social composition, and economic structure will imply different potential solutions to the problem, based on the options available to the entrepreneur, and their desirability. Certain forms of organization may be suited or unsuited to a given situation, based on the transaction costs incurred by their use.

The implications of transaction costs and firm structure literature on business history have, in the main, focused on Chandler’s epochal hypothesis: That by the late 19th century, large, vertically integrated firms were able to use ‘the visible hand’ of hierarchical, professionalized management to take full advantage of the emerging economies of ‘scale and scope’.<sup>53</sup> This change was made possible by technological advancement and the emergence of consumer markets, but was, at heart, a change in outlook towards management and organization. This new type of firm, centred on mass production, product standardization, and marketing outreach, outcompeted its rivals, and represented a new, American institutional model of business. Chandler emphasizes the “general failure” of British business to adopt this new model, which had dire implications for their international competitiveness.<sup>54</sup> This he blames on the family firm model, claiming that the demands of family income restricted growth in the long term, and prevented firms from making the necessary investment in the organizational apparatus that would have enabled international competition.<sup>55</sup>

Chandler’s epochal hypothesis has come under considerable scrutiny. Though enormously influential and almost certainly correct for the case of the late 19<sup>th</sup> and early 20<sup>th</sup> century United States, many have questioned the applicability of the Chandlerian hypothesis to other times and places. In the Latin American context, during the mid-19th century, a very different firm structure from the American-style vertically integrated firm prevailed. This structure was one of diversified merchant-entrepreneurs, operating in groups reinforced not by formal business structures, but by informal alliances among and within groups of families. Such family-oriented firms are identified

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<sup>52</sup> Avner Greif, “The Fundamental Problem of Exchange: A Research Agenda in Historical Institutional Analysis,” *European Review of Economic History*, No. 4 (2000): 251-284.

<sup>53</sup> Alfred D. Chandler, *The Visible Hand: the Managerial Revolution in American Business* (Cambridge: The Belknap Press of Harvard University Press, 1977) and *Scale and Scope: the Dynamics of Industrial Capitalism* (Cambridge: The Belknap Press of Harvard University Press, 1990)

<sup>54</sup> Chandler, *Scale and Scope*, 392.

<sup>55</sup> Chandler, *Scale and Scope*, 376-8.

by Chandler as outdated and inefficient for the 20th century European and North American context. However, there has been a developing literature on how such looser structures can not only succeed on their own terms in particular environments, but about how they are adapted to solve different business problems, and therefore may be better adapted to conditions in other regions.

Following on conceptually from trade networks, some relatively recent literature has focused on business groups as an evolution of merchant networks, and an alternative type of (inter-)firm organization. It has been suggested for many different merchant groups across a variety of times and places that networked (rather than atomized or internalized) organization yields advantages for trade, especially in underdeveloped institutional contexts. This idea has been developed by Geoffrey Jones and Judith Hale examining British companies involved in foreign direct investment abroad.<sup>56</sup> They draw on the earlier work of Mira Wilkins on free-standing companies, and Stanley Chapman on British investment groups, showing the importance of merchants' direct investment abroad during the late 19<sup>th</sup> and early 20<sup>th</sup> centuries.<sup>57</sup> Jones and Hale point to the needs of British merchants abroad to develop upstream businesses as a response to underdevelopment in their host economies. Seeing opportunities in developing infrastructure to facilitate trade, and primary production in the form of estates, mines and plantations, to balance their import operations, these merchants diversified their investments. These investments deflected the focus of merchants away from trade, and into a more generalized function as broadly-based investors. Rather than showing entrepreneurial decline, in this framework, British entrepreneurs adapted flexibly to increased competition and a changing economic situation to best use their regional expertise. Their organizational structure thus reflected their needs for flexibility, rather than to maximize returns to scale.

We need to consider the risks of firm survival, rather than merely the expected average outcome; being “optimal” in the abstract case does not bring a company back from the dead, nor does it attract imitators. Information as to what strategies or structures will maximize profits is not something known *ex ante*. Nor do firms operate in an abstract market, but rather one embedded

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<sup>56</sup> Geoffrey Jones and Judith Hale, “Merchants as Business Groups: British Trading Companies in Asia before 1945,” *The Business History Review*, Vol. 72, No. 3 (Autumn 1998): 367-408.

<sup>57</sup> Mira Wilkins “The Free-Standing Company, 1870-1914: An Important Type of British Foreign Direct Investment,” *The Economic History Review*, Vol. 41, No. 2 (May 1988): 259-282; Stanley Chapman, *Merchant Enterprise in Britain from the Industrial Revolution to World War I* (Cambridge: Cambridge University Press, 1992); and Charles Jones, “Institutional Forms of British Foreign Direct Investment in South America,” *Business History*, Vol. 39, No. 2 (1997): 21-41.

in the social structures of a particular historical context. They face a limited number of competitors, each pursuing their own strategic choices, imitating and reacting to one another. Adaptation to the economic environment must be seen as behaviour under incomplete information, in competition with other firms doing the same. These behaviours then not only determined the success and failure of the individual enterprise, but collectively make up the business environment. In adapting to their economic environment, firms also alter it in ways which have important effects, in terms of competition, development, and path dependence. Given that both risk and the cost of capital were high in Uruguay in this period, we should expect either substantial adaptation, firm attrition, or both, and that this process should have a shaping effect on the overall economic environment.

### Business History: The Latin American Context

In recent years, a small but growing body of business history literature has emerged both for and from Latin America, merging country-specific studies with the larger ideas about the historical development of firm structure. Two literature review articles have been published in recent years, summarizing these contributions, one by Carlos Dávila,<sup>58</sup> and the other by María Inés Barbero.<sup>59</sup> Both of these analyses stress the distinctive features of the business environment in Latin America, and on the consequent distinctive features of firm organization and strategy. Dávila highlights eleven distinctive features of Latin American business and entrepreneurship: its interface with globalization, the key role of real estate in capital investment, elite entrepreneurship, the role of the state as entrepreneur, the politicization of markets, an unstable social and political context, diversification of investment, the predominance of foreign capital, family capitalism, business groups, and immigrant entrepreneurs.<sup>60</sup> These themes all have deep roots in the region, and all (with the possible exception of the role of the state as investor) are clear even as far back as the mid-19<sup>th</sup> century in Uruguay.

There have also been several collections of essays published on the topic. Rory Miller and Carlos Dávila edited a volume engaging with seven country cases for business history in Latin America.<sup>61</sup> Barbero has also published, in collaboration with Raúl Jacob, a series of regional and

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<sup>58</sup> Carlos Dávila, "The Current State of Business History in Latin America," *Australian Economic History Review*, Vol. 23, No. 2 (July 2013): 109-20.

<sup>59</sup> María Inés Barbero, "Business History in Latin America: A Historiographical Perspective," *Business History Review*, Vol. 82, No. 3 (2008): 555-575.

<sup>60</sup> Dávila, "Business History in Latin America," 113-14.

<sup>61</sup> Carlos Dávila and Rory Miller, *Business history in Latin America: the Experience of Seven Countries* (Liverpool : Liverpool University Press, 1999).

national essays on the development of business history in Latin America.<sup>62</sup> These works highlight the contributions of several key authors to business topics, such as Barbero for Argentina, Carlos Dávila for Colombia, Carlos Marichal and Mario Cerruti for Mexico. For Uruguay, the key scholars are Raúl Jacob, who has done extensive work on the impact of merchants on credit and development outside of Montevideo,<sup>63</sup> and Alcides Beretta Curi, whose focus has largely been on the role of Italian immigrant entrepreneurs in the later part of the 19<sup>th</sup> century.<sup>64</sup> These works have highlighted for Uruguay the general themes that pervade the general business history of Latin America: the importance of social and family groups, the key role of immigrants in fostering entrepreneurship, and the criticality of access to credit in shaping the strategy of businesses.

Much of the discussion about the distinctive features of Latin American business history has centred on the role of *grupos financieros*, multi-family alliances that act to organize entrepreneurship and finance projects across a variety of sectors, but linked together by kinship. These studies show the persistence of non-contractual and informal linkages in organizing business in the region. This suggests that, at least potentially, the Chandlerian hypothesis of the increasing suitability of large scale, vertically integrated, professionally managed firms does not apply to the case of Latin America, where other considerations such as political influence or market structure make other organizational forms more suitable. The analysis of the importance of business groups for trading companies goes back to the 1970s, with a few key contributions.

Nathaniel Leff examines the role of entrepreneurship and firm structure for developing countries. He proposed that these groups (from the Latin American *grupos*) are, for countries at a low level of development, a substitute for functioning markets for factors and information, although not necessarily an efficient one.<sup>65</sup> By organizing many enterprises together under the management of one family or social group, they serve the same kinds of internalizing, integrative functions that the Chandlerian firm does. They also focus entrepreneurial resources, by allowing economic decision-makers access to a sufficient pool of capital, information and coordinating capacity to make economic changes. A small number of entrepreneurs can organize production

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<sup>62</sup> María Inés Barbero and Raúl Jacob, eds. *La nueva historia de empresas en América Latina y España* (Buenos Aires: Temas, 2008).

<sup>63</sup> Jacob, *Más allá de Montevideo*.

<sup>64</sup> Alcides Beretta Curi, *El imperio de la voluntad. Una aproximación al rol de la inmigración europea y el espíritu de empresa en el Uruguay de la temprana industrialización* (Montevideo: Fin de Siglo, 1996).

<sup>65</sup> Nathaniel H. Leff, "Industrial Organization and Entrepreneurship in the Developing Countries: The Economic Groups," *Economic Development and Cultural Change*, Vol. 26, No. 4 (July 1978): 661-675, and "Entrepreneurship and Economic Development: The Problem Revisited," in *Journal of Economic Literature*, Vol. 17, No. 1 (March 1979): 46-64.

across a variety of different enterprises simultaneously, without requiring additional inputs of information or requiring the more complex decision making associated with inter-firm transactions.

Reinhard Liehr and Colin Lewis offer a historiographically-focused analysis of *grupos*, descended from merchant networks as applied to the case of Latin America.<sup>66</sup> These *grupos* in turn emerged out of more traditional merchant houses. In adapting to the changing conditions of the late 19<sup>th</sup> century, they reorganized themselves as broader organizations, operating a series of diversified enterprises under the management of one group. For Liehr and Lewis, this diversification was mostly a matter of being “squeezed out” of their traditional role as regional specialists by increasing market integration with Britain, which allowed direct connections between producers and retailers, as well as market penetration by specialized and branded products. This reduced the need for the generalist trading companies, which were therefore pushed into other areas of the economy, which were less under strain from increasing competition. While the relative importance of the “push” factors of competition and changing market structure, versus the pull factors of perceived opportunities in moving British merchants out of trade and into diversification can be debated, the basic pattern is clear: British merchant firms began the 19<sup>th</sup> century as port-focused importers, but became increasingly integrated into exports, into the production economy, and into associated services like insurance, shipping and banking.

Charles Jones takes a somewhat different approach to a similar topic in his *International Business in the Nineteenth Century*. Jones presents a unique reading of the Leninist theory of imperialism through the work of Frederick Lane, positing the existence of an international class, a ‘cosmopolitan bourgeoisie,’ whose values, interests, and culture reflect the liberal ideology of the free trade movement.<sup>67</sup> Where he diverges from the ‘gentlemanly capitalism’ account of Cain and Hopkins is in seeing the increasing integration of this bourgeoisie with the aristocracy as a betrayal of their earlier, Cobdenite mission, in favour of late Victorian imperialism. The middle of the 19<sup>th</sup> century was, for Jones, a time of enthusiasm for liberalism and free trade on their own terms. The cosmopolitan bourgeoisie, both spreading out from Britain to the rest of the world, and converging from abroad on London, were not merely owners and traders. They were evangelists

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<sup>66</sup> Reinhard Liehr and Colin Lewis, “Doing Business in Latin America: an Overview,” in *Doing Business in Latin America*, ed. Reinhard Liehr and Colin Lewis (Forthcoming).

<sup>67</sup> Charles Jones, *International Business in the Nineteenth Century: the Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton: Whitesheaf, 1987), 5-14.

of a political cause and a way of life. As we will see later, this liberal evangelism did not go unnoticed in the periphery. It had a powerful if not formative influence on many of the most important Uruguayan political actors. Jones, Cain and Hopkins all emphasize that the cities of Birmingham, Liverpool, Manchester and other centers of trade and manufacturing were increasingly left out of this process, as London came to dominate the 'gentlemanly' world of finance. During the early and mid-19<sup>th</sup> century, however, merchants originating from the trade and manufacturing centers in the north of England and in Scotland were still influential both domestically and abroad.

Charles Jones makes Argentina one of his case studies, and although he does not discuss Uruguay except in passing, his analysis of the interconnections between local elites and British merchants is suggestive. He examines the alliance between the liberal *Unitario* faction in Buenos Aires, and some of the more politically sympathetic members of the British merchant community there. Relations of all kinds, economic and social, began to form between the two groups, eventually leading to "complex networks of cousins"<sup>68</sup> that helped integrate the landowning and mercantile classes. Joint ventures flourished between the two groups, facilitated by their intermarriages, their shared political sympathies, and their complimentary resources. This merchant community was a key source of capital for the new nation. This capital was raised in foreign trade, by foreign merchants, but accumulated locally, and by a group which was integrating, if not already integrated, into the local society and economy. It occupies a middle ground between purely local capital resources and the foreign direct investment of the later 19<sup>th</sup> century, and acts as a kind of transitional phase between the two. Evidence for this kind of activity in Uruguay will be examined later in this chapter. The idea of a cosmopolitan bourgeoisie originating in Britain, but integrating with local Latin American elites, creating a new hybrid class imbued with a particular set of mid-19<sup>th</sup> century liberal values is one which has substantial explanatory power for use in my analysis of social networks.

There are several examples of a business-oriented approach to the topic of British merchants in the River Plate during the mid-19<sup>th</sup> century. These focus mainly on Buenos Aires, but also offer some evidence on Uruguay. The first business-oriented exploration of the topic of British Merchants in Latin America was by D.C.M. Platt.<sup>69</sup> Another notable contribution was Vera Blinn

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<sup>68</sup> Ibid, 74.

<sup>69</sup> Platt, *Latin America and British Trade*.

Reber, *British Mercantile Houses in Buenos Aires, 1810-1880*.<sup>70</sup> Reber's analysis is rich in detail, and chronicles the business and social aspects of merchants, their firms, and their trade. In this regard, the book is similar in content to Platt's more general work on British trade in Latin America. Reber highlights not only the successes of the period, but also the fragility of merchant houses. Profitable firms, especially partnerships, could be sunk by mistrust, misinformation, and strategic error. These risks likely constituted a major cost to doing business in the region, and Reber's analysis of these factors offers a starting point for my own. More recently Manuel Llorca-Jaña has reinvigorated the historiography by revisiting the classic sources of Platt and Reber with a series of detailed studies.<sup>71</sup> This work also offers a window into the parallel development of the British merchant community in Argentina during this period. As such, it is a source for comparisons with Buenos Aires that may reveal more about the Uruguayan case. Of particular note as a potential difference is the difference between the alliance between merchants and landowners that predominated in Argentina, contrasted with the integration of merchants into the landowning class through land purchases in Uruguay during the 1850s.

From a comparative perspective, we should not be surprised to see tightly grouped networks of families operating in conjunction with one another to operate businesses, and especially to provide credit for mutual enterprises. The work of Naomi Lamoreaux illustrates two concepts important for this chapter: first, the role played by kinship networks in entrepreneurship and development.<sup>72</sup> Her case deals with club-like commercial banks in the North-eastern United States, but the pattern can be generalized; it appears similar to the one prevailing in much of Latin America, as well-documented in numerous studies by Joslin,<sup>73</sup> Platt,<sup>74</sup> and Miller.<sup>75</sup> Second, she highlights some of the potential factors behind the choice of firm structure, emphasizing the

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<sup>70</sup> Vera Blinn Reber, *British Mercantile Houses in Buenos Aires, 1810-1880* (Cambridge, Harvard University Press, 1979).

<sup>71</sup> Manuel Llorca-Jaña, "Knowing the shape of demand,"; "To be Waterproof or to be soaked: importance of packing in British textile exports to distant markets: The cases of Chile and the River Plate, c.1810-1859," *Revista de Historia Económica*, Vol. 29, No. 1, (2011): 11-37; "The organisation of British textile exports to the River Plate and Chile: Merchant houses in operation, c. 1810-59," in *Business History*, Vol. 53, No. 6 (2011): 821-865; *The British Textile Trade..*

<sup>72</sup> Naomi Lamoreaux, "Banks, Kinship, and Economic Development: The New England Case." *The Journal of Economic History*, Vol. 46, No. 3 (September 1986): 647-667.

<sup>73</sup> Joslin, *A Century of Banking*.

<sup>74</sup> D. C. M. Platt, "Foreign Finance in Argentina for the First Half-Century of Independence." *Journal of Latin American Studies*, No. 15 (1983): 23-47.

<sup>75</sup> Rory Miller, *Britain and Latin America in the Nineteenth and Twentieth Centuries* (London and New York: Longman, 1993).

preference for partnerships, especially loose networks of interlocking partnerships, rather than limited liability partnerships or corporations.<sup>76</sup>

The thrust of Lamoreaux's observations on the reasoning behind partnerships was anticipated by John Mayo, who found a concurring opinion from Williamson Balfour, an Anglo-Chilean merchant firm from the mid-19<sup>th</sup> century: "To perform the position of a merchant properly, one has (to) have a much more direct interest in the risks run than a set of Directors can have."<sup>77</sup> A later generation would refer to this as the principal-agent problem, to which appropriate firm structure and strong contract laws were supposed to be a partial remedy. But, given the inherent risks in long-distance trade, there was no satisfying institutional or structural solution to this problem until the spread of the telegraph in the 1860s. The increased speed of communication and transit in the late 19<sup>th</sup> century offered the possibility of new organizational forms, some involving agents sent out directly from buyers in Europe to Latin America, and others managed from Europe, as in the free-standing company. Prior to this point, lacking the ability to communicate between sides of the Atlantic faster than the speed of a mail packet (about six weeks), each partner had to trust the others to take decisions on their own.

Naomi Lamoreaux has published several articles which address various aspects of the problem of firm structure and entrepreneurship in the 19<sup>th</sup> century for the North American case. She argues that the partnership structure of firms, wherein liability was unlimited and complete authority of decision-making was given equally to all partners, gave firms a flexibility that was advantageous given their business environment.<sup>78</sup> She argues that different degrees of "firmness," that is, the extent to which a firm was governed by internal hierarchy and rules, and therefore able to act as a coherent entity, suited different economic environments. Partnerships had several advantages over companies with shareholders: decision making was more decentralized, or rather, centralized in each partner; unlimited liability was a method of commitment, since partners were fully liable for debts. Partnership was also a method of preserving the ability of individual partners to credibly threaten one another with holdup, which may have been a more important factor for the individuals involved. Organizations that required individuals to give up this particular right may never have been formed, perhaps due to distrust between potential actors, and that therefore only partnerships which preserved it were stable in this environment.

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<sup>76</sup> Naomi Lamoreaux, "Partnerships, Corporations and the Theory of the Firm," *The American Economic History Review*, Vol. 88, No. 2 (May 1998): 66-71.

<sup>77</sup> John Mayo, *British Merchants and Chilean Development, 1851-1886* (Boulder: Westview Press, 1987), 93.

<sup>78</sup> Lamoreaux, "Partnerships, Corporations, and the Theory of the Firm."

### Social Networks and Merchant Trade

Given the innate uncertainty in dealing with foreign cultures in distant areas, there is a natural bias towards domestic rather than foreign trade and investment, a point made long ago by Adam Smith.<sup>79</sup> Geoffrey Jones, in his book *Merchants to Multinationals*, explains how foreign direct investment emerged naturally from international merchant trade.<sup>80</sup> Merchants may have begun exclusively as traders of goods, but often expanded their activities into services, such as banking, information services, and shipping. This in turn created incentives to vertically integrate their trading activities with the production of goods, moving up the production stream to exploit profitable opportunities. But an international merchant was not only an investor, managing opportunities for profit. They also functioned as bridges between cultures, managing the differences between distinct environments, from culture, language and religion to property rights, legal institutions and political systems. As such, they were well positioned to exploit the investment opportunities resulting from the development of New World countries.

Merchants who had already developed the contacts, regional knowledge, and expertise in a particular product or service could make use of those knowledge assets to expand into new areas of business, where other investors would have faced a disadvantage of lacking regional knowledge. Those merchants who had already sunk their time and capital into distant areas would have a comparative advantage as entrepreneurs in those parts of the world. The development of a community of British merchants in a peripheral country like Uruguay, then, represents an opportunity for both themselves and for the host economy. For the merchant, it would have been an opportunity to take advantage of economic niches which could be filled best by firms with both local and international knowledge. For the host economy, it would have gained access to trading opportunities and developmental advantages that it would otherwise have been denied for lack of entrepreneurs with the correct types of expertise.

We should not expect one type of relations or network structure to explain the variety of social networks found among merchants. Different cultures, different ethnic groups, and different economic circumstances determine the organization of networks, leading to structures that appear quite distinct, and function in different ways. However, the kinds of resources required for

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<sup>79</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Kathryn Sutherland (Oxford: Oxford University Press, 1993), 292. This was, curiously, the original phenomenon described as the “invisible hand,” which has since outgrown its origins to become the most popular metaphor in economics.

<sup>80</sup> Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford: Oxford University Press, 2000).

entrepreneurship differ in particular historical contexts, based on the scarcity of various factors. Environments with high information asymmetry encourage the use of networks to channel information flows. Poorly developed local markets for human capital incentivize networked methods for obtaining necessary skills and skilled workers. Areas with low enforcement of property rights and protections against fraud, suggest the mutual monitoring and punishment mechanisms as the primary use of networks. Regardless of their origins, all networks can, to some extent, serve the basic functions of trade networks: the creation of trust, the linking of agents in different areas, and the acquisition of entrepreneurial resources, notably information.

There has been much recent work on the role of business networks in creating trust, smoothing economic relationships, and overcoming informational problems. Social networks have been widely invoked to help explain the pattern and prevalence of trade in times and places where neither institutions nor firm structure seem adequate to cover the risks of contracting. These theories rely either on the innate trust created by in-group social bonds, as in the work of Janet Tai Landa, or on informal enforcement mechanisms maintained through reputational effects, as suggested by Avner Greif. Merchants, or even small partnerships or merchant firms, would potentially have been unable to overcome the costs of trading and investing overseas, if they were restricted to their own resources. One of the key factors, discussed extensively in chapter five, is their place within their social network. This is usually a pre-existing ethnic or religious community, a group which shares some level of mutual trust and acts as a channel for information, but can be something as simple as a family, or a group of acquaintances. The group sustains some degree of mutual trust for reasons originally unrelated to business, but which is repurposed by the entrepreneur to serve functions important to the growth of new enterprises.

Case studies abound, examining the function and structure of trade networks in a wide range of locations and among various ethnic groups.<sup>81</sup> Special attention has been paid to the role of diasporic ethnic groups, who, while forming a small minority of their host populations, are effective at conducting long-distance trade on the basis of shared trust. The work of Janet Tai Landa focuses on the role of ethnically homogeneous middleman groups in establishing trade in

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<sup>81</sup> Abner Cohen, *Custom and Politics in Urban Africa: a Study of Hausa Migrants in Yoruba Towns* (London: Routledge, 1969); Janet Tai Landa, *Trust, Ethnicity and Identity: Beyond the New Institutional Economics of Ethnic Trading Networks, Contract Law, and Gift Exchange* (Ann Arbor: University of Michigan Press, 1994); Avner Greif, *Institutions and the Path to the Medieval Economy: Lessons from Trade* (Cambridge: Cambridge University Press, 2006); Jari Ojala, "Approaching Europe: The Merchant Networks between Finland and Europe during the Eighteenth and Nineteenth Centuries," *European Review of Economic History*, Vol. 1 (1997): 323-352.

environments with poor institutional quality along ethnic lines.<sup>82</sup> Her theory portrays trust as a club good, shared among agents with similar background. Economic agents are socially embedded, that is to say, they are imbued with beliefs and norms based on their social context. These norms facilitate in-group cooperation, and discourage out-group defection. Successive tiers of relationships, from the closest to the most distant, can in her model be thought of as von Thünen rings, representing the degree of in-group trust. The trader sits at the centre, representing maximum trust, the trust in oneself. The rings, moving outwards, begin with the agent's immediate family, proceeding through more distant family and ethnic relations, and to increasingly alien "outsider" groups, who are trusted least. As the network expands, it brings more potential trading partners, but also an increase in transaction costs. The benefits of defecting increase, which makes it more expensive to maintain group coherence, and therefore, trust. This is consistent with a club good interpretation of trust within an ethnic group.

One way to divide the literature is to distinguish those who see network trust mechanisms as essentially about punishment relationships, and those who see them as an extension of trust via in-group norms. For the first group, the network functions as a kind of justice game, distributing punishment to those who violate group trust. This deters others from making similar violations, and preserving the trust relationship within the group. Shared information and mutual gains from the solidity of the trust network among group members makes this punishment mechanism credible. This allows members to act as agents for one another without formal institutional enforcement, overcoming the fundamental problem of exchange, to use Greif's phrase. The second group focuses more on the norm-based solidarity inherent in ethnic and religious groups, which provide innate incentives to trust group members over outsiders, creating a social zone in which transaction costs are lower.

However, one can also divide the literature in terms of the function of networks, between those who see a network as providing a positive function mostly by avoiding the transaction costs associated with low trust environments, and those who see it as a positive resource in and of itself. Networks can be a mechanism for collaboration, recruitment, and information gathering. Viewing the economic landscape from the perspective of the entrepreneur searching for exploitable opportunity in a world where knowledge is far from universal, a social network is a potential tool for business expansion into new enterprises, rather than a method of overcoming

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<sup>82</sup> Janet Tai Landa, "A Theory of the Ethnically Homogeneous Middleman Group: An Institutional Alternative to Contract Law," *Journal of Legal Studies*, Vol. 10, No. 2 (June 1981): 351-354.

barriers to existing ones. Rather, with an embedded, historical understanding of how firms acted, we can see networks in a way that shares more with Alchian's evolutionary analysis, as analogous to organisms surviving or not surviving in a particular environment. Networks were a strategy for increasing profits and, as the markets become more competitive, avoiding ruin.

Landa postulates a sudden decrease in trust as an agent moves from trading within the network, to trading with "outsiders," with whom an agent does not share an exogenous (ethnic or family) trust relationship. If the resultant costs are sufficient to overcome the opportunity costs of refusing to trust outsiders, then out-group trade will be restricted to low-trust trades. This means dealing in cash, or otherwise limiting potential transactions to minimize the amount of trust required. In an environment like mid-19<sup>th</sup> century Uruguay, where cash was at a premium, this would have meant incurring a substantial cost, or foregoing a large volume of transactions. It is an empirical rather than theoretical question whether British merchants actually advanced and accepted credit, rather than dealing directly in cash. However, the model at least illustrates a strong theoretical reason to expect a preference for trust relationships in diminishing liquidity requirements in a cash-scarce environment.<sup>83</sup>

Avner Greif has developed his famous argument about minority networks along similar lines, although from a game theoretic perspective that grounds trust in repeated game strategy rather than personal preferences and social norms.<sup>84</sup> For Greif, it is the threat of collective punishment that can enable trade, absent formal institutional mechanisms. Socially coherent groups like the Magrhibi traders can form private networks of principals and agents. They develop a history of dealing with one another, and share information regularly among group members. This reputational mechanism discourages defection, which in turn encourages trust, enabling long-distance agency relationships. Regardless of the theoretical approach, there is general agreement that ethnic bonds are of value in maintaining the trust necessary to overcome transaction costs, absent a developed institutional framework.

The narratives of both Landa and of Greif seek to explain networks as creating systems of trust, which overcome the uncertainty of long-distance exchange, a critical transaction cost in regions without developed formal institutions. While this is no doubt a large part of the functioning of many trade networks, especially before the modern period, it is not their exclusive role. In a situation where information about entrepreneurial opportunities is lacking, social

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<sup>83</sup> Landa, "Ethnically Homogeneous Middleman Group," 354-356.

<sup>84</sup> Greif, *Institutions and the Path to the Medieval Economy*.

networks can function as a method of transmitting information. For entrepreneurs in the market for regional expertise or other specific business functions, it can serve as a recruitment tool to enable the formation of mutually beneficial relationships. The network can thus serve a positive function as well as a preventative one, increasing the opportunities of network members to the benefit of those connected.

The networks created by ethnic diasporas have also been examined in this context, as potential bearers of non-hierarchical, non-market relationships that assist international trade. Philip Curtin<sup>85</sup> examines a wide variety of historical examples of inter-ethnic trade carried out by merchants, following trade networks from ancient times until the industrial revolution. For Curtin, trade diasporas were an essentially pre-modern, non-western system, to be replaced by “western” forms of trade organization in the industrial age, with its connecting technologies and systems of management. However, this does not appear to apply to the case of Uruguay, or to Latin America generally, where “western” merchants, from a wide swathe of European countries, were the commercial entrepreneurs that drove trade until the coming of the telegraph, railroad, insurance company, and so on. Moreover, the merchants themselves were themselves instrumental in this transformation, which was not from non-western to western, but rather, from one mode of western commerce to another. Other scholars have argued for the relevance of trade diasporas even in the industrial age. Ioanna Pepelasis, in a series of single and co-authored papers, has examined the entrepreneurship of Greek merchant networks during the Greek diaspora in the 19<sup>th</sup> and early 20<sup>th</sup> centuries.<sup>86</sup> She finds a substantial role for informal, market-embedded clans, broader than family alliances, but smaller than an entire ethnic or religious in-group. The members of these clans often competed with one another but also came together in joint enterprises.

The role of social networks has been given primacy in sociological theories of entrepreneurship, largely developed in the wake of Granovetter’s 1985 article on the embeddedness of economic activity.<sup>87</sup> The challenge of this work is to see economic relations

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<sup>85</sup> Philip D. Curtin, *Cross-cultural Trade in World History* (Cambridge: Cambridge University Press, 1994).

<sup>86</sup> Ioanna Pepelasis, “Ethnic Minority Groups in International Banking: Greek Diaspora bankers of Constantinople and Ottoman State Finances c.1840-1881.” *Financial History Review*, No. 9, Vol. 2 (2002): 125-146; Ioanna Pepelasis and Helen Louri, ‘Diaspora Entrepreneurial Networks of the Black Sea and Greece, 1870-1917’, *Journal of European Economic History*, No. 26, Vol. 1 (1997): 69-104; James Foreman-Peck and Ioanna Pepelasis “Entrepreneurship and Convergence: Greek Businessmen in the Nineteenth Century,” *Rivista di Storia Economica*, No. 16, Vol. 3 (2000): 279-303.

<sup>87</sup> Mark Granovetter, “Economic Action and Social Structure: The Problem of Embeddedness,” *The American Journal of Sociology*, Vol. 91, No. 3 (November 1985): 481-510. The analysis of Granovetter draws extensively from earlier substantivist theories of economic activity, notably from Polanyi and Geertz, and

neither as “undersocialized,” that is, stripped of meaningful social position and relations entirely, nor “oversocialized,” where social relations entirely determine activity with no regard for economic logic. Instead, Granovetter claims that economic actions taken by agents are inextricably embedded in their social context. The specific links available to the agent are relevant to the analysis, in contrast to an abstract set of general relationships, wherein agents or groups of agents are stripped of their specific historical and social context, and analysed in a purely structural manner. This school uses a socially contextualized notion of the entrepreneur as an agent who uses their available social as well as economic links to obtain resources. Put simply, one must consider the specific social circumstances faced by the individual entrepreneur, in order to understand the resources, and the opportunities, that shaped their behaviour. Social context does not determine economic behaviour,<sup>88</sup> but that it does exert a powerful influence.

Casson and Cox have developed an analysis of the various types of networks which can be used to overcome the problem of trust. They rightly emphasize that there are many ways in which links can be formed between agents, and many groups that can serve to make such contacts. These range from strictly economic organizations, through to political parties, militaries, schools, churches, and social clubs. They point out that, for the ‘networked’ entrepreneur, “‘playing hard’ may be just as strategically important as working hard,” and that a wide range of relatively shallow contacts can be parlayed into business links.<sup>89</sup> In this way, group integration was a component of successful entrepreneurship. They also emphasize the role of intermediation, where individuals connected to different types of networks acted as links between those networks, helping overcome both the problems of trust and information, but only for those who are, in the literal sense of network theory, well-connected.

The particular social structures into which British merchants were embedded were examined in Cain and Hopkins’ famous work on ‘gentlemanly capitalism’ in 19<sup>th</sup> century Britain.<sup>90</sup>

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critiques (but also potentially complements) the analysis of Oliver Williamson on transaction costs, and New Institutional Economics generally.

<sup>88</sup> This point can most easily be seen in the case of siblings whose social network is very similar, outcomes are substantially different. Other factors clearly must have an influence, such as birth order, individual talent, or random chance.

<sup>89</sup> Mark Casson and Howard Cox, “An Economic Model of Inter-Firm Networks,” in *The Economics of Networks*, edited by Mark Casson and Marina Della Giusta (Cheltenham: The International Library of Critical Writings in Economics, 2008), 85.

<sup>90</sup> P.J. Cain and A.G. Hopkins, “Gentlemanly Capitalism and British Expansion Overseas I: The Old Colonial System, 1688-1850,” *The Economic History Review*, New Series, Vol. 39, No. 4 (November 1986) and “Gentlemanly Capitalism and British Expansion Overseas II: New Imperialism, 1850-1945,” *The Economic History Review*, New Series, Vol. 40, No. 1 (February 1987).

They argued that the most influential economic group in the country was the service sector. Bankers and traders became the well-connected guiding forces of empire. Prior to 1850, old style capitalist landowners invested in businesses, but disdained manufacturing for the more 'gentlemanly' sectors of finance and trade. By 1850, and after, the financial elite had taken over the role of the older landowning generations as the upper class of business. However, they maintained the social structure of London capitalism, with its clubs, style, and gentlemanly codes of honour. Social connections within this group were seen as more prestigious than with industrialists, and thus, the bankers and merchants mixed with the aristocracy, gaining the ear of political power. This matched both London's increasing role as the world's capital supplier, and Britain's relatively declining role as a manufacturer. The establishment of free trade, balanced budgets, and adherence to the gold standard were all policies that defined the era, and bear the stamp of the 'moneyed interests' in the City. This was, in the view of Cain and Hopkins, because of the shared 'gentlemanly' culture of both the political decision-makers and the service sectors.

Any collective theory of the firm must, at some point, incorporate an individualistic theory of entrepreneurship, as a firm is a collection of individuals, contracting together to achieve their own goals in a larger framework. If merchant firms of the mid-19<sup>th</sup> century in Latin America operated predominantly as individuals operating on their own and small partnerships of perhaps two to four merchants operating together, then any explanation of this structure must, at some point, explain why larger groups did not form, and why partnerships did not dissolve into some even more atomized structure. The second question appears to be solved with Oliver Williamson's framework of bounded rationality; the informational problems of trading commodities between Liverpool and Montevideo, or transhipping from Montevideo to Buenos Aires, meant that having trusted agents in each location was critical to business. Judgement was necessary to gauge the state of the market, power of attorney was necessary to remedy potential legal troubles, and authorization was needed to sign the drafts and accept the bills that kept trade flowing. A more atomized structure would have required communication at a rate not possible at least until the spread of the telegraph, a legal framework for enforcing contracts across often-contested borders, or a social network capable of generating sufficient trust to overcome the transaction costs. In a world of slow communications via mail packets, firms had strong incentive to extend the reach of their business through partnerships in the form of increased flexibility to respond to new information and deal with emerging problems.

### Informal Empire and Business History

Cain and Hopkins list Uruguay as one of the countries where the influence of London in trade and finance was dominant to the point of economic imperialism. Pliant local elites allied with British capitalists to bring the settler economies into the British fold, and Uruguay was no exception. For this, they cite Peter Winn, who examines the Uruguayan case in his 1976 article for *Past and Present*, “British Informal Empire in the Nineteenth Century.”<sup>91</sup> His conclusions are directly in line with the ideas of Robinson and Gallagher on the ‘imperialism of free trade,’<sup>92</sup> and offer substantial support to a dependency theory interpretation of the relationship between Britain and Uruguay. For Winn, British economic imperialism reaches Uruguay early in the 19<sup>th</sup> century, with roots going back even further to colonial-era smuggling. The capture of Montevideo by the British in 1807, the Ponsonby mission that negotiated Uruguay’s independence in 1828, and the Anglo-French naval intervention in the 1840s were all results of the British desire to force open the Uruguayan markets to the low-cost manufactures of British industry.

This economic imperialism was initially motivated by a mistaken belief about the size and wealth of the Uruguayan, and especially Paraguayan, economy. Unaware of the overall poverty in the interior, there was a widespread presumption among British politicians that a large market was to be found there, and that the River Plate was the key to accessing it. However, by the latter half of the 19<sup>th</sup> century, a more realistic view of the economic potential of Uruguay had emerged, not as a potential market for goods as much as a destination for investment capital. In Winn’s view, the dominance of Britain over the economic fate of Uruguay is quite clear, writing that the “strategic decisions governing the direction and rate of growth of the ‘informal colony’ were made by the imperial power and governed by its own interests.”<sup>93</sup> From this perspective, the independent Uruguay was the “quintessence” of informal empire.<sup>94</sup>

Cain and Hopkins’ view of Palmerston’s free trade imperialist policies as applied to Latin America, and Winn’s view of Uruguay, have been challenged by David McLean.<sup>95</sup> His diplomatic history of the Anglo-French intervention in Uruguay during the 1840s shows convincingly that the Foreign Office, and Palmerston in particular, was wary of committing to any obligations in the

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<sup>91</sup> Winn, “British Informal Empire in Uruguay.”

<sup>92</sup> John Gallagher and Ronald Robinson, “The Imperialism of Free Trade,” *The Economic History Review*, New Series, Vol. 6, No.1 (1953): 1-15.

<sup>93</sup> Winn, “British Informal Empire in Uruguay,” 126.

<sup>94</sup> *Ibid*, 103.

<sup>95</sup> McLean, *War, Diplomacy and Informal Empire*.

River Plate. He sought to withdraw the fleet and establish a new status quo, even if it would end up being less than ideal for British trade. Uruguay may have been part of the 'informal empire,' but when challenged, it became clear that Palmerston was more interested in informality than empire in this region. The costs of defending a distant quasi-colony, especially against a tenacious opponent like the Argentine dictator Rosas, appeared to outweigh the benefits. The British merchants in Montevideo, far from dictating imperial policy, found their influence with London insufficient to overcome the wariness of the Foreign Office, or the influence of their counterparts in Buenos Aires, who largely supported Rosas. This does not necessarily refute the concept of economic imperialism, but it does at least colour the concept differently; economic interests in a small country like Uruguay could only go so far in setting policy. This account only applies to diplomatic and military action, however. The extension of the British 'gentlemanly' club of merchants and bankers into Uruguay remains an important topic, which I will examine in depth in later chapters.

The nature of trade between the core and periphery has been a controversial topic in the historiography, coloured by ideological interpretations of the historical record. British merchants, the most visible direct agents of this trade, must therefore be considered in light of these broad narratives if we want to find an interpretation that will supersede previous ones. This especially in the case of Latin America, where dependency theory interpretations have often been applied, but also widely criticized. One of the most wide-ranging and influential of these interpretations is *The Colonial Heritage of Latin America*, a series of overview essays developed by Barbara and Stanley Stein in 1970.<sup>96</sup> This study draws from a range of descriptive primary accounts to sketch a bleak overall picture of a region which moved seamlessly from the inefficient, economically backwards colonial domination of the Iberian nations, to the efficient, exploitative economic domination of the British Empire. Their analysis presents a bold indictment of colonial dominance as the source of Latin American underdevelopment, a thesis which resonates with Douglass North's damning opinion of Iberian institutions as hopelessly inefficient and incapable of fostering modern growth. The application of this theory to Uruguay, however, is more problematic. The Steins' chapter on Argentina, the closest comparison, is short to the point of vanishing, and generally goes against their underdevelopment thesis. The Uruguayan case is similar in most respects, although they do not discuss it. Also given Uruguay's status as one of the youngest and least populated Spanish colonies, the depth of its 'colonial heritage' is open to question.

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<sup>96</sup> Barbara H. Stein and Stanley J. Stein, *The Colonial Heritage of Latin America: Essays on Economic Dependence in Perspective* (New York: Oxford University Press, 1970).

Their analysis is less convincing for the 19<sup>th</sup> century, and it is here that their primary antagonist in the dependency debates of the 1970s, D.C.M. Platt, criticizes their view both in his 1972 book, *Latin America and the British Trade, 1806-1914*, and in the book he edited on the topic of business imperialism, containing chapters from Jones, Greenhill, Crossley, Lewis, and Miller.<sup>97</sup> Platt takes aim at the thesis of continuity of colonialism, pointing to low demand, disintegrated markets, and the ravages of the independence wars as leaving Latin American markets as surprisingly unaffected by the coming of British trade until the late 19<sup>th</sup> century. Individual goods and regions experienced periods of high interest, but overall, the pattern is one of disconnection and withdrawal.<sup>98</sup> His argument incorporates internal as well as international geography. Platt argues that Latin America was not a major source of trade for Britain in the 19<sup>th</sup> century because, while ports could do considerable business, the interior, along with the majority of the population, was isolated. The incorporation of these hinterland areas into the national, and therefore global, economy was a difficult and unrewarding task that took the better part of the century to complete. British trade with Latin America should therefore be seen as relatively modest, with entrepreneurs prospering in specific places and trades, notably in the provision of commercial services such as banking, but never a major component of British trade. However, he also singles out the River Plate as being somewhat of an exception to this rule. Uruguay, alongside Argentina, was generally more integrated with British goods, services, and capital, both during the period of disillusionment in the mid-century, and during the investment boom of the last decades. Thus, even if we accept Platt's critique of the Steins' dependency-inspired ideas for Latin America as a whole, it is not so clear that Uruguay was not a part of a British 'informal empire' of economic influence.

The interests of merchants in the various forms of 'imperialism' also changed over time. Charles Jones suggested that, in the Argentine case, it was the slow reorientation of merchants away from trade due to increased competition that pushed Argentine political economy away from commercial capitalism and towards the 'belligerent' nationalist and protectionist policies of the early 20<sup>th</sup> century.<sup>99</sup> Jones argues that the economic interests of the old Anglo-Argentine commercial class were increasingly divided as foreign investment increased in scale. Infrastructural firms owned and managed from London as free-standing companies had an interest in maintaining

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<sup>97</sup> Platt, *Latin America and British Trade* and D.C.M. Platt, ed. *Business Imperialism, 1840-1930: An Inquiry Based on British Experience in Latin America* (Oxford: Clarendon Press, 1977).

<sup>98</sup> *Ibid*, 306.

<sup>99</sup> Charles Jones, "'Business Imperialism' and Argentina, 1875-1900: A Theoretical Note," *Journal of Latin American Studies*, Vol. 12, No. 2 (Nov. 1980): 437-444.

control over banking and foreign exchange in the private sector. Others, more closely integrated with the Argentine government and the landowning class, favoured the protection of their domestic interests against competition by using state power directly to compensate for the diminution of their advantages in local knowledge and connections. What was once a coherent merchant class, unified by common interests, fragmented into quite separate sub-groups by the late 19<sup>th</sup> century. The particular social and entrepreneurial trajectories taken by merchants can not only lead to different individual outcomes, but also to the eventual division of the community through divergent economic interests.

British merchants were not only purveyors of manufactures from the industrial core. In Uruguay, they were dynamic entrepreneurs who served a series of functions, including commerce, banking, transport, landownership, and industrial innovation. The role of merchants in any structural scheme for understanding economic development cannot just be limited to transport and arbitrage. The role of the British merchant community in investment is more complex than simply bringing European capital to the New World. Much of the investment by the British merchant community was self-financed, at least in the years before 1870. This meant they were reinvesting profits from trade, rather than just channeling Foreign Direct Investment from Britain. Before revisiting the larger narratives about structuralism and development, there needs to be a more specific analysis of the economic activities of the British in Uruguay, and their change over time. There is space for a business history of the British in Uruguay, written neither from the perspective of overarching frameworks of imperialism and subjection, nor from a national standpoint, but as an examination of entrepreneurs and their businesses from a detailed, ground-up perspective.

#### Uruguay and the New Institutional Narratives

In the last decade, new large-scale narratives of development and underdevelopment have come forward, generated by institutional economics combined with regression analyses. Douglass North's overarching theory that 'institutions matter' guides the research, although his particular conclusion, that the relative efficiency of British institutions compared with Spanish ones explains New World divergence, has come under fire.<sup>100</sup> One of the most influential works in

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<sup>100</sup> Douglass North, William Summerhill and Barry Weingast, "Order, Disorder and Economic Change. Latin America versus North America" in B. Bruce de Mesquita and H. Root, eds., *Governing for Prosperity* (New Haven: Yale University Press, 2000): 17-58. For criticism, see Alejandra Irigoin and Regina Gafe, "Bargaining for Absolutism: a Spanish Path to Nation-State and Empire Building," *Hispanic American Historical Review*, Vol. 88, No. 2 (May 2008): 173-209.

this school of thought is Engerman and Sokoloff's famous paper on institutions and resource endowments.<sup>101</sup> In their story, the basis for divergence amongst New World states is the different institutions that evolved in response to different endowments of resources and indigenous populations at the time of colonization. According to this model, exploitative systems of forced labour were imposed by colonists on areas where there were resources to be exploited, such as tropical products in Brazil, or silver in Peru or Mexico. Slavery, *mita* labour, and other oppressive systems led to the stratification of society into a closed, exploitative elite, and an exploited lower class. Even after the abolition of forced labour, the systems of exploitation continued, since the ruling elite had no reason to respond to the welfare needs of the people, nor to grant them access to political power. In general, British North America was free from this kind of labour, whereas Spanish and Portuguese South America were not.

Applying this model to Uruguay, it seems that it fits somewhere in the middle. It was never a particularly large slave economy, nor did it have large indigenous populations, although the Guarani from the northern River Plate did have a substantial role in the early history of the region. At the time of independence, there was a ruling landowner class, but the overall underdevelopment of the state and the 'frontier' nature of the country meant that its power was relatively limited by comparison with other Latin American states. Uruguay was not an entirely uninhabited wilderness, but it was sparsely populated, and colonial institutions were not well consolidated. Thus, there was perhaps more freedom in the Banda Oriental to escape what the Steins called the 'colonial heritage,' relative to other regions. Uruguay fits into the Engerman and Sokoloff story, but perhaps not entirely comfortably.

Another major narrative, both challenging and supporting the Engerman and Sokoloff thesis in various ways, is the 'Reversal of Fortune' paper of Acemoglu, Johnson and Robinson.<sup>102</sup> Their basic finding, from running regressions on nearly the entire globe over a 500 year span, is that non-European countries which were relatively inhabited in 1500 were overall poorer by the end of the 20<sup>th</sup> century. Conversely, countries which had low urbanization and sparse population, of which Uruguay is a nearly flawless example, became relatively prosperous. They attribute this result to the institutional heritage of colonialism: countries which developed early were by and

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<sup>101</sup> Kenneth Sokoloff and Stanley Engerman, "History Lessons: Institutions, Factor Endowments, and Paths of Development in the New World," *The Journal of Economic Perspectives*, Vol. 14, No. 3 (Summer 2000): 217-232.

<sup>102</sup> Daron Acemoglu, Simon Johnson, and James Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *The Quarterly Journal of Economics*, Vol. 118 (November 2002): 1231-1294.

large targeted for colonial exploitation, whereas relatively empty countries were settled by migrants looking to work for themselves as settlers. In this model, Uruguay has a place among the 'settler societies', endowed with superior institutions by European settlers, rather than imperial overlords. 19<sup>th</sup> century Uruguay thus serves as a kind of test case for these various ideas about institutional development: if North is correct, Uruguay should have performed poorly, since it is of Spanish colonial heritage. If it performed well, then that would be strong evidence for the Acemoglu, Johnson and Robinson thesis, since Uruguay was relatively empty.

One other issue that must be considered, however, is the dynamic nature of institutions. What causes institutions to change? And to what extend are the institutions of a society, both formal and informal, a restraint on the actors within it? These questions are somewhat lost in the larger narratives, since they are concerned primarily with the connection between initial conditions and outcomes. Avner Greif, discussing adaptive merchant behaviour and institutional change for a much earlier period, emphasizes that rules are only relevant to the extent that they are followed, and what is really needed to understand behaviour is an analysis of restrictions: who can break a rule, and what are the consequences for doing so?<sup>103</sup> In the case of Uruguay, this is far from a trivial issue. The state was small, fractured into political factions, and perpetually short of funds. In terms of infrastructure, Uruguay beyond Montevideo was little more than pure hinterland throughout most of the 19<sup>th</sup> century. There was no road system, no effective courts, and little policing. Local warlords, known as *caudillos*, enforced the rules, or did not, at their discretion. Within their areas of influence, the nominal laws of the land were casually enforced at best, or completely ignored at worst. From the standpoint of explaining merchant behaviour as a rational response to the institutional environment, we should expect to find that informal networks played some kind of part in overcoming the substantial barriers to trade, since formal institutions were feeble.

Economic geography also plays a role in determining how British merchants branched out from trade into local investment. Jan Kleinpenning's *Peopling the Purple Land* gives a detailed overview of the geographical aspects of Uruguayan development in the 19<sup>th</sup> century.<sup>104</sup> It emphasizes that when British migrants became landowners, they tended towards capital-intensive uses of smaller, enclosed plots of land. This included sheep raising, which involved a more intensive use of land than traditional cattle raising. Crossbreeding, which increased the value of

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<sup>103</sup> Greif, *Institutions and the Path to the Medieval Economy*, 8-9.

<sup>104</sup> Jan M. G. Kleinpenning, *Peopling the Purple Land: A Historical Geography of Rural Uruguay, 1500-1915* (CEDLA: Amsterdam, 1995).

livestock, was also much more common among British than Uruguayan landowners. They were also much more likely to experiment in the use of labour-saving, land-conserving technologies, although the scope for such innovation was somewhat limited by the nature of livestock production. In changing the usage of land from extensive to intensive use, they became innovators, at the forefront of the slow transformation of the Uruguayan countryside away from the disorganized, wasteful cattle *estancias* of the colonial period.

British merchants, when they did invest in land, did not do so equally in all areas. They concentrated their purchases in areas where transportation costs were low, around Montevideo and along the littoral, towards Argentina. This seems to imply that they were making use of their existing connections and information, which were naturally focused on the port and the coast. It is also likely that in many cases, this was a matter of vertical integration through backwards linkages. Kleinpenning gives a few suggestive examples. Samuel Lafone, one of the most successful merchants of the period, also set up his meat salting plant (*saladero*), called La Teja, in a bay at Buceo near Montevideo. This allowed for easy access to the sea, as well as convenient waste disposal. Expanding into the refining of beef was a natural step for Lafone, since his previous trade had been in hides.<sup>105</sup> His plant was also one of the first major attempts to put machinery to use in the production of beef and beef by-products such as tallow and soap. He was also involved in the founding of the first commercial bank and the first Anglican church, directed some early European colonization and immigration projects, and was a major contributor to the *Colorado* cause during the Uruguayan civil war.<sup>106</sup> Other merchants expanded into different areas of production, notably the expansion of sheep farming, but many displayed a similar pattern of expansion out of trade, into production and services.

### Political Economy

There is universal consensus that the Uruguayan state was weak in the 19<sup>th</sup> century. However, the process through which a modern state, capable of governing the territory of the Republic and enforcing its laws, emerged by the beginning of the 20<sup>th</sup> century is debated. One interpretation is that given by Fernando López-Alves in his short study *Between the Economy and the Polity in the River Plate: Uruguay, 1811-1890*.<sup>107</sup> In this work, he examines the thesis of Uruguayan exceptionality, that somehow, a distinctive set of political institutions emerged

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<sup>105</sup> Kleinpenning, *Peopling the Purple Land*, 160.

<sup>106</sup> Ibid, 240, and Winn, *Inglaterra y la Tierra Purpúrea*, (1806-1880), 70-72.

<sup>107</sup> López-Alves, *Between the Economy and the Polity*.

sometime during the 19<sup>th</sup> century which set Uruguay on a more democratic course than other countries in the region. In the end, he rejects both the idea that Uruguayan exceptionalism comes from either the independence era, or from the influx of European migration over the course of the century. Instead, he claims, the fundamental shift was the consolidation of liberal values with strong military government (*militarismo*), begun by Lorenzo Latorre in the 1870s, and completed by Máximo Tajes in the late 1880s. He interprets foreign landowners as “aloof” and “outside party structures,” and therefore as being only indirectly influential in the changing structure of political institutions.<sup>108</sup>

However, one could challenge this interpretation. It is clear that not all foreign landowners were apolitical in this period. Many, including Samuel Lafone, played a direct role as financiers in the Uruguayan civil war of the 1840s, the *guerra grande*. They were also highly influential as bearers of European ideology. Mere non-participation in the official political parties does not preclude substantial political influence. He does admit that they provided some impetus for institutional change through the development of economic pressure groups such as the *Asociación Rural*. It would have been surprising if, given the weak state of Uruguayan economic institutions in the mid-19<sup>th</sup> century, British merchants were not pressuring the state for better enforcement, at least of laws that favoured their interests. It is clear that they did so; López-Alves underestimates their role in the process of institutional change.

The issue of the friction between British landowners and the Uruguayan state over the issue of property rights is explored by Lauren Benton in a 2001 article.<sup>109</sup> She analyzes several important aspects of the status of foreigners in Uruguay in the period this thesis. For Benton, the issue is not so much of persistent lawlessness in the hinterland, as the plurality of claims to law. *Caudillos*, foreign consuls, and the Uruguayan state all had different interpretations of what the law was, and more importantly, whose task it was to enforce it. British landowners, often because of their connections with (or identity as) merchants in Montevideo, could appeal to their government to apply pressure to enforce their legal titles and gain other advantages. This lobbying led to institutions like the *Comisión Mixta*, designed to arbitrate cases of property damage sustained by British and French landowners during the *guerra grande*. The implication here is that there was a network forged among the British in Uruguay, from landowners large and small, through merchants in the port, to diplomats, and finally back to Britain itself, which could be relied

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<sup>108</sup> Ibid, 63.

<sup>109</sup> Lauren Benton, “‘The Laws of This Country’: Foreigners and the Legal Construction of Sovereignty in Uruguay, 1830-1875,” *Law and History Review*, Vol. 19, No. 3 (Autumn 2001): 479-511.

upon to provide legal clout which was otherwise unobtainable in the chaotic Uruguayan hinterland. Extraterritoriality, the claim that foreigners were bound by laws other than those of Uruguay, and therefore deserved special legal consideration, was regularly invoked. The fundamentally troubling issue from the perspective of Britain was the general absence of law or justice.<sup>110</sup>

The pressure put on the government of Uruguay by the British to improve their system of justice clearly had some effect on the development of property rights institutions in Uruguay. Benton calls attention to the attempts at legal reform by Uruguayan liberals from the 1850s through the 1870s. She shows the perceived urgency of improving the ability of the state to enforce a consistent set of laws throughout the whole of its territory, and especially to define the rights of foreigners without conceding national sovereignty.<sup>111</sup> In this way, then, the British community in Montevideo is tied into the story of Uruguayan institutional development. Much of the most valuable property with the highest levels of capital intensity and requiring the best-defined property rights was in their hands, and their interests were therefore aligned with improving its protection.

### Regional Historiography

The literature on merchants in the River Plate during the early to middle 19th century is not extensively developed, especially for the Uruguayan case. The classic study for British merchants in Buenos Aires remains Reber, a study from over three decades ago. Lewis remains one of the few to offer a broad analysis of the role of British business in Argentina that stretches back to the era of the merchant house.<sup>112</sup> The nearest equivalent for the Uruguayan case is Winn's study of British economic influence.<sup>113</sup> In terms of trade strategy, Manuel Llorca explores the poncho as a case of adaptation by British merchants to the Southern Cone market and an analysis of textile exports from Britain to the region.<sup>114</sup> Alejandra Irigoin explains overall merchant behaviour in terms of monetary factors, arguing that diversification into landholding was a reaction to volatility, including inflation risks.<sup>115</sup> For the case of Uruguay, Alba Mariani has written

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<sup>110</sup> Ibid, 502.

<sup>111</sup> Ibid, 505-509.

<sup>112</sup> Colin Lewis, "British Business in Argentina," *London School of Economics Working Papers in Economic History* Working Paper 26/95 (1995).

<sup>113</sup> Winn, *Inglaterra y la tierra púrpura (1806-1880)*.

<sup>114</sup> Llorca-Jaña, "Knowing the shape of demand," 602-621.

<sup>115</sup> Irigoin, "Inconvertible Paper Money," 333-359.

an essay on Samuel Fisher Lafone,<sup>116</sup> and edited a collection of writings on various subjects pertaining to British merchants in Uruguay.<sup>117</sup> More recently, Stephen Bell presented a brief paper on the role of British merchant networks in the diffusion of technology and the development of the meat industry in Uruguay.<sup>118</sup> However, in general, the literature remains sparse, with few case studies and no overarching analysis of the entire community, neither in terms of its characteristics, nor its impact.

More promising in general has been the historiography of the last two decades on the dissolution of the former colonial economy of the Viceroyalty of the Río de la Plata, and its reconstitution as an Atlantic-focused primary production economy in the early 19<sup>th</sup> century. This literature has been spearheaded by several authors, writing predominantly about Argentina, though often with a regional focus. Building on foundational works of Argentine economic history such as Burgin, Halperín, Lynch and Ferns, they have deepened and in some cases overturned the view of economic development in the 19<sup>th</sup> century. Alejandra Irigoin has focusing on the deleterious effect of monetary disintegration in the region;<sup>119</sup> Roberto Schmit, who has reappraised the economic recovery and reorientation of the Argentine province of Entre Ríos in the post-colonial period;<sup>120</sup> Juan Carlos Garavaglia and Jorge Gelman, who have written several books and papers reassessing aspects of rural development in the region,<sup>121</sup> as well as a historiographical survey;<sup>122</sup> Samuel Amaral, who has re-examined the *estancia* as a business enterprise managed according to capitalist, rather than traditional, principles;<sup>123</sup> and Ricardo Salvatore, revisiting the topic of the rural poor from a subaltern studies perspective, with

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<sup>116</sup> Alba Mariani, "La familia y empresas de Samuel Fisher Lafone, 1805-1871," AUDHE: 60 Jornadas de Investigación en Historia Económica (2009)

<sup>117</sup> Alba Mariani, ed. *Gringos y Orientales: la variada presencia Británica en Uruguay en tiempos de turbulencia*. (Montevideo, 2004).

<sup>118</sup> Stephen Bell, "Social Networks and Innovation in the South American Meat Industry During the Pre-refrigeration Era: Southern Brazil and Uruguay in Comparison," *Scripta Nova. Revista Electrónica de Geografía y Ciencias Sociales, Universidad de Barcelona*, No. 69 (84), (August 2000).

<sup>119</sup> María Alejandra Irigoin and Roberto Schmit, eds. *La Desintegración de la economía colonial: Comercio y moneda en el interior del espacio colonial, 1800-1860* (Buenos Aires: Biblos, 2003).

<sup>120</sup> Roberto Schmit, *Ruina y resurrección en tiempos de guerra: Sociedad, economía y poder en el oriente Entrerriano posrevolucionario, 1810-1852* (Buenos Aires: Prometeo Libros, 2004).

<sup>121</sup> Jorge Gelman, "New Perspectives on an Old Problem and the Same Source: The Gaucho and the Rural History of the Colonial Río de la Plata," *Hispanic American Historical Review*, Vol. 69, No. 4 (November 1989): 715-731; J. C. Garravaglia, J. Gelman and B. Zeberio, eds. *Expansión capitalista y transformaciones regionales: Relaciones sociales y empresas agrarias en la Argentina del siglo XIX* (Buenos Aires: Editorial La Colmena, 1999).

<sup>122</sup> Juan Carlos Garavaglia and Jorge D. Gelman, "Rural History of the Rio de la Plata, 1600-1850: Results of a Historiographical Renaissance," *Latin American Research Review*, Vol. 30, No. 3 (1995): 75-105.

<sup>123</sup> Samuel Amaral, *The Rise of Capitalism on the Pampas: The Estancias of Buenos Aires, 1785-1870* (Cambridge: Cambridge University Press, 1998).

substantial implications for labour markets and capitalist development.<sup>124</sup> This list is certainly not exhaustive, and new research by these and other authors is on-going.

These new results have forced some measure of re-evaluation of the picture of post-independence River Plate economies. The collapse of the colonial system, with its attendant monetary system, trade routes, and social order attached to crown privileges and bureaucracy, forced a major reorientation of the regional economy. The locus of economic activity moved away from the silver economy of Bolivia and Peru, and towards the littoral regions, not only of Buenos Aires, but also Entre Ríos and Uruguay. These regions specialized in hides production for export markets even before the collapse of the Spanish empire, a process which was greatly accelerated in its wake. Those regions with transport links with Europe were well-positioned for economic growth in this new situation; the interior, by contrast, stagnated.

Both labour markets and entrepreneurs appear, in light of recent studies, to have been much more economically rational than previously portrayed, as anarchistic gauchos and paternalistic landowners. Instead, labour markets, though badly underdeveloped, were the result of pluriactive peasants who switched back and forth between subsistence on small landholdings and market labour as seasonal demands rose and fell.<sup>125</sup> Landowners, meanwhile, pursued business rather than exclusively social interests, investing in or divesting from land as market signals changed, and managed their estates along efficient, capital-saving lines to maximize revenue.<sup>126</sup> It is into this environment, of an economy adapting to a dramatic reorientation in global trade flows in the post-Napoleonic world, that we must position the British merchants of Uruguay. While we must be careful to remember that what is true for Buenos Aires or other provinces of Argentina may not be the case for Uruguay, it must also be remembered that the two communities were tightly connected, and that any interpretation of either country must take the influence of the other into account.

In the *Historia de la Republica Oriental del Uruguay (1830-1930)*, Pivel Devoto and Ranieri de Pivel Devoto (hereafter, Pivel and Ranieri) provide a general historical framework, from the context of state and national development, for the institutional environment prevailing at the

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<sup>124</sup> Ricardo D. Salvatore, *Wandering Paysanos. State Order and Subaltern Experience in Buenos Aires During the Rosas Era* (Durham and London: Duke University Press, 2003).

<sup>125</sup> Gelman, "New Perspectives."

<sup>126</sup> Amaral, "The Rise of Capitalism."

time.<sup>127</sup> Specifically, the overwhelming weakness of the state, the lack of development in its institutions, and the extent to which the political or military situation was secure given the domestic and regional turbulence. This would, in theory, have made Uruguay a difficult place to do business. And yet, foreign merchants also appear in the text as a kind of shadowy background force, motivating and ‘seducing’ the *doctores* of Montevideo, especially those of the *Colorado* allegiance, with foreign ideologies, backed by their capital and their powerful home governments. This is a rather different institutional perspective from what one might suspect if one were to look at the political situation described by Pivel and Ranieri, and imagined what kind of relationship foreign merchants would have with such a turbulent country. Transaction costs would be high, risks would be extreme, property would be woefully insecure, and the literature amply confirms these as major obstacles to economic activity. It is therefore plausible to consider the influence of foreign merchants with government decisions not from the nationalist perspective of foreign greed against local ‘oriental’ interests, but rather as a response by profit maximizing merchants and investors to what was, as the authors themselves emphasize, a highly unstable institutional environment. The idea that foreign merchants acted as a destabilizing influence on local politics, a thesis as old as the *guerra grande* itself, deserves further analysis from a more modern standpoint of institutions and agents.

The types of arguments found in Pivel and Ranieri are picked up by José Pedro Barrán and Benjamín Nahum in their classic tome, the *Historia rural del Uruguay moderno*,<sup>128</sup> and by Barrán in *Apogeo y crisis del Uruguay pastoril y caudillesco*.<sup>129</sup> The remarkable value of the seminal *Historia Rural* lies in its empiricism; it contains an abundance of evidence on the Uruguayan pastoral economy, which, for the 19<sup>th</sup> century, is essentially the whole economy. For this thesis, it is also a helpful source for names of major British economic actors; Samuel Lafone, Thomas Tomkinson, Richard Hughes, William Young Stirling, John Jackson and many others are key figures in the narrative constructed by Barrán and Nahum. British entrepreneurs are analysed mostly from the perspective of their role as landowners, where they made their mark as progressive investors, developing patterns of land exploitation through the introduction of sheep, and later of new breeds of cattle. They also were among the first and most relevant of the rural industrializers, bringing rudimentary machinery and industrial organization to bear on the problems of wastage inherent in the traditional hides-based export industry. While hides continued to dominate the

<sup>127</sup> Juan E. Pivel Devoto and Alcira Ranieri de Pivel Devoto, *Historia de la Republica Oriental del Uruguay, 1830-1930* (Editorial Medina: Montevideo, 1966).

<sup>128</sup> Barrán and Nahum, *Historia rural*.

<sup>129</sup> Barrán *Apogeo y crisis*.

economy, the *saladero*, or meat salting plant, could, if managed efficiently and provided with rudimentary technology and organization, diversify the products of beef from merely dried hides to salted hides, dried beef (*tasajo*), and fats. This had benefits for the investors, who increased their wealth through investment, integrated production of pastoral products with their existing import and export businesses, and provided them with a greater degree of influence over the local Uruguayan elite. It also diversified the economy as a whole away from complete dependence on markets for hides.

According to Barrán and Nahum, while the rural influence of foreign merchants moving into landownership and production could be felt prior to the *guerra grande*, it was the impoverishment of the Uruguayan elite during the war which opened the doors to an entirely new level of foreign integration in the economy. Beginning in 1851 there arose a new class, the *nueva clase alta rural*, the new rural upper class. They were foreign landowners with strong ties to Montevideo and to Europe, access to capital, interest in diversification (sheep and *saladeros*, for the 1851-1870 period) and a general desire for orderly, if not necessarily democratic, government. Neither the speed of the rise of this class nor its remarkable penetration into the rural economy would have been possible but for the fact of widespread impoverishment prevailing in the wake of the *guerra grande*. The traditional elite was financially devastated, having either picked a side in the war and supported it to the point of financial ruin, or having had their livelihood stripped from them by hungry armies, political enemies, marauding bandits, Brazilian "*californias*" (raids), or simply the unenforceability of weak property rights in the confusing aftermath of the war. Carlos Real de Azúa, in his monograph *El Patriciado Uruguayo*, also marks this as a turning point, both for the Uruguayan elite, the beginning of the end of the *patriciado*, and for the incorporation of Uruguay into British economic orbit.<sup>130</sup> "There could not fail to be a certain symbolism in the fact that, by 1854, the great quantity of *saladeros* that operated in the environs of Montevideo had been reduced to only one: that of Samuel Lafone."<sup>131</sup> Successful migrants displaced *Orientales* at the head of the most distinctly Uruguayan industry, cattle processing.

The classic Uruguayan literature also contributes to the study of the geographical development of the Uruguayan economy. One major focus of the work of Pivel and Ranieri is to reject, for the Uruguayan context, the classic rural/urban polarized thesis of Sarmiento's

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<sup>130</sup> Real de Azúa, *El Patriciado*.

<sup>131</sup> Ibid, 84. "No déjà de tener cierto simbolismo el hecho que, en 1854, la gran cantidad de saladeros que trabajaban en los alrededores de Montevideo se hubieran reducido a uno sólo: el de Samuel Lafone."

*Civilización y Barbarie*.<sup>132</sup> The *Blancos* and *Colorados* did not, according to Pivel and Ranieri, divide evenly along the lines of rural against urban or warlike *caudillos* against intellectual *doctores*. Neither was the split defined by a strictly ideological divide, with the basic precepts of liberal republicanism being largely accepted by both sides. Their conclusion is that the urban/rural geographical divide, stark as it may have been, did not have a defining effect on the political climate. In particular, they emphasize that the *guerra grande* was not a war of two economic classes set against one another. In the context of the economic activities of the *patriciado*, Carlos Real de Azúa comes to a similar conclusion: the economic interests of the Uruguayan elite prior to the *guerra grande* were heterogeneous, with the key families participating not only in traditional land-based cattle raising, but also in commercial and professional activities, as well as the military. In this regard, the *patriciado* was a cross-class group with strong links to Montevideo, but who were not centered in any one activity, and therefore not representatives of any one geographical locale.<sup>133</sup>

Another geographical point, emphasised in Barrán and Nahum, which bears mentioning is the division of the hinterland into two major zones: the northeast, beyond the Rio Negro, where Brazilians formed a large part of the population and predominated economically, and the southwest, where Uruguayans, Argentines and European landowners prevailed. The littoral region, along the coast from Montevideo towards Entre Ríos, and alongside the River Plate, was an area characterized by the high intensity of the *saladero* industry, and oriented more towards sheep raising, partly due to the presence of European landowners, and also partly to take advantage of the lower transportation costs afforded by waterways. The Brazilian-dominated north, on the other hand, was linked strongly with the economy of Río Grande do Sul, and was not a major area of British economic involvement.

Barrán and Nahum show a change not only in the composition of the upper classes, but a change in mentality. European entrepreneurs brought new ideas to the lands they acquired in the wake of the *guerra grande*, first through mechanization of the *saladero* industry, and later through the development of wool as a major export commodity. They also represented a style of entrepreneurship more closely integrated with the city, with the world market, and with contemporary technology. Samuel Lafone, mentioned above, is credited with substantial innovations at his *saladero* La Teja, such as the introduction of steam power to render fat, which

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<sup>132</sup> Domingo F. Sarmiento, *Facundo: civilización y barbarie*. (Garden City: Doubleday, 1961).

<sup>133</sup> *Ibid*, 15.

both solved the problem of meat spoilage and provided new, exploitable by-products: the *graseros*, fats and other wastes which could be processed into saleable products. Nor is this a handful of isolated cases, according to Barrán and Nahum. They mention Lafone alongside and several other European entrepreneurs as only the ‘vanguard’ of the new immigrants transforming rural Uruguay. The established position in the Uruguayan literature is therefore clear: the new upper class, composed mainly of foreigners, came to dominate the economic life of the nation in the post-*guerra grande* period.

The topic of social networks is dealt with in Barrán and Nahum, although mostly in relation to their effects on Uruguayan society, rather than their internal functions. Organizations devoted to rural development, such as the 1860 *Club Nacional*,<sup>134</sup> and its successor, the *Asociación Rural*, were one direct method of bringing together landowners and rural industrialists from both the Uruguayan elite and the *nueva clase alta*. Urban organizations also played their role in forging connections. Barrán describes the formation of the *Banco Comercial* in 1857, the first commercial bank in Uruguay, as a joint enterprise, with the directors being wealthy foreign merchants in the capital, including British merchants Thomas Tomkinson and Samuel Lafone. This functioned not only as a bank, but also as a pressure group, supporting the *orista* faction in lobbying for a gold standard currency during the financial crises of the 1870s.<sup>135</sup>

Freemasonry also played a role as an important social group, although the connection to British merchants specifically is not explored by Barrán. In this narrative, Masonic ideas were widespread by the 1860s, and almost all of the “cultured youth” in Montevideo were Masons, who at first represented the liberal branch of Catholic opinion, and later many left the church entirely and hardened into the core of “a militant, rationalist, anti-clerical deism.”<sup>136</sup> While this would not, in and of itself, implicate British merchants, in Carlos Real de Azúa’s study of the *patriciado*, when drawing the boundaries of the group, he deliberately excludes those who maintained their foreign character for, among other things, religious reasons. He explicitly includes Samuel Lafone in this group.<sup>137</sup> While Carlos Real de Azúa separates foreign merchants from the *patriciado* from a conceptual standpoint, it is clear that the two groups were not sharply separated, even if they were distinct. Intermarriages and godparenthood forged links between the two groups. Barrán

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<sup>134</sup> Barrán and Nahum, *Historia rural*, t. I/1, 350.

<sup>135</sup> Ibid, 68, 136-139.

<sup>136</sup> Ibid, 86-88. “un deísmo racionalista militante y anti-clerical.”

<sup>137</sup> Real de Azúa, *El Patriciado*, 14.

and Nahum give a brief discussion of this trend.<sup>138</sup> The Lafones were linked directly with the Quevedo, and indirectly through them with the Herrera; Jackson married into the Errazquin family; Richard Hughes's children into the Gomez family; Stirling married into the Batlle; and so forth. The network created by these marriages connects the entire *patriciado* with at least the wealthiest foreign merchants within one generation. The relevance of these connections was lost neither on Barrán and Nahum nor on Real de Azúa, but detailed analysis of the interconnections between the groups, and of their significance, has not been fully explored.

Another gap in this classic literature pertaining to Uruguay in this period is that trade is not generally analyzed except at a macroeconomic or sociological level. Wealthy British merchants are invoked politically by nearly all authors, following Pivel, as Europeanizing influences on the Montevidean elite, especially the intellectual *doctores* of the *Colorado* party.<sup>139</sup> Their role as financiers is generally well-considered because of their role in establishing the *Banco Comercial*, and their near-monopoly on credit prior to the 1870s. Where they shifted their business activities into landownership, stock raising and meat processing, they appear prominently in Barrán and Nahum's analysis.<sup>140</sup> Barrán and Nahum provide some fragmented statistics on the quantity and value of imports and exports, on the role of Britain as a primary market, and on the balance of payments problems that perpetually undermined attempts to establish a solid currency. The merchants themselves, their partnerships, and trading houses, remain comparatively less explored.

### Synthesis

The previous sections have examined pieces from several bodies of literature, ranging from merchant theory and business networks to dependency and institutionalism. There are several key ideas to be taken from each of the topics examined in this chapter. Understanding merchants and the business of trade in the River Plate in the 19<sup>th</sup> century requires a broad concept of merchants not just as conducting trade, but as entrepreneurs dealing in goods, services and information in an environment where both opportunities and risks were substantial. A British merchant house trading at Montevideo might have been only incidentally related to the economy of the hinterland, acting as a pure intermediary transferring goods from Britain to Uruguay and back again, but this appears not to have been the case in many circumstances. Trade in rural

<sup>138</sup> Barrán and Nahum, *Historia rural*, t. I/1, 344.

<sup>139</sup> Juan Pivel Devoto, *Historia de los Partidos Políticos en el Uruguay* (Montevideo: Imprenta Rosgal S.A., 1994).

<sup>140</sup> Barrán and Nahum, *Historia rural*, t. I/1, 201-203.

commodities such as hides, salted meat, and wool was always at the heart of the business of British merchants in this period, but they did not remain exclusively in this business. As suggested in the framework of Geoffrey Jones, merchants acted as precursors to the modern multinational firm.<sup>141</sup> They moved into a variety of sectors, from banking to landownership to industrial production. Their connections with the high-capital, high-technology economy of Britain made them uniquely suited as innovators. British-owned landholdings and meat salting plants, or *saladeros*, were among the most progressive in terms of enclosure, crossbreeding, the application of technology, and the intensive use of land.

The invocation of social networks as being important to communities of merchants has been widespread in the literature. Casson and Cox offer a model for understanding the role of networks in British business in the 19<sup>th</sup> century,<sup>142</sup> drawing on Cain and Hopkins' 'gentlemanly capitalism.'<sup>143</sup> Greif and Landa suggest routes for understanding network as static entities,<sup>144</sup> whereas Granovetter and Casson suggest how links can be used dynamically for entrepreneurial purposes.<sup>145</sup> I will apply these models by developing the Uruguayan side of these networks showing how they functioned in this particular time and place. In order to function effectively in reducing the costs and uncertainties of transatlantic trade, an effective network would not only have to bridge the gap between groups and functions at the metropolis, and not only cross the Atlantic to a knowledgeable and reputable agent in the periphery. It would also have to connect to an elite network in the peripheral country, in order to assure the kinds of political and social influence necessary to overcome weak institutions. For Uruguay, these concerns were crucial to sustaining and expanding trade, since property rights were so uncertain. Exploring the links that made up these networks and examining their functioning as conduits for economic activity will be a major contribution of my thesis.

Following the analysis of both the business interests of the British merchant community, and the networks they forged, both with other Britons and the Uruguayan elite, this thesis will examine their place in the larger narratives of intercontinental trade. While in broad agreement with the notion that trade with Britain played a large role in the development of the Uruguayan economy, this thesis concludes that classic dependency theory is overdrawn and simplistic for this

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<sup>141</sup> G. Jones, *Merchants to Multinationals*.

<sup>142</sup> Casson and Cox, "An Economic Model of Inter-Firm Networks,"

<sup>143</sup> Cain and Hopkins, "Gentlemanly Capitalism."

<sup>144</sup> Greif, *Institutions and the Path to the Modern Economy*, and Landa, "Ethnically Homogeneous Middleman Groups."

<sup>145</sup> Granovetter, "The Strength of Weak Ties," and Casson and Della Giusa, "The Economics of Trust."

case. The colonial heritage in Uruguay was not trivial, but neither did it endure unchanged over the course of the 19<sup>th</sup> century. No doubt there is some salience to the term ‘informal empire,’ given the important role played by British economic interests in Uruguay. However, this idea requires the nuance that the most important agents of this influence were merchants living in Montevideo. As their economic influence grew, they also began to integrate into Uruguayan society, marrying into elite families and buying land in rural areas. The situation in Uruguay was therefore more a matter of the creation of a new elite class, as suggested by Charles Jones and by Barrán and Nahum.<sup>146</sup> British merchants in Uruguay began as foreigners, and slowly became integrated members of the Uruguayan elite.

As for the very largest narratives, those of Acemoglu, Johnson and Robinson, and Engerman and Sokoloff, the case of Uruguay offers some potential insights into the strengths and weaknesses of their theories.<sup>147</sup> By analyzing the crucial development period of the post-independence 19<sup>th</sup> century, the thesis will contribute to understanding how a relatively uninhabited, chaotic hinterland can emerge, in less than a century, as one of the most developed countries in Latin America. An analysis of the role played by the British in Uruguay, both as economic actors and as a political pressure group, may shed some light on questions of how legal heritage does (or does not) determine economic outcomes. The strategies pursued by British merchants will shed light on the ways in which the institutional environment can be manipulated, accommodated, or altered by firms and even individuals.

This research will fill the gap in the historiography evident from this survey. There is no single, comprehensive study of British merchants in Uruguay that deals with their economic decisions, their social world, and their influence on Uruguay. There are studies, such as Reber’s, that incorporate them as peripheral to the larger story in Buenos Aires.<sup>148</sup> They have been examined as adjuncts to the larger, later story of British foreign direct investment in Uruguay by Peter Winn.<sup>149</sup> They play a large role in much of the ‘classic’ Uruguayan historiography as foreign political and cultural influences, and as progressive landowners. But there remains space for a study incorporating new theories of entrepreneurship, social networks, to increase our understanding of this unique period both in the history of Uruguay, and in the history of transatlantic trade. It is that space that this thesis is intended to fill.

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<sup>146</sup> C. Jones, *International Business in the Nineteenth Century*, and Barrán and Nahum, *Historia rural*.

<sup>147</sup> Acemoglu, Johnson, and Robinson, “Reversal of Fortune,” and Engerman and Sokoloff, “History Lessons.”

<sup>148</sup> Reber, *British Mercantile Houses*.

<sup>149</sup> Winn, *Inglaterra y la Tierra Purpúrea*, (1806-1880).

## Chapter 3: Historical Background

For frontier regions, detailed historical context is required to understand merchants. Both their strategies and their impact on development are contingent on a variety of non-economic factors in a way which is less true of more stable, developed markets. In particular, assumptions about the exogeneity of merchant strategy and the legal framework in which they operate cannot be taken for granted; merchants are players not only in games of trade and finance, but also in larger games of politics, ideology, and state building. The conflict among competing groups not only over the borders of the emerging states, but over their political, legal and fiscal characteristics was constant. This was both a curse and a blessing. On the one hand, the chaos of war clearly impeded the flow of trade by introducing uncertainty over production, taxation, and expropriation. But on the other, it created opportunities for investment in state debt, for tax farming, and for buying assets at low prices.

British merchants were a privileged group. They were exempted by treaty from the most onerous demands of the state, such as conscription and forced loans. As British citizens, they were entitled to at least the nominal protection of their consulates. As merchants in small partnerships, they had the advantage of geographical flexibility, able to switch cities or even regions if it became necessary. They were not, however, immune to the indirect effects of turmoil. The counterparty risk involved in dealing with local actors was considerable. Governments were always short of funds and with urgent fiscal needs. Local producers and merchants were vulnerable to the vagaries of war and political turmoil. These problems could suppress demand, eliminate supply, and cause waves of credit default.

As will be explored in later chapters, merchants also used this turmoil entrepreneurially. War generated not only devastation, but also opportunities. Penniless, threatened governments sold assets, contracted loans and offered privileges at prices unavailable in peacetime. Local elite landowners, when bankrupted by pillage, by forced loans, or by lack of long-term credit, sold their extensive estates out of desperation or poverty. Merchants with regional experience had a substantial informational advantage in perceiving these opportunities, in a time when information travelled very slowly, and on-the-ground experience was necessary to develop tacit, local expertise. Foreign merchants suffered less from the calamities of war, relative to locals. They also had superior access to credit through the channel of short-term, international trade credit, through merchant banking and bills of exchange.

However, despite the short-run opportunities created by this political volatility, the long-run interests of merchants were in stable government that enforced contracts and maintained peace. Much has been made in existing literature about the importance of institutions and historical context in understanding merchants and trade. Avner Grief describes merchant behaviour in terms of a “fundamental problem of exchange.”<sup>150</sup> The security of contracts, and the various methods used by agents of trade to negotiate trade *ex ante*, and to enforce agreements *ex post*, is the basic problem of merchants. The possible ways of solving this fundamental problem are legion, but divide roughly into two groups: formal institutions, which create legal barriers to contract breaking, and informal institutions, rules created among merchants without state sanction.

### Colonial Period

Trade in the mid-19<sup>th</sup> century underwent a transition between two ages with markedly different characteristics.<sup>151</sup> The first was the trade model of the 18<sup>th</sup> century, when commerce both within the periphery and between the peripheral and core countries was highly restricted, and conducted primarily by closed groups: chartered monopoly companies, privileged merchant guilds, and densely woven ethnic trading networks. These groups, by necessity, restricted entrepreneurship and enforced strict organizational forms on trade and investment. Their revenues came from their control over restricted commerce, rather than from the creation of new patterns of production and trade. The imperial powers of the late 18<sup>th</sup> century guarded their trade carefully, and conducted exchange along the lines of a quasi-military competition for dominance over particular regions, routes, and trades. Because of the nature of the competing imperial systems, ethnic and national organization was the rule rather than the exception.

The age of revolutions and the emergence of Britain as the hegemonic naval power progressively undermined this top-down model of trade organization. The mid-19<sup>th</sup> century was an age of increasingly free trade, both at the policy and organizational level. The markets of Europe reduced their formidable tariff barriers, allowing peripheral countries freer access to the largest markets in the world. The collapse of rigid systems of imperial preference removed direct trade restrictions. If tariffs were set at high levels, as they often were in peripheral countries, this was largely for revenue purposes rather than in service of corporate interests. In this environment,

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<sup>150</sup> Avner Grief, “The Fundamental Problem of Exchange: A Research Agenda in Historical Institutional Analysis,” *European Review of Economic History*, No. 4 (2000): 251-284.

<sup>151</sup> Jeremy Adelman, *Republic of Capital: Buenos Aires and the Legal Transformation of the Atlantic World* (Stanford: Stanford University Press, 1999), 224.

small, flexible partnerships of merchants dominated the landscape. They competed with one another, using information, pricing, and marketing to maximize profits, rather than relying on membership in oligopolies supported by imperial power.

This transition was not a smooth evolution, but neither was it the product of one instantaneous shock. That the old imperial systems collapsed and did not return does not imply that the power structures that supported them disintegrated overnight. Rather, the new order was contested by the remnants of the old, as well as by formerly marginalized groups, including foreign merchants. These new commercial immigrants had a particular role to play in the development of a new political order. They acted as financiers and suppliers of arms and provisions, as economic advisers to governments, and as bridges to foreign (mostly European) countries, with their technology, capital, and markets. They themselves had interests in the results of this transformation. These took the form of general class interests in the creation of a strong legal state, able to support the enforcement of property rights and to mediate conflicts. As merchants moved beyond being trade intermediaries and became entrepreneurs and capitalists in the broader sense, they increasingly needed a reliable, codified, contract-based legal system, beyond what interpersonal reputation could provide.

It would be a mistake, however, to assume that merchants' interests were only in the general development of reliable contracting institutions. Individuals or groups of merchants also stood to gain or lose from the ascendancy of particular political factions. While merchants had some ability to stand above the fray, there were lucrative opportunities that could be exploited, at the risk of becoming tangled in political and military conflicts. In some ways, these two sets of objectives were connected, albeit in a chaotic and unpredictable way. States formed only slowly in Latin America, and through a turbulent and violent procession of revolutions, dictatorships, coups, and foreign wars. Without access to the support offered by merchant capital, states could not maintain order, as their fiscal powers were outstripped by their short-run needs. The search for political leadership that would support the needs of merchants was tied in with this struggle.

For Spanish America, this was particularly pronounced. Trade was controlled by the merchants' guilds, the *consulados de comercio*.<sup>152</sup> Traditionally, trade was restricted to Cádiz, which was, by the authority of the Spanish crown, the only port allowed to trade with the empire. Towards the end of the colonial period, including the entire period of settlement in the Banda

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<sup>152</sup> Adelman, *Republic of Capital*, 28.

Oriental, these restrictions were increasingly relaxed. A system of *comercio libre*, imperial free trade, had been adopted, allowing Spanish merchants to trade at any Spanish-controlled port. Despite the name, this was not free trade as would have been understood in the 19<sup>th</sup> century. It did not allow for foreign competition of any kind, which was still suppressed in the name of the crown. Maintaining control over the silver trade was paramount, as mining was the lifeblood of the Spanish imperial fiscal system,<sup>153</sup> although much of the empire provided its own finance through internal taxes on trade and consumption.<sup>154</sup> The illegality of the trade prevented foreign merchants from operating directly in the ports, which constrained the scope for entrepreneurial transformation of the market. Enforcement was difficult, and smuggling was rampant,<sup>155</sup> indicating that the formal institutions in place were far from impervious to penetration by merchants willing to take the risks.<sup>156</sup> Nevertheless, the depth of the transformation was limited by the restrictive institutional structure in place throughout the empire.

This system went into crisis with the collapse of Spanish Imperial authority, following the invasion of Spain by Napoleon and the resulting succession crisis. The particular way in which Spanish authority disintegrated, without having been initially forced out by a revolutionary movement, had important effects on the situation encountered by foreign merchants upon their arrival in the River Plate in the early 19<sup>th</sup> century. There remained a pre-existing social and economic structure dominated by a network of merchant elites who drew their power from membership in the old bureaucracies, the town *cabildos* and *consulados*. In the later years of the Viceroyalty of the Río de la Plata, the dominance of peninsular Spanish merchants was counterbalanced by the *Real Consulado de Buenos Aires*, a corporation of merchant and landowner elites formed in the 1790s, representing local interests within the imperial trade system. As Rock points out, there was never any concept that the revolution would eliminate the existing structure of governmental ties between city and hinterland.<sup>157</sup> Key figures in the old power structure, such as Manuel Belgrano, emerged as the leaders of the post-independence order.

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<sup>153</sup> Adelman, *Republic of Capital*, 26.

<sup>154</sup> Regina Gafe and Alejandra Irigoin, "A Stakeholder Empire: The Political Economy of Spanish Imperial Rule in America," *London School of Economics Working Papers in Economic History* Working Paper No. 111/08, 6.

<sup>155</sup> Zum Felde, *Proceso Histórico*, 21.

<sup>156</sup> Adelman, *Republic of Capital*, 23.

<sup>157</sup> Rock, "State-Building and Political Systems," 183.

Uruguay lacked the elaborate colonial power structures of the Viceroyal capital, Buenos Aires. Nevertheless, it had a small elite, known in the historiography as the *patriciado*. This Montevideo-centred group was comprised largely of merchants, military officers, and landowners, along with the minor clergy and bureaucrats who maintained church and crown authority in the city.<sup>158</sup> These were, in general, European migrants of relatively recent arrival, rather than aristocrats descended from ancient conquistadores, or Spanish nobility.<sup>159</sup> While the old colonial population would be rapidly outnumbered by new migrants from Europe, both elite and plebeian, the influence afforded by their early positions of power would allow their status to persist long after independence.

The crisis of independence offered substantial opportunities for entrepreneurship, as foreign merchants substituted themselves in the role of trade intermediaries, displacing the old Spanish elite.<sup>160</sup> They remade the existing economic structure by introducing new products, reorganizing trade, managing finance, and engaging in local production. However, in the early years of independence, the productive rural base, with its low-cost, high-value output of hides, was still under the control of local landowners. This entrenched group, with its region-specific knowledge and established social structures, rapidly gained predominance in the governance structures that sprang up following independence. These factors made local elites important contacts for foreign merchants looking to establish themselves in the newly-opened local markets. The merchants worked alongside the creoles remaining in positions of local, if no longer imperial, power. Integration into existing elite networks provided suppliers for export commodities, as well as access to influence and information. Contacts were a critical element in merchant strategy, and they provided a competitive advantage for the merchants who most successfully pursued elite connections.

However, the collapse of Spanish authority did not only create economic opportunities. It also enabled a different kind of entrepreneurship, pursued by local elites, in reconfiguring the patterns of state authority. When the system collapsed, the Spanish institutions that governed it evaporated, leaving open the possibility for new institutional and economic configurations. In this, local elites used merchants as key allies, as they had privileged access to credit, due to their accumulated capital, their connections with transatlantic trade channels (including “parent”

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<sup>158</sup> Real de Azúa, *El Patriciado Uruguayo*, 15.

<sup>159</sup> Ibid, 16-17, and Zum Felde, *Proceso Histórico*, 37.

<sup>160</sup> John Lynch, “The River Plate Republics from Independence to the Paraguayan War,” in Leslie Bethell, ed., *The Cambridge History of Latin America Volume 3: From Independence to c.1870* (Cambridge: Cambridge University Press, 1985), 615.

houses in Europe in some cases), and their reputation. With short-run needs often being acute due to unpredictable warfare, blockades, coups, and revolts, elites needed merchants for credit, which in turn they needed to match irregular revenues to expenditures, and to consolidate (or contest) political power in competition with other elite groups. In this competition, merchants could be drawn into extending funds to one side or the other on the basis of their social networks.

The sovereign state of Uruguay did not come into existence until 1828, with the treaty of Montevideo, negotiated by Britain between Brazil and the United Provinces of the Río de la Plata. The term “Uruguay” will be used to denote the Uruguayan state after 1828, strictly titled the Eastern Republic of Uruguay (República Oriental del Uruguay). The term “*Banda Oriental*,” or eastern bank, denotes the geographical region east of the Río Uruguay, with its inhabitants called “*Orientales*.” This region historically includes some territories north of the current Uruguayan borders, the so-called “Uruguayan missions,” initially of the Jesuit/Guaraní *reducciones*, although these were ceded to Brazil in 1852, Artigas’s *Liga Federal* was a loosely associated federation of regions of the former Viceroyalty of the Río de la Plata, comprising Uruguay, and several adjacent provinces of modern Argentina, notable for their rejection of the congress of Tucumán. For the area eventually known as Argentina, the first post-independence state was the United Provinces of the River Plate (*Provincias Unidas del Río de la Plata*), occasionally referred to as the Argentine Republic (*República Argentina*). Argentina under Juan Manuel de Rosas usually referred to itself as the Argentine Confederation (*Confederación Argentina*).

Throughout the colonial period, the *Banda Oriental* was a borderland between the Portuguese Empire in Brazil, and the Spanish Viceroyalty of La Plata. The region changed hands between the two colonial powers regularly. Montevideo and the territory that would become Uruguay stood at the periphery of this colonial system. The first city to be established in that region was Colonia do Sacramento, a small port on the Río de la Plata opposite Buenos Aires, founded by the Portuguese in 1680. It was little more than a smuggling port, used to evade Spanish commercial restrictions and to take advantage of direct commerce with the coastal areas.<sup>161</sup> Imperial Spanish influence was not strong in what was a marginal, border region of the Viceroyalty. Montevideo had been founded in 1724, as a military rather than commercial or administrative centre, intended to do little more than harbour the fleet and deter Portuguese expansion. Features that typified the Spanish imperial system elsewhere in Latin America, including a strong Catholic Church presence, were notably absent.

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<sup>161</sup> Alberto Zum Felde, *Proceso Histórico del Uruguay* (Montevideo: Universidad de la República, 1963), 31-2.

The hinterland remained sparsely populated, except by the great herds of wild cattle that formed the basis for the rural economy of the region. In his classic interpretation, Zum Felde named this era the “*edad de cuero*,” the age of leather, as the exploitation of the stocks of wild creole cattle was the predominant economic activity in the countryside, to the near exclusion of any other.<sup>162</sup> There were substantial rents to be captured in exploiting the natural resource of wild cattle at very low cost in capital or labour. However, this gave little incentive for development, either in institutions or in capital intensity. Despite not having a frontier in the strict sense, the north of Uruguay was, from a European perspective, largely bereft of property rights either in land or in livestock.<sup>163</sup> A local rural militia, the *Blandengues*, was used to maintain control of the region and to keep the balance of power with the indigenous peoples, the *charrúa*. There was a small but mobile rural population, who would later form the core of local resistance against Spain, Portugal (and Brazil), and Buenos Aires. They gave their support to local *caudillos* to resist the fiscal and legal encroachment of the colonial powers, or of the centralizing states, in the chaos following the breakup of the Spanish empire. However, the *Banda Oriental* was not entirely underdeveloped. By the late colonial period, the littoral region northwest of Montevideo had become a relatively prosperous area for the production of dried and salted hides, and the first experimentation with meat processing in the form of *tasajo* (dried beef) production.

### The Invasion of 1807

The first major encounter between Britain and Montevideo was in the wake of the 1807 occupation of Montevideo, under the command of Brigadier General Sir Samuel Auchmuty. The invasion was not as much a part of a larger attempt to take control of the Río de la Plata region from Spain, so much as a target of opportunity. The attack was at least in part motivated by the perceived commercial possibilities of the region. Sir Home Popham had been an enthusiastic advocate of seizing parts of Spanish America during the course of the Napoleonic wars.<sup>164</sup> When given a chance in the form of a sufficient naval force under his command at Cape Town in 1806, he directed his forces to attack the Río de la Plata, sending troops to both Buenos Aires and Montevideo. While both cities were taken, the invasion ultimately resulted in failure due to defeat at Buenos Aires. Santiago de Liniers, commanding a local militia, repelled the British occupying forces in August 1807, prompting a withdrawal from the region.

<sup>162</sup> Zum Felde, *Proceso Histórico*, 28.

<sup>163</sup> Lucía Sala de Touron, Julio Carlos Rodríguez, and Nelson de la Torre, *Evolucion Economica de la Banda Oriental* (Montevideo: Ediciones Pueblos Unidos, 1968), 16.

<sup>164</sup> “Popham, Sir Home Riggs,” in the *Oxford Dictionary of National Biography* [Online].

The expedition at Montevideo was more successful, with Auchmuty's troops taking and holding the city for six months. General John Whitelocke was sent to take command of British forces in the region, and to administer the area.<sup>165</sup> During that relatively brief period the British established the first newspaper in Uruguay, *The Southern Star (Estrella del Sur)*, in order to convince the local populace of the advantages of British rule.<sup>166</sup> However, the newspaper ceased to operate on the withdrawal of British troops, and no English-language newspaper would be published again until the 1840s.

Much has been made of this initial contact, describing the region's enthusiastic uptake of the manufactured goods of the British industrial revolution. Some have seen this as the introduction to more extensive import penetration later in the century,<sup>167</sup> others as a short-lived boom followed by general disillusionment.<sup>168</sup> The value of this expedition as a marketing tool *per se* should not be exaggerated. British goods had been re-exported to the region from Spain, or smuggled in via Brazil, prior to 1807. Spanish control over trade was far from absolute during the colonial period. While it is difficult to establish any definite value or volume for contraband, the general magnitude is demonstrated by the suggestive changes in trade destinations for British goods sent to Latin America, but with little overall change in levels, noted by Llorca-Jaña.<sup>169</sup> This implies substantial re-exports from British possessions in Latin America into the Spanish Empire, which were then sent directly once trade opened up in the wake of independence. The possibility of doing business directly in Montevideo, and using the port to access the isolated markets of the interior without Spanish intermediaries was tempting, sparking interest on the part of merchant houses, whose first direct operations in the region began in this period.

By 1809, there were fifty British residents in Montevideo, perhaps remaining after the invasion.<sup>170</sup> This was the beginning of a dramatic expansion in British involvement in the city, still in its infancy, but rapidly increasing through the 1820s and 1830s. By 1860, there were over twenty times as many British residents in the country. However, this still represented only a tiny

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<sup>165</sup> "Whitelocke, James," *ibid*. Interestingly, John Whitelocke was the father-in-law of Sir Gore Ouseley, the uncle of Sir William Gore Ouseley, the British plenipotentiary during the Anglo-French intervention, and great-uncle of William Charles Ouseley, who died on a diplomatic mission to Paraguay, suggesting some measure of family continuity in British diplomacy in the region.

<sup>166</sup> Juan Antonio Varese, "The Southern Star: Portavoz de Libre Comercio," in *Infuencia Británica en el Uruguay: Aportes para su Historia*, ed. Juan Antonio Varese (Montevideo: Ediciones Cruz del Sur, 2010), 143.

<sup>167</sup> Winn, "British Informal Empire in Uruguay," 101-2.

<sup>168</sup> Platt, *Latin America and British Trade*.

<sup>169</sup> Llorca-Jaña, *British Textile Trade*, 35.

<sup>170</sup> Llorca-Jaña, *British Textile Trade*, 71.

fraction of the population.<sup>171</sup> There was never a large immigrant British community beyond the population of merchants and their dependents. This lack of an immigrant population contrasts notably with the Spanish, Portuguese, and French, all of whom had large groups of citizens in Uruguay, giving them a direct, non-commercial interest in preserving their rights and privileges. For the British, Uruguay was an *entrepôt*, but not a destination for emigrants.

The chaos of the first post-independence years coincided with the initial entry of British traders directly into the markets at Montevideo. However, the pressing questions of political, fiscal and military control over the various provinces of the former provinces of the Viceroyalty of the Río de la Plata were, in the main, out of the hands of British merchants. The 1806-7 invasion of the Río de la Plata represented an early but unrepresentative attempt to establish direct control over the region, explained by the larger context of the Napoleonic wars, and of the military opportunism of Sir Home Popham, rather than a larger imperial plan. Direct British interests in the region were still small. Had the invasions been more successful, it might have been conceivable that British influence in Uruguay would have been more direct, in the form of colonization or a protectorate, as envisioned by Popham. With the defeat of the invasion, however, more pragmatic interests prevailed, as they would throughout the century. British interests in the region remained informal.

### Artigas and the Patria Vieja

The invasions of Buenos Aires and Montevideo were an important step in a larger, ongoing process: the disintegration of the Spanish Empire. Napoleon's conquest of Spain in 1808 led to a crisis of legitimacy, which in turn led to the devolution of authority to the towns. The crisis of sovereignty was also an opportunity to re-create and renegotiate relationships, including the boundaries of polities, the constitution of political authority, and the relationship among social classes.<sup>172</sup> This struggle was fought not only between the forces of independence and the Spanish colonial authorities, but increasingly, between cities and hinterlands, between elites and popular classes, and among regions. The vacuum of power left by the collapse of Spanish authority had led local elites to assert their power. The stakes of the political and military struggle were high. No single group was powerful enough to consolidate power and establish a monopoly of force, and

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<sup>171</sup> Rial Roade, *Estadísticas Históricas*.

<sup>172</sup> For a description of Artigas and *Artiguismo* in historical and historiographical context, see: Ana Frega, "La virtud y el poder. La soberanía particular de los pueblos en el proyecto artiguista," in *Caudillismos rioplatenses. Nuevas miradas a un Viejo problema*, eds. Goldman, Noemí and Salvatore, Ricardo (Eudeba, Buenos Aires, 2005).

so, the region devolved into chaos. Buenos Aires became the centre of resistance to Spanish rule, whereas Montevideo became the holdout of colonial authority in the Río de la Plata.

The interior of the Viceroyalty devolved into a chaos of rural uprisings, with regional *caudillos* raising irregular armies to challenge the social and political order. For the case of the Banda Oriental, the predominant rural insurgent leader was José Gervasio Artigas, whose successes and failures did much to shape the eventual shape of states in the region. Born in Montevideo to an elite family of ranchers, Artigas was a member of the *Blandengues*, and fought against the British during the 1807 invasion. He developed a reputation as a capable and inspiring leader among the rural population of the *Banda Oriental*, to the extent where many were willing to follow his army into “exodus,” in Entre Ríos following the seizure of Montevideo by the Portuguese.<sup>173</sup> Artigas opposed the (re)-establishment of centralized control, be it from Spain, Portugal, or Buenos Aires, all of whom he fought at various points during the 1810s. To this end, he established the *liga federal*, a loose federation of regional powers along the littoral, and in the *Banda Oriental*. Artigas espoused a program of federalism, egalitarianism, and “popular sovereignty,” a radical republicanism that set him apart from the oligarchical liberals of Buenos Aires.<sup>174</sup> While this program gave his movement the broad, popular appeal that allowed him to briefly become the “protector” of a large multi-state alliance, it also alienated elites in Montevideo, Buenos Aires, and Río de Janeiro. As the political climate shifted in the course of the 1810s, Artigas came into conflict with the revolutionary elites of Buenos Aires. His allies in the *liga federal* found it easier to bargain with the increasingly powerful United Provinces rather than fight the former capital.

By 1816, the political situation had become untenable for Artigas and his movement. Brazil had become increasingly alarmed over the existence of a radicalized, Republican insurgency on its southern border. They also saw a chance to settle disputes over the territories of the “Uruguayan missions,” in modern Río Grande do Sul, which had been traded back and forth by Spain and Portugal during the 18<sup>th</sup> century. The conflict between the *Liga Federal* and Buenos Aires had politically and militarily divided the credible counter-threats to a Brazilian invasion. Artigas found himself without powerful allies, and in 1816, the Banda Oriental was invaded by Brazilian troops. For four years, Artigas fought an increasingly desperate guerrilla war in the countryside, but was eventually defeated at the battle of Tacuarembó, after which he sought asylum in Paraguay,

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<sup>173</sup> Túlio Halperín Donghi, *The Contemporary History of Latin America* (London: Duke University Press, 1993), 53.

<sup>174</sup> Frega, “La virtud y el poder,” 103.

where he lived out the rest of this life in exile. With the defeat of Artigas, the *Liga Federal* crumbled, and the first independence of Uruguay, the *Patria Vieja*, ended.

The 1820s were an optimistic and interventionist period for British interests in Latin America. Uruguay played its part in this process, as a potential Britain-friendly *entrepôt* into the Río de la Plata markets. The overall phenomenon is larger, however. It reflected the enthusiasm generated by the end of the Napoleonic wars in Europe, and the possibilities opened up by the independence of Latin America. The popular understanding, as reflected in the bullish rhetoric of Lord Canning, was that independence would bring liberality and prosperity to the region. There was a large but ephemeral boom in loans to the region, both in sovereign debt and private investment.<sup>175</sup> Uruguay could only participate in the 1820s capital boom as the Cisplatine province of Brazil, and therefore did not take on its own sovereign debts, yet the basic pattern of increasing exposure to the international economy held for Uruguay.<sup>176</sup>

British mediation in the Brazilian-Argentine war by Lord Ponsonby reflected this high point of region-shaping influence, leading to the creation of Uruguay as a buffer state. But by the end of the 1820s, the spectacular investment boom had come crashing down. With widespread defaults and on-going chaos in Latin America, Britain retreated to a more cautious, introverted policy towards Latin America, doing little to intervene in regional affairs. Despite the withdrawal of formal influence, British merchants continued to find and exploit opportunities for trade and investment in Uruguay, both in the real economy, and in financing the new government during the recurrent foreign and civil wars.

### Cisplatine Period

Brazilian rule followed the surrender of Artigas in 1820. Integration into Brazil as the Cisplatine province represented one possible future for Uruguay, looking forwards from the contingent and chaotic situation of the 1820s. However, despite this potentiality, it would be a mistake to suggest that the period of Brazilian domination represented a major change in institutional framework. General Lecor, the Brazilian governor of the Cisplatine province, refrained from systemic reform, preferring a conciliatory stance with local elites and customs. Given the constant upheaval, the *de facto* was of more importance than the *de jure* in determining law,

<sup>175</sup> Carlos Marichal, *A Century of Debt Crises in Latin America* (Princeton: Princeton University Press, 1989), 27.

<sup>176</sup> This coincided, somewhat paradoxically, with a dramatic increase in the use of tariffs as a source of revenue, making the control of the ports not only an economic issue, but the key to the fiscal, military and political situation.

government, and trade at Montevideo. One contemporary observer suggested that despite the fact that a “constitution and code of laws has been given by the Brazilian government,” local interests and customs were strong enough that the law was a matter of “expediency and conciliation,” and that under Lecor local institutions were “permitted to go on in the old way,” so as not to disrupt the transition of power. Thus, British merchants adapted to Brazilian rule much the same as to independence during the time of Artigas. The port remained a promising, yet little developed, outpost for British trade in the region.

Despite its marginal status, the attempt to maintain Montevideo as a free port, outside the control of either Brazil or Argentina, appears to have been an objective of British foreign policy in the region in the 1820s. However, the Foreign Office appeared unwilling to spend substantial resources on the Río de la Plata.<sup>177</sup> The only two instances of direct military action, the abortive 1806-7 invasion, and the 1845-49 Anglo-French intervention, were both rapidly withdrawn and the key decision makers disowned by the Foreign Office. There were approximately ten British merchant houses in Montevideo in 1825, a number which did not suggest large commercial interests, when compared with the larger firm densities observed in Buenos Aires and in Montevideo later in the period.<sup>178</sup>

Nevertheless, there were real British commercial interests in keeping Montevideo as an alternative to Buenos Aires, as more was expected from the future development in of the region, both in Uruguay and the interior. Montevideo remained a promising point of entry. A report by Thomas Samuel Hood, the British consul at Montevideo in 1824 suggested several features of the River Plate trade which continued throughout the period. He emphasized the importance of Montevideo as a port for transhipment to Buenos Aires and the Argentine interior, the influence of unpredictable political swings in Buenos Aires in determining the fate of Montevidean trade, and the role of the small port of Colonia de Sacramento further west upriver for smuggling

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<sup>177</sup> Winn, “British Informal Empire in Uruguay,” 107.

<sup>178</sup> Ana Frega, “La Mediación Británica en la Guerra entre las Provincias Unidas y el Imperio de Brazil (1826-1828): una Mirada desde Montevideo,” in *Estudios Ibero-Americanos*, PUCRS, v. XXXIV, no.1 (2008), 48. See also: Hood, to Canning, FO 50/1, no. 9, January 31, 1825, in Humphries, *British Consular Reports on the Trade and Politics of Latin America, 1824-26* (London: Royal Historical Society, 1940), 76. Thomas Samuel Hood returned a report composed by British merchant John Hall to Lord Canning, by way of obtaining local knowledge of the state of affairs. Canning appears to have mistaken this letter for Hood’s own writing, going so far as to suggest Hood should be fired for his poor grammar and spelling. (Humphries, *British Consular Reports*, 68) However, it is clear that this is a report from Hall to Hood, from the original handwritten manuscript, as copied in *La Provincia Oriental a Principios de 1825 Vista por John Hall* (Montevideo: Ministerio de Educación y Cultura, AGN, 1995) The whole incident shines at least some light on the extent of confusion between the consuls and the Foreign Office, and how contingent informational flows were on the sometimes difficult interpretation of correspondence.

contraband in and out of Uruguay. Hood also made a prediction that Montevideo would become a major commercial centre, should it remain free from civil wars and the baneful influence of political entanglement with Buenos Aires.

"Should the Brazils succeed in establishing its independence [from Buenos Aires] without further internal convulsions, and by salutary laws be enabled to keep this province tranquil, there can be no doubt that it will rise rapidly into commercial importance and be highly worthy of commercial consideration."<sup>179</sup>

This which would become a refrain for British observers of the region throughout the 19th century, a guardedly optimistic prediction of tremendous regional potential, but contingent on a peaceful resolution to the on-going internal conflicts.

The political and military situation in Uruguay did not stabilize under Brazilian rule. Supporters of the independence of the *Banda Oriental* from Brazil rallied in Buenos Aires, from whence they organized to foment a rebellion in Uruguay. In April 1825, the *treinta y tres Orientales* (thirty-three Uruguayans) disembarked to liberate Uruguay from Brazil, and declare its allegiance to the United Provinces of the Río de la Plata. Both their leader, Juan Lavalleja, and second in command, Manuel Oribe, would go on to become important *caudillos* during the early years of Uruguayan independence. Their forces, though initially small, gained support among other local *caudillos* such as Fructuoso Rivera. They had some initial success against the Brazilian occupiers, which convinced the uncertain government in Buenos Aires to side with the *treinta y tres*, possibly hoping to reunite the territories of the former viceroyalty. The United Provinces declared war on Brazil, leading to a larger conflict between the two countries.<sup>180</sup> These events would have severe consequences for both countries. In the United Provinces, they caused the downfall of the liberal Rivadavia government in Buenos Aires, and the ascent of the Federalist Party, and eventually the Rosas dictatorship. In Brazil, the war became one of several major crises leading to the abdication of Dom Pedro I. British negotiation between the two parties of a peace guaranteeing the independence of Uruguay as a buffer state between the two belligerents.

#### Ponsonby and the Treaty of Montevideo (1828)

The resolution of territorial disputes between Brazil and the United Provinces of the River Plate became a diplomatic goal for the British government, which had an interest in maintaining

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<sup>179</sup> Hood, to Canning, FO 50/1, no. 8, August 16, 1824, in Humphries, *British Consular Reports*, 65-66.

<sup>180</sup> Halperín, *Contemporary History*, 108-9.

both peace and open trade. British merchants had substantial dealings in both countries. Trade with Buenos Aires and Montevideo fluctuated enormously from year to year, with the value of British exports to the two ports reaching a high of £1,142,000 in 1824, and crashing to merely £155,000 in 1827, and remaining at or around £700,000 per year in the subsequent decade, accounting for just under 2% of total British exports by value. The area was an emerging market in which the future role of Britain was not yet fixed. Brazil, meanwhile, received between 6 and 9% of British trade during the period. Taken together, the warring parties represented nearly a tenth of the market for exported goods, not counting those re-exported from British possessions in Latin America.<sup>181</sup> This was doubly true for textiles, which were the predominant export to the region.

Both sides of the conflict were indebted to Britain. Buenos Aires especially financed its war with Brazil with the proceeds of the £1,000,000 in bonds issued on the London market. The more money was spent fighting costly wars over marginal territories and the greater the impediment to trade and economic growth, the less likely it was that the bondholders would be paid back. This fear turned out to be entirely justified, as the Argentine government defaulted in July 1827, and no agreement would be reached for three decades, until 1857.<sup>182</sup> Brazil had issued £3,200,000 in bonds on the London market. While Brazil never defaulted during this period, the war with Buenos Aires cost the Empire a considerable sum, leading to widespread inflation, and increasing the risk of default.<sup>183</sup> Whichever side won, it was clear that British merchants and investors both stood to lose from a protracted conflict.

Possession of both sides of the Río de la Plata by any one power would potentially compromise commercial access, whereas favouring one side over the other would be a violation of neutrality. Montevideo provided an overseas port that merchants could use alongside or in substitute for Buenos Aires. An independent Uruguay also diminished the vulnerability of British trade to potential competitors. Both France and the United States had made inroads in the region. France especially represented a potential threat due to the possibility of military intervention. An alliance between France and one or another of the regional powers might have cut off access to interior markets.<sup>184</sup> Given the substantial French migration to Montevideo, and the later alliance

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<sup>181</sup> Llorca-Jaña, *British Textile Trade*, 35-47.

<sup>182</sup> The government of Rosas began some minor, tentative payments in 1844, presumably as a diplomatic overture, only to cease again with the Anglo-French intervention in 1845. Carlos Marichal, *A Century of Debt Crises in Latin America* (Princeton: Princeton University Press, 1989), 58-9.

<sup>183</sup> Halperín, *Contemporary History*, 88-89.

<sup>184</sup> Mariana Blengio Valdes, *Lord Ponsonby y la Independencia de la Repùblica Oriental del Uruguay* (Montevideo: Fundación de Cultura Universitaria, 1987), 37-38.

between France, Rivera, and the *Unitario* exiles, this was not an unreasonable fear given the chaotic circumstances. Had events transpired differently, British interests might have been compromised. It was in anticipation of these potential problems that the British Foreign Office sent Lord John Ponsonby to mediate the end of the Brazilian-Argentine war. As for the question of what to do about the Banda Oriental, Britain supported the creation of an independent state in the Banda Oriental to act as a buffer between Brazil and Buenos Aires. Although there was discussion both at the time and throughout the 19<sup>th</sup> century of making Uruguay (or Montevideo alone) a formal colony, independent Uruguay was a less expensive solution, one without costly defence obligations.<sup>185</sup>

#### Oribe and Rivera (1830-1838)

The first years under the new Uruguayan constitution were turbulent. Montevideo remained essentially a city-state, with little control of the hinterland except via the support base of the *caudillos*. Alliances between the urban political elite of Montevideo and rural *caudillos* would be typical of Uruguay prior to the 1870s, since neither group could govern alone, absent a consolidated central state with fiscal and military powers. After the treaty of Montevideo, Uruguay came into existence as a *de jure* state. However, there was not by this point any clear idea of what the Uruguayan state was to be, or by what political arrangement it was to be governed. There was a pre-existing locus of power in Montevideo, not only due to the port, but also because the city was the only administrative centre with urban elites capable of organizing the formation of a state. What areas exactly constituted Uruguay, and whose voices would be heard in its political system, was constantly contested among *caudillos*, *doctores*, and ever-shifting constellations of regional and foreign powers.

In the elections of 1830, the first presidency went not to Lavalleja, the leader of the insurgency against Brazil, but to Rivera. The latter allied himself with the “five brothers,” Nicolás Herrera, José Ellauri, Lucas Obes, Julián Alvarez, and Juan Andrés Gelly, Montevidean political elites who had been closely connected with both the resistance against Spain during the struggle for independence and the Brazilian government of Lecor during the Cisplatine period.<sup>186</sup> With this urban/rural alliance, one political group was formed, which would be later known as the *Colorado* party, whose influence was drawn from Rivera’s rural support base, and a majority of the

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<sup>185</sup> Winn, “British Informal Empire in Uruguay,” 103.

<sup>186</sup> Juan Pivel Devoto and Alcira Ranieri de Pivel Devoto, *Historia de la Republica Oriental del Uruguay, 1830-1930*. (Montevideo: Editorial Medina, 1966), 63-64.

intellectual and administrative elite in Montevideo. In opposition to this alliance were those loyal to Lavalleja, and to the project of the *treinta y tres*, who supported closer integration with the federalist state under construction in the United Provinces.

Years of intermittent insurgency followed the election of Rivera to the presidency. The power struggle between the two caudillos dominated the period prior to 1835. In 1832, uprisings broke out in both Montevideo and in the countryside against Rivera's presidency. By 1833, Lavalleja and his supporters were in open revolt,<sup>187</sup> and by 1834, the Riverista faction had defeated Lavalleja, driving him into exile in Brazil. To maintain a semblance of democratic order, Rivera stepped down, although almost immediately became Commander-General of the Countryside, a quasi-presidential position created in frank recognition of his importance in maintaining internal peace and defending the country's ill-defined borders. Lavalleja, for his part, had made enemies in his insurgency against Rivera, and so the Lavalleja faction put forward a candidate from the old *treinta y tres*: his second in command, Manuel Oribe, who came to power in 1835. He was a popular and moderate candidate, elected unanimously with the support of Lavalleja, and the tacit consent of Rivera. His presidency focused on building institutions in the nascent state, emphasizing the necessity of order and effective administration.

Montevideo, during this time, was host to a large community of exiles from Argentina, mostly *Unitario* soldiers and ideologues. Uruguay was a place of refuge for political and military elites out of favour or out of power across the river, with Buenos Aires serving the same function for Uruguay. The two cities were ideal staging grounds for reorganizing, disseminating propaganda, and plotting revolution, as the *treinta y tres* had during the Cisplatine period. For his part, Oribe was sympathetic with the Federalist cause, and cultivated close relations with the government of Rosas in Buenos Aires. This caused tensions with the Argentine exiles, especially when Oribe used his authority to close down anti-Rosas newspapers publishing from Montevideo.<sup>188</sup> Oribe also pressed to restrict the powers granted to Rivera as Commander-General of the Countryside. Both groups had their grievances with Oribe, and thus, were enthusiastic when France decided to resolve its trade disputes with the Rosas government by military force. The French sought regional allies, and Rivera responded in exchange for support.

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<sup>187</sup> Ibid, 65-67.

<sup>188</sup> Ibid, 78.

### The Guerra Grande, 1838-51

The ongoing conflict between Oribe and Rivera became international in 1838, with the alliance among Rivera, the Argentine *Unitario* General Juan Lavalle, and the French, in order to overthrow Rosas. In 1837, Rivera and his followers rose up, and by 1838, had once again seized power in Montevideo, forcing Oribe to step down and accept exile in Buenos Aires. Support for Lavalle over Rosas was a secure policy for Rivera, so long as the war could be confined to the Argentine provinces. Economically, the French blockade of Buenos Aires redirected overseas trade to Montevideo, bringing prosperity and raising customs house revenues. However, by 1839, Lavalle had been dealt a series of defeats, and had adopted a cautious strategy of raising support in the Northern provinces, rather than proceeding directly to Buenos Aires. This strategy was disastrous: an attempted rebellion in the south of Buenos Aires province failed,<sup>189</sup> Lavalle himself was killed and his armies defeated by Oribe (as Rosas's general) in the interior, and the French lifted their blockade, partly due to its futility, and partly due to mounting British pressure. Rivera tried to restore the status quo, declaring that he himself had no ambitions beyond the *Banda Oriental*, but to no avail. The defeat of the anti-Rosas alliance turned the military situation against Rivera.

Oribe, meanwhile, had served for several years as a general under Rosas. When the opportunity arose, the Argentine Confederation supported Oribe's claim as rightful president of Uruguay, and supported an invasion of Uruguay as auxiliaries of the *Blancos*.<sup>190</sup> The lifting of the blockade at Buenos Aires was rapidly followed by the establishment of one at Montevideo by the navy of the Argentine Confederation under Admiral William Brown, and redirecting the *entrepôt* trade in the opposite direction. The war in Uruguay went poorly for the *Colorado* faction. In December 1842, at the battle of Arroyo Grande, Rivera was routed by Oribe, and forced to retreat to Montevideo. Oribe, meanwhile, did not press his immediate advantage, and instead besieged the city, a decision which would prove to have devastating consequences.

Following Arroyo Grande, the lines were drawn outside the walls of Montevideo, and the siege began. It seems likely that Oribe assumed Montevideo could not hold out when disconnected from its hinterland. However, the "government of the defence" at it became known, scrambled to organize the defences of the city, led by Colonel Melchor Pacheco y Obes. Slaves were liberated in exchange for military service. Volunteer legions of immigrant groups were

<sup>189</sup> Halperín, *Contemporary History*, 111-112.

<sup>190</sup> Barrán, *Apogeo y crisis*, 20-21.

formed, notably among the French, Italian, and Argentine communities. These militias were critical defending the city, as they represented not only the majority of the population, but also its best military expertise. The Italian legion included veterans of war of the *farrapos* in Río Grande do Sul, led by Giuseppe Garibaldi. Based on his experience, he was put in charge of what little naval force could be mustered, and sent raiding along the coast.<sup>191</sup> To finance the war, the defence raised funds among local merchants through loans, tax farming, and the mortgage and sale of public property.<sup>192</sup>

The result of this mobilization was that Oribe did not take the city, and so the war continued for two more years of skirmishing, both in the outskirts of Montevideo, and along the coast of the Río Uruguay. The situation of the besieged *Colorados* steadily deteriorated as they increasingly lost what little control they had over the countryside. Rivera, who had raised another army to campaign in the interior, was finally and decisively defeated by the *Blanco* and Federalist forces, commanded by Urquiza, at the battle of India Muerte in March 1845. The Argentine blockade of the port held strong, as the superior Argentine navy easily outgunned Garibaldi's tiny squadron. Without support from outside, it appeared as if the city would fall to the *Blancos*.

The most obvious potential sources of foreign support were the French and British. The threat of reincorporation into the Argentine Confederation, in violation of the 1828 treaty, was raised, and Britain was implored to intervene by the defence and its supporters. Earlier attempts by the diplomats José Ellauri and Florencio Varela, to convince the European powers of the urgency of intervention had fallen on deaf ears. Many merchants in Montevideo believed (or found it convenient to assert) that Lord Howden had given his word that Rosas would not be allowed to invade Uruguay without British retaliation. This muscular interpretation found support not only among merchants. Commodore John Brett Purvis, commander of the British fleet at Montevideo, intervened repeatedly in the early days of the siege at the behest of British merchants. This was ostensibly to protect merchant property against war damages, but likely also to assist the defence of Montevideo, and to commit the Foreign Office to supporting their cause. The property involved in at least one notable incident belonged to the Lafone brothers, whose partisanship was notorious on both sides of the river.<sup>193</sup> Purvis was widely criticized among Buenos Aires merchants for having supported the government of the defence, violating neutrality and

<sup>191</sup> For information on Garibaldi's participation in the *guerra grande*, see: David McLean, "Garibaldi in Uruguay: A Reputation Reconsidered," *English Historical Review*, Vol. 113, No. 451 (1998), 351-366.

<sup>192</sup> The methods used by the government to generate credible commitment during the siege, and merchants' reactions, are examined in chapter 6.

<sup>193</sup> *British Packet and Argentine News*, Dec. 30, 1843.

prolonging the conflict. George Frederick Dickson, head of a Buenos Aires textile trading firm, wrote to his London branch that it was a “pity” that Purvis had ever come to the River Plate, as he has brought “ill will” upon Englishmen, and that so long as he maintained his presence, Montevideo held out hope for intervention.<sup>194</sup>

The intervention divided the community of British merchants in the River Plate, with vocal advocates on both sides writing pamphlets and organizing interest groups to lobby the British government either for protection, or to maintain neutrality. Few British merchants liked Rosas’s personalist method of government, which was seen ruthless, bloody, arbitrary and xenophobic. Dickson, quoted above and clearly no anti-Rosas partisan, nevertheless wrote that he was “not altogether free from anxiety as to the way in which foreigners are regarded by our government.”<sup>195</sup> However, Rosas also brought peace in Buenos Aires. Arbitrary government was better for trade than anarchy, and, given the constant chaos of the pre-Rosas period, was acceptable. Those merchants who disliked Rosas, or who preferred his enemies, took the opposite view, that Rosas should be overthrown rather than tolerated. This view was popular with those who had either substantial social connections to the Unitarian exiles, or had made relatively large, immovable investments in rural industry in Uruguay.

In 1845, Britain and France intervened diplomatically and militarily in the *guerra grande*, attempting to broker peace. Lord Aberdeen and Francois Guizot, foreign ministers for Britain and France respectively, agreed to intervene to preserve the independence of Montevideo, an intervention which ultimately lasted until 1849 (1850 in the case of the French). They sent a joint fleet, and a diplomatic mission composed of William Gore Ouseley for the British, and Baron Deffaudis for the French, to attempt to mediate. The intervention was meant to make peace between the forces at the Cerrito and the Defence of Montevideo, but in practice this meant dealing with Rosas and his representative, Felipe Arana, whose support for Oribe was critical to his war effort. What followed was several years of complex, often contradictory negotiations in which multiple missions, (Ouseley and Deffaudis, Howden and Walewski, Hood, Southern, Gore) each with their own set of perspectives and biases, negotiated at cross-purposes with the various factions in the region: the Uruguayan *caudillos* Oribe and Rivera, the government of the defence of Montevideo, Rosas the governor of Buenos Aires, and Urquiza the governor of Entre Ríos.

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<sup>194</sup> March 7 and March 18, 1844. G.F. Dickson and Company Letterbook, London Metropolitan Archives, CLC/B/098/MS28969.

<sup>195</sup> February 6, 1843. G.F. Dickson and Company Letterbook, LMA, CLC/B/098/MS28969.

The optimism of the initial intervention quickly waned. It had been intended to provide a quick diplomatic victory to solidify and demonstrate the entente cordiale between Britain and France, rather than to support any particular group or to achieve any lasting strategic objective. Rosas was expected to submit to the show of force by the great powers, and the Uruguayan situation was assumed to be easily resolved. Neither of these things turned out to be the case. Comfortable with his domestic position, and perhaps thankful for the redirection of conflict away from Buenos Aires and towards Uruguay, Rosas was resistant in the face of the intervention, and pressed Oribe's claim as president of Uruguay.

The shallowness of Britain's interests in the conflict is evidenced by the rapidity with which the correspondence between Aberdeen and Ouseley deteriorates over the course of the intervention from optimistic about a resolution, to alarm over the difficulties involved, and finally to a desire to simply end the intervention as soon as possible on good terms.<sup>196</sup> Ouseley and Deffaudis, for their parts, interpreted their instructions broadly. They were accused of exceeding their brief on several occasions, out of apparent dislike of Rosas, and sympathy for the defenders of Montevideo. Lord Palmerston's ascent to the Foreign Office in 1846 under Lord Russell increased the pressure for withdrawal. Whereas Aberdeen had carefully nursed the relationship with France, and had at least initial zeal for the intervention, Palmerston pursued different goals. He pressed Ouseley to conclude the intervention, and when he evaded such instructions, replaced him with Lord Howden, and later Henry Southern, giving orders to negotiate a treaty quickly, and withdraw the fleet.

One effect of the intervention was to redirect riverine trade from the interior provinces away from Buenos Aires and towards Montevideo. The merchants of Montevideo who had invested in the tax farming of government revenues did very well during this period. Rosas had closed the Paraná to trade, stranding ships in the interior, many of them holding British cargoes.<sup>197</sup> Ouseley and Deffaudis arranged for a "commercial" expedition to liberate these ships. The expedition amounted to an attempt to force open the rivers, and led to the only major combat of the intervention. A convoy of ships ascended the Paraná, and at Vuelta de Obligado, where Rosas's forces had fortified a position, the ships fought briefly with Argentine forces, winning the battle,

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<sup>196</sup> The correspondence between the Foreign Office and the various plenipotentiaries (Ouseley, Hood, Howden, Gore, and Southern) is published in: George Philip, Kenneth Bourne, Donald Cameron Watt, British Documents on Foreign Affairs: Reports and Papers from the Foreign Office Confidential Print. Part I, from the mid-Nineteenth Century to the First World War. Series D, Latin America, 1845-1914. Bethesda: University Publications of America, 1991-92.

<sup>197</sup> McLean, *War, Diplomacy and Informal Empire*, 82.

and forcing the opening of the rivers to trade with the merchant convoy following in the wake of the fleet.

While this expedition has long been interpreted as futile, both on the British side, falling in line with the later change in British policy towards ending the intervention, and on the Argentine side, emphasizing the successful repulsion of Britain and France, David McLean has recently offered a reinterpretation of the expedition.<sup>198</sup> From the perspective of the fate of the defence of Montevideo, and of the merchants who had invested in its success, it has several key strategic and commercial advantages. First, it encouraged trade from the interior towards Montevideo, directly through the rescued ships, and in the wake of the expedition. Second, it diverted the attention of Urquiza from the siege of Montevideo by altering the apparent balance of power, and causing him to withdraw his troops from the conflict, albeit temporarily.

Third, and most importantly, it allowed the interior provinces to trade with Montevideo as a way to evade the fiscal control of Rosas. Urquiza himself encouraged trade via Montevideo, despite being nominally (although vacillatingly) loyal to Rosas.<sup>199</sup> Rural products from the interior provinces had accumulated in great number due to the closing of the rivers, not only in Entre Ríos but also in Corrientes, Santa Fe, and even Paraguay, and the increase in trade following the expedition was considerable.<sup>200</sup> The funds generated through customs house revenues would prove to be critical to the defence of the city, and this relied critically on the flow of trade. The increase in customs revenue, and its importance not only to the government of the defence, but also to the merchants and tax farmers of Montevideo, will be discussed further in a later chapter. However, it is worth noting that the tension between the interior provinces and Buenos Aires would lead to the alliance against Rosas, the end of the *guerra grande*, and the battle of Caseros, ending Rosas's rule in Buenos Aires. Here, as in both earlier and later times, the existence of Montevideo as an alternative port was of decisive importance not only for Uruguay, but for the balance of power in the region.

The *guerra grande* continued after the withdrawal of the British and French fleets, ending in 1850. The loss of the European powers' support was a double blow to the defenders of Montevideo, who had relied on the military provided by the blockade of Buenos Aires and the occasional reinforcement of their defences during the initial phases of the war, but also on the

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<sup>198</sup> David McLean, "Trade, Politics and the Navy in Latin America: The British in the Paraná, 1845–46," *The Journal of Imperial and Commonwealth History*, Vol.35, No. 3 (2007): 351-70.

<sup>199</sup> *Ibid*, 363-64.

<sup>200</sup> *Ibid*, 362.

redirection of trade through the Montevideo customs house to fund their efforts. A subsidy by the French government of 40,000 pesos monthly kept their war effort from collapsing entirely, but this fell well short of the extraordinary revenues generated from 1845-48, during the blockade.<sup>201</sup> An attempt was made by Melchor Pacheco y Obes, one of the charismatic military leaders of the Defence, to procure support in Europe.<sup>202</sup> While he was well-received, it made little difference to the war effort, and the situation became dire inside the walls of Montevideo.

Just as the conflict appeared to have been decisively won by the forces of Oribe and Rosas, the negotiations of Andrés Lamas gained the support of Brazil for the Defence of Montevideo. The Brazilian Empire sent the Baron de Mauá to advance funds to the war effort. In secret, they negotiated a “triple alliance”<sup>203</sup> among the *Colorados*, the Brazilian Empire, and Urquiza, who by the late 1840s had chosen to break decisively with Rosas over the issues of fiscal control and free navigation of the rivers. The three groups quickly reversed the military situation in Uruguay. Oribe, left without his auxiliaries from Entre Ríos, quickly surrendered. The armies of Urquiza and Brazil proceeded to march on Buenos Aires, where they defeated Rosas in the battle of Caseros, leading to his flight to exile in England.

#### Between the Wars (1852-64)

The end of the *guerra grande* brought relative peace to Uruguay for over a decade. The alliances necessary to secure the victory of the *Colorados* led to a series of unequal treaties with Brazil, transforming Uruguay into a near-protectorate, dependent on Brazilian subsidies. Trade in *tasajo* with Brazil was restricted, but the movement of cattle across the border into Río Grande do Sul was not, the effect of which was to redirect cattle from northern Uruguay to *saladeros* in Brazil rather than towards Montevideo or the littoral. The borders of Uruguay were redrawn, with Brazil claiming much of the disputed northern territories.<sup>204</sup>

The *guerra grande* had left both *Blancos* and *Colorados* exhausted, disillusioned, and penniless. The phrase “*ni vencidos, ni vencedores*,” (neither victors nor vanquished) was inscribed

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<sup>201</sup> Barrán, *Apogeo y, 38*

<sup>202</sup> Ibid, 39-40. See also: Mario Etchecury, “La “causa de Montevideo”. Inmigración, legionarismo y voluntariado militar en el Río de la Plata, 1848-1852,” in *Nuevo Mundo Mundos Nuevos* [Online], Debates, December 13, 2012, Accessed May 12, 2013 at <http://nuevomundo.revues.org/64670> ; DOI : 10.4000/nuevomundo.64670

<sup>203</sup> Not to be confused with the triple alliance of Brazil, Argentina and Uruguay against Paraguay during the Paraguayan war.

<sup>204</sup> Barrán, *Apogeo y crisis*, 43-44.

in the agreement between the parties on the 8<sup>th</sup> of October, 1851.<sup>205</sup> This compromise was meant to end the bloodshed and recrimination following the long civil war, but also to acknowledge pragmatic reality that neither party had the strength remaining to establish control via military or political means. This period of low-conflict equilibrium led to a new political alignment known as *fusión*, a nationalist collaboration between the two parties.<sup>206</sup> It was supported by the writings and political influence of *doctores* from both parties, notably Andrés Lamas for the *Colorados*, and Bernardo Berro for the *Blancos*. The “*fusionistas*,” as its advocates were known, sought to put aside the conflicts of the past, and to advance common Uruguayan interests against the perceived dominance of foreign powers during the *guerra grande*. This anti-party tendency was first pursued by Juan Giró following the end of the war, and more forcefully pursued under the presidencies of Gabriel Pereira (1856-60) and Bernardo Berro (1860-64). The government of Berro especially attempted an ambitious program to re-assert Uruguayan sovereignty over its own territory in the north, pressing property tax claims, imposing export duties on cattle, and insisting on the liberation of slaves. These measures were directed against the Brazilian ranchers who had come to dominate the area in the wake of the 1851 treaty with Brazil.<sup>207</sup>

Economically, the most important fact was the end of the civil war, which had depleted the stock of cattle, undermined any fiscal development, disenfranchised the landowning classes, and left both the countryside and Montevideo devastated. The return to pre-war levels of productivity would necessarily depend on the recreation of capital, mostly in the form of livestock. The local elite, with a handful of exceptions, had been left impoverished by the demands of war, due to forced loans, expropriation of lands, and the slaughter of cattle for military provisions. The large estates were purchased by foreign merchants, who became what has been called the new rural upper class (*nueva alta clase rural*).<sup>208</sup> With access to capital and credit, and as the major creditors of both the Uruguayan government, and many local landowners, these merchant-entrepreneurs were ideally poised to take advantage of the state of livestock and the low land values to remake the agricultural economy under their ownership.

A nominal commitment to liberalism was insufficient to secure the allegiance of the merchant community. For those who had made loans to the government of the defence during

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<sup>205</sup> Pivel Devoto, *Historia de los Partidos Políticos*, 200.

<sup>206</sup> This tendency would recur throughout the late 19th century, during periods of exhaustion from conflict, when neither party had sufficient influence to establish their rule decisively, following the conflicts of the 1870s and the 1890s.

<sup>207</sup> Lynch, “River Plate Republics,” 664.

<sup>208</sup> Real de Azúa, *El Patriciado*.

the siege, as well as an extensive list of foreign residents with claims for war damages, the government was still a misbehaving debtor. The spiralling debt of the 1850s, discussed in the next chapter, was a function of the impossible fiscal situation of the government, obligated to pay hard currency to their merchant creditors in quantities far exceeding their ability to pay under any plausible circumstances. As the nominal value of the debt soared, the questions for creditors became: How much would be repaid, and to whom? The resolution of war damages via the Anglo-French commission of 1857 left some influential claimants, notably Samuel Lafone, with far less in recompense than was claimed.

*Fusión*, however, was only as long-lived as the economic devastation that inspired it. The governments of 1856-64 were confronted with the same precarious balance between internal and external forces as had existed since independence. The internal situation remained stable so long as conditions were dire, since nearly every group's interests aligned in restoring rural production. But as people and livestock returned to the countryside, increasing property values, the contest over political control once again became urgent. State-building efforts required the assertion of national sovereignty over territory, and the suppression of *caudillos* and political parties as independent entities. The state, mired in impossibly large debts carried over from the war, remained far too weak to break the dependence on (and vulnerability to) *caudillo* influence.<sup>209</sup> National independence was a theory, and influential *caudillos*, a reality. Uruguay remained entangled in regional affairs, and support for a local *caudillo* on the part of regional allies was one of the strongest weapons in the conflict over political control.

In order to mitigate the influence of Argentina and Brazil, Berro forged an alliance with the only remaining power: Paraguay. This proved a dangerous alliance, as both Brazil and Argentina were aligning against Paraguay. The ruling groups in both countries were uncomfortable with the increasingly militarized state, so close to fragile and insurgency-prone areas of their own countries. Argentina, emerging out of a decade of civil war between Buenos Aires and the interior, had unified under Bartolome Mitre after the Battle of Pavón in 1861. With internal peace secured, Buenos Aires once again turned its attention outwards to adjacent countries, as allies against internal enemies, or as potential threats. Mitre worried about Paraguay's potential support for the Federalists in the fight against centralization, as had happened during the 1840s and 1850s.<sup>210</sup>

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<sup>209</sup> Lynch, "River Plate Republics," 662.

<sup>210</sup> Barrán, *Apogeo y crisis*, 98-99.

Brazil, for its part, was faced with the threat of being cut off from its own interior by increased fortifications of the river Paraguay, potentially blocking riverine access to Mato Grosso.<sup>211</sup>

#### Flores and the Paraguayan War (1864-70)

The period of relative peace under the “*fusión*” governments ended in 1863, with the revolution of the *Colorado caudillo* Venancio Flores. The pact of “*fusión*” between the parties had, in the end, turned out to be little more than a treaty of convenience, representing mutual exhaustion more than a governing coalition. Flores made use of the undercurrents of partisanship to revitalize *Colorado* resistance to the rule of Bernardo Berro who, despite strict personal adherence to the *fusionista* philosophy, was still associated with his former *Blanco* allegiances. Flores agreed to an alliance with Argentine president Bartolome Mitre. The affinity between Flores and Mitre had its roots in earlier conflicts, with Mitre serving under Rivera during the *guerra grande*,<sup>212</sup> and Flores fighting for Mitre against Urquiza during the Argentine civil wars of the late 1850s.<sup>213</sup>

This returned the Mitre-friendly *Colorados* to power. It also served as the spark for the Paraguayan war, as the alliance between the *Blancos* in Uruguay and the Lopez government led to Paraguay declaring war on Brazil. In turn, Brazil, Argentina, and Uruguay (now under Flores) declared war on Paraguay. The result was the War of the Triple Alliance, also known as the Paraguayan War, the bloodiest conflict ever fought in South America. Despite losing over three thousand soldiers in the war, amounting to almost 1% of total population, Uruguay remained by far the smallest player in the conflict, and the furthest removed from the theatre of battle.

Nevertheless, the influx of demand for supplying Argentine and especially Brazilian troops upriver augmented the riverine trade, creating a boom in Montevideo. From 1865-68, capital investment increased markedly, driven by the emergence of the banking sector, comprising a number of key players. Baron Mauá and his bank represented Brazilian imperial interests, and his own substantial wealth. The Mauá bank also organized the first foreign sovereign loan in 1864, to

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<sup>211</sup> George Thompson, *The War in Paraguay: With a Historical Sketch of the Country and Its People and Notes Upon the Military Engineering of the War* (London: Longmans, Green, and Company, 1869), 16.

<sup>212</sup> John Lynch, “The River Plate Republics from Independence to the Paraguayan War,” in Leslie Bethell, ed., *The Cambridge History of Latin America Volume 3: From Independence to c.1870* (Cambridge: Cambridge University Press, 1985), 654.

<sup>213</sup> Diego Abente, “The War of the Triple Alliance: Three Explanatory Models,” *Latin American Research Review*, Vol. 22, No. 2 (1987), 48.

be floated in London. This emission largely failed and very little of it was sold to the public.<sup>214</sup> The *Banco Comercial* acted as the channel for the old merchant elite, funding its members' substantial investments. The London and the River Plate Bank, established in 1862 in Buenos Aires, opened a branch in Montevideo in 1863.<sup>215</sup> This was a free-standing banking company, the first direct British banking investment in the region, with George Drabble as director. Drabble was the most influential transitional figure, bridging the gap between the two career models: that of his early career, as a regionally-specialized merchant, and his later role managing investments as director of the London and River Plate Bank.

The resulting investment boom led to economy-wide developments in infrastructure and industry. In 1864, the Liebig's Extract of Meat Company was established.<sup>216</sup> Their plant at Fray Bentos, built on the *estancia* and *saladero* of British merchant-*estanciero* Richard Hughes, was the first instance of foreign direct investment in industry in the region. An ambitious mining project, the *Compañía de Minas de Oro de Cuñapirú* was launched to exploit potential gold reserves in the north of Uruguay, although the project failed due to disputes between the miners and managers, and the imported machinery was left to rust.<sup>217</sup> By the end of 1866, Montevideo had established a telegraph connection with Buenos Aires.<sup>218</sup> Long-delayed plans for a railway finally came to fruition with the *Ferrocarril Central del Uruguay* in 1869. While construction was late to begin and slow to develop, it developed into one of the densest (and least economically useful) networks in South America.<sup>219</sup> These investments were spearheaded by an entrepreneurial group of both old merchants and new capitalists. In some cases, these were the same merchants who had made their fortunes in the early years after independence, and during the *guerra grande*. In others, they were the second-generation decedents of the former, including notable Anglo-Uruguayan entrepreneurs.<sup>220</sup>.

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<sup>214</sup> Nahúm, *Deuda Externa Uruguaya*, 14.

<sup>215</sup> Lynch, *River Plate Republics*, 675.

<sup>216</sup> Winn, *Inglaterra y la Tierra Purpúrea*, (1806-1880), 129-30.

<sup>217</sup> Winn, *Inglaterra y la Tierra Purpúrea* (1806-1880), 156. While some initial reports apparently suggested extractable reserves, nothing was found, despite several later attempts. For a preliminary investigation into the tiny Uruguayan mining sector, see: Lucía Abbadie, "La minería en Uruguay. Evolución, balance y perspectivas en el período 1880-2010." Universidad de la República, Mimeo (2010).

<sup>218</sup> Winn, *Inglaterra y la Tierra Purpúrea* (1806-1880), 129-30.

<sup>219</sup> Alfonso Herranz-Loncán, "The Role of Railways in Export-led Growth: The Case of Uruguay, 1870–1913," in *Economic History of Developing Regions*, 26:2, (2011), 2-3.

<sup>220</sup> These second generation entrepreneurs included Juan Damaso Jackson and Conrado Hughes. The railway was backed by this elite group, including Juan D. Jackson, Thomas Tomkinson, John McColl and John Proudfoot. The former two were directors of the *Banco Comercial*, Proudfoot had been given the concession to build telegraph to Buenos Aires. John McColl had risen from his days as a clerk at Anderson Macfarlane

By 1866, the flaws in this system were apparent. The Mauá bank was highly leveraged far beyond its legal reserve requirements. It was also heavily exposed to government debt. As a financier working at an international and transatlantic rather than national level, Baron Mauá had considerable resources to draw upon, but was also exposed to international crises. The government, as the major debtor of the bank, began to suspend convertibility in six month periods, starting in June 1866, to defend the Mauá bank following the Overend Gurney crisis of 1866, which dealt the highly leveraged Mauá a heavy blow.<sup>221</sup> The fragility in the economic situation was mirrored in the political. Factionalism was rampant, and the state remained weak enough to be unable to enforce any particular order on the various groups contending for power in the city and countryside. The most devastating expression of this chaos took place on February 19, 1868, when both Venancio Flores and Bernardo Berro were killed. While there remains substantial mystery about the motivations for the killings, they reflect the general conditions in Montevideo of political infighting. In this atmosphere of debt and crisis, Lorenzo Batlle came to power as president, a *Colorado* strongman largely representing the interests of the intellectual and commercial classes of Montevideo. The state military, increasingly organized following the Paraguayan war, was increasingly active as a force independent of the established political parties.<sup>222</sup>

By the late 1860s, many of the wealthiest foreign merchants had become landowners, with extensive holdings in the most valuable areas of the country around Montevideo and along the Uruguay river. Barrán suggests that persistent defaults by landowners in the context of high real interest rates and persistent economic instability led to creditors becoming landowners via repossession.<sup>223</sup> While this is a plausible mechanism for the initial transfer, it does not explain why creditors from the merchant class kept their repossessed landholdings, rather than selling them. Another possible explanation is that the periodic suspensions of convertibility drove merchants away from state finance and towards inflation-proofed investments in real estate, in much the same way as inconvertibility had done in Buenos Aires in an earlier period.<sup>224</sup> A third, which will be explored in more detail in chapter seven, is that the wake of the *guerra grande* and the resulting impoverishment led to an entrepreneurial opportunity, since land was cheap, and livestock

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and Co. to become a major merchant-*estanciero*, and the author of a propaganda manual to attract migrants to raise sheep in the countryside

<sup>221</sup> Barrán, *Apogeo y crisis*, 138-139.

<sup>222</sup> Ibid, 108.

<sup>223</sup> Barrán, *Apogeo y crisis*, 138-139

<sup>224</sup> Irigoin, "Inconvertible Paper Money," 353.

depleted. Whatever the cause, the result was increasing pressure on the part of influential merchants to extend property rights and the rule of law into the interior. To obtain this, the merchants and capitalists of the city sought a strong government that would secure their economic interests.

#### The Revolution of the Lances and the Rise of Latorre (1870-75)

While many supported the *Colorados* in their state-building efforts, Batlle proved unable to provide the security they sought. The *Blancos* maintained a substantial following in the interior of the country, and could still raise armies to oppose control from Montevideo. Dissatisfaction with the *Colorado* government and its attempts to centralize power increased in the countryside. From 1870 to 1872, *Blanco caudillo* Timoteo Aparicio led a revolt against Batlle, known as the revolution of the lances. The *Blancos* won a series of victories, even managing to take and hold the fortress at the *cerro* on the outskirts of Montevideo. However, the slow modernization of the city increasingly contrasted against the crudely armed and poorly organized *Blanco* troops, and the government army was too strong to overcome with men on horseback, using tactics and weapons from decades earlier. Nonetheless, the government proved unable to defeat the *Blancos* decisively, and the conflict ended in a military and political stalemate.

From that point until 1904, the *Blancos* and *Colorados* governed their respective spheres of influence, the former in the interior, and the latter concentrated around Montevideo and along the Río Uruguay below the *salto*. An electoral accord was reached between the two parties formalizing this arrangement. While this power sharing bargain brought peace to the countryside, it was a second-best solution. With investment portfolios that were becoming fixed in land, infrastructure, and industry, the old merchant class pressed for stable governance, sound money, and secure property. The country had gained access to European bond markets with the floating of a £3.5 million loan in 1871. The fiscal situation remained fragile, and the government remained unable to raise substantial sums in taxes except via the customs house. This perennial weakness manifested once again in the financial crisis of 1873, an international banking panic originating with a stock market crash in Vienna, but quickly spreading to other markets, and causing a “sudden stop” in global capital flows to peripheral countries, as well as a collapse in trade.<sup>225</sup> This shock collapsed government revenue and forced the state to default on its loans. The governments of José Ellauri (1873-5) and Pedro Varela (1875-76) were idealistic “*principista*”

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<sup>225</sup> Gerardo della Paolera and Alan Taylor, "Sovereign debt in Latin America, 1820-1913," *Revista de Historia Económica*, Vol. 31, No. 2 (2013), 176-78, and Marichal, *A Century of Debt Crises in Latin America*.

governments, comprised of urban intellectuals with weak bases of support. Without the funds to develop the state, or possessed of a popular following, they were brought down by the crisis.

Military rule was the result of several overlapping trends: the increasing interests of the capitalists of Montevideo in law and order; the deteriorating fiscal situation and economic crisis; the partisan conflict between the political parties. In 1876, Colonel Lorenzo Latorre, previously Minister of War, led a coup against the civilian government of Pedro Varela, and installed himself as a non-partisan dictator. In this, he was supported by three key groups: The professionalized army, of which he was a member, the liberal elite of Montevideo, and the landowners, with its vanguard merchant capitalists. The resulting coalition was at once conservative and modernizing, seeking to develop the economic infrastructure of the country, and at the same time reform Uruguayan political institutions, creating a liberal state resilient against the chaos that had doomed previous state-building efforts.<sup>226</sup> The spread of the railroad network throughout Uruguay, which had been long-delayed, finally eroded the mobility advantage of the gaucho on horseback. The telegraph allowed for rapid communication between capital and countryside. Literacy advanced following the reforms of José Pedro Varela, establishing the beginnings of a common state system of schooling. Modernized weaponry, including firearms, increased the capital costs of effective resistance.

With the dramatic changes of the 1870s, the era of the old overseas merchants was slowly coming to an end. Among the British community, the old Uruguay hands who had come to the country in the 1830s, and who had played such a key role in the *guerra grande* and its aftermath, were coming to the end of their careers. Thomas Tomkinson, Richard Hughes, Samuel Lafone, and John Jackson had all constructed economic empires to pass on to their descendants. Their interests had changed as they became less merchants than bankers, landowners and rural industrialists, and the following generations largely inherited these occupations, rather than commerce. The of the landowning elite, which by the 1870s involved both the remaining Uruguayan landowners and the overseas merchant elite, all of whom had intermarried, forming a dense web of relationships with both Uruguayan and foreign elements. The establishment of the *Asociación Rural* as an industry pressure group had created a new locus for organizing and voicing the interests of this network.

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<sup>226</sup> López-Alves, *Between the Economy and the Polity*, 45-6.

## Chapter 4: Uruguay in Regional Context

Although Uruguay was formally independent from 1828, its status relative to the surrounding territories was not a settled question. The area that is presently Uruguay was neither a pre-existing region with a history of separate governance, nor did it have an obvious role relative to its neighbouring regions. Rather, Montevideo was one potential overseas port for the riverine provinces, well-positioned to compete with Buenos Aires and to serve the surrounding region as an *entrepôt*. However, it was only intermittently capable of exerting military and political authority over its surrounding territories, the borders of which were fluid. Regional and political factions led by *caudillos*, the Brazilian monarchy, as well as European powers vied to establish, or re-establish, dominion over the area. The Banda Oriental was not merely a field of conflict, but one potential locus of power among many, participating in the shifting network of alliances and factions among *caudillos* for political and economic control.

The economic objectives of conflict largely revolved around the fiscal importance of trade. In the Río de la Plata, even more than in most other areas of Latin America, taxes were extracted through tariffs at the port, to the near exclusion of other sources of revenue. The 19<sup>th</sup> century was an era of low state capacity and underdeveloped fiscal institutions, and as such, control over the ports was a “high stakes”<sup>227</sup> political and military objective, of substantial importance for participating in the ongoing struggle for control over the larger region. It is in this context that the position of Uruguay, and especially the port of Montevideo, must be understood during and following the wars for independence, both from Spain in the 1810s, and Brazil in the 1820s. As an overseas port, it was a potential trade intermediary for the Río de la Plata region, most importantly for the littoral zone alongside the navigable parts of the Río Uruguay, below the *salto grande*. This region was the largest contributor to the growth of the hides trade, which was far and away the most important export of the whole zone.

Montevideo was a better port, in terms of its natural characteristics than Buenos Aires or Porto Alegre, both of which suffered from natural barriers preventing the direct approach of ocean-going shipping. As such, Montevideo was a potential rival for emerging regional powers; whatever undermined dominance over trade, undermined fiscal revenues, and in turn, undermined military and political control. Buenos Aires had a political and administrative legacy as

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<sup>227</sup> North, Summerhill and Weingast, “Order, Disorder and Economic Change.”

the seat of the Viceroyalty of La Plata, and its elites directed their efforts towards centralizing the former colonial region under their own control. The existence of a separate seaport in Uruguay meant a competitor for international trade, reducing the extent to which administration in Buenos Aires could effectively tax the interior of the country, and introducing an unwelcome level of competition into an otherwise enviable position as sole trading port at the mouth of the Río de la Plata.

In addition to impairing the monopoly on trade, and thus on the tariffs which were the fiscal lifeblood of the emerging state, the presence of Montevideo also encouraged alternative political and military configurations that escaped the domination of the former capital. Governors, *caudillos*, insurgents from the interior provinces and exiles from Buenos Aires, used Montevideo both as an alternative to Buenos Aires, and as leverage against attempts to bring them under control. Both Uruguay and Argentina had a strong fiscal interest in capturing the overseas trade with the interior. Buenos Aires had the stronger claim militarily and politically, and under the aegis of the Argentine Confederation, there existed a kind of proto-nation-state wherein the monetary and fiscal hegemony of Buenos Aires was precariously maintained. Montevideo, however, offered an alternative port for the use of the littoral provinces. So long as Uruguay remained independent, and free navigation along the rivers was permitted, there were soft limits on the revenue that the customs house at Buenos Aires could capture, passing the costs on to consumers in the interior.

Merchants had two distinct sets of interests in this conflict, depending on their relative involvement with the Uruguayan government, and with the liquidity of their assets. For those who were predominantly involved in commerce, rather than finance or rural industry, the key questions were the accessibility of interior markets, and the tariff rates paid at the ports. British merchant trade was, in terms of imports, largely a textile trade, conducted at the ports rather than with the interior. Transport costs to the interior were high, and competition from indigenous producers remained substantial well into the 19<sup>th</sup> century.<sup>228</sup> However, the production of hides flowing outwards through the ports represented interior demand, for which British textiles could be exchanged. Regardless of whether that value was captured at the port or in the interior, the free navigation of the rivers was necessary to bring its production to the Montevidean side.

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<sup>228</sup> Llorca-Jaña, *British Textile Trade*, 257-70 and 343-50.

There were also on-going conflicts with Brazil. Montevideo was a potential port for the interior of Brazil, with access as far north as Mato Grosso via the Río Paraná. The opening and closing of the River Plate waterways was therefore of direct interest to Brazil. Mostly, however, Brazilian interests concerned the ranchers of Río Grande do Sul. The northern departments of Uruguay are contiguous with this southernmost Brazilian province. Many landowners operated extensive cattle ranches on both sides of the border, and these cattle could be driven to *saladeros* either around Montevideo, or in Río Grande do Sul. There was also substantial concern over the stability of the region. Insurgencies and revolutionary movements, such as the *Guerra dos Farrapos*, suggested the potential for an independent state, or integration with Uruguay. Uruguayan *caudillos* such as Fructuoso Rivera both supported and sought support from local insurgents. Control of the frontier between the two countries was fluid, until the treaty in 1851. Even following the formal settlement of the border issue, there were de facto jurisdictional issues between the two countries until the end of the 19<sup>th</sup> century, as neither state had the capacity to establish permanent order in the frontier region.<sup>229</sup> Disputes over law, taxation, and territorial control would cause conflicts between the two countries, and occasionally provided a *casus belli* for armed intervention. All these factors meant that Brazil maintained an active interest in its southern neighbour, even after losing control of it following the Cisplatine era.<sup>230</sup>

The eventual conflict between Brazil and Argentina concerning the fate of the Banda Oriental involved British participation at several levels. Formal intervention came in the shape of official mediation by Lord Ponsonby, whose negotiations eventually led to the creation of Uruguay as an independent state.<sup>231</sup> British sailors and officers also fought on both sides of the naval conflict. In addition to the Commodore (later Admiral) of the Argentine fleet, William Brown, British subjects comprised many of the officers and sailors on both sides, especially the Argentine.<sup>232</sup>

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<sup>229</sup> Lauren Benton, "The Laws of This Country": Foreigners and the Legal Construction of Sovereignty in Uruguay, 1830-1875," in *Law and History Review*, Vol. 19, No. 3 (Autumn 2001), 479-511.

<sup>230</sup> Such was the connection between insurgents on the two sides of the border, that this zone was the site of the final conflict between the metropoli and gaucho insurgents at the close of the 19<sup>th</sup> century, under brothers Gumercindo and Aparicio Saravia (Saraiva in Brazil). John Charles Chasteen, *Heroes on Horseback: a Life and Times of the Last Gaucho Caudillos* (Albuquerque: University of New Mexico Press, 1995).

<sup>231</sup> Valdes, *Lord Ponsonby*.

<sup>232</sup> Brian Vale, *A war betwixt Englishmen: Brazil against Argentina on the River Plate, 1825-1830*. (London: I.B. Taurus, 2000) xi.

### Economic Geography of Uruguay

From the late colonial period until the present, Uruguay has been a country with one major city and a rural hinterland, with no other large or medium-sized cities. Montevideo has always stood at the centre of Uruguay's economic geographical space. Since Montevideo is both the locus of most domestic consumption, as well as the point of export for a highly specialized pastoral economy, distance from the port is critical in understanding the functioning of the economy, the contours of trade, and especially the behaviour of rural investors.

Uruguay has two main distinguishing characteristics that defined its role in the larger transatlantic economy. First, it is a land-abundant pastoral economy, with extremely low population density and a natural endowment of land suitable for pastoral farming, but largely unsuited to any other use available in the 19<sup>th</sup> century. Second, unusually for a pastoral primary producing region, it is located right next to the Atlantic Ocean. Uruguay occupies a relatively low transport cost zone along the littoral, where the basic processing of rural products (hides, tallow, salted beef and wool) could be profitably done due to riverine transport. The western parts of Uruguay, along the eastern bank of the Río Uruguay, were part of a larger zone of extensive ranching production that emerged in the last decades of Spanish rule, consisting also of the Argentine provinces of Entre Ríos, and the southern parts of Corrientes.<sup>233</sup>

As will be discussed in chapter 6, British merchant-entrepreneurs expanded into the zones of production with the most potential for backwards linkages with their commerce. With neither banks nor a state capable of financing even the most basic investment projects, overseas merchants had an entrepreneurial advantage in having easy access to capital. They were able to draw credit from Liverpool and London, either via small-scale merchant banking, or by calling directly on parent firms. Making use of this comparative advantage in credit meant investing heavily in the capital-intensive production of export commodities. For Uruguay, this largely meant three activities: cross-breeding cattle for domestic meat production, enclosed sheep farming, and industrial cattle processing for export. The British merchant-entrepreneurs of Uruguay concentrated their activities in the southwest of the country, in the immediate region of Montevideo, and the smaller ports along the littoral of the Río Uruguay. This stood in contrast to

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<sup>233</sup> Thomas Whigham, "Cattle Raising in the Argentine Northeast: Corrientes, c.1750-1870," *Journal of Latin American Studies* Vol. 20, No. 2 (1998): 313-35.

the north, which had poorer transport links, and was sparsely populated with extensive cattle ranches. This region was economically and demographically dominated by Brazilian ranchers and their workers.<sup>234</sup>

The productive uses of the rural landscape in Uruguay were shaped predominantly by the channels of transportation. Along the Río de la Plata and Río Uruguay, there had been intensive cattle processing operations dating back to the 1780s.<sup>235</sup> These expanded and intensified with the introduction of technology and capital via the entrepreneurship of merchants, notably British at the technological frontier. Burgin gives a table of relative transport costs for rural products, showing the distance after which half a product's price reflects the cost of transportation, relative to sale in Buenos Aires.<sup>236</sup> Hides, the ubiquitous product the interior, had a transport 'half-life' of 515 leagues, or approximately 2,500 km, whereas salt beef (*tasajo* or *charque*) would lose half its value in 95 leagues, just under one fifth of the distance. These costs created an incentive for dried and salted meat processing to cluster around the overseas ports, and along the rivers, to minimize transport costs. In the deep hinterland north of the Río Negro, there was little except extensive cattle ranching, as transport costs were prohibitive for any production that could not be driven on the hoof to a port for slaughter, or had extraordinarily high price to weight ratios, as in the case of dry hides.

Soil quality also helped determine what products were suited to which regions. Unlike Argentina, with its expansive pampas, only small zones of Uruguay are particularly well-suited to crop agriculture. Near Montevideo, and in the bordering departments of Maldonado and Canelones, there was a relative concentration of land usage for intensive, high transport cost food production. Coincidentally, the zones of Uruguay with the most fertile soils, suitable for intensive agricultural production, happen to be located along the rivers. These were also the areas most densely populated by European migrants, even from relatively early on following independence. The processes involved in rural industry up until 1830 was basic, dating back to the colonial era. During the 1830s, however, the first major investments in large-scale *saladero* production of *tasajo* were made, notably by Samuel Lafone, who had opened his famous La Teja *saladero* by 1840. Many others followed, along the outskirts of Montevideo and upriver.

<sup>234</sup> Rial Roade, *Estadísticas Históricas*.

<sup>235</sup> Jan Kleinpenning, *Peopling the Purple Land: A Historical Geography of Rural Uruguay, 1500-1915* (Amsterdam: CEDLA, 1995), 61.

<sup>236</sup> Miron Burgin, *Economic Aspects of Argentine Federalism, 1820-1852* (Cambridge: Harvard University Press, 1946), 118.

Traditionally, British trade with Latin America has been seen as a relatively small overall part of British total trade, dwarfed by the much larger markets in Europe, the United States, and the Empire. The tone of the literature was set by D.C.M. Platt, when he wrote that Spanish America, after the transient boom of the 1820s, “could sell nothing to Europe, so that it could buy nothing in return,” and “retired over the edge of the periphery.”<sup>237</sup> David McLean writes more recently, “... trade with the Plate, as with the whole of Latin America, was but a small part of Britain’s international commerce in the mid-nineteenth century.”<sup>238</sup> Recent, detailed work reconstructing British trade statistics by Manuel Llorca-Jaña has given us a new perspective, showing that not only was Latin America not trivial as a market for British manufactures during the early 19<sup>th</sup> century, it was among the most important markets, absorbing more value of exports than the United States until the post-Civil War period.<sup>239</sup> The part played by Uruguay in this broader pattern of trade is small on an absolute basis, accounting for approximately 0.5% of British trade, but a high value per capita, similar to Argentina.

The institutional environment in the Banda Oriental from the late 1820s was very similar to that of Buenos Aires, as might be expected by the relatively similar social and economic structure of the two areas.<sup>240</sup> The most important forces in the political economy of the new state were merchants and landowners whose interests were in maintaining the trade in commodities for manufactures. There was little impetus for extensive redistribution of power or property, as Artigas had attempted, but failed to achieve. A relatively exclusive liberalism was enshrined in the constitution of 1830. The resulting political system was oligarchical, with sharply limited suffrage.<sup>241</sup> Slavery continued until 1842,<sup>242</sup> although a treaty had been signed with Britain (though not ratified) abolishing the slave trade in 1825. Religious toleration was substantial, and increased throughout the 1840s during the height of the Anglo-French intervention, and of British merchants as government financiers.<sup>243</sup>

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<sup>237</sup> D.C.M. Platt “Dependency in Nineteenth Century Latin America: A Historian Objects,” *The Latin American Research Review*, Vol. 15, No. 1 (1980): 115-16.

<sup>238</sup> McLean, “Trade, Politics and the Navy in Latin America,” 352.

<sup>239</sup> Llorca-Jaña, *British Textile Trade*, 35-36.

<sup>240</sup> David Bushnell, *Reform and Reaction in the Platine Provinces, 1810-52*. (Gainesville: University of Florida Press, 1983) 33-34.

<sup>241</sup> *Ibid*, 68-71.

<sup>242</sup> The chronology of the end of slavery in Uruguay is questionable, as the 1842 liberation by the *Colorado* faction happened during wartime, as did the subsequent 1846 liberation by their *Blanco* opponents. Both, however, drafted the “freed” slaves into their armies almost immediately.

<sup>243</sup> *Ibid*, 71-72

Economic institutions were relatively liberal, in regional context. Interest rates and prices were freed from colonial regulation as of 1838, although the default interest rate for otherwise unspecified debts was set at 12%.<sup>244</sup> Tariffs were initially kept low relative to Buenos Aires, in order to compete for rents from trade intermediation. The Uruguayan interior lacked any domestic craft industry, and thus there was not even the Argentine Confederation's limited federalist pressure for protectionism. Only the fiscal needs of the state put upward pressure on tariff rates. Public *ejido* lands were sold in times of fiscal emergency to private creditors, a practice which continued at least until the end of the 1840s.<sup>245</sup> These reforms, even more favourable to merchant interests than in Buenos Aires, show the relative weakness of the Uruguayan state. It lacked even the relatively shallow fiscal basis of its Argentine counterpart, and was even more dependent on import tariff revenue, supplemented with borrowing from merchant lenders.

Although slavery persisted in Uruguay until the 1840s, when slaves were liberated in order to be drafted into the armies of the *Colorados*, and later *Blancos*, the country was, in general, a difficult area for slave labour. Extraordinarily low population density imposed high monitoring and enforcement costs, and created incentives for escape. Persistent conflicts also increased the likelihood of liberation in order to fight in wars, reducing the viability of slave ownership as an economic proposition. The slave trade had been legally banned by treaties signed between Britain and Brazil 1825, and reaffirmed by the treaties signed during the second independence of Uruguay in 1828. However, the importation of slaves persisted under the guise of importing "*colonos*," colonists from the Canary Islands. There was widespread use of slaves in and around Montevideo. Prominent British merchants used slaves as labour in proto-industrial activities and for household service. For example, Samuel Lafone employed both slaves and "*colonos*," at his brickworks<sup>246</sup> and in his household.<sup>247</sup> It is suggestive that Samuel Lafone proposed a plan to the government of Rivera in 1837 to attract immigrants to Uruguay. While this appears to have been a legitimate attempt to bring in Basque colonists, which Lafone had been doing at least since 1832 via the partnership Lafone Wilson and Co., the inclusion of the Canary Islands and Cabo Verde as sources

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<sup>244</sup> Eduardo Acevedo, *Manual de Historia Uruguaya: Desde el Colonaje hasta 1930* (Montevideo: Barreiro y Ramos, 1935) 65; Ley N° 165, *Compilación de Leyes y Decretos* (1838) 167

<sup>245</sup> Bushnell, *Reform and Reaction*, 33-34.

<sup>246</sup> John Hoyt Williams, "Observations on Blacks and Bondage in Uruguay, 1800-1836," *The Americas*, Vol. 43, No. 4 (1987): 425.

<sup>247</sup> *Censo de 1836*: Archivo General de la Nación, Archivo General Administrativo, Censos (146).

of migrants suggests that this was also a cover for working around the ban on the slave trade and bringing slaves or quasi-slave *colonos* into the country.<sup>248</sup>

### Demographics of Uruguay

This was a society in constant process of self-recreation. Groups rose and fell in importance as new waves of migrants entered the country. There was no long-standing colonial elite society, elaborate church hierarchy, or Vice-regal bureaucracy. Uruguay had been a late, small, and peripheral settlement in the Spanish colonial empire. Nearest to a late-colonial elite was the “*patriciado*,” in the terminology of Carlos Real de Azúa, a local group of multi-functional elites performing the roles of political elite, landowners, merchants, and intelligentsia.<sup>249</sup> These were themselves migrants one or two generations prior to the 1830, with the very earliest born in the 1750s. They were mostly lawyers, writers, and newspaper editors, that is to say, participants in the political and intellectual development of the region, trying to impose their political preferences on the emerging states through both the written word and their political influence, either via elections or by force.<sup>250</sup> Uruguay was being transformed demographically at the same time it underwent the process of state and institutional formation.

During 1830-75, Uruguay was an area of new settlement. The nominal population at the end of the colonial period (1796) was 30,685, a figure that may have shifted considerably during the years of Artigas and the *Patria Vieja*, and in any case does not include the seminomadic indigenous groups, such as the Charrúa. This was a time of a mobile population, most famously during the “exodus” of the *Orientales*, in which Artigas and his supporters crossed the border into Entre Ríos, to evade defeat by the Brazilians. Whatever the disruptions, the turmoil of the post-independence years did not stop population growth, which continued at a rapid pace. Population growth was smooth throughout the century, excepting the 1840s, during wartime.

By the second independence, measured in 1829, there were approximately 74,000 inhabitants, and shortly before the *guerra grande*, in 1835, the population had reached 128,371. During the 1840s, however, the protracted shock of war in the countryside and the siege of

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<sup>248</sup> Mariani, “La familia y empresas de Samuel Fisher Lafone,” and Jose Manuel Azcona Pastor, *Possible paradises: Basque emigration to Latin America* (Reno: University of Nevada Press, 2004), 231.

<sup>249</sup> Real de Azúa, *El Patriciado*, 133.

<sup>250</sup> Real de Azúa, *El Patriciado*, 137.

Montevideo essentially halted population growth, and the figure recorded in the 1852 census is scarcely higher than that of 17 years prior, 131,696. Despite the political chaos and occasional coup or uprising during the remainder of the 19<sup>th</sup> century, the population continued to grow geometrically, driven by rapid immigration. By 1860, there were 223,238 people in Uruguay, and by 1870, it had nearly doubled to 420,000.<sup>251</sup>

The overall implied population growth rate is 4.4% per year, a rapid rate of growth consistent with a frontier economy with relatively high immigration. The population density however, remained very low. Even by 1870, after substantial migration had taken place from Southern Europe, the population density was only 2.4 people per square kilometre.<sup>252</sup> To put this into the perspective familiar to British merchants, Uruguay had an area two-thirds the size of the United Kingdom, but with less than 1% of its population. The degree of land abundance was extraordinary. However, this also meant that “second nature” geographical factors pertaining to human, rather than natural, geography were critical in determining the location of economic activity. However important the ranches of the countryside became, Montevideo remained the centre of the economic world of Uruguay.

The proportion of Uruguayans to foreign nationals remains remarkably stable across the mid-19<sup>th</sup> century. Montevideo during the beginning of the siege in 1843 was 37% foreign, although we do not know by this point how many Uruguayans or foreign migrants had left the city.<sup>253</sup> As the war continued, many either crossed into the camp of the *Blancos* at the *Cerrito* immediately outside the walls, or left the environs of the city entirely. Following the end of the war, a partial census was taken. In 1852, the overall population was 35% foreign, 48% for Montevideo.<sup>254</sup> This proportion is roughly stable throughout the next quarter century. In 1860, the same proportions prevailed, 35% foreign and 49% in Montevideo.<sup>255</sup> This share rose slightly during the 1860s, then declined by the early 1870s, but remained at approximately 1/3 of the population being foreign born.<sup>256</sup> Uruguay was cosmopolitan as early as the 1840s, and would remain so throughout the 19<sup>th</sup> century. As an *entrepôt*, merchants were well represented in the city. According to Lamas, in

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<sup>251</sup> Rial Roade, *Estadísticas Históricas*.

<sup>252</sup> Author’s calculation, based on the above estimate of 420,000 people and a land area of 176,215 square kilometres.

<sup>253</sup> Lamas, *Apuntes Estadísticos*.

<sup>254</sup> Millot and Bertino, *Historia Económica*, t.1, 85.

<sup>255</sup> Rial Roade, *Estadísticas Históricas*.

<sup>256</sup> Vaillant, *Exposición de Viena*.

1843 there were 1,483 merchants in Montevideo, or nearly 13% of the working population.<sup>257</sup> Unlike Argentina, however, there was no great wave of migrant labour in the 1890s, yet the population grows steadily until 1914.

Migrants had a high degree of regional specificity, representing group or chain migration, colonization schemes, and targeted choice of destinations on the part of migrants. Basques of both French and Spanish origin made up a large proportion of early migrants to the city, along with Genoese, Catalans, and Galicians. Immigrants from Argentina were another substantial group, with 2553 in the city, reflecting in part the substantial community of *Unitario* exiles from the Argentine Confederation. The hinterland was largely divided into three zones: the littoral along the Río Uruguay with a relatively high proportion of foreign colonists, including Basques, as well as Swiss and Waldensian colonies established in the 1850s and early 1860s; the North, with a preponderance of Brazilians, for whom the border with Uruguay was essentially a fiction prior to the *guerra grande*, and an unrestricted pasture for wintering cattle afterwards; and the middle and eastern provinces, sparsely populated, and mostly by Uruguayans.<sup>258</sup>

Broad statistical information about the mid-19<sup>th</sup> century in Uruguay is scarce. Various attempts at measuring the population had been made during the 1830s through the 1850s, but these are partial, typically represent Montevideo alone. They were also compiled largely for tax reasons, making their figures questionable. The census of 1860 was the first full-scale demographic study of the country. The polymath Andrés Lamas, during his tenure as *jefe político* of Montevideo, organized the first attempt at collecting statistical data for the state: the *Apuntes Estadísticos*. This survey gives a partial glimpse at the realities inside the walls of Montevideo, as well as some historical information from the 1830s. However, the coverage is both geographically and temporally poor. The first relatively reliable statistical works on the demographics of Uruguay date from 1872, when Adolfo Vaillant, a French merchant, landowner, statistician, and freemason, published the *Cuadernos de la Dirección General de Estadística*, and from 1884, the *Anuarios Estadísticos*. Two works by Vaillant prefigure the establishment of regular state statistics in Uruguay: the *Apuntes estadísticas y mercantiles*<sup>259</sup> for 1862, which gives only a very brief but revealing snapshot of the state of the country, and *La República Oriental del Uruguay en la*

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<sup>257</sup> Lamas, *Apuntes Estadísticos*.

<sup>258</sup> Rial Roade, *Estadísticas Históricas*.

<sup>259</sup> Adolfo Vaillant, *Apuntes estadísticos y mercantiles sobre la República Oriental del Uruguay Correspondientes al año 1862* (Montevideo, 1863)

*Exposición de Viena*, which is an obvious precursor to the *Anuarios Estadísticos* in the scale, coverage and quality of data.<sup>260</sup>

#### Political Factions: *Blancos* and *Colorados*

The rise of Juan Manuel de Rosas as Governor of Buenos Aires in 1829 led to a political schism in the region. Exiles affiliated with the liberal Rivadavia government, the *Unitarios*, migrated across the Río de la Plata from Buenos Aires. They exerted considerable influence in Montevideo as writers and intellectuals, including such key figures as Esteban Echeverría, Florencio Varela, Juan Bautista Alberdi, José Mármol and Bartolomé Mitre.<sup>261</sup> The exiles used Uruguay as a base for their anti-Rosas activities, culminating in General Lavalle's disastrous invasion in 1839. Their ideological affiliation was partly a carryover of the liberalism of the Rivadavia era, and partly a partisan opposition to all things related to Rosas. Their affiliation to the government of Fructuoso Rivera, in opposition to Rosas's ally Manuel Oribe, meant that the ideological liberalism from the earlier Argentine experience also helped shape the state-building process in Uruguay during the 1830s and 1840s. Among their allies were some key British merchants, notably Samuel Lafone, whose fierce anti-Rosas partisanship was legendary on both sides of the Río de la Plata.

These affiliations gave an ideological spin to Uruguayan political factions that emerged during the conflicts of the 1830s, eventually taking their names from the flags flown by their respective sides during the beginnings of the *guerra grande*. Those associated with Rivera became known as the *Colorados*, named for their red banners, whereas the group associated with Oribe became the *Blancos*, or whites.<sup>262</sup> Initially, neither group stood for much more than allegiance to a particular side in the struggle. The parties began to take on positions as their respective causes were shaped by the differences between Montevideo and the countryside, by regional political and national alliances, and eventually by ideology. The alliance between Rivera and the Argentine exiles led by Juan Lavalle against Rosas gave the *Colorados* a pro-*Unitario* tendency, and an association with Argentine liberal intellectuals. Oribe's time in Buenos Aires serving as a general under Rosas meant that the *Blancos* were allied with and supported by the Federalists. The siege

<sup>260</sup> Vaillant, *Exposición de Viena*.

<sup>261</sup> William Katra, *The Argentine Generation of 1837: Echeverría, Alberdi, Sarmiento, Mitre*. (Fairleigh: Dickinson University Press, 1996) 7-8.

<sup>262</sup> Confusingly, this is opposite to the Argentine case, where the Federalists (closely allied with the *Blanco* party) wore red, and the Unitarians (allied with the *Colorados*) used blue.

of Montevideo during the *guerra grande* gave the *Colorados* an urban element, whereas the *Blancos* more closely represented rural interests. These tendencies increased over the course of the 19<sup>th</sup> century, and by the 20<sup>th</sup> century, had hardened into party identities. For most of the 19<sup>th</sup> century, however, the two identities were flexible, more closely representing the changing coalition of interests and alliances with the surrounding regions, and the participation of Uruguayan political figures in larger Argentine and Brazilian clientelist networks, than with any well-defined ideological differences. All parties involved maintained broad agreement with the oligarchical liberalism of the time, and the differences between the parties remained primarily a matter of competition for power among factions and leaders.<sup>263</sup>

During the 1830-75 period, the major political figures were either *caudillos*, who were rural military-political strongmen, or *doctores*, urban intellectuals, writers, and career politicians. While both parties largely shared a purported ideological commitment to liberalism, the *Colorados* slightly more than the *Blancos*, both also contained substantial authoritarian elements. Both aspects were regularly brought to bear during the persistent civil wars, and it is impossible to tell one party from the other from the division between *doctores* and *caudillos* alone. The political factions existed as symbiosis between urban and rural elements in Uruguayan society. For every Manuel Herrera y Obes on the *Colorado* side, there was a Bernardo Berro for the *Blancos*, educated and ideologically sophisticated urban intellectuals who published extensive polemical writings in defence of their respective causes. Likewise, for every Manuel Oribe or Timoteo Aparicio for the *Blancos*, there was a Fructuoso Rivera or a Venancio Flores for the *Colorados*, charismatic military figures able to command loyalty and raise armies in the countryside.<sup>264</sup> There were also figures such as Andrés Lamas, originally one of the *Colorado* *doctores*, who attempted to forge a “*fusión*” between the factions, notably during the 1850s following the divisions of the *guerra grande*.

For the most part, however, polarization between the two parties was the rule rather than the exception. Until the 20<sup>th</sup> century, the parties offered less of a differing ideological or political vision for Uruguay, than two competing clientelist networks, each with its own patronage system, charismatic leaders, and regional alliances. The control exercised by the central state was derived

<sup>263</sup> Gerardo Caetano and José Rilla, *Historia Contemporánea del Uruguay: De la Colonia al Mercosur*. (Montevideo: CLAEH, 1995) 45.

<sup>264</sup> See López-Alves, *Between the Economy and the Polity*, 17-20, and Pivel Devoto, *Historia de los Partidos Políticos*, 168

not from the power of the state itself, but from the influence of the governing party's local military strength, foreign alliances, and access to funds. The parties were locked in near-constant conflict for control over Montevideo. Control over the capital meant control over the institutions of state power, limited though they were, and also the wealthiest and most influential region of the country. Most importantly, it meant control over the customs house and its revenues, which were the most reliable source of funds to pursue inter-party conflict.

Merchants, both local and foreign, served a key function in this process by providing credit and provisions to the warring factions. Among the British, some merchants took clear sides in the political and military conflict. Samuel Lafone, and a group affiliated with his position, stood clearly with the *Colorado* faction, in opposition to the *Blancos*, and to Rosas. Lafone was an early financer of the war effort by Rivera and Lavalle, and consistently supported any effort against the governor of Buenos Aires. On the other side, John Jackson supported the *Blancos*. Jackson was one of the earliest and most important British merchants to establish in the region, and the predominant merchant banker in the city, acting as lender of last resort by consistently discounting the bills of other houses. Most merchants, however, stood relatively apart from the conflict, supplying and lending to whoever was in power in Montevideo, rather than supporting one faction in particular.

### Money and Credit

The monetary system of Uruguay was, in general, based on the use of metal rather than paper. This balance among three problems would vex the Uruguayan treasury throughout the century: providing liquidity and small change for transactions; maintaining government accounts denominated in hard currency; and preventing runaway inflation by accepting rapidly devaluing foreign coins and paper notes at fixed rates. Prior to 1862, there was no national currency, and foreign coins circulated freely, with values fixed by law to their metallic content, expressed in units of account, notional currencies used for bookkeeping without any tangible circulating instrument. In the region, this was usually the *patacón*, or *peso fuerte*, which had no metallic or paper equivalent, but represented a quantity of silver or gold.<sup>265</sup> The emission of inconvertible paper money in the style of Buenos Aires was strongly opposed by local merchant interests.

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<sup>265</sup> Acevedo, *Manual de Historia Uruguaya*, 65-66.

Two other financial instruments must be considered in any discussion of money prior to 1862. One is the heterogeneous mass of debt instruments emitted by the government, notably during the 1840s and 1850s, both internal bonds issued by legislation,<sup>266</sup> and *particulares*, individual loans arranged between the state and its merchant financiers. The other is bills of exchange, which acted as a medium for transactions at the level of the *alto comercio*, or overseas trade, because of their usefulness as remittance vehicles. While quantitative data are largely unavailable on the overall flows, Llorca-Jaña's analysis of the remittances of Hodgson, Robinson and Co. of Buenos Aires suggests that bills of exchange were a major and increasing share of remittances, rising to 73% of the total by the 1840s, whereas specie and bullion represented less than 10% after 1829.<sup>267</sup> Different merchant houses had different remittance methods based on firm structure and line of business.<sup>268</sup> Nevertheless, it shows that there was a substantial use of credit instruments as a medium of exchange. This system did not improve the Uruguayan fiscal situation, being essentially equivalent to using the bills on London and other major ports as a second currency. However, it helped avoid the transaction costs and risks of shipping relatively scarce specie, allowing for cheaper credit and relieving pressure on local coinage.

According to Millot and Bertino, merchants exercised near-total control over the circulation of currency: "The monetary policy of the state is that of the large merchants. Their control over money and credit in this period was total." The small size and weakness of the state meant that there was no credible, circulating domestic currency. While this surely reflects the absence of a monopoly of force and of an extractive 'fiscal state,' it is also a function of the relative power of Merchants in the Uruguayan political economy. The absence of a sovereign currency meant that merchants, notably overseas merchants, with access to hard-money credit through bills of exchange, became the *de facto* "central bank" of Uruguay, in control of the issuance of credit and the discounting of bills.<sup>269</sup> It also protected merchants from the risks of taxation via inflation, as had happened repeatedly across the river in Buenos Aires. There,

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<sup>266</sup> These went by various names, including *polizas* issued in 1835 (Ley numero 87, *Compilación de Leyes y Decretos*, 1835, 22-3) and *billetes ministeriales* during the siege.

<sup>267</sup> Llorca-Jaña, *British Textile Trade*, 142. Llorca-Jaña emphasizes that bills of exchange were not the overwhelming majority of remittances, contradicting the previous historiography. However, his data show that they were, at least by the 1830s, the predominant, if not exclusive, form of remittance.

<sup>268</sup> Francis Falconnet, *List of English Establishments at Buenos Aires and Montevideo*, Barings Archive, HC 16.114, Jun. 27, 1843 and *English Houses established at Buenos Ayres and Montevideo*, Barings Archive, H16.115/1/127, Jun. 1844.

<sup>269</sup> Julio Millot and Magdalena Bertino, *Historia Económica del Uruguay, tomo 1: 1700-1860* (Montevideo, Fundación de Cultura Universitaria: 1991), 176-77.

merchants structured their contracts to receive payment in kind, and diversified their asset portfolios away from paper pesos in anticipation of successive rounds of money printing.<sup>270</sup>

These strategies were unnecessary in Uruguay, which made investment in the country another possible way of hedging against inflation risk in Buenos Aires, while simultaneously retaining access to the same markets. The interpretation of monetary policy in Millot and Bertino constructs merchants in terms of a class-based political economy relationship. The element of foreign influence was also substantial. Throughout the 1850s, creditors of the state negotiated for the settlement of wartime debts at favourable rates. Foreign merchants lobbied heavily for the resolution of their claims via their respective consulates. The ultimate prize was control of the customs house, the administration of which promised repayment in hard currency without having to deal with the risks of non-payment. But participation in these schemes was voluntary, and if British merchants could not predict the problems of negotiating debt repayment with the Uruguayan government, neither could they be forced to accept contracts denominated in a currency that the government could print. The risks were counterparty risks of insolvency, rather than inflation risks.

Centeno gives a description of Uruguay that fits uneasily with this picture of a merchant-dominated hard-money port, with no ability to inflation tax. He describes Uruguayan monetary policy as “printing insanity,” pointing out that “[b]etween 1859 and 1901, the Uruguayan state issued 342 million pesos of which 124 million were still outstanding.”<sup>271</sup> On this basis, Uruguay used an inflation tax to finance its wars, similar to the rest of Latin America. The emission of bills in Uruguay after 1857 was not a government monopoly, but rather a privilege issued to particular banks, notably the *Banco Mauá* in the 1860s and early 1870s. Second, Uruguay was on a hard-metal currency standard, something disrupted only in times of commercial and banking crisis, and during the turmoil and insolvency of 1843-57. While there was some scope for monetary expansion under a bimetallic regime or during the gold standard by issuing notes, such issuance would not be accompanied not by persistent inflation, since the value of the currency cannot leave the narrow arbitrage band against metal. The persistent inability of the government to pay its debts devalued the value of the various debt instruments circulating in Montevideo, but could not directly move prices in the real economy, which were denominated in metal currency.

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<sup>270</sup> Irigoin, “Inconvertible Paper Money,” 333-359.

<sup>271</sup> Miguel Angel Centeno, “Blood and Debt: War and Taxation in Nineteenth-Century Latin America,” *American Journal of Sociology*, Vol. 102, No. 6 (May 1997), 1585-86.

Even during the siege of Montevideo, when fiscal constraints were severe, and government debt rising precipitously, the law passed allowing almost unlimited powers to raise money still prohibited the issuance of paper money.<sup>272</sup> Indeed, these things may be endogenous: the *guerra grande* created a rift in the monetary system, with the *Blanco* camp introducing Rosas's paper currency, and the *Colorados* reiterating their commitment to metal currency. The monetary conflict mirrors the overall ideological conflict between Rosas, emphasizing American sovereignty over European influence, and the defenders of Montevideo, emphasizing the civilizing influence of commercial integration with Europe. Eduardo Acevedo writes that three denominations of silver and gold coins circulated during the *guerra grande*: the gold *onza de oro*, worth sixteen *patacones* (also known as *pesos fuertes*), the silver *patacón*, worth 960 reis, and the silver *peso corriente*, of 800 reis. Attempts to mint currency within the besieged plaza were attempted, but failed after a short time, presumably due to the extreme shortage of available funds.<sup>273</sup>

Despite its early nominal commitment to hard money, Uruguay was not immune to inflationary pressures imported from abroad. Both Brazil and Argentina experimented with various inflationary regimes of either inconvertible or highly devalued paper currency, causing substantial dislocations in neighbouring economies. The circulation of devalued currencies was a problem in the context of fixed exchange rates for gold and silver coins, as exchange rates required constant updating to prevent arbitrage. During the Cisplatine period, low-value copper coinage circulated widely. This led to substantial arbitrage opportunities following independence, due to the difference between the cost of minting copper coins in Brazil, and the official value of the coins in Uruguay. The governments of Rivera and Oribe took measures to withdraw copper coinage from circulation, subsidizing a group of merchants to purchase coins to be melted down and resold in bars. This, in turn, created a shortage of small change, which the government then tried to remedy by minting 20,000 copper coins of its own.<sup>274</sup>

Fiscal weakness prevented the state from pursuing sovereign currency as a solution to this problem. The state did not even have the available reserves to remove copper currency from circulation, relying instead on a *junta* of merchants to capitalize the venture.<sup>275</sup> This type of

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<sup>272</sup> Acevedo, *Manual de Historia Uruguaya*, 96.

<sup>273</sup> Ibid.

<sup>274</sup> Ibid, 65.

<sup>275</sup> Moneda de Cobre, Reglamentación de la Ley No. 24, *Compilación de Leyes y Decretos*, 1831, 312-13.

monetary policy, wherein currency issue, government debt, and control over interest rates was mediated through groups of merchants rather than through a banking system, would characterize the Uruguayan fiscal and monetary system for most of the 19<sup>th</sup> century, up until during the establishment of the first banks in the late 1850s, and the printing of a sovereign, convertible currency in 1862. At no point during this period did the government maintain a central bank, private or public, which gave the state only limited powers to control the money supply. What the state could do was honour debt contracts in metal, and accept its own paper debts as revenue at the customs house, but even this became difficult during times of stress. In particular, during and following the *guerra grande*, government commitment to hard money became increasingly fictitious.

The question of control over currency and taxation has been well-explored by Mario Etchechury and Juan Carlos Garavaglia in a recent project examining the development of taxation, bureaucracy, and the fiscal state in Latin America.<sup>276</sup> They emphasize the alienation of the Uruguayan from its own revenues, and the development of a “parallel bureaucracy” of merchants in control of both revenue and monetary policy in Uruguay from the *guerra grande* until the 1860s.<sup>277</sup> The two groups, while in some sense antagonistic given their lender/borrower relationship, were also engaged in a cooperative symbiosis. Without the continued consent of the state, the group of merchants would lose control of their source of revenue, and without the merchants, the state would lose its source of hard-money credit.

This sentiment is echoed in the contemporary press, with claims that the *Sociedad Compradora de los Derechos de Aduana*, the tax farmers who had purchased the rights to 50% of the customs revenue, had become a species of government bank, and that in doing so, they had committed themselves to “mutual support.”<sup>278</sup> This prefigures the rationale for independent central banking; the state, in order to obtain the credibility to borrow, withdrew from monetary control by alienating its own best source of revenue. This structure created incentives for the quasi-“central bank” of merchants to continue to support the state by providing necessary funds to the government in order to finance (mostly military) expenditures, thereby securing their own source of revenue.

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<sup>276</sup> The work of this larger project at the Universitat Pompeu Fabra is available online at <http://statebglat.upf.edu/>.

<sup>277</sup> Juan Carlos Garavaglia, “Servir al Estado, servir al poder: la burocracia en el proceso de construcción estatal en América Latina,” *Almanack*, no. 3 (2012), 20.

<sup>278</sup> “The River Plate,” *The Times of London*, Jan. 8, 1847, 5.

This situation continued long after the termination of the *guerra grande* in 1851, and practical control of the monetary system remained in the hands of merchants and financiers well into the 1850s. The accumulated interest on perpetually rolled-over government debts, and wartime damages claimed by foreign citizens, was impossible to pay in hard money under any arrangement. This absurd quantity of nominal debt was the function not only of the constant emission of new debts, but also the diminution of hard metal revenues. The acceptance of internal debt as payment for tax revenues was the major incentive for the purchase of government debt, which was attractive to any merchant paying import duties at the customs house. Absent a central bank capable of maintaining convertibility, and with dwindling real revenues, the credibility of internal debt became increasingly fictitious. The customs house received its revenues increasingly in paper by 1855, to the point of crowding out nearly all metal revenues.<sup>279</sup> The question of the 1850s became not whether the government would pay its debts, which was clearly impossible, but how much to repay, on what terms, and to whom?

The varying answers to these questions involved a chaotic balance of short-term financing needs, access to further loans, foreign pressures, and internal political infighting. A subsidy in the form of 60,000 pesos monthly was provided by Brazil as part of the terms of the treaty of Montevideo. However, this proved insufficient, and the governments of the 1850s were perpetually short of funds. In the immediate aftermath of the *guerra grande*, the government of Juan Giró (1852-53), desperate for hard currency, re-nationalized the customs house from the *Sociedad Compradora*. This alienated the investors, whose revenues had been guaranteed by the Defence of Montevideo, and according to those who purchased the 1848 contract, by Britain and France.<sup>280</sup> This repossession freed up immediate revenues to be paid to other groups, notably the bureaucracy and soldiers of the government. However, having ruined its relationship with the overseas merchants who had previously been the only source of hard currency, the government became increasingly unable to control the internal debt, which spiralled out of control.

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<sup>279</sup> Carlos Navia, in *El Comercio del Plata*, No. 2.941, 7-8/1/1856, quoted in Etchechury, "Más allá del metal," 21.

<sup>280</sup> Barrán, *Apogeo y crisis*, 57.

By the late 1850s, the value of the outstanding internal debt, in the form of diverse obligations emitted by the state, reached over 100 million Uruguayan pesos.<sup>281</sup> These figures can be reconciled by understanding the government emission of internal debt. The various bills generated by the state, and by the quasi-state groups of merchants who managed government revenues, came increasingly to function as a quasi-currency, as argued by Etchechury. These bills were never the circulating medium in the plaza, nor were they used to denominate commercial transactions, which remained denominated in hard metal. However, they were paid to government employees, were accepted at the customs house in payment of debts, and were used extensively in negotiations between the state and its creditors in the sale of government contracts and property.<sup>282</sup>

The ballooning of government debt and the increasing penury of the treasury forced a reversal of course. In April 1856, the administration of the customs house was returned to the government's creditors. The directorship of the new *Sociedad Compradora* in 1856 consisted of largely the same merchants who had advanced funds to the Defence of Montevideo a decade prior, and who had lobbied most strongly for British and French support for the cause of Montevideo: Samuel Lafone, John MacFarlane, John Halton Buggeln, Francis Hocquard, and Adolf Pfeil, among others.<sup>283</sup> It is these British merchants, and their counterparts from other nationalities, such as the Catalan merchants Jaime Cibils and Felix Buxareo, the Frenchman Pablo Duplessis, and migrant Argentine elites such as Carlos Navia, that formed the nucleus of the Uruguayan banking sector. The tax farmers and quasi-central bankers of the 1840s and 1850s became the first private bankers, from 1857, when the *Banco Mauá* and *Banco Comercial* were formed.

These organizations purchased large quantities of devalued internal debt at an enormous discount, as little as 1% of par, according to Barrán, in an attempt to come to an agreement with the government over repayment. In 1859, the Baron Mauá secured such an agreement, having accumulated 56% of outstanding government debt. The agreement negotiated with Andrés Lamas converted outstanding debts at 5% of the nominal value. Even taking so substantial a haircut,

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<sup>281</sup> Jose Claudio Williman, *Historia Económica del Uruguay (1811-1900)*, Tomo 1 (Montevideo: Ediciones de la Plaza, 1984), 93.

<sup>282</sup> Mario Etchechury, "Más allá del metal. Crédito y usos monetarios de la deuda interna en el mercado financiero de Montevideo, 1837-1855," *Revista Uruguaya de Historia Económica*, Year 2, No. 2 (November 2012): 10-26.

<sup>283</sup> Barrán and Nahum, *Apendice Documental*, 74.

there were large profits made due to the extraordinary devaluation prior to the conversion.<sup>284</sup> This substitution of public debt for private banknotes stabilized the currency situation by eliminating the debt spiral of accumulating interest, and establishing credibility by putting the emission of currency in the hands of private interests.<sup>285</sup> This bargain paralleled the process of currency stabilization on the other side of the River Plate, in Buenos Aires, albeit at a delay of two years.<sup>286</sup> The two processes were not identical, as in Uruguay, it was the credibility of the state to repay its metal-denominated debts that had collapsed, whereas in Buenos Aires it was the inability to commit credibly to refrain from inflating debts away. However, in practice, this was a distinction without much difference, so long as both Uruguayan state debts and the Buenos Aires paper peso sold for only a fraction of their nominal value. In both cases, the state, having lost credibility as a borrower, turned over control of central banking merchant capitalists in order to restore credibility. It amounted to the creation of an independent system of central banking.

In Uruguay, this process of stabilization was controlled jointly by Baron Mauá, and by the members of the *alto comercio* through the *Sociedad de Cambios* and *Banco Comercial*. The devaluation of the debt halted, and repayment at a new, much reduced par level commenced. Uruguayan debt in 1860 is given by Barrán and Nahúm at only 2,726,880 pesos, an incredible drop from the enormous values of 1855-58, representing the “haircut” negotiated by Mauá.<sup>287</sup> Millot and Bertino show the total debt service to be 410,362 pesos in 1860, or approximately 20% of the budget, and implying a high but not implausible average interest rate of 15%, consistent with the high interest rates at the time, and with the rates faced by the government in international bond markets in the following decades.<sup>288</sup> Millot and Bertino place the 1860 budget at 3.1 million pesos.<sup>289</sup>

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<sup>284</sup> Barrán, *Apogeo y crisis*, 68-70.

<sup>285</sup> Etchechury, “Más allá del metal,” 20-21.

<sup>286</sup> Adelman, *Republic of Capital*, 258.

<sup>287</sup> Barrán and Nahum. *Historia rural*, t. I/2, *apendice documental*, 76.

<sup>288</sup> Uruguay’s first major foreign bond is floated at an effective interest rate of 9.4%, following an extra decade of growth and development. See Benjamín Nahum, *La Deuda Externa Uruguaya: 1864-1930*. (Montevideo: Ediciones de la Banda Oriental, 1994), 19.

<sup>289</sup> Millot and Bertino, *Historia Economica*, t.2, 364.

## Tariffs

The tariff regime in Uruguay was largely a function of fiscal needs, not protectionist ideology.<sup>290</sup> High tariffs, absent any particular protectionist motives were not unusual for Latin America.<sup>291</sup> Uruguay, as a small country with extraordinary revenue needs due to near-constant civil wars, was among the highest tariff countries even in Latin America, which was itself the highest tariff region of the world. The country had neither substantial import-competing domestic industry to protect, nor any plausible ambitions to develop such industries prior to the late 19th century. Internal markets were small, labour was expensive, and pre-existing industrial interests with political clout were almost entirely absent.<sup>292</sup> Taxation at the port was simple to administer, which was an attractive feature for weak states with little informational, administrative or judicial reach or sophistication. Import taxes were also relatively painless in political economy terms. Their burden fell on consumers generally, rather than any specific group, which had important benefits. First, it was difficult to evade. Second, consumers were a dispersed group largely incapable of exerting serious public pressure against the state. It was simple to maintain, compared with taxing particular groups, who often had either the ability to evade taxation, or to disrupt or overthrow governments who attempted to increase their share of the fiscal burden.<sup>293</sup> Taxes were generally administered *ad valorem* on declared market values.<sup>294</sup>

The tariff regime increased over time, as government expenditures rose, and the need became urgent to cover mounting debt obligations, either with new hard metal revenues, or by liquidating government bills at the customs house. Immediately following independence, tariffs were fixed at low rates, by the relatively high standards of the region. In 1829, there was a 15% general tariff, and some specific duties on key imports.<sup>295</sup> Clothing, in particular, was taxed at 25%. In 1831, these were raised to 18% and 30% respectively. As wartime increased revenue needs,

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<sup>290</sup> María del Mar Rubio, "Protectionist but Globalised? Latin American Custom Duties and Trade during the pre-1914 Belle Époque," *UPF Economics and Business Working Papers*, No. 967 (June 2006).

<sup>291</sup> John Coatsworth and Jeffrey Williamson, "Always Protectionist? Latin American Tariffs from Independence to Great Depression. *Journal of Latin American Studies*, Vol. 36 (2004): 205-232.

<sup>292</sup> Millot and Bertino, *Historia Económica*, t. 2, 369.

<sup>293</sup> Centeno, "Blood and Debt," 1587.

<sup>294</sup> Much more research is needed into the administration of the system of tariffs, and how declared values were negotiated between customs agents and merchants. The interpretation of percentage rates for tariffs is ambiguous without knowing more about the values to which those rates were applied. Without further evidence at this point, however, this chapter interprets them as a rough guide to the direction of the overall tariff burden, acknowledging the ambiguity in interpretation.

<sup>295</sup> Tariff rates taken from Millot and Bertino, *Historia Económica*, t. 1, Table III-F-II, 210. See: Appendix 3, Table 7.

tariffs were raised in response, at first in small doses, but with precipitous increases following the blockade of Buenos Aires. During the conflict, the Rivera government raised the general level of import tariffs to 25%, in 1838 and then to 35% during 1840, with tariffs on manufactured clothing, the key British import, increasing to 47.5%. The extraordinary level of tariffs reflects both extraordinary revenue needs, and a strategic reaction to regional conflict. During wartime, a high-tariff policy allowed the state to capitalize on the windfalls generated by blockades on the one hand, and to raise funds from what scarce trade remained during the times when Montevideo was blockaded, as competitive tariffs only mattered when the ports were open and therefore in competition for the import trade.

Following the *guerra grande*, and over the course of the 1850s, tariffs were slowly reduced to more moderate levels. In 1853, the general tariff was decreased to 24%, with clothing paying 36%. By 1861, rates were set at 17% and 24% respectively, approximating the peacetime tariffs of the 1830s.<sup>296</sup> This diminution reflected several factors. Ideological liberalism was at its apex in government, with urban *doctores* holding the major positions of power under the government of Bernardo Berro, including Tomás Villalba as minister of the *hacienda* (treasury).<sup>297</sup> While a 17% tariff rate could hardly be considered “free trade,” the comparatively low rates did reflect an ideological commitment to liberalization. And in any case, the dominant role of tariffs in state revenues could not be replaced overnight without introducing direct taxes, which were politically difficult to implement, and costly to administer. It also reflected the sounder footing of government finance, following the resolution of the spiralling debts via an agreement with the *Banco Mauá*. It also reflected increasing ambitions to compete for regional *entrepôt* trade. The natural protection afforded by the civil war in Argentina ended following the battles of Cepeda and of Pavón, and the reintegration of Buenos Aires into the Argentine Confederation. These relatively low rates of import tariffs lasted throughout the 1860s, including throughout the Paraguayan war.

Tariffs were raised again in 1872, in response to the revenue needs of the Latorre government during and following the *revolución de las lanzas*, a rural insurgency led by the *Blanco caudillo* Timoteo Aparicio from 1870-72. The general tariff was nearly doubled, from 17% to 30%, although there does not appear to be any special treatment for cotton textiles or clothing, still the

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<sup>296</sup> Appendix 3, Table 7.

<sup>297</sup> Millot and Bertino, *Historia Económica*, t.2, 368-69.

major imports from Britain. In 1875, rates were once again revised upwards, imposing a high tariff of 40-50% on almost all kinds of finished consumer goods, including clothes (50%).

### Commercial Overview

Just as both the merchant community and population at large reflected the cosmopolitan reality of the port of Montevideo, so too did the shipping. While British ships represented the most tonnage of any nationality, at least for most years on record, the trade was obviously diversified and competitive among nations, with French, Spanish, Brazilian, Sardinian (Genoese), and North American ships each taking substantial portions of the total tonnage arriving at the port.<sup>298</sup> The North American ships are notable, in that there was no large community of North American immigrants in Montevideo, the group being tiny even when compared with the small British community. The average size of British ships is not particularly notable, starting at 194 tons per ship in 1836, and rising to 225 tons by 1842, while the average of all ships arriving at the port rose from 183 to 192. The slightly smaller average size is due to the Italians, Brazilians, and Spanish, whereas the French and Northern European traders operated slightly larger vessels. The total number of English vessels arriving at the port increased from 61 to 189, and the total tonnage from 11,825 to 42,593.<sup>299</sup> Some of this increase may be due to the chaos of war in the Argentine Confederation and the redirection of some trade towards Montevideo. However, the increase in trade is smooth across the years both before and after the French blockade of Buenos Aires (1838-40), indicating an overall increase in trade carried on British ships, rather than a temporary wartime windfall.

By the 1870s, this relatively balanced situation had changed, and British dominance of shipping at Montevideo was far more pronounced. In terms of overseas trade, ships sailing under British flags represented more vessels, and more than twice the tonnage of their nearest competitors, the French. The Italians and Spanish also had a substantial share of ships arriving at port, but at much smaller average tonnage.<sup>300</sup> The coastal trade was dominated by local traders, Argentines and Uruguayans, with British coastal traders coming in a distant third.<sup>301</sup> Analysed in terms of ports of origin and destination, however, the situation looks very different, reflecting the

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<sup>298</sup> Lamas, *Apuntes Estadísticos*, 85.

<sup>299</sup> Ibid.

<sup>300</sup> Vaillant, *Exposición de Viena*, 60.

<sup>301</sup> Ibid, 62.

asymmetrical flows of trade through the port. 356 ships arrived from Britain in 1869, but only 93 departed for Britain. By contrast, 54 ships arrived from Buenos Aires, but 267 ships departed towards it. This clearly reflects the routes taken by merchant vessels, with trade conducted not bilaterally, but by trading from port to port along known routes. Places with which Uruguay had a negative trade balance, such as Britain, had ships arriving filled with British cargoes, to be sold at Montevideo, or taken across to Buenos Aires and sold there, or even around Cape Horn to Valparaiso in Chile. Some of those ships would carry back exports in the form of *frutos de pais*, rural products from upriver in Uruguay, and the interior provinces. Regardless of the flag they flew, they would proceed to the ports where those goods were to be sold, in Brazil (for *tasajo*), Belgium and France (for hides) with whom Uruguay had a trade surplus.<sup>302</sup>

Andrés Lamas also provides a ranking of trading partners for both imports and exports for various years, although unfortunately not always the same years. He provides import data for 1830, 1831, and 1835. Reading it at face value, it appears that Uruguayan imports came from a variety of sources. In rank order: Britain, France, North America, Spain and Italy served as the major non-regional sources of goods. Brazil remains the largest source of imports in 1830-31, and second only to Britain in 1835.<sup>303</sup> The Argentine provinces also have a substantial share. However, it is difficult to account for the extent to which these last two may represent transhipment, rather than direct imports. Certainly it was the case that the Argentine provinces, with pastoral economies of nearly identical type, produced few consumer goods sought in Uruguayan markets.

A negative balance of payments was a standard structural feature of the Uruguayan economy, as would be expected from a capital-importing region. Our best statistical pictures of trade begin with the work of Vaillant, who gives a detailed breakdown of trade for 1869. As in most years, Uruguay had a negative balance of payments, with nearly 3 million pesos more in imports than exports, at official values.<sup>304</sup> Measuring only by bilateral trade, France was Uruguay's largest trading partner for that year, at nearly 36% of total trade. Britain represented 17%, Brazil 12%, and the US and Belgium 9% each. However, these total figures conceal a great deal of variation in the balance of trade. Britain provided 24% of Uruguayan imports, but only 8% of its exports, resulting in an especially pronounced large trade deficit with Britain.

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<sup>302</sup> Appendix 3, Table 13.

<sup>303</sup> Appendix 3, Tables 9 and 10.

<sup>304</sup> Appendix 3, Table 13.

Imports into Uruguay were consumer goods, divided along the lines of nation of origin. From Britain, textiles and metal manufactured goods were the main items; from Spain, wine and spirits; from France, wine, fine clothes and textiles, and luxury goods; from Brazil, sugar, *aguardiente* (spirits), coffee, yerba mate, and tobacco. Even as late as 1869, there was very little import of machinery or infrastructural goods, the latter categories comprising only at most 8% of total imports.<sup>305</sup> The import basket mostly reflects the consumption goods that were not produced domestically in the highly specialized pastoral economy. Textiles accounted for 70-90% of the value of imported British goods into Uruguay in the 1840s and 1850s.<sup>306</sup> It is of little surprise then that the majority of British merchant houses dealt in clothing and textiles. Individual merchants specialized in particular products, in order to mitigate the effects of cutthroat competition among commercial houses. With the beginnings of infrastructural development in the 1860s and 1870s, textiles declined to a smaller share of trade, no longer the majority in most years, but still the largest single category of traded commodities, with cottons being the most important import in every year except 1873, when a commercial and financial crisis coincided with the construction of the first railroads, making iron and steel the largest import category for a single year.<sup>307</sup>

Britain's trade with Uruguay followed a pronounced boom and bust cycle, clearly visible in the import and export data. During boom years (1847, 1852, 1859-60, 1866-67, 1872-73) imports surged to as much as double the previous years' levels, only to crash again to half their values during major crises (1848-51, 1868, 1875).<sup>308</sup> These commercial booms and busts had a variety of causes. Some are clearly internal; the disruptions caused by civil wars and insurrections suppressed trade, creating temporary troughs, such as during the 1870-72 revolution of the lances. This process also generated small export booms immediately following the restoration of peace, as inventories built up in the form of livestock, hides and wool were liquidated. More important than internal events were regional ones, associated with the conflicts in the greater Río de la Plata area. While internal warfare was always disruptive of trade, regional conflicts generated both setbacks and opportunities. The *guerra grande*, with its siege and intermittent blockades, generated enormous swings in British trade, from nearly zero during years when Montevideo was blockaded,

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<sup>305</sup> Author's calculation from Vaillant *Exposición de Viena*, 1873, adding together the categories of ironware and machinery, building materials, and railway, gas and electric telegraph goods, then dividing by total imports. 8% is likely an overestimation, as not all ironware or building materials would necessarily represent capital goods.

<sup>306</sup> Appendix 3, Table 19. Disaggregated data on Uruguayan imports from Britain were obtained courtesy of Manuel Llorca-Jaña.

<sup>307</sup> Appendix 3, Table 19.

<sup>308</sup> Appendix 3, Tables 8, 15-19.

to far above average, when trade was redirected from Buenos Aires.<sup>309</sup> Similarly, the constitutional conflicts between Buenos Aires and the provinces in 1859-61 generated years of above-trend trade, as did the opportunities created by the early stages of the Paraguayan war in 1865-66.

As Uruguay became more directly exposed in the 1860s to international finance, at first through the Baron Mauá, and later the London and River Plate Bank, as well as the London bond markets, crises were transmitted directly via financial constraints. The attachment of Uruguay to larger patterns of liquidity and crisis was an older phenomenon, however, as merchants were the primary conduits of both trade and credit during the mid-1850s. Before contagion could spread through the formal banking sector, it spread through merchant networks of credit. Bills of exchange owed their value to the solvency of their counterparties, and so bankruptcies anywhere in the chain of signatories could endanger firms everywhere in the credit network. This financial contagion would undermine trade not only by causing a shortage of liquidity, but also by undermining the very trade which was the source of revenue for the merchant firms.

While textiles remained the most important import, capital goods gained an increasing share. Imported British metal, machinery and fuel were critical inputs into the process of infrastructural development, for which the construction of railways was far and away the largest infrastructural projects of the period. Railways developed late in Uruguay, beginning only in 1869, forty years after the dawn of the railway age, and over a decade after the same processes had begun in Brazil and Argentina. This delay is explained by the availability of water transport, the relative penury and powerlessness of the Uruguayan state, and the recurrent civil conflicts. However, once the process of development began, Uruguay became a comparatively important consumer of imported capital and energy goods.<sup>310</sup> Much of the imported coal during the second

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<sup>309</sup> Ibid.

<sup>310</sup> By 1890, Uruguay was not only the highest per capita consumer of fuel in Latin America, it was so by an enormous margin, consuming approximately 2.5 times the energy per capita of Argentina, and 6 times the Latin American and Caribbean average. Energy consumption by this point was higher than in Spain, prior to WWI. However, only about 10% of this was fossil fuel, in the form of imported coal. The rest was wood and applied animal power, which together fuelled nearly all proto-industry in the country. This does not count the coal that was imported for use in the bunkering trade. See: Mar Rubio et al., "Energy as an indicator of modernization in Latin America, 1890–1925" in the *Economic History Review*, 63: 769–804, Reto Bertoni, Carolina Román, and María del Mar Rubio, "El desarrollo energético de España y Uruguay en perspectiva comparada, 1860-2000," in the *Revista de Historia Industrial*, n. 41, v. 3, Año XVIII. 2009, and Reto Bertoni, *Energía y desarrollo: la restricción energética en Uruguay como problema (1882-2000)* (Montevideo: 2010) PhD Thesis, 128.

half of the 19<sup>th</sup> century was destined for “bunkering,” supplying steam ships rather than domestic consumption.

According to the 1872 trade statistics, exports were concentrated on relatively few destinations.<sup>311</sup> Those destinations were also divided sharply by product. Cow hides, still the most important rural export, were exported in two varieties, dried and salted. Salted cow hides were sent largely to continental European markets, whereas dried cow hides were shipped to North America, and to the Mediterranean, mostly to Italy and Spain. *Tasajo* (dried beef) went exclusively to Havana and Brazil, for consumption by slaves, a captive market that would absorb the inexpensive, low-quality product.<sup>312</sup> By the late 1860s, the predominance of hides and other beef by-products (*tasajo*, fats, and bone) had been challenged by wool, which became the single largest export of Uruguay, accounting for 38% of official export value.<sup>313</sup> Wool was exported largely to markets in France and Belgium. The increasing importance of wool in the export basket reflects a number of trends that will be discussed later in the thesis: the increasing value of land, the intensification of capital-to-land ratios, the introduction of new breeds of livestock, and the entrepreneurship of British merchants at the forefront of these processes that increased rural productivity. However, unlike Argentina, Uruguay never became a major exporter of grains. Less than 10% of the wheat and maize produced in Uruguay, 1855-72.<sup>314</sup> Intensification in land use came from the introduction of sheep, and the crossbreeding of cattle, rather than in conversion of pasture to mixed farming, except in the immediate vicinity of Montevideo, where wheat and maize were grown for the domestic market.

Taken as a whole, trade from Montevideo had several structural features. First, there were persistent trade deficits, which is to be expected for a capital-importing country. Merchants were expanding their operations in the region by drawing on European merchant houses. Second, there were even larger persistent deficits with European manufacturing nations, mostly resulting from the purchase of textile goods, especially in the earlier period. Hides, and later wool, were the high-value exports sent by merchants to European ports, often in remittances, but not in quantities

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<sup>311</sup> Vaillant, *Exposición de Viena*, 42.

<sup>312</sup> Attempts to market Uruguayan dried or salted beef failed until the development of industrial preservation, as labour in Uruguay was too expensive to assure the quality necessary for acceptance in European markets. The early attempts by Juan D. Jackson and the *Asociación Rural* to market preserved beef in Britain will be discussed in detail in a later chapter.

<sup>313</sup> Vaillant, *Exposición de Viena*, 42.

<sup>314</sup> Ibid, 165.

sufficient to cover imports. The final leg making up the difference was the *tasajo* trade. The markets in Havana and Brazil imported large quantities of this low-value but high-volume beef product in order to feed slaves, and exported little to nothing in return to Uruguay, leaving the country with only a small, persistent trade deficit consistent with a developing peripheral country. There was also a healthy *entrepôt* trade with the Argentine, and to a lesser extent Paraguayan and Brazilian interior, which extended the reach of Montevideo merchants as trade intermediaries. During wartime, when blockades and other military and political disruptions redirected trade away from Buenos Aires, this *comercio de tránsito* became a major source of windfall profits for merchants and the Montevideo customs house. Taken as a whole, however, Montevideo remained a secondary port for the larger River Plate region, with the political and military influence of Buenos Aires generally taking precedence over the advantages of trade through Uruguay.

## Chapter 5: Social Networks and Entrepreneurship

In mid-19th century Uruguay, British merchants formed the vanguard of economic development in Uruguay, largely displacing the local elite, and taking a leading role among European merchants. While their individual attributes surely have some role to play in explaining their entrepreneurship, it is unlikely they could have succeeded as a group, except for shared advantages. This chapter will examine two types of networks that gave entrepreneurs the resources necessary to use their judgment effectively in order to generate wealth, and make several arguments concerning these networks: first, that it is the complementary quality of specifically international links that gave British merchants their comparative advantage as entrepreneurs, and made them an attractive addition to networks, in Uruguay, in Britain, and among merchants of other nationalities; second, that these ties provided resources such as credit, information and trust that were difficult to obtain in other ways; and third, that these ties were used not just statically to enable and maintain trade, but dynamically to enable entrepreneurship across multiple sectors and activities. This then helps explain why British merchants functioned as the entrepreneurial vanguard in Uruguay in the mid-19<sup>th</sup> century, as well as the personalized, inter-ethnic cooperation that characterizes the form of their activities.

This chapter will be divided into two broad sections, first considering the importance of networks in entrepreneurship. In this, it follows an extensive literature on the role of trust in merchant activity, and on the importance of interpersonal ties in establishing the preconditions for successful entrepreneurship. Following this, it will examine examples of the networks of ties used by British merchants through a series of cases, showing how prominent merchants used their connections to further their business interests, first in trade, and later in diversified investments. The Jackson family will be used as a case to examine how strong family and friendship links could help develop and maintain elite connections through an examination of their dealings with the Rathbones in Liverpool, and the Errazquin in Uruguay. The Lafones will serve as an example of the use of family ties to generate agents, contacts, and organize complimentary entrepreneurship on both sides of the Atlantic. It will examine the letter books for the house of Anderson MacFarlane and Co. to sketch out one merchant house's connection to the correspondence network of weak, informal ties that generated the transatlantic flow of information and credit, which in turn drove the River Plate trade. And finally, it will examine the career of Richard Hughes, whose active and changing career provides an overview of how multiple ways of securing entrepreneurial advantages came together over the course of a merchant-*estanciero*'s career.

### The Entrepreneurial Community

Operating in an area of new development, the merchants of the River Plate faced a particularly imposing set of obstacles to establishing and maintaining their businesses. The post-independence period was one of institutional instability. This is clear from the turbulent military and political situation. Wars, coups, revolutions, insurgencies and shifting borders were commonplace, and confidence in the endurance of any particular government or ideological program was low. Property rights were differentially enforced, depending on the political faction in power, the variable strength of the government, and current needs. Loans were insecure and markets illiquid; a crisis in one location could lead to businesses calling in their loans and refusing to extend further credit and with no developed banking system, this could cause contagion in times of crisis. The inland rivers, critical to expanding trade into the interior, were opened and closed at the will of the government of Buenos Aires, which controlled the mouth of the Paraná river. In short, there was little about the turbulent situation in the River Plate that would encourage stable, long-term investment.

However, what from one perspective were a series of challenges, from another perspective were barriers to entry. Regionally specific expertise and elite social connections meant that career merchants possessed substantial advantages over non-merchants, both in trade and as investors. The costs of learning how to do business in the region shielded incumbent merchants from competition; without understanding the state of local markets, the interrelations between the ports and the interior, the commodities involved in trade, and most importantly the ever-shifting political struggle for political dominance, a new potential entrant would run enormous risks in setting up a new house. In time however, and given the abundance of opportunity created by overall underdevelopment, those merchants who invested the time and money to obtain the requisite social capital and regional knowledge could obtain high returns. While the risks of operating in the region were many, the scarcity of capital gave entrepreneurs with access to credit an open field in which to invest. This situation persisted at least until the opening of the telegraph in the 1860s, which reduced the importance of local agents and triggered the decline of import/export merchants and their houses as the chief mediators of external trade.

Some theories of entrepreneurship, especially those associated with Schumpeter, tend to have a heroic flavour.<sup>315</sup> They emphasize the risk-taking and visionary qualities of the individual

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<sup>315</sup> Schumpeter, *The Theory of Economic Development*.

entrepreneur, who creates wealth through superior judgment, hard work, and charisma. The entrepreneur here is the disruptor of existing systems, who disturbs the *status quo* through application of their ideas. Theories in the tradition of Weber, by contrast, emphasize the relevance of culture as a determinant of entrepreneurship.<sup>316</sup> Individuals have distinct traits, but the relevant factor for success is whether a particular society encourages the drives and values that lead to entrepreneurial behaviour. Other theorists of entrepreneurship, such as Casson, have looked at the entrepreneur from a functional perspective, asking not what creates the entrepreneur, but rather what must be created in order for the entrepreneur to succeed, based on economic roles rather than cultural or individual values.<sup>317</sup>

The specific ideology, religion or culture of the network is less important than its power to transmit information, recruit skilled labour, and generate trust. Of course, the basic roles of the entrepreneur, finding and exploiting opportunities for profit and absorbing the risks of exercising judgment, are still at the centre of the theory of entrepreneurship. What is distinct about this view is the support the individual agent receives from those around them. Kinship groups, friends, social clubs, class groups, religious organizations and other link-forming entities both natural and engineered are valuable to entrepreneurs. Social connections are both an existing pool of resources that can be exploited for gain, and an area in which the entrepreneur can attempt to secure new resources. For each entrepreneur, that pool of resources is distinct, and that distinctiveness helps determine the economic strategy they pursue. Each individual merchant carried with them a specific set of interpersonal links, of brothers, sisters, parents, in-laws, acquaintances, co-religionists, neighbours, as well as business partners both current and former.

For the particular case of Uruguay in this time, the most important dimension of social links is their ability to transcend distances. For a merchant operating in Montevideo, sheer geographical separation between markets, capital, information, and technology put a substantial strain on the capacity of a firm to do business. The scope of trade required a permanent establishment, which took the form of the import/export house. Managing this type of business required considerable market knowledge, since the trade situation was highly volatile, and highly competitive. Without a managing partner able to make decisions on the spot in Montevideo, there was little possibility of carrying out a profitable trade. The failure of manufacturers to guess what would sell in the region was a source of constant complaint in the correspondence of merchant

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<sup>316</sup> Weber, *The Protestant Ethic and the Spirit of Capitalism*.

<sup>317</sup> Casson, *The Entrepreneur*.

houses.<sup>318</sup> Without a large inventory to accommodate the variety of orders, and without a source of market feedback in the form of constant correspondence, there would have been little chance of turning a profit in the River Plate trade. Social networks provided a method of maintaining the necessary flexibility while simultaneously preserving sufficient trust to overcome the inherent barriers to trade.

However, if the British merchant community relied on ethnic links to establish trust, they certainly did not use those links exclusively. This does not entirely invalidate the in-group trust model, but it does suggest that it was both possible and relatively common to bring useful members of other ethnic groups into the inner trust circles by making them into family, through strategic marriages. What may have begun as a set of separate, ethnically defined networks transformed, over the course of time, into an interconnected web of relations which owed more to shared economic interests and relationships established in Uruguay than to pre-existing ethnic identities. This is best understood as a dynamic process of social adaptation and economic change, rather than a static network designed to maintain long-standing, pre-existing advantages in trade. The British used their success to gain influence, and their influence to transform the economy through the importation of new technology, new forms of organization, new ideas, and new products. Thus, the question becomes less how existing networks generated the preconditions for trade, but rather, how networks connected and expanded in order to increase the potential for entrepreneurship.

#### Firm Structure: Networks and Partnerships

Partnership had several qualities that made it well-adapted to the international trade taking place between Uruguay and Britain. First, it gave broad discretionary powers to agents on both sides of the Atlantic, which had both positive and negative effects. On the negative side, it greatly increased each partner's exposure to the mistakes of the others. This meant that entrepreneurs had to exercise considerable judgement of character, since an otherwise successful enterprise could be scuttled quickly by an incompetent or untrustworthy partner. Trust and reputation were thus held at a premium. On the positive side, it meant that decisions could be made on the spot, without the lengthy process of consensus building. By the mid-19<sup>th</sup> century, the Atlantic journey from Uruguay took five to six weeks each way.<sup>319</sup> Mere information transfer was thus prohibitively slow to conduct business in a rapidly changing environment. Consensus building

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<sup>318</sup> Llorca-Jaña, *British Textile Trade*, 105-110.

<sup>319</sup> Llorca-Jaña, *British Textile Trade*, 226.

through discussion and argument was simply impossible, at least until the introduction of the telegraph in the 1860s. A partnership obviated the need for this kind of process. Decision making was handled entrepreneurially by the appropriate partner, who had wide legal as well as practical latitude in allocating the resources of the firm to their greatest advantage.

Partnerships were not enduring, clearly defined entities in the sense of modern firms. Rather, they were porous, temporary arrangements, forming, dissolving and reforming on a regular basis to incorporate new partners, expand into or vacate from cities, and to liquidate in the event of bankruptcy. Nevertheless, the same groups of merchants continued to work with one another, in interlinked groups. As the opportunities for infrastructural development increased, and with them the need for increasing levels of capital security, these merchants came together to form the directorships of the first companies in the region, for banking, insurance, gas, shipping, telegraphs, railroads, land development, colonization and rural industry.

Groups of merchants-cum-investors can be seen as the precursors to modern *grupos financieros*, the diversified finance networks organized around kinship that were widespread in the 20<sup>th</sup> century.<sup>320</sup> They managed a series of different businesses under the control of the inter-family group. While 19<sup>th</sup> century industrial organization was much looser than in the 20<sup>th</sup>, and the scope for broadly-based clusters financed through holding companies was much smaller, the same basic principles apply. Entrepreneurs connected to one another not via formal contracts or firm structures, but by kinship and intermarriage, grouped their projects together to secure the potential advantages of cooperation: increased scale and scope, information transfer, For Uruguay, there is clearly a similar pattern: extended kinship alliances of merchant families, cemented through strategic marriages, who came together, first informally and later formally, to finance their various entrepreneurial projects.

### Being Inglés

The extent to which the British community can be described as an ethnically homogeneous middleman group is ambiguous. In support of the idea, it is clear that being British was a coherent identity, with a separate language, religious institutions, and social clubs. Furthermore, unlike most middleman groups, they had national representation as British citizens. The diplomatic representatives of Britain gave the British merchants of Uruguay substantial protection, and an official voice as a community. While the Foreign Office was always guarded

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<sup>320</sup> Liehr and Lewis, "Doing Business in Latin America: an Overview."

about committing itself to what it generally saw as the private speculations of merchants, this was nevertheless a source of substantial support.<sup>321</sup> Being *inglés* in Uruguay was a clearly marked identity, and in this regard, we can consider this community as similar to other ethnically homogeneous middleman groups.

However, there are also substantial problems with this interpretation. Notwithstanding the stereotype about the British community being aloof, something which was perhaps truer late in the 19<sup>th</sup> century, the British merchants of Uruguay did not keep to themselves. They engaged directly and frequently with the various groups operating in the area: Uruguayan *criollo* elites, both political and economic; other foreign merchant groups; and Brazilian and Argentine émigrés and exiles. They were not catalytic middlemen, enabling trade with Britain while remaining largely unchanged by the local society. They mixed and were changed by their mixing, although to varying degrees depending on the particular case. A more reasonable formulation would be to say that, while British merchants were certainly a distinct group, they were one part of a larger cosmopolitan nexus of actors gathered at Montevideo. Some groups were similar to the British in that they were primarily interested in conducting business. Migrant merchants from various regions of Europe clustered in Montevideo largely for the same purposes: to export Uruguayan rural produce to Europe, and to supply the markets of Uruguay and the littoral regions of the River Plate with the commodities particular to their home region. For Catalans and Italians, this largely meant wines and oils; for the French, a large wine trade, plus luxury goods; for the British, textiles and clothing, as well as some small quantity of machinery, and later, coal.

However, if the import trade was differentiated by commodities and nationalities, the community of foreign merchants was open and increasingly integrated, both among one another and with local groups. Partnerships between merchants of different nationalities were rare at the firm level, but cooperation between firms for lobbying, investment, or finance was relatively common. Intermarriages between merchant families were a regular method of establishing and reinforcing valuable connections. The most successful British merchants established family links to merchants of other nationalities. Their children in the second generation continued not only their business interests, but also expanded the network. There are many examples of the typical pattern of strategic marriages, which will be discussed in more detail later in this chapter. This

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<sup>321</sup> Winn, "British Informal Empire in Uruguay," 114-15.

pattern fits less closely with the ethnically homogeneous group theories of Landa and Greif,<sup>322</sup> and more with the “cosmopolitan bourgeoisie” proposed by Charles Jones.<sup>323</sup> The integration of British merchants into the elite of Uruguayan society was a parallel process to their economic success, rather than a cause and effect. It was neither the case that integration did not matter, as social links simply followed on from economic success, nor that the links are the primary cause of that success. Rather, there was a dynamic cycle of increasing experience, resources, and social prestige.

### Establishing the Community

During the 19<sup>th</sup> century, Uruguay, and especially Montevideo, was a meeting point for a wide variety of groups, divided by ethnicity, nationality, religion, and status. Unlike many other regions of the former Spanish colonial empire, Uruguay was only sparsely populated, leaving substantial scope for immigration to change the demographics of the country. Over the course of the century, Montevideo, like its neighbour Buenos Aires, but also like other emerging metropolises such as New York or São Paulo, became a polyglot city, inhabited by distinctive groups of migrants, each with particular backgrounds and identities.<sup>324</sup> Groups of foreign migrants had a large share of the population, and the origins of these groups are not stable over time. The *Banda Oriental* of the 18<sup>th</sup> century was still Spanish colonial in character, although a marginal part of the overall colonial system. It was only with the transformation of the Atlantic world, begun in the late 18<sup>th</sup> century, and accelerating through the ‘first globalization’ in the 19<sup>th</sup>, that Uruguay takes on its distinctive character as a cosmopolitan, immigrant society, as one of the destination countries for the great waves of European outmigration.

The population of Uruguay during the early 19<sup>th</sup> century largely comprised relatively recent migrants from Europe. In the period before mid-century, these are largely French and Spanish immigrants, mostly from the Basque regions through the Atlantic ports Bordeaux in France, and Bilbao in Spain.<sup>325</sup> By 1860, a third of the population were first generation migrants, and large shares of the remainder were the children or grandchildren of migrants, mostly from Europe, although Brazilians were predominant in the north. In Montevideo, the figures are even more remarkable, with 48% of the population being foreign, and mostly European, born. The total

<sup>322</sup> Landa, “Ethnically Homogeneous Middleman Group,” and Greif, *Institutions and the Path to the Medieval Economy*.

<sup>323</sup> C. Jones, *International Business*.

<sup>324</sup> The concept presented here, and the selection of these cities, is made in José C. Moya, “A Continent of Immigrants: Postcolonial Shifts in the Western Hemisphere,” *Hispanic American Historical Review*, No. 86, Vol. 1, (2006).

<sup>325</sup> Azcona, *Possible Paradises*, 230.

number of Frenchmen in the country was 8,924, the number of Spaniards 19,064, and even at this early date, there are 10,209 Italians, the vanguard of a much larger, late-19<sup>th</sup> century migration to follow.<sup>326</sup>

By contrast, the British community in Uruguay was small, numbering only 1068 across the country, 0.5% of the population. They were clustered in high-trade regions, including Montevideo and the littoral along the river Uruguay. The British were more concentrated in Montevideo than the population average (56% as opposed to 26%) but less so than many other European groups, including the French (69%) or the Italians (74%).<sup>327</sup> In Montevideo, the proportion rises to 1% of the total, and in Colonia, it is as high as 1.3%. By contrast, in Cerro Largo on the border with Brazil, there are only ten inhabitants returned as British, for a tiny total of 0.05% of the population. British residents lived alongside British- owned businesses: at commercial houses in Montevideo, and *estancias* and *saladeros* in the countryside. Those in turn were located for economic efficiency by the major waterways and communications routes. Without barriers to entry or a large pre-existing community, British merchants were free to migrate to wherever they found economic opportunity.

It is in this context, then, that the British community of Uruguay must be situated, as a small but highly influential minority group. They are the British segment of a European merchant diaspora, originating from a variety of major trading centres, including Liverpool, Barcelona, Bordeaux, Hamburg, and Genoa. The British community is most similar to the German, in terms of numbers and occupations, and dissimilar to the larger waves of French, Spanish and Italian migrants that dominate the population. However, the merchant elites from these latter groups share more with their economic class, the British merchants included, than with their national compatriots.

What characteristics were typical of the British merchants of Uruguay? While each merchant has a particular story, there are some generalities that can be extracted from their experiences.<sup>328</sup> First, they were mostly Northerners and Scots, from the areas around Manchester,

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<sup>326</sup> Rial Roade, *Estadísticas históricas*, 18.

<sup>327</sup> All calculations of proportions are my own, based on the figures from Juan Rial Roade, themselves based on retrospective figures from the *Anuario estadístico, 1902-1903*. The data for Paysandú are not disaggregated by nationality, and so are not included in my calculation. This therefore represents an upper bound on the percentage of British rural inhabitants, and a lower bound on the total British population.

<sup>328</sup> For a large sample of biographies of River Plate merchants, of whom Montevideo merchants are a subset, see Maxine Hanon, *Diccionario de británicos en Buenos Aires* (Buenos Aires, 2005), Ricardo Goldaracena, *El libro de los linajes, t. 1-6* (Montevideo: Arca, 2001).

Liverpool, and Glasgow. Second, they were generally young men when they arrived in South America, around 18 years of age. They came as commercial apprentices, clerks, and supercargoes seeking markets. Their families were generally in commerce, specializing in the emerging lines of trade with the River Plate: clothing and textiles for exports, and hides for imports.

Constructing a definitive list of British merchants in Uruguay is problematic, due to the paucity of sources, as well as the constant flux of firms entering and leaving the market. To establish the dimensions of the British merchant community, this chapter relies on the commission of directors for the *Sociedad Compradora de los Derechos de la Aduana* (investors who had purchased the rights to the customs house) who compiled a list of 144 merchants and firms accredited to make dispatches at the customs house in 1844. Since the *Sociedad Compradora* had control over the customs, it seems plausible that this list is a more or less complete register of the companies trading at Montevideo in this period. There are a total of 28 British merchant firms listed on this register, comprising approximately 20% of the total.<sup>329</sup>

Further evidence regarding the scope of the community and its development can be found by examining the contributors to the protestant church and burial ground. The British status as a religious minority set them apart socially and institutionally from the rest of the population, since most of the native Uruguayan European immigrant communities were Catholics. A list of subscribers to the protestant burial ground from 1825 contains 30 names of individuals and companies.<sup>330</sup> While it is unclear how many are merchants, the list shows many important early firms and families: John Jackson, Francis Hocquard, Stanley Black and Co., the Gowlands, McLean and McEachen. It also shows substantial turnover in the community from the date of the list, in 1825, and the date of the enclosing document containing the list sent to the Foreign Office in 1832; of the 30 names on the list, 12 are given as having left Montevideo, and 5 were dead. Nevertheless, looking forwards to the 1830s and 1840s, many of these names persisted, an old guard for the merchant community dating back at least as far as the Cisplatine period of the 1820s. A letter requesting payment from the British government for the costs of operating the

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<sup>329</sup> See: Appendix 1, table 3. April 10, 1844. Carpeta 13, Caja 1632, Ministerio de Hacienda, Archivo General de la Nación. This list can be compared to other, more subjective lists, such as that presented in Isidoro de María, *Anales de la defensa de Montevideo, 1842-51*, t. 1 (Montevideo: Imprenta a vapor del Ferro-Carril, 1885), 260.

<sup>330</sup> *List of Subscribers to the English Burial Ground at Montevideo, made the 10<sup>th</sup> of August 1825*. National Archives at Kew, FO 51/142, 24.

British Cemetery was sent to the Foreign Office in February of 1841, and was signed by 23 individuals or firms, many of which are the same names as appeared in the earlier 1825 list.<sup>331</sup>

Nevertheless, there are many new names that appear by the 1840s, merchants who migrated to Montevideo, either seeking opportunity in the newly independent port, or in reaction to the rise of Juan Manuel de Rosas as Governor of Buenos Aires, and *de facto* dictator of the Argentine Republic. While Rosas's relationship with the British community in Buenos Aires is complex, it is clear that his authoritarian rule and anti-foreign sentiment put many British merchants on guard, even as they largely accommodated his influence, and perhaps even benefitted from his law and order regime. Those who could not reconcile themselves with Rosas, however, had an alternative locus for trade at Montevideo. Several key merchants, most notably Samuel Lafone and several of his close associates, such as George Hodgskin, John Kemsley, and Thomas Tomkinson, gathered in Montevideo and began assembling an anti-Rosas coalition of merchants that would come into prominence during the *guerra grande*. Others maintained operations in both cities, either under their own name, such as the Hughes Brothers, or through associated inter-partner linkages, such Anderson Macfarlane and Co., who were connected with Anderson Weller and Co. in Buenos Aires.

#### Elite Connections: The Jacksons of Uruguay

The family of John Jackson, one of the earliest and most successful British merchants in Uruguay, provides a case study for merchants serving a linking function between elite groups in Europe and in South America.<sup>332</sup> Jackson had established his wealth by a variety of means, acting as an importer of Manchester manufactures on consignment, from such major firms as Owen Owens and Co.<sup>333</sup> He was partnered early in his career with members of the Gowland family, who were influential on both sides of the River Plate. He also acted as a discounter of merchant bills, putting him at the centre of the nascent credit market in Montevideo, earning large sums from his relatively extensive capital, plus his reputation in the community.<sup>334</sup> He was also one of the earliest merchants to invest in land, acquiring substantial rural estates as early as 1825, where he raised both cattle and sheep. John Jackson, and his eldest son Juan Dámaso Jackson, were integrated at

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<sup>331</sup> Merchants to Thomas Samuel Hood, Feb. 20, 1841. National Archives at Kew, FO 51/142, 56-57.

<sup>332</sup> See Appendix 3.

<sup>333</sup> For biographical information on Jackson, see Goldaracena, *Libro de los Linajes*, t.1, 125-26, and Hanon, *Diccionario*, 455-56.

<sup>334</sup> Francis Falconnet, *List of English Establishments*, 1843 and *English Houses*, 1844.

the highest levels into both societies, a position they used to obtain advantages and forge linkages for themselves and for their respective families.

On the British side, the Jacksons were closely linked with the Rathbone family of Liverpool. Rathbone Bros. was a commission house of worldwide scope, leaders in the Liverpool merchant community, with dealings around the world, from China and India to Latin America and the United States. Their firm had capitalization of £100,000 in 1855<sup>335</sup>, making them one of the best capitalized, and presumably largest, merchant firms operating in Liverpool. The Rathbone family was involved in a series of philanthropic works as well as political causes. They were active Gladstonian Liberals, proponents of free trade, and staunch anti-slavery abolitionists. Politically ascendant in the 19<sup>th</sup> century, the Rathbones could claim prominent politicians among their members. William Rathbone V was elected Mayor of Liverpool in 1837, and his son William Rathbone VI became an MP for Liverpool in 1868. The family moved in and out of the Society of Friends, disagreeing, reconciling, and eventually splitting with the church over the exclusion of dealings with members of other faiths.<sup>336</sup> Nevertheless, the Rathbones were strongly connected with the Quakers, whose society was famous for its closely-knit merchant networks.

A social connection of this magnitude was a source of advantage for the Jacksons. First, it gave them a substantial commercial contact. Rathbone Bros. acted as buyers for the wool produced on the estates of the Jacksons, at least from the 1850s. They also served as one of the connections leaned upon by Uruguayan merchants and *saladeristas* to assist in opening up the British market for the sale of *tasajo*. In 1861, Juan Dámaso Jackson sent samples to William Rathbone, telling him about the importance of new markets and that the alternative to selling it in Europe was to simply waste the beef. When the directors of the *Club Nacional* agreed upon the necessity of finding new, European markets to counteract the crashing price of *tasajo*, they set out to find those merchants in Uruguay who had the most useful connections with Britain, among whom the Rathbone Bros. figured prominently, along with the Lafones. Juan D. Jackson also used Rathbone as a potential source of entrepreneurial information, asking for samples of cotton for use in cash crop experimentation.<sup>337</sup>

It is clear from the tone and topics of correspondence that the connections between the Rathbones and the Jacksons were as much a matter of family as of commerce. The second

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<sup>335</sup> Graeme Milne, *Trade and Traders in mid-Victorian Liverpool* (Liverpool: Liverpool University Press, 2002), 127.

<sup>336</sup> "Rathbone, William (1757-1809)" in the *Oxford Dictionary of National Biography*.

<sup>337</sup> Juan D. Jackson to William Rathbone, 29 May, 1861. Rathbone Papers, XXIV – 2 – 36 (62).

generation of Jacksons in Uruguay, Juan, Pedro, Alberto and Clara and Elena, were educated in Britain, and lived with the Rathbones for some time. It was there that Juan received his commercial education. Even at the time, there was a perception that the Rathbones, perhaps due to their Quaker affiliation, valued hard work and entrepreneurship. Juan D. Jackson them with his acquisition of such values, saying he acquired in their house “the habit of occupation.”<sup>338</sup> It is possible, then, that this kind of education was one mechanism for transferring entrepreneurial culture from Britain to Uruguay, one which would extend its influence to later generations.

This type of cultural transfer must be considered with caution, however, especially in light of Juan’s brother Pedro Jackson, whose demeanour was “quite opposed” to the disciplined and entrepreneurial character ascribed to his brother.<sup>339</sup> Clara Jackson, his sister, thanked William Rathbone for his salubrious influence.<sup>340</sup> However, it became clear that Pedro was neither interested nor suited to following in his father’s footsteps, nor in working alongside his brother. He himself claimed that he was “never made for a merchant.”<sup>341</sup> His family despaired of finding gainful employment for him, and after several abortive attempts to set him up working alongside Juan in the *barraca* (warehousing) business, he was sent to live on the family *estancia* where he was put in charge of managing their extensive flocks of sheep. Far from inheriting the Quaker-influenced entrepreneurial spirit of the Rathbones, he was considered ill-tempered, rash, and lazy, with his family having to intervene on many occasions to prevent scandal. It is worth remembering, then, that even if there is some transference of entrepreneurial culture, there were still substantial individual variations in aptitude and personality, and that not every Englishman was prepared to be a member of the economic elite.

On the Uruguayan side, John Jackson’s marriage to Clara Errazquin, the daughter of influential merchant and politician Pedro José de Errazquin and Josefa Larrañaga, herself a member of another major Uruguayan political family.<sup>342</sup> Clara’s brothers included Joaquín Errazquin, a local merchant who played a significant role in managing the Jackson estates after the death of John in 1854, and Manuel José Errazquin, who was, at various times, a Senator, Minister of the Treasury, a representative for Montevideo in the legislature, and successful merchant in

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<sup>338</sup> Juan D. Jackson to William Rathbone, 3 September, 1856. Rathbone Papers, XXIV – 2 – 36(7).

<sup>339</sup> Clara Jackson to William Rathbone, 3 February, 1857. Rathbone Papers, XXIV – 2 – 36(32).

<sup>340</sup> References in the text to Clara Jackson refer to Clara Jackson de Heber. References to Clara Errazquin refer to her mother, Clara Errazquin de Jackson, wife of John Jackson, *père*.

<sup>341</sup> Juan D. Jackson to William Rathbone, 3 September, 1856. Rathbone Papers, XXIV – 2 – 36(7).

<sup>342</sup> See: Appendix 3, and Barrán and Nahum, *Historia rural, t.I/2, apendice documental*, 129.

partnership with Joaquín. These family connections in turn attached the Jacksons to some of the most influential *Blanco* party luminaries: the Berro family, who were business partners with the Errazquin, and the Oribe family, including Manuel Oribe, second president of Uruguay and one of the feuding *caudillos* during the *guerra grande*. The connections of the Jacksons to the *Blanco*, rather than *Colorado* side of the political elite marked them as a slightly unusual case during the political conflicts of the 1840s and 1860s. They were closely associated with the government of Bernardo Berro, from 1860-1864, and had a strong antipathy towards the *Colorado caudillo* Venancio Flores, who dominated Uruguayan politics in the early 1850s, and eventually returned to overthrow Berro.

Within one generation, the Jacksons had established direct family links to Basque, German and Catalan merchant families. They were well-situated to take advantage of connections to the local political elite, and to the international merchant community. Through the Errazquin, they were connected with Felix Buxareo, a Catalan merchant of substantial wealth. Juan Dámaso Jackson married Petrona Cibils, daughter of Jaime Cibils, merchant, *saladerista*, and banker. The Cibils and the Jacksons would later collaborate on the Cibils-Jackson docks, begun in 1874, and one of the earliest and most important dry-dock facilities in South America. Albert Jackson, the youngest son of John, had a brief marriage to Rosa Artagaveytia, daughter of the Basque merchant and *Blanco* colonel Ramon Artagaveytia, although Albert died soon afterwards. Clara Jackson, for her part, married Carlos Heber, merchant and native of Frankfurt.<sup>343</sup>

Having arrived at least a decade earlier than most British merchants, and more deeply integrated into the local elite, they opposed foreign intervention, and reacted with scarcely-disguised loathing at their British contemporaries' attempts to influence the political situation in favour of the *Colorado* faction. John Jackson wrote on several occasions to the *Times of London* complaining of the ways in which many British merchants, along with Commodore Purvis and the plenipotentiary William Gore Ouseley, had compromised their otherwise good name by violating the principles of neutrality and involving themselves in local conflicts.<sup>344</sup> His son Juan D. Jackson clearly shared this view of the community, writing bitterly to William Rathbone that:

"...most of the Englishmen of note here have made their fortune in our revolutions, either buying confiscated or public properties or obtaining privileges from generally revolutionary & illegal governments of course sure always of the protection of their government... We have several

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<sup>343</sup> Goldaracena, *Libro de los Linajes*, t.1, 125-26.

<sup>344</sup> "Commercial Affairs," *The Times of London*, Thursday, Nov 13, 1847.

Englishmen who occupy themselves in nothing more than claims & who are the declared enemies of the present government, because it is the only one that has put an end to revolutions & who has had pluck to call them to order..."<sup>345</sup>

This political stance may explain the general lack of linkages between the Jacksons and other British merchants in Uruguay. John Jackson also converted to Catholicism, and his children were raised in that faith, marking a further rift between the Jacksons, who were deeply integrated into the *Blanco* faction of the Uruguayan community, and the *Colorado*-oriented faction led by Samuel Lafone. The latter was centred not only around Lafone's economic sphere of influence, but also around the Anglican Holy Trinity church, which had been built with his donation of land and money. The Jacksons, by contrast, left the legacy of the Jackson family chapel, built by Clara Jackson de Errazquin, the widow of John Jackson, a Catholic rather than Anglican institution.

#### Family Networks: Samuel Fisher Lafone

The case of Samuel Lafone provides another concrete example of the ways in which a merchant's family network could contribute to their entrepreneurship. Lafone was one of the most influential, and for most of his career successful, British merchants in Uruguay. He was known for the tremendous scope of his entrepreneurial activities. During his career, he was a merchant, banker, *estanciero*, *saladerista*, land speculator, and tax farmer. His various projects ranged from colonization schemes such as the Pueblo Victoria on the outskirts of Montevideo, or Lafonia in the Falkland Islands, through importing machinery for the production of *tasajo*, to being one of the principal financiers of the *Colorado* faction in the *guerra grande*. He owned mines in Catamarca and in Cuñapirú, tried convert Punta del Este into a new port, and generally involved himself in an astoundingly large range of entrepreneurial projects. Given that Samuel could not possibly oversee all of these projects directly, how did he overcome the problems of trust and supervision in finding managers and agents?

The answer is family.<sup>346</sup> Samuel used his connections in Britain, not only with his family's firm, but with allied firms in Liverpool and London, to secure finance and to sell rural produce. First, and most important, were his family's connections in the Liverpool leather trade going back to the 18th century. Samuel Fisher's great-grandfather, Alexander Lafone, is listed as a merchant in Gore's Directory of Liverpool as far back as 1774, but little is known about his status. A firm

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<sup>345</sup> John D. Jackson to William Rathbone, 30 August, 1858. Rathbone Papers, XXIV – 2 – 36(42).

<sup>346</sup> For Samuel Lafone's family tree, see appendix 2.

named Samuel Lafone and Co. of Liverpool was dissolved in February 1796,<sup>347</sup> and shortly afterwards, a Liverpool merchant named Samuel Lafone was declared bankrupt.<sup>348</sup> While it is not certain that this is the same Samuel Lafone as the father of the Uruguay merchant, what is certain is that by March 1826, there is another bankruptcy for one Samuel Lafone, along with James Graham. In this case, it is clearly the correct Samuel, living in Toxteth Park and described as a “Tanner, Cowkeeper, and Farmer, Dealer and Chapman.”<sup>349</sup>

We can gain some concept of the scale of the Matthews, Brothers and Company tannery in which Lafone (*père*) was a partner through evidence he gave as a witness for the Select Committee on the Leather Trade in 1816. From his testimony, we learn that “the house with which he is connected” paid 1/24<sup>th</sup> of the total duties on leather for England and Wales, on over 2,100,000 lbs. of leather. Matthews, Brothers and Co. was also already in 1816 much more in the business of processing imported hides than domestic ones, at a ratio of 10,000 British hides to 40-50,000 foreign. Thus the supply of cheap imported hides was already a priority for the firm, and probably a factor in the eventual relocation of Samuel and Alexander Lafone to the River Plate; the family moved upstream into the hides trade, presumably acting as suppliers for themselves, although evidence from inside the firm is lacking.

The elder Samuel complains in his testimony to the select committee of excessive duties, and mentions that his firm has been operating at a loss, at least since the introduction of new duties in 1812, claiming that many tanners in North England must “inevitably be ruined” by such measures.<sup>350</sup> Given the bankruptcy of his house, he may have been correct. So, while the Lafone family was well-placed in the Liverpool hides trade, and dealt in large volumes, they had fallen on hard times. Samuel Lafone complained that “I have been ruined, and all those concerned with me, by the restrictions and duty alone, and a princely fortune lost.”<sup>351</sup> While some of this is no doubt histrionics in lobbying for the repeal of the duties, it seems plausible that it also reflects a genuinely poor situation in the trade, as evidenced by his later bankruptcy. It also suggests that the Lafones had some measure of wealth prior to this point, and the elite status of the family throughout the 19<sup>th</sup> century suggests their setback was, at most, a temporary one.

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<sup>347</sup> *London Gazette*, Feb. 23, 1796, 202.

<sup>348</sup> *London Gazette*, Oct. 15, 1796, 981. The name of both the merchant, listed as a broker, and the firm, appear in the 1796 *Gore's Directory of Liverpool*, 100.

<sup>349</sup> *London Gazette*, Mar. 11, 1826, 578.

<sup>350</sup> *Report from the Select Committee on the Leather Trade*. Parliamentary Papers, 1816 (386), 29-30.

<sup>351</sup> *Ibid.*

In 1813, Samuel Lafone was a partner in the hides trading firm Thomas Beckwith and Co., from which Thomas Beckwith separated, leaving the remaining partners to continue their operation as Mathews, Brothers and Company.<sup>352</sup> The family association with the Beckwiths must have continued, as Falconnet wrote in 1843 that Samuel Lafone's agents were the Beckwiths in London, although in 1844 he reported Lafone's agents as Bouthcher, Mortimore and Co. That firm also operated under the name Ricketts, Bouthcher and Co., and was involved directly in the River Plate hides trade.<sup>353</sup> This would also become an important alliance between firms and families, solidified through Samuel's half-brother Alfred, who joined, and eventually headed, the firm of Bouthcher, Mortimore and Co.

Alfred went on to marry Jane Bouthcher, daughter of William Bouthcher and Elizabeth Mortimore, in 1852, reinforcing the integration of the Lafone family with their business network. While Alfred Lafone's political career postdates the death of Samuel Fisher Lafone, it indicates the upwards trajectory of the family: he was elected as the Conservative MP for Bermondsey twice, in 1886 and again in 1895. Although we cannot know for each case whether a shared social circle caused intermarriage, which then had economic consequences, or whether economic priorities were the incentives for marriages, it is clear that the social and business worlds were not at all separable. In Britain as in Uruguay during the era of the family firm, marriages could also be mergers.

On a more direct level, Samuel Lafone used his brothers and half-brothers as managers and even as diplomats, overseeing his enterprises. His closest business connection was with Alexander Ross Lafone, his younger brother. They initially divided their labours across the River Plate, with Alexander managing their affairs in Buenos Aires in the 1830s and early 1840s, and Samuel doing the same at Montevideo.<sup>354</sup> During the first years of the siege of Montevideo, Alexander returned to England to manage their enterprises from Liverpool, and also to lobby the British government for intervention against Rosas. Samuel's younger half-brother Henry apparently worked in partnership with their father in running the family tanning business. His other half-brother, William Lafone, worked alongside him in Montevideo throughout much of this

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<sup>352</sup> *London Gazette*, Sept. 11, 1813, 1806.

<sup>353</sup> Francis Falconnet, *List of English Establishments at Buenos Aires and Montevideo* Barings Archive, HC 16.114, June 27, 1843 and *English Houses established at Buenos Ayres and Montevideo* Barings Archive, H16.115/1/127, June 1844.

<sup>354</sup> No doubt, this division is also related to Samuel's various controversies in Buenos Aires over his marriage and his business dispute with Thomas Armstrong, and to his opposition to Rosas. Alexander Ross, by all indications, kept a lower profile, and perhaps was more suited to operations in Buenos Aires – although this is mostly speculation.

period. He owned a small *estancia* with three thousand sheep and two thousand cattle at the Rincon del Sauce in 1854. Likely, this *estancia* is connected to his brothers' interests at Punta del Este.

Samuel's brothers-in-law also played a major role in his businesses. His sister Martha married John Pownall Dale, and the two of them moved to Uruguay in the 1830s so that he could manage Lafone's new model *saladero* at La Teja. He would later go on to manage Samuel and Alexander's colony in the Falkland Islands before moving back to Britain. Dale also acted as temporary British consul in Uruguay during the initial years of the siege of Montevideo, a political position that no doubt both reflected and extended Lafone's political influence. Juan Quevedo, the brother of Samuel Lafone's wife Maria Quevedo y Alsina, played a crucial role in the operation of his business empire, acting as his agent and attorney in countless transactions until the death of Samuel Fisher in 1871. He appears in the 1836 Montevideo census in the household of Samuel Lafone, only 18 years of age at the time, which means he most likely left Buenos Aires along with Samuel.<sup>355</sup> He would go on to become an entrepreneur in his own right, as a merchant, *estanciero*, and director of the Montevideo gas company.<sup>356</sup>

### International Commercial Networks

Family, however, could only go so far in generating a network. Commerce required exchanges of products, credit, and information on a far wider scale than could be accomplished entirely through intermarriage. In the 19th century, trade moved along networks of interconnected firms. Individual commercial houses were the regionally-specific intermediaries of these networks. In order to carry out their business, they relied heavily upon one another to overcome the difficulties of trade by providing information, advancing credit, and forging international connections. Most importantly, they required a consistent flow of commercial paper. Merchants regularly advanced their own credit to local retailers in order to sell their products, and drew upon their connections in Britain to obtain the funds to operate flexibly in the Uruguayan market.

But, of course, credit could not only move one way, and bills eventually had to be paid. Remittances to Britain were made through one of three channels: rural products, commercial

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<sup>355</sup> *Censo de 1836*: Archivo General de la Nación, Archivo General Administrativo, Censos (146)

<sup>356</sup> Goldaracena, *Libro de los Linajes*, t.4, 120.

paper, and precious metals.<sup>357</sup> The safest choices, silver and gold, faced prohibitive opportunity costs for removing specie from Montevideo, where it earned a premium of “12% per annum at least,” and frequently more.<sup>358</sup> The British merchant therefore sought to keep their hard currency in the River Plate and loan it out locally to take advantage of high rates of return. Looking for alternatives, merchant houses remitted directly in “*frutos del pais*”, the rural produce of the countryside. For some merchants, including Samuel Lafone, this was their primary business, supplying hides and other cattle by-products such as tallow and bone ash to the British market.

However, the preferred method for remittances was commercial paper.<sup>359</sup> Merchant networks helped ensure the international flow of credit without relying directly on banking institutions, which did not exist in Uruguay until the late 1850s. The commercial houses of Montevideo were the nearest substitute to serve financial functions because they stood at a nexus; they were connected to the secure, high-capital economy of Britain via their parent firms and commercial networks in the UK, and also to the capital-scarce, speculative, developing economy in Uruguay. They could, in essence, borrow at a low rate, and loan it out again at a much higher rate by making advances in manufactures to retailers, or more riskily, advances in cash to the government or private borrowers.

The supply of merchant credit was maintained by the differing needs of various firms, and by their respective strategies. Firms making major purchases of pastoral products for remittance, or who were temporarily short of cash, would issue credit, which functioned as a substitute for paper money amongst merchants. The ability to draw upon firms from Europe when funds were needed, and to remit the paper of other firms, was the key to the operation of British businesses in Uruguay, and to their rapid expansion into other sectors. Without this, they would have been constrained by the same lack of credit that plagued local entrepreneurs, and would have had to borrow at the high rates prevalent in Uruguay, from 12% to 24% annually. Since there was neither a banking system, either private or state- operated, nor any scope for direct investment in the form of international firms until the 1860s, commercial houses were the best method by which capital could move from capital-abundant Britain to capital-scarce Uruguay.

Functioning as conduits for credit for the lucrative Uruguayan market was remunerative, but also tremendously risky. Interruptions in trade could lead to mismatched liabilities, with assets

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<sup>357</sup> Llorca-Jaña, *British Textile Trade*, 143, and Reber, *British Mercantile Houses*, 100.

<sup>358</sup> John D. Jackson to William Rathbone, May 4, 1857, Rathbone Papers, XXIV-2.36.

<sup>359</sup> Llorca-Jaña, *British Textile Trade*, 177.

being largely held in illiquid properties and debts in South America, whereas liabilities were held bills, which regularly came due in Britain. An imbalance in flows, or a temporary downturn could spark a crisis of confidence. Such was the case of Samuel and Alexander Lafone in 1858. The Liverpool side of the firm, managed by Alexander, found itself massively in debt, to the amount of £246,549 pounds, and had to call in its creditors to arrange an agreement for repayment.<sup>360</sup> He claimed that Samuel had been late in remitting goods, and that this had led to this suspension of payments. Alexander nevertheless obtained an agreement to repay 20 shillings to the pound, at 5%, in three instalments at six month intervals.<sup>361</sup> Enough confidence was placed in their house that no inspectors were required. This hands-off strategy for recouping debts appears to have paid off. He was reported to have paid the entire sum, and “fully justified the confidence reposed in him.”<sup>362</sup>

We know from contemporary sources that Samuel Lafone’s problems owed much more to the commercial crisis of 1858, which had forced some of the major houses in both Montevideo and Buenos Aires to suspend payment, and likely to Samuel’s own highly expansionary and speculative investment strategy, than to a mere failure to remit frequently enough. A scathing article in *The New York Times* described the house’s failure as being due to Samuel’s “desperate ventures in exchanges, and from injudicious loans, including some to the Montevidean government, who are in an utterly penniless state, with enormous obligations.”<sup>363</sup> The loans advanced by Lafone and others to the government will be the subject of another chapter; what concerns us here is the difference between American observers who saw Samuel Lafone as a speculator and loan-jobber, that is to say, observers outside the social and trade network of the Lafones, and their creditors in Liverpool, who made relatively generous arrangements to ensure the continued solvency of the house, on the strength of their reputation, the belief in their assets in Uruguay.

Paying down this debt, however, required a substantial liquidation on the part of Lafone, and for this, he drew upon his social connections in Uruguay. Without access to his archive, we have a necessarily limited view of the measures he took to acquire the funds necessary to pay down the debts of his house. We do, however, have some indications from the judicial and notarial archives in Montevideo about the types of arrangements made, as well as the people with

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<sup>360</sup> Graeme Milne, *Trade and Traders in Mid-Victorian Liverpool: Mercantile Business and the Making of a World Port* (Liverpool: Liverpool University Press, 2000), 159.

<sup>361</sup> “Money-Market and City Intelligence,” *The Times of London*, Thursday, April 1, 1858.

<sup>362</sup> *Brazil and River Plate Mail*, January 21, 1864.

<sup>363</sup> *New York Times*, May 29, 1858.

whom he dealt. A committee from the *Banco Comercial* was established by his creditors to deal with the liquidation of his property, consisting of three major merchants: Thomas Tomkinson, Richard Hughes, and Joaquín Errazquin. It is likely not a coincidence that these were all closely connected to him, especially Tomkinson, the father-in-law of his daughter, and frequent business collaborator. Just as in Liverpool, deep connections in the local business community and an ethic of mutual support cushioned what would otherwise have been a crippling liquidity crisis.

This was not necessarily a smooth process. In 1861, the *escribania de comercio* registers a series of protested bills against Samuel Lafone. These protests were made by some of the most important merchants and merchant firms in the plaza, including Jaime Cibils, Burrasco y Piñerua, Farriols y Guimara, Ramon Arocena, and Enrique Ochoa.<sup>364</sup> In an attempt to cover his debts, Lafone offered his famed *saladero*, La Teja, to the Barón de Mauá, on condition of resale in a year's time, for £20,000 in Sterling. In addition, he was extended credit though the firm of Carruthers de Castro and Co., Mauá's firm in Río de Janeiro, although it appears he did not make use of it.<sup>365</sup> Throughout this process, Juan Quevedo, his young brother-in-law, acted as his legal representative, likely an indication of how integrated he was in Lafone's businesses. By all accounts, by the mid-1860s, Samuel Lafone had cleared his debts, and continued to operate as one of the major *saladeristas* in the region, and although it was clear that the peak of his influence as a merchant-investor had passed, his businesses had largely survived a crisis by drawing upon the social resources available to him. His colleagues and relatives made arrangements to cover his short-term debts in hopes of saving his long-run interests, thus preserving their own stake

#### The Case of Anderson Macfarlane and Co.

The merchant firm of Anderson Macfarlane and Co. was a commercial partnership operating between John Anderson in Glasgow, Scotland, and John Macfarlane, in Montevideo. Like most British houses, they were primarily in the business of importing manufactured textiles and clothes, and remitting both in rural produce and in commercial bills. It is important to note that this firm was part of a relatively dense network of firms in both Buenos Aires and Montevideo, on the South American side, and Glasgow and Liverpool in Britain. John Macfarlane also partnered with John Rennie in the firm Rennie Macfarlane, whereas John Anderson operated in Buenos Aires along with the Liverpool merchant Spencer D. Weller as Anderson Weller and Co. In Montevideo,

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<sup>364</sup> Escribania de Comercio, 1861, T. 34. Archivo Judicial, Montevideo.

<sup>365</sup> Retroventa – Los Señores Mauá y Ca. por S.E. el Baron de Mauá a Don Samuel F. Lafone. Archivo Lafone, Museo Historico Nacional.

their correspondence was written by John MacColl and the Macrae brothers, William and James.<sup>366</sup>

The major surviving source for this firm is a letter book from their Montevideo house, covering the years 1846-1850, held at the National Archives at Kew in London.<sup>367</sup> The letters contained therein reveal the various functions of the merchant firm in action. They reveal how the Montevideo branch represented itself to its suppliers, creditors, fellow merchants, and internally to its overseas partner, John Anderson. The overall picture is bleak. The last years covered by the letter book were the darkest years of the *guerra grande* for British commerce in Uruguay, following the end of the armed intervention in 1848 and the peace with Rosas. The firm was eventually forced, in 1848, to suspend payments, and to liquidate its assets, although the prolonged process for doing this meant that their operations continued throughout the period.

The Anderson Macfarlane and Co. letter book contains all outgoing correspondence from the Montevideo house. Sorted by unique correspondents, it reveals the breadth of their network, including suppliers, creditors, and informational contacts. With this information, we can tentatively answer some basic questions about merchants' international networks: with how many firms did they correspond, and what was the geographical distribution of those firms? Being a Scottish firm, rather than an English one, there is a strong emphasis on correspondents in Scotland, and particularly in Glasgow. Since they do not appear to have been involved in the *tasajo* industry, there are no correspondents in Cuba or Brazil. The list reveals the areas both in South America and Britain that were within the scope of a firm's operations.<sup>368</sup> For the United Kingdom, the correspondence list is dominated by four locations: Glasgow, Liverpool, Manchester, and London. Trade through Liverpool, and to a lesser extent Glasgow, supplying goods manufactured in Manchester, was the most important element of commerce. For this particular firm Glasgow alone accounts for almost half of all correspondents (48 of 106), since commercial paper from Glasgow houses was an important element of Anderson Macfarlane's remittances. Information as well as remittances flowed from Montevideo to Glasgow. The correspondence network served to update their peers of the turbulent state of affairs in Montevideo. Letters carried crucial information about prices, credit, politics, and the trustworthiness of local agents, all necessary to successfully conduct business.

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<sup>366</sup> John MacColl would go on to become a merchant and *estanciero* in his own right, and wrote a propaganda manual for emigration, extolling the potential of sheep raising in Uruguay.

<sup>367</sup> Anderson Macfarlane Letterbook, 1846-1850. Foreign Office 508-1, National Archives, Kew.

<sup>368</sup> See appendix 1, table 4.

The question of obtaining bills for remittance was of primary importance for Anderson Macfarlane and Co. The supply of such bills, and the price at which they could be gotten, functioned as a kind of exchange rate between capital in Britain and capital in Uruguay. When times were good, and firms who wanted to purchase products and make investments in Uruguay were drawing heavily upon their parent houses, their credit could be purchased to make remittances at good rates. In times of economic disruption, when firms were trying to cover existing debts rather than create new ones, options became more limited, forcing prices up and driving the safest paper out of the market. Samuel Lafone, consistent with his risk-taking approach to business, appears to have been a major source of bills, as one of the few merchants in the market consistently drawing upon his factors in England, the leather firm Ricketts, Boucher and Co.<sup>369</sup>

London was the home of Cotesworth, Powell and Pryor, who served as financiers for Anderson Macfarlane and Co. Most of their discussions with that firm concern issues of credit, rather than supply of goods. Remittances were made via Cotesworth, Powell and Pryor for goods sold on consignment to other firms.<sup>370</sup> The larger London firm acted as a major network hub, connecting several suppliers to make consignments at the Montevideo house, and receiving remittances to Britain in the form of bills of exchange. In this supply network, we can see the outlines of a more sophisticated banking system beginning to take shape in order to facilitate international transactions. Although during the 1840s, it remained at the level of a network of commercial paper, by the 1850s many of these merchants, including Samuel Lafone, were at the forefront of developing the earliest banks in Uruguay. By the 1860s, British banks were operating in the region, most notably the London and River Plate bank, which established branches at Buenos Aires and Montevideo, and used old River Plate merchants (notably James Lowry for Uruguay) as local consultants.

#### Immigrant Entrepreneurship: Richard Bannister Hughes

This section will examine the case of Richard Bannister Hughes, merchant and landowner. His case is notable for several reasons. First, Richard Hughes did not act as an agent of an existing British firm seeking to internationalize. The firm of Hughes Brothers was established directly in the River plate, without an associated merchant house in the United Kingdom. Second, his career is both a literal and figurative example of entrepreneurial exploration. Hughes moved between

<sup>369</sup> Jan. 5 1846, and 16, 1846. Anderson Macfarlane Letterbook.

<sup>370</sup> Ibid.

trades, regions, sectors, and countries over time. More exploration than diversification, Hughes engaged in a near-constant entrepreneurial search for new ventures. The examination of Hughes as a case study lends biographical concreteness to the broader issue of British merchants as transformative agents and profit-seeking, risk-taking entrepreneurs in Uruguay in this period. It focuses on several phases: the accumulation of human capital, the exploratory search for markets and resources, the development of his merchant house, his forays into banking, the transition from merchant to *estanciero*, and finally his role as president of the *Asociación Rural del Uruguay*, an influential lobbyist and advocate for progressive economic ideas. It will also show the parallels with the progression of British entrepreneurship in the region, from the era of the merchant house, through their upstream diversification into rural investment, and finally, the connections between the activities of merchant-entrepreneurs and the emergence of the modern meat processing firm in Uruguay: the Liebig's Extract of Meat Company.<sup>371</sup> An evaluation of the overall career and impact of Hughes will show empirically how merchants adapted their strategy to the changing situation in Uruguay, and the impact of British entrepreneurship in the development of the Uruguayan economy.

The career of Richard Bannister Hughes fits elegantly with the epoch of the merchant house in the River Plate, both in terms of period and in representing the evolution of British entrepreneurship. The scope of his economic activity was geographically broad; while Hughes's independent entrepreneurial career was launched in Uruguay, and also ends in Uruguay, he was far from a single-country specialist. His career spans much of Latin America, having begun in the West Indies, and involved substantial periods in both Brazil and Argentina before settling permanently in Uruguay. More even than most River Plate merchants, his scope was regional, moving not only between Buenos Aires and Montevideo, but also up the Uruguay river, both on his landmark exploratory commercial journey to Paraguay, and later as a colonist and landowner in Paysandú.

Like most River Plate merchants, he was a northerner, born on the 27<sup>th</sup> of March 1810 in Liverpool.<sup>372</sup> Not much is known about the situation of his family. What we do know is that he had at least two brothers, James and Thomas, who later joined him in forming the firm Hughes Brothers, which operated at Liverpool, Montevideo, Buenos Aires and Río Grande. At the age of 13, he travelled to Santo Domingo as a commercial apprentice. Sometime later, he worked for

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<sup>371</sup> Hughes Papers; *Revista de la Asociación Rural*, 1873-1894;

<sup>372</sup> *Revista de la Asociación Rural*, 1873-1894, 564-565.

Richard Carruthers in Brazil, at his import/export house Carruthers and Co. It is said that there he met a teenaged Irineo Evangelista de Souza, the future Barón de Mauá, banker to the empire of Brazil and the most important financier in Uruguay during the 1850s and 1860s.<sup>373</sup>

Richard's first exposure to the River Plate market appears to have been as a clerk for Uruguayan merchant León Ellauri, a post he held at least as early as 1829. It was from this base that he went into business with his brothers, and founded the firm that would be the basis of his later successes. At some point in the early 1830s, Hughes launched his own merchant house alongside his brothers. Hughes Bros. appear to have begun as a small merchant house of good reputation. It does not appear to have been one of the large, well-connected firms working directly as commission agents for a large manufacturer, nor as buyers for a large leather firm. Instead, the prosperity of their firm rested entirely on managing a small quantity of capital well. This relied on the entrepreneurial judgement of the brothers, which was by all accounts held in high regard. Francis Falconnet, writing to Barings bank in 1843, glowingly describes their operations in the following terms:

"A young and very respectable house, with limited means, but conducted with much prudence, their principle business is importing manufactures on own account, & on a/c of friends, remit seldom but in Ex[change], they now and then ship produce against letters of credit."<sup>374</sup>

As was typical of foreign merchants of the era, Richard Bannister Hughes married into an established local merchant family. In 1834, a few years after establishing his own merchant house, Richard married Adelina Rücker, daughter of the Hamburg merchant Conrado Rücker and Isabel Alvarez de Navia.<sup>375</sup> While it does not appear that Richard Bannister Hughes had the kind of deep family business connections of other British merchants such as Samuel Lafone, his family was still a substantial resource for his entrepreneurship. As is clear from the name, the Hughes Brothers were a family partnership, apparently not inherited from any prior family firm in England, but built entirely in the River Plate by the entrepreneurial skills of the brothers themselves.

While the life of Richard Hughes is difficult enough to piece together from the surviving fragments, his brothers Thomas and James are even further hidden from our historical view. Since

<sup>373</sup> While it is entirely plausible that Richard Hughes met the young Mauá at this time, what is less clear is what influence, if any, this had on their future careers. While detailed records of the firm Hughes Bros. do not appear to have survived, the firm does not seem to have been especially connected with the Mauá financial empire, except insofar as every firm would have dealt with such a preponderant influence.

<sup>374</sup> Francis Falconnet, *List of English Establishments at Buenos Aires and Montevideo* Barings Archive, HC 16.114, June 27, 1843.

<sup>375</sup> Ricardo Goldaracena, *El libro de los linajes*, t. 1 (Montevideo: Arca, 2001), 250-251.

Thomas and James left no known descendants, and do not appear to have been landowners, they left few traces in the archives, and their lives are therefore largely unknown. What is certain is that they operated as Richard Hughes's partners in trade; James was, for at least some time in the 1840s, the head of the Montevideo branch, and Thomas was at Buenos Aires. From family letters, it is certain that at least one brother travelled back to Britain to the family home at 11 Elizabeth Street in Liverpool, although it is unclear which brother is writing.<sup>376</sup>

The social circle of merchants in the River Plate was more cosmopolitan than segregated, and Hughes's family connections were not atypical. His 1834 marriage to Adelina Rücker cemented a key alliance with one of the most experienced and influential German merchants in the city, Conrado Rücker. It also, through his mother-in-law, tied Hughes into the Navia family, from the old colonial Spanish elite. This included Carlos Navia, one of the founders of the *Banco Comercial*, and later the eponymous *Banco Navia*.<sup>377</sup> It also included Joaquina Navia who would, in 1843, become the wife of Thomas Tomkinson, another influential British merchant-entrepreneur. Hughes was thus an integral part of the nucleus of European merchants who became the vanguard of Uruguayan development in the 1850s and 1860s.

One of the defining events in Richard Hughes's career was his landmark voyage upriver to Paraguay, with the intention of assessing potential markets, selling a cargo at a substantial profit, and exploring possible opportunities. From July 1841 to February 1842, he led an expedition up the Río Paraná to Paraguay. His voyage also had the official imprimatur of the Foreign Office, which was willing to bless the journey as a potential method of re-establishing commercial and diplomatic contact with Paraguay. The inland country had, early in the Independence process, broken off entirely from the rest of the former Viceroyalty of the Río de la Plata. The dictator José Gaspar Rodríguez de Francia had pursued a course of near-total isolationism, maintaining Paraguayan autonomy, but also removing it from the flows of international commerce. Re-establishing contact was thus seen as a potential windfall for British trade.

Information about the true state of this potential market was scarce, but rumour and myth, built on a long European tradition of viewing Paraguay as a Jesuit paradise of great wealth and population, portrayed a major market cut off from the world by political choice, rather than poverty.<sup>378</sup> However, lacking any regular communication, the only reliable method for an

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<sup>376</sup> Hughes to Hughes Bros., Montevideo, Sept. 22, 1842. *Libro de Bitácora*, Hughes Family Papers.

<sup>377</sup> Goldaracena, *Libro de los Linajes*, t.3, 143.

<sup>378</sup> Winn, "British Informal Empire," 106.

entrepreneur to obtain the information necessary for either trade or investment was to travel there. Hughes was the first British merchant to take this step. Written by Richard Hughes himself, the logbook for the voyage is a classic example of a British travel account from the period, rich in geographical, historical and cultural detail, providing bits of local colour through vignettes and anecdotes. However picturesque, its most interesting feature is what it reveals about Hughes as an entrepreneur.

What is evident is that his voyage to Paraguay was not only about reaching the destination and trading goods, a pure exercise in market-making, although it certainly served that purpose. It was also about accumulating information for potential investments in the riverine region. He would later put this information to use in developing his rural enterprises in the 1850s, although the focus of his activities would be along the Río Uruguay rather than the Paraná. This kind of entrepreneurial eye for opportunity can be seen in various comments recorded in the log. Early in the voyage, passing by some of the islands near the mouth of the river, Hughes comments that “I could not help imagining what excellent situations they would form for a young colony, with abundance of two great necessities, feed and water, & with a hundred navigable streams facilitating communication,” although the yearly flooding in the region would make that particular plan unworkable.<sup>379</sup> Still, the comment reveals that even as early as 1841, Richard Hughes is clearly looking at the littoral zone of the River Plate not only from the market-oriented perspective of a travelling merchant, but also as a potential investor.

Nevertheless, Hughes's trip to Paraguay was a source of controversy; the issue of Rosas's closing of the interior rivers and the scope of the potential for British trade with Paraguay were hotly debated in the polemics of the time, advocating both for and against British intervention. British partisans of the *Colorado* cause wrote glowingly) about the limitless Paraguayan market, making reference to an abundance of timber, and limitless cheap labour, among other advantages. General O'Brien, writing to the Foreign Office on behalf of the besieged government at Montevideo, wrote that the lands of Paraguay were “the richest and most fertile provinces in the world, by a near union of the two great rivers, the Amazons and the La Plata... [the trade is] second only in value, extent and importance to that of China.”<sup>380</sup> These assertions, while totally

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<sup>379</sup> July 17, 1841. Libro de Bitácora (Log Book), Hughes Family Papers.

<sup>380</sup> General John O'Brien to Lord Aberdeen, April 15, 1845. In *Correspondence with the British Government relative to the war between Buenos Ayres and Montevideo and the free navigation of the River Plate, with an Appendix detailing some of the acts committed by Rosas, Governor of Buenos Ayres* (London: Reynell & Weight, 1845).

implausible from a modern perspective,<sup>381</sup> would not necessarily have been rejected out of hand in London, where knowledge of Paraguay was scarce.

Opponents of intervention, meanwhile, downplayed the importance of the Paraguayan market, and therefore inveighing against siding with Montevideo in the conflict with Buenos Aires. One anonymous pamphlet wrote that “There is no man, practically acquainted with the subject, who does not know that the idea of a foreign trade with the interior of the river Paraná is utterly chimerical, however much it may have been cried up for interested purposes,” and that the pursuit of such would yield only a “vain and worthless shadow.”<sup>382</sup> In any case, as argued by pamphleteer Alfred Mallalieu, the problem would be solved anyway by allowing Paraguay to fall under the control of Argentina, making the trade internal to that country.<sup>383</sup>

Neither of these sets of opinions quite matches what we know about the potential trade with Paraguay, as experienced directly by Hughes during his voyage. There was clearly business to be done in this region. Unbeknownst to Hughes or any other entrepreneur from further down the river, by the time he departed, the government of Paraguay had changed. The isolationist dictatorship had ended with the death of Francia in September 1840. While the new ruling junta led by Carlos Antonio López was not outward-oriented, it did mark a potential opening of the country from the extreme anti-foreign policy that had dominated Paraguay for thirty years. The timing of Hughes’s journey was thus fortuitous, at least from the perspective of Paraguayan policy, and he stood to make substantial profits from being the first mover in this newly opened market. Hughes not only sold his goods and returned with cargo to sell, but wanted to return upriver in 1842 to fetch goods he had been unable to bring back on the first voyage; in this, he was blocked by Rosas, who had closed the rivers. However, this does not mean that there was a great deal of business to be done; Paraguay was a relatively poor region, whose inhabitants did not represent a large consumer market, an enormous source of desirable trade goods, nor an easily-accessible pool of cheap labour. What Paraguay did produce in abundance, timber and yerba mate, was mostly of regional interest, and did not represent a major British interest in keeping trade open.

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<sup>381</sup> The distance between the River Plate and the Amazon River, even at the extremities of their furthest tributaries, is over a thousand kilometres, and the Amazon comes nowhere near the inhabited parts of Paraguay. Any connection between this and the supposed wealth of Paraguay is absurd.

<sup>382</sup> *British Diplomacy in the River Plate* (London: Whittacre and Co., 1847), 37-38.

<sup>383</sup> Alfred Mallalieu, *Buenos-Ayres, Monte Video, and affairs in the River Plate* (Edinburgh: W. Blackwood and Sons, 1844), 66-67.

Hughes complained of his mistreatment to the British Consul at Montevideo, John Pownall Dale, brother-in-law to Samuel Lafone, and a decided partisan of intervention. Dale, however, was unable to obtain redress from the Foreign Office, which was not at that point interested in entanglements in the River Plate. While Hughes clearly wanted either to receive his goods or obtain some compensation for them, the firm does not appear to have wanted this to become a polemical issue. When the *Britannia*, the British newspaper of Montevideo (and likely a propaganda vehicle for Lafone) published an anonymous letter complaining of how Richard Hughes had been tricked by Rosas, James Hughes replied that the author did not know anything about his brother's affairs, and was in no position to discuss such things.<sup>384</sup> Presumably, this was an attempt to maintain their house's neutrality; Lafone and the partisans of intervention were, for fairly obvious reasons, targets of official scorn in Buenos Aires at the time.

From all appearances, it both made him a substantial profit on the voyage itself, and gave him information that shaped his future investments. In the medium term, however, he was prevented from returning to Paraguay again by Juan Manuel de Rosas's edict closing the rivers to foreign commerce. Thus, the voyage had little direct impact on the pattern of trade conducted by the Hughes Bros., which remained in the import/export trade focused at Buenos Aires and Montevideo. Nevertheless, a strategy should not be assessed on its consequences, but on a forward-looking evaluation of the contingent possibilities in the context of the time. The complex diplomatic, military and economic situation of the 1840s was not a predictable process, as evidenced by the failure of almost all parties involved to attain their end objectives. Adapting to these obstacles was, at least in part, a matter of exploring the available strategic options, including emergent possibilities resulting from political changes. Paraguay was one potential avenue for expanding the trade of Hughes Brothers. It could have been a profitable opportunity, contingent on the truth of various uncertain propositions: the current and potential prosperity of the Paraguayan trade, which was poorly understood; the free navigation of the rivers; the diplomatic stance of the British government; and the military outcomes of the various regional conflicts.

In retrospect, we know that the Paraguay trade was neither large nor tremendously profitable, although certainly larger than its polemical critics suggested at the time. Without the advantages of hindsight, the strategy of exploration appears rational. By both figuratively and literally exploring the opportunity for trade with Paraguay, Richard Hughes positioned himself and his firm to exploit any emergent possibilities by using their informational advantage, and also to

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<sup>384</sup> April 8, 1843, *Britannia and Montevideo Reporter*.

reject those possibilities if they appeared unprofitable. The failure of the Paraguay mission did not mean an unsuccessful strategy, but rather an effective use of informational resources to evaluate risks and rewards in an environment of tremendous uncertainty. This type of geographical search for entrepreneurial opportunity was critical to development in the region. In an era where patterns of production and trade were still being established, entrepreneurial choice played a major role in determining the geographical patterns of business. Hughes's example demonstrates this exploratory role, showing how merchants searched for opportunity, first to extend their trade, and later to expand their businesses along upstream and horizontal linkages. They became, at various times, landowners and rural industrialists, bankers and insurance agents, colony managers and government consultants, each of these roles drawing on expertise accumulated from their origins in merchant trade.

By 1841, Hughes Brothers pursued a strategy of expanding into the rural produce market, increasing their volumes by dealing directly with large tanning firms in England. Richard Hughes returned to England to try and parlay their voyage to Paraguay and existing trade into new and profitable opportunities by meeting directly with manufacturers. At Cork, Hughes met with William Hackett and Co., "one of the largest tanneries in that city."<sup>385</sup> Their clear aim was to exchange information with that firm, and to establish potential connections that would give them an entry into the hides trade; Hackett advised them that they could, with their "proper attention" they could ship 60,000 hides annually. Hughes explicitly saw their firm as pathbreaking, being "the first who have struck out in this new branch of trade" and that "we shall very probably obtain a name and character which will show the chief part of it into our hands." He expected orders from Dublin, Cork, Bristol and Gloucester, and was eager to visit Manchester and Leeds to establish similar contacts.<sup>386</sup>

This strategy appears to have been successful; in 1844, Falconnet writes that Hughes Bros. "have become one of the largest exporting Houses for salted hides & tallow on constituents' account..." although he notes that he believes they cannot have accumulated much capital.<sup>387</sup> This serves as an example of two of the major strategies pursued by merchant houses in the face of limited capital, and limited markets for imports: diversification into export businesses, and acting as intermediaries for manufacturers in Britain. No doubt, this success also partly explains the

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<sup>385</sup> Hughes to Hughes Bros., Liverpool, 20 Sept. 1842. Hughes Family Papers.

<sup>386</sup> Hughes to Hughes Bros., Liverpool, 21 Sept. 1842. Hughes Family Papers.

<sup>387</sup> Francis Falconnet, *English Houses established at Buenos Ayres and Montevideo Barings Archive*, H16.115/1/127, June 1844.

rapidity with which Richard Hughes made the upstream transition into production. In the wake of the *guerra grande*, when land prices were depressed from the depletion of livestock and from the general devastation in the countryside, Hughes, along with many other British merchants, made large land purchases to expand into rural production. Perhaps following up on the explorations made during his Paraguayan voyage, Hughes purchased land and established a *saladero* in the province of Corrientes, in 1855. The venture was short-lived, however, and was sold by April of 1858.<sup>388</sup> Thomas Whigham suggests that the plant did not prosper, whereas Stephen Bell hypothesizes that this was instead a matter of relocating capital, presumably to more profitable uses on Hughes's estates and *saladero* in Paysandú.<sup>389</sup>

Whatever the fate of his investments in Corrientes, by the early 1860s, Hughes had clearly refocused his attention on his Uruguayan estate of La Paz. By the 1860s, the exploratory phase of his career had ended, and Hughes began a more specialized career, winding down the firm of Hughes Brothers, leaving his position at the Bank of the Province of Buenos Aires, and becoming a leading *estanciero* in western Uruguay. In this role Hughes became a leading innovator in ranching, importing bloodstock, applying new technology, and participating in the early colonization of Fray Bentos. It was on his land, which he had earlier selected for its strategic river access, that the Liebig's plant was built. He became the only English participant in the founding of the *Club Nacional*, an early rural lobby group, and was the first president of the larger *Asociación Rural*.<sup>390</sup> In Hughes's career, we can see the value of a flexible, exploratory strategy, based on repeated re-evaluations of the available opportunity set across a broad geographical area.

During the Montevideo/Buenos Aires conflict of the 1840s, Hughes Brothers remained largely neutral, continuing to operate in both Buenos Aires and Montevideo.<sup>391</sup> For all that the Hughes Brothers are known in the literature for innovative and exploratory activity, they do not seem to have had a reputation as risk-takers at the time. Quite the contrary, from a similar report written in 1844, Falconnet describes them as "three Brothers, all of whom are well suited to the trade and very cautious people..." Hughes explored a wide range of possible opportunities, but invested tentatively and carefully, relying on accurate local knowledge to mitigate risks and preserve their apparently scarce capital.

<sup>388</sup> Thomas Whigham, "Cattle Raising in the Argentine Northeast: Corrientes, c. 1750-1870," *Journal of Latin American Studies*, Vol. 20, No. 2 (November 1988): 332.

<sup>389</sup> Bell, "Social Networks and Innovation."

<sup>390</sup> These aspects of Richard Bannister Hughes's career will be examined in more detail in chapter seven.

<sup>391</sup> Francis Falconnet, *List of English Establishments at Buenos Aires and Montevideo* Barings Archive, HC 16.114, June 27, 1843.

The relative neutrality of Hughes Bros. is borne out by their peripheral role in the *Sociedad Compradora de los Derechos de la Aduana*, the group of financiers (or, less generously, speculators) responsible for bankrolling the *Colorado* side of the *guerra grande* in exchange for control over the customs house revenues. While the Hughes Bros. were involved in this group, as were nearly all foreign merchants operating in Montevideo, they do not appear to have made large loans, nor to have pursued the kind of lucrative government supply contracts obtained by such merchants as Esteban Antonini and Samuel Lafone. Their largest investment appears to have been a repurchase agreement, made along with the Scottish firm Anderson Macfarlane and Co., for seven plots of land on the Plaza Constitución. This contract was one of many similar deals made in 1845, guaranteed by the government, using valuable plots of land in the main town plaza, valued at 2/3 of their official worth, or 31,250 pesos, discounted at 18% annually, for a total payment of 25,625 pesos, representing a total return of almost 24%.<sup>392</sup> The extraordinary rates of return combined with the security of an intentionally undervalued property must have induced the two firms to make the investment. While John Macfarlane of Anderson Macfarlane and Co. made a series of other deals with the government in Montevideo, it does not appear that the Hughes Bros. were major financiers of the *Colorados*.

By 1849, Hughes had either made his peace with Rosas, or at least had an understandable belief that good relations with the dictator were going to be necessary for doing business in Buenos Aires. His signature appears on an obsequious letter, signed by nearly the entire British merchant community of that city, urging Rosas not to retire, and thanking him for his services in protecting their property.<sup>393</sup> This letter must be understood in the proper context; the Rosas regime had always operated on the basis of such theatrics, reinforcing the dictator's public image through kowtowing. Rosas would threaten to retire every few years, only to be urged back into power by the nominal authorities. This was a symbolic act reconfirming his status as dictator, not an actual attempt to hand over power. The language of the letter therefore should be seen as a deliberate attempt to ingratiate and placate, rather than necessarily a direct indication of the opinion of the community.

Some firms on the list had previously made loans to the government at Montevideo earlier in the decade, as seen with the Hughes Bros. above, when the fortunes of that faction appeared better, and when the community largely believed that British intervention would prevent Rosas

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<sup>392</sup> Document 21, Nov. 4, 1843. *Sociedad Compradora de los Derechos de la Aduana*, Archivo General Administrativo, Caja 1627. Archivo General de la Nación, Montevideo.

<sup>393</sup> 49-51, FO 118/45, National Archives at Kew.

from taking the city. 1849 represented the nadir of the fortunes of the *Colorado* side in the *guerra grande*, with the British and French interventions unsuccessfully concluded. Thus, switching sides, or at least reconfirming loyalty to Rosas, would have been a strategic, risk-avoiding move for a merchant firm. Whatever reservations the British merchant community may have harboured, the majority were willing to accept the authority of Rosas in exchange for the protection of their property. The exceptions to this rule were those closely aligned with Samuel Lafone and who were deeply committed, both ideologically and financially, to the *Colorado* side of the war; the Hughes Brothers clearly pursued a more pragmatic strategy.

### Conclusion

Merchant networks were webs of information and credit, comprising business partners and brothers, families and firms. In the era of the merchant house, before the rise of modern banking and investment, and in a peripheral country like Uruguay, the business of trade operated along social as well as economic lines. Employees were sought not from a large, functioning labour market, but from among brothers, sons, and in-laws. Marriages both cemented existing alliances between firms, and forged new ones. This was true both within the British community, and with other local and foreign groups. The case of Samuel Lafone provides an example of a merchant who succeeded by leveraging his social network, using brothers and managers as agents, and his family's business connections in Britain as financiers and factors. In return, they benefitted from employment in, or dealings with, one of the largest commercial houses the emerging Uruguayan market, helping the family to advance socially and economically. The Jacksons provide a similar example for a non-family relationship with the influential Rathbone family, which provided education, information, commercial links, and social prestige that improved the Jacksons' position in Uruguay across at least two generations.

The opportunities presented by the development of the frontier economy, in introducing new products, in agricultural modernization, in building infrastructure, and in increasingly sophisticated trade intermediation, were contingent on solving the problem of reliable contracting, but there was no inherent reason these problems had to be solved by the state. Indeed, in Uruguay more than most countries, the state was hobbled by intensity of the competition between the political parties, and was not particularly credible as an enforcer of property rights. Merchants worked to solve the problems of contracting among themselves through a variety of strategies, including the development of extended networks of interlocked,

intermarried social connections. Merchants' self-organized informal institutions often outstripped the state's capacity for providing any useful legal framework.

Internationally, merchant houses maintained an extensive correspondence with dozens of firms, including other merchants, producers, suppliers, financiers, conveying to their network crucial information about local affairs, prices of commodities, changing tastes, and the reputation of other houses. It was these networks that allowed houses to draw and remit each other's bills. This functioned as a basic credit system, allowing the transfer of capital from Britain to Uruguay via merchant channels. This in turn allowed merchants to extend credit and make investments beyond what their own house could manage by itself. They gained the advantages of investing in capital-scarce Uruguay, while managing to draw their capital from their associated firms in Britain. The Anderson Macfarlane and Co. letter book shows how networks connected the various functions of trade, from production and finance to distribution and retailing. Without these networks, the trade between Uruguay and Britain would have no doubt been much less, and the British merchants of Montevideo would have been unable to succeed as entrepreneurs.

## Chapter 6: Crisis and Speculation

Finance and state formation have a close and complex relationship. It is widely acknowledged that the creditworthiness of a state is tied intimately to the prevailing institutions. States with strong fiscal powers and broad tax bases can expand their revenue to meet their liabilities. The creation of such powers requires the creation of strong institutions, which, in turn, are the result of the political economy of state building. Interest groups organize into political factions and parties, which compete for control over the state. To gain voice in the political arena, and thus to shape future institutional change, requires financial resources, especially during phases of violent conflict. These needs create room for negotiation among creditors who want stable institutions to ensure the repayment of debts, speculators looking to capitalize on wartime opportunities, and the shifting coalitions of political and military actors seeking to establish control. Bargaining during wartime requires investors to weigh factors beyond ordinary risks and returns, such as ideological preference, political allegiance, and social entanglements. Unable to rely on a guarantee derived from contested sovereign power, investors must generally choose to back one side or the other, or to stay out of the market entirely. Contracts made with one faction could potentially be seen as a violation of neutrality, thereby endangering both present and future investments. Yet, these very risks, along with the shortened time horizons implied by a pressing conflict, can raise the price of capital and improve the terms for contracting, creating a powerful incentive to invest.

In the context of Latin American states, formed out of the chaos of independence, and without strong fiscal systems, the question of control and finance is especially pertinent. Merchants and merchant firms play a critical role in providing credit, and thus, in shaping the outcome of political and military conflict. The Uruguayan Civil War of 1839-51 (known as the *guerra grande*) offers an opportunity to examine this type of finance in its social, political and military context. The *Sociedad Compradora de los Derechos de Aduana*, - an international group of merchants, named for having purchased the rights to the customs house revenue of Montevideo, but who acted as a quasi-state bank during the conflict, controlled the finances of the city. The investments made by this organization were at times tremendously profitable, with returns doubling or even tripling capital invested, and at other times, were disastrous losses, each outcome reflecting the vagaries of the evolving diplomatic and military situation. This chapter examines the *Sociedad Compradora*, outlining the contracts between the *Sociedad* and the government, examining its composition and activities, and showing how the British merchants of Montevideo fit into *Sociedad's* activities, both as investors seeking high returns, and active

lobbyists, entrepreneurially seeking to maximize their returns and minimize their risks by manipulating the diplomatic situation.

Entrepreneurial judgement about opportunities is a matter of weighing the balance between risks and returns. While any merchant trading in the volatile markets of the River Plate would not have been a stranger to substantial chances of loss balanced against high rates of return, the conditions of civil war presented a set of options which were lucrative, but also atypically risky. An ordinary government loan only required an assessment of some basic, well-understood risks related to sovereign default: inflation risk, government solvency, and expropriation risk. More complex contracts to purchase sources of government revenues, privileges and property required much more reliable predictions about the future security of revenues and the value of property. It was one thing to predict whether or not a government could pay a fixed interest rate given its variable revenues; it was quite another to predict the quantity of the revenues themselves. The nature of this speculation was already a substantial test of entrepreneurial judgement.

The complexity and variability of the contracts involved were only a small part of the overall challenge facing investors. What was far more important was the context of civil war, which threatened the legitimacy of any venture undertaken with either contesting party. Flexibility in adapting to the fluid economic, political, diplomatic and military situation was critical to success during this period. Most of all, it required a careful judgement about the future of the diplomatic and military situation; the defeat of a *caudillo* or the establishment of a blockade could, and frequently did, mean the difference between enormous returns on investment and ruin. This chapter analyses these contracts and their implications for the perceptions and actions of British merchants during the *guerra grande*. It shows how the contracts evolved as the situation changed, and why. It demonstrates how British merchants could and did apply what pressure they had to affect the diplomatic situation in their favour. It also points out a level of mutual support between them and the *Colorado* faction, when that became necessary to secure past contracts against repudiation risk.

#### Literature and Background

The most recent work on the topic of the *Sociedad Compradora* has been done through the State Building in Latin America project, under the direction of Juan Carlos Garavaglia. While the final products of this project have not yet been realized, some preliminary work has been

completed, notably a Master's thesis by Mario Etchechury. This work examined the role of "permanent war" in the development of the Uruguayan fiscal state. It emphasized the previously side-lined importance of various government credit instruments as a functional paper currency, with all the accompanying effects on commerce and the government fiscal situation. The classic interpretation of the period is by Eduardo Acevedo, with substantial insights and evidence into the workings of the economy at the time.<sup>394</sup> Etchechury has reinvigorated the Acevedo thesis that the *Sociedad* acted as a quasi-state bank.<sup>395</sup> Some work on an individual and family level has been done by Alba Mariani, detailing the lives and careers of various members of the *Sociedad*, including Samuel Lafone and Jaime Cibils y Puig.<sup>396</sup><sup>397</sup> The seminal studies of Jose Pedro Barrán<sup>398</sup> and Benjamín Nahum<sup>399</sup> provide a foundation for understanding the overall period. For the role of the British in the conflict, Peter Winn has a detailed study of merchants and "informal empire" during the mid-19<sup>th</sup> century<sup>400</sup> and David McLean provides a thorough archival analysis of Anglo-French diplomacy and intervention in Uruguay.<sup>401</sup> However, no substantial work yet exists examining the war from the perspective of British investors at a business level, as investors and entrepreneurs weighing their risks and returns. In this regard, this chapter contributes to our understanding of this period in Uruguayan history, and to the role of British merchants as financiers and speculators in Latin America in the mid-19<sup>th</sup> century.

The immediate conflict which necessitated the sale of customs revenue was the *guerra grande*, the civil war waged between the first two presidents of Uruguay, Manuel Oribe and Fructuoso Rivera. The factions that rallied behind the respective presidents became known for the colours they flew: white for Oribe's *Blancos*, and red for Rivera's *Colorados*. These factions consolidated into political allegiances: the *Colorados* were largely Europhile, urban-centric, and politically liberal, with sympathies towards Brazil; the *Blancos* had a rural orientation, opposed European intervention, and were allied with the Rosas regime. While they also shared many liberal doctrines, the *Blancos* were the more conservative of the two factions. Nevertheless, during this

<sup>394</sup> Eduardo Acevedo, *Notas y apuntes ; contribución al estudio de la historia económica y financiera de la República Oriental del Uruguay* (Montevideo: El Siglo, 1903) and *Manual de la Historia Uruguaya* (Montevideo: Imprenta Nacional Colorada, 1936).

<sup>395</sup> Mario Etchechury, "La fiscalidad de la "guerra permanente": el Estado Oriental del Uruguay en la frontera rioplatense, 1828-1852," (2010) Accessed via <http://sgbl.upf.edu/>. The idea of the *Sociedad* functioning as a bank was at least considered by contemporaries; see "The River Plate," *The Times of London*, Jan. 8, 1847, 5.

<sup>396</sup> Mariani, "La familia y las empresas de Samuel Fisher Lafone."

<sup>397</sup> Mariani, *Los extranjeros y el alto comercio*.

<sup>398</sup> Barrán, *Apogeo y crisis*.

<sup>399</sup> Barrán and Nahum, *Historia rural*.

<sup>400</sup> Winn, *Inglaterra y la tierra púrpura: (1806-1880)*.

<sup>401</sup> McLean, *War, Diplomacy and Informal Empire*.

period, the conflict between the factions was less a question of ideology than of political allegiance to particular leaders and sub-factions within the broader parties, each with regional and international commitments and allies. The *guerra grande* was a struggle for control, more than a conflict over policy.

The division between the factions became sharper in 1843, when Oribe and his forces, having gained a decisive military advantage in the countryside, besieged Montevideo. Despite the defeat of Rivera's main army, the foreign inhabitants of Montevideo organized into militias to defend the city. Cut off from trade, the economic lifeblood of any *entrepôt*, Montevideo and the *Colorados* behind its walls were left in a position of dwindling strength. Having been left without resources, but still holding a viable military position behind the defences, the *Colorado* government attempted to solve the most pressing problem for continuing the military struggle: revenue.

Import and export duties had been overwhelmingly the major source of income for the Uruguayan government, comprising 86% of real state income during the pre-war period of 1830-39.<sup>402</sup> While some other sources of revenue played a minor role, including the sale of government lands, and the rights to stamped paper, licencing, and various duties,<sup>403</sup> there was no developed tax base to replace the customs house as the fiscal sustenance of the country. The customs revenue was therefore the last, best asset that could be mortgaged or sold to raise funds in wartime. The alienation of the customs duties was certainly an emergency measure, since by farming them, the government crippled its own major method of raising money. However, it did generate substantial short-term income. It also did not require an extension of state fiscal control, unlike most other plausible, direct-taxation alternatives. Attempts were made to raise revenue by other means, including property taxes and forced loans, but no alternative source of revenue came close to matching the customs house in this period.

When Oribe and his Argentine auxiliaries invaded Uruguay to retake his presidency, Britain and France attempted to mediate. Lord Mandeville, the British representative at Buenos Aires,

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<sup>402</sup> Real income being revenue generated through taxation, rather than cash inflows from the issue of new debt. Figures from Mario Etchechury, "La fiscalidad de la "guerra permanente": el Estado Oriental del Uruguay en la frontera rioplatense, 1828-1852" cited in Juan Carlos Garavaglia, "Algunos aspectos preliminares acerca de la "transición fiscal" en América Latina: 1800-1850," Both papers accessed via <http://sgbl.upf.edu/>.

<sup>403</sup> "Papel sellado, patentes, y alcabalas," minor administrative taxes levied on notarized documents and various other business transactions. These revenues were traditionally farmed out, and were also purchased during the first years of the siege by British merchants, including Samuel Lafone, John Macfarlane, and John Gowland.

made a series of bold statements upon the incursion of Argentine troops into Uruguay, which, for many British merchants in Montevideo, amounted to a guarantee of protection.<sup>404</sup> While Mandeville was replaced, and Britain did not react immediately, the *Colorados* continued to press Britain and France for assistance, sending diplomatic missions to Europe, such as that of Argentine exile Florencio Varela. They were to negotiate an anti-Rosas intervention, possibly with the agreement of establishing a protectorate of some kind that would guarantee the safety of Montevideo against its larger neighbours.

Britain was initially wary, but Lord Aberdeen and Guizot, the French Foreign Minister, eventually decided that a joint intervention by Britain and France could put a quick, mediated end to hostilities. And so, in 1845, they sent a mission of William Gore Ouseley and Baron Deffaudis to negotiate with Rosas, Oribe, and the *Colorados*. Ouseley and Deffaudis, however, failed to resolve the conflict. Like Mandeville, they began to overstep the bounds of their instructions in support of the defenders of Montevideo. In this, they were supported by Commodore Brett Purvis, commander of the British fleet. Their presence reassured the British merchants of the city, and, along with Mandeville's rash promises, may have contributed to the decision of the community to lend money to the government and to purchase its revenues. Although many British merchants had done so since the late 1830s, before any such promises were made, Ouseley nevertheless presented a (false) degree of commitment by Britain that likely encouraged greater investment.

As part of the attempted mediation of the conflict, the British and French sent a fleet of ships to blockade the harbour at Buenos Aires, which lasted from 1845 to 1849.<sup>405</sup> The blockade was an attempt to resolve the conflict by forcing a withdrawal of the Argentine troops supporting Oribe, and enabling an internal resolution to the *guerra grande*. While the measure was intended to apply pressure to Rosas without directly committing Britain and France to a war with the Argentine Confederation, Ouseley, Deffaudis and Purvis used this force rather more aggressively than the Foreign Office was comfortable with, deploying troops and sending supplies to the defenders of Montevideo under the pretence of protecting British property and persons, and attempting to secure the River Paraná for trade by force.<sup>406</sup> The blockade was also insufficient to cow Rosas, who drew his power primarily from his rural support, and was undeterred by the show of naval force.

<sup>404</sup> McLean, *War, Diplomacy and Informal Empire*, 46.

<sup>405</sup> This account is drawn from David McLean, *Diplomacy and Informal Empire*, which provides an exhaustively complete account of the diplomacy of the intervention.

<sup>406</sup> Philip, Bourne, and Watt, *British Documents on Foreign Affairs*.

Alarmed by the over-extension of British force in the region, the Foreign Office took increasingly strong measures to bring the intervention to an end. A series of diplomats known to be more sympathetic to Oribe and Rosas were sent to negotiate an end to the blockade with the Argentine Confederation, including Thomas Samuel Hood, Henry Southern, and Lord Howden. Hood was a former consul from the 1820s, and an acquaintance of Oribe from that time. His contempt for the defence of Montevideo was manifest, writing that “Monte Video appears to be a perfect Pandemonium, party feelings and personal interests swallowing up all other considerations.” Ouseley, for his part, wrote to Palmerston of French accusations that Hood had “private interests [and] pecuniary arrangements … with certain merchants here and at Buenos Ayres, and with General Oribe...”<sup>407</sup> which, though perhaps unfounded (a possibility Ouseley generously allowed), had led to distrust, and that Hood was a “furious partisan, not only of General Oribe, but against any other Government here [in Montevideo].”<sup>408</sup> Unsurprisingly, he and Ouseley clashed, leading to the collapse of both diplomatic missions.

When the Foreign Minister changed from Lord Aberdeen, who had begun the intervention and who was at least mildly sympathetic with its aims, to Lord Palmerston, who wanted only a quick resolution of the conflict without losing face, support for the intervention evaporated at the highest levels. Palmerston, siding with Hood and Howden, believed that the government in Montevideo had been suborned by foreign interests, and that the purpose of the blockade was almost exclusively to raise funds for the defence of Montevideo and a “company of private individuals to whom the Government have sold … the custom dues...”<sup>409</sup> By 1848, Britain had concluded the surprisingly deferent Arana-Southern Treaty with Rosas, and withdrew its blockade. France kept up their intervention for longer, but without British support, and with the overwhelming disruption of the 1848 revolution at home, they too raised their blockade in 1849. This left Buenos Aires free to resume its naval operations against Montevideo. The French continued to provide a monthly subsidy to the *Colorados*, but withdrew its critical military support, leaving the plaza of Montevideo in a precarious military position for the remainder of the war.

The *guerra grande* ended in 1851, when an alliance was formed among Brazil, the *Colorados*, and Urquiza, governor of Entre Ríos and one of Rosas’s most powerful rivals. Brazil

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<sup>407</sup> Ouseley to Palmerston, September 12, 1846. *Ibid.*, Doc. 14, 31-2.

<sup>408</sup> Ouseley to Palmerston, September 12, 1846. *Ibid.*, Doc. 15, 33.

<sup>409</sup> Palmerston to the Marquis of Normanby, October 8, 1847. *Ibid.*, Doc. 47, 88-90. Lord Palmerston is, strictly, discussing the nature of the blockade following the British withdrawal. However, this charge was also made to Howden by the United States charge d'affaires, William Harris, in a letter dated July 1, 1847, referring to the joint blockade. *Ibid.*, Doc. 37, 73-5.

moved troops into Uruguay. This new military configuration quickly overwhelmed the *Blancos*, whose Argentine auxiliaries switched sides along with Urquiza. Oribe surrendered without combat, and agreed to a peace, declaring that there would be neither victor nor vanquished. The cost of this resolution was treaty highly advantageous to Brazil, creating a near-protectorate in Uruguay. The Baron de Mauá, the Brazilian banker sent late in the war to solve the *Colorados'* mounting financial problems, became the single most important source of credit in Uruguay, partly displacing the *Sociedad Compradora*. The new post-war government of Uruguay was left with a hard won peace, but also with the long legacy of war debts and damages to settle with its various creditors: Brazil, France, and the merchants of the *Sociedad*.

#### Composition of the *Sociedad Compradora*

Who were the shareholders in the *Sociedad Compradora de los Derechos de Aduana*? They were a group of merchants from the “*alto comercio*,” the elite of the Montevideo trade. They were primarily overseas merchants from a variety of nations. Investment in the customs revenues was reflective of the merchant community as a whole: diverse and cosmopolitan, but with a clear hierarchy showing relative importance. The nationality of the shareholders, as well as the distribution of shares owned, is given in an article published in *The Times* in 1847.<sup>410</sup> Four hundred shares were divided among two hundred and twenty-two shareholders. The three largest investor groups were the French, Uruguayans, and the British, with 22%, 20% and 19% respectively of the total shareholding, with Spanish merchants next with 16%, and Germans with 9%. The relatively large share of Uruguayans among shareholders is no doubt a function of their nationality. For the British and French, their share in part this reflected the overall predominance in Uruguayan trade at this time. It may also point to the perceived role their diplomatic agents played in arranging, and implicitly guaranteeing, the customs revenue contracts during the mission of Ouseley and Deffaudis.<sup>411</sup> British shareholders held the largest number of shares on average, at 2.6, or 0.8 shares more than the average shareholder of 1.8. Without a more specific distribution, it is impossible to know if this reflects the preponderance of particular large British shareholders such

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<sup>410</sup> “The River Plate,” *The Times of London*, Jan. 8, 1847, 5.

<sup>411</sup> Ouseley and Deffaudis’ signatures appeared on the contract for the 1848 customs house revenues, guaranteeing their terms (though not, critically, underwriting the contract). Lord Howden, in a confidential letter to Thomas Samuel Hood, dated July 17, 1847, offered a criticism of Ouseley, telling Hood that it was important “not [to] give the English jobbers in Monte Video the slightest reason to believe that England is in any way bound to range their political speculations in the category of that legitimate commerce which she is bound to protect in all quarters and at all hazards.” Philip et al, *British Documents on Foreign Affairs*, Doc. 41, 79-80.

as Lafone, Macfarlane, or Tomkinson, or whether it is merely a function of the relative wealth of British merchants when compared with their international peers.

What portion of British merchants, then, were shareholders in the customs house revenues? Of the shareholders, 29 are listed as being British. The total tally of British merchants and firms registered to trade at the customs house in Montevideo in 1844 was 28, drawn from a list compiled by the society of shareholders themselves.<sup>412</sup> While there are likely some dropouts and entrants into the Montevideo market during two turbulent years of siege, the near equality of the numbers seems to suggest that holding at least one share was widespread, if not nearly universal, among British merchants.

The group of British merchants invested in the *Sociedad Compradora* centres around Samuel Fisher Lafone, one of the wealthiest merchants in Uruguay, and a strong anti-Rosas partisan. While the original source of his disagreement with the Argentine dictator is not clear, Lafone had several reasons for supporting the *Colorados* during the *guerra grande*. He had a high-profile conflict with Rosas and the Federalist<sup>413</sup> elite over the issue of his interfaith marriage to Maria Quevedo y Alsina, which was performed in secret without permission from religious or political authorities, or even from her father. Lafone had also fought publicly with a former partner, Thomas Armstrong, who was one of the major figures in the Buenos Aires merchant community.<sup>414</sup> Lafone relocated to Montevideo by 1834, and by August of 1839, Lafone Barker and Co. was in liquidation, ending the Lafones' involvement in Buenos Aires.<sup>415</sup> Alexander returned to Britain to run the family merchant house, and to organize lobbying for British intervention.

The Lafone group formed the core of opposition to Rosas among British merchants, and support for the *Colorados*. Many of those who also aligned themselves with the *Colorados* - including John S. Kemsley, George Hodgskin, Thomas Tomkinson, and Francis Hocquard - had close ties with Lafone. Kemsley and Hodgskin were partners with George Dyson Barker, Lafone's former Liverpool partner.<sup>416</sup> Tomkinson, Hocquard and Lafone had jointly obtained the meat marketing contract (*abasto de carne*) for 1842,<sup>417</sup> and they appear to have worked together in their diplomatic appeals to the British government. Tomkinson and Lafone were especially close

<sup>412</sup> Apr. 10, 1844. Carpeta 13, Caja 1632, Ministerio de Hacienda, Archivo General de la Nación.

<sup>413</sup> An Argentine political affiliation, anti-centralist and conservative. Equivalent to the *Blancos* in Uruguay, in broad terms.

<sup>414</sup> Maxine Hanon, *Diccionario de británicos en Buenos Aires* (Buenos Aires, 2005), 492-94.

<sup>415</sup> *London Gazette*, 27 Aug., 1839, 1662.

<sup>416</sup> Hanon, *Diccionario*, 427-28.

<sup>417</sup> Jan. 3, 1842. Carpeta 54, Caja 1623, Ministerio de Hacienda, Archivo General de la Nación.

socially, as evidenced not only by their joint activities, but also by the eventual marriage of their eldest children, Martha Lafone with Thomas Tomkinson, in 1864.<sup>418</sup> He also had substantial diplomatic connections, being close friends with Commodore Purvis and William Gore Ouseley, who headed the British naval and diplomatic presence respectively, and his brother-in-law, John Pownall Dale, was acting consul in 1843.<sup>419</sup>

### The Contracts and Returns

The evolution of the contracts signed by the *Sociedad Compradora* with the government of the defence shows the changing estimation of the revenues for the Customs house, and also increasing adaptation to the risks involved. The merchants of Montevideo purchased the Customs revenue from 1844 until at least 1851, the end of the *guerra grande*. The defenders of Montevideo needed hard currency to pay for the organization of the defence of the city. This required considerable funds on short notice. The first contract, made in 1843 for the revenues of 1844, was relatively optimistic, by comparison with later contracts. Half the customs house income was sold, for a total of \$500,000, or approximately £85,000,<sup>420</sup> divided into 500 shares of \$1000.<sup>421</sup> The money was to be paid in instalments of \$100,000 pesos to the government by the *Sociedad Compradora* and to the society by its shareholders over a similar period from August to March 1844. The contract also contained an option clause to purchase the rights to the 1845 revenues, on the same terms. It seems clear, then, that this speculation was originally intended to turn a profit for 1844, and potentially beyond. The reality would be much more turbulent, but this does not appear to have been well-predicted, *ex ante*. The terms of the 1843 contract did not contain many of the risk-mitigating clauses that appeared in later contracts, notably lacking a minimum amount to be repaid in case of shortfall, or an interest rate to be charged in that case.

Rather than only selling half the customs revenue after collection, the contract went a step further, farming out direct control over tax collection. The 50% of revenues still owned by the

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<sup>418</sup> St John's Marriages, 1864 to 1872. From Document 30.20.02. Archives of St John's Anglican Cathedral, Buenos Aires. Transcribed for [www.argbrit.org](http://www.argbrit.org). Accessed 04/07/2011.

<sup>419</sup> Appendices 3 and 4.

<sup>420</sup> The *peso fuerte*, used as the unit of account in this period, ranged from 39 to 45 pence to the *peso*, or approximately 5.5 to 6 pesos per pounds sterling. As both currencies were valued in gold, variations reflect differences in the availability of bills of exchange, and the days' sight required by the contracting parties. For a set of local exchange rates, certified for British Legation by local merchants, see FO 366/130-131, National Archives, Kew. All dollar-symbol references in this paper (\$) refer to pesos.

<sup>421</sup> *Contrato de Sociedad para comprar al gobierno las rentas de la aduana de Montevideo durante el año de 1844*, in *Contratos de la Sociedad de Accionistas en la compra de los derechos de aduana*. (Imprenta del Comercio del Plata: Montevideo, 1846).

government was not managed directly by the state, but rather paid by the Sociedad back to the treasury as part of the bargain, as appears in article one: "The Society composed of national and foreign shareholders purchases all the rights of import and export for the Customs of Montevideo from the Government, for the whole year of 1844, and gives in payment for them the sum of five hundred thousand pesos, one hundred thousand pesos paid each month; and furthermore, half the net revenue of the same customs rights..." In order to accomplish this, near-total control of the customs house was given over to the Sociedad. Article seven stipulates that that "the Commission of shareholders will intervene, directly and indirectly, in the administration of the customs and the customs guard, following the approval of this contract; and can put in both offices the employees that it judges necessary."<sup>422</sup>

The extraordinary powers granted to the Sociedad amounted to tax farming on an impressive scale. Control of nearly all government revenue was put in private hands in exchange for loans. Partly this reflected the bargaining power of the Sociedad; the international connections and private wealth of merchants allowed them to extend credit when other sources ran dry. It also reflected the strain on the capabilities of the government in Montevideo, which lacked a developed system of direct taxation, and was ill-equipped to carry out its administrative duties under the duress of siege. Tax farming had the advantage of offloading the costs and risks of administering funds into private hands, which allowed the government to focus on its pressing military and diplomatic commitments. This contract also served as a gateway to further opportunities. Article five of the contract stipulated that the directors of the *Sociedad* were to receive all contracts for the government's requirements, up to \$100,000 monthly, and article six stipulated a 1.5% commission on these purchases.<sup>423</sup> This amounted to a monopoly on state purchases during wartime, including lucrative procurements and provisioning contracts for the garrison of Montevideo.

The contract also restricted the applicability of previous debts, in the form of "*billetes ministeriales*," government paper paid out to the holders of the government loans of April and June, 1842.<sup>424</sup> Merchants had accumulated substantial amounts of this paper, and appear to have been eager to offload it. Even this first customs revenue contract appears to be a method of converting the paper money returns of previous loans into hard currency income. Articles eleven and twelve stipulate that bills from the original loans of 1842 will be accepted only if presented

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<sup>422</sup> *Contrato de Sociedad ... 1844.*

<sup>423</sup> *Ibid.*

<sup>424</sup> *Ibid, Segundo Contrato.*

and accepted within a fixed, though undefined, time frame. While Uruguay did not have a sovereign currency at the time, and, unlike Buenos Aires, did not enforce an inconvertible currency, government paper obligations circulating among the merchant community from previous loans functioned in much the same way. Since holding such paper constituted a substantial default risk, in the event of a military defeat or simply from the lack of funds, the power to use government paper to pay obligations and make further speculations was important. In effect, the merchants were trading one kind of risk, namely that the government would fail to honour its *billetes ministeriales*, for another, that the Customs revenue would be insufficient.

Initial returns on the 1844 rights were poor. The description given in *The Times*, in a piece favourable to the *Colorado* cause and to the *Sociedad Compradora*, was that the first contract was a “ruinous loss,” having earned only \$194,626, recouping not quite 40% of the initial half-million investment.<sup>425</sup> This prompted substantial revisions to the contract, when it came up for renewal for the years of 1845 and 1846. The price for the 1845 contract was reduced to \$300,000, but the returns again came up short, at only \$218,136, prompting a further reduction for the 1846 contract to \$200,000. An article was inserted into the contract declaring the loan was a “purely mercantile speculation,”<sup>426</sup> an obvious (and futile) hedge against accusations that the merchants of the *Sociedad* had violated their neutrality, and also as security for their contracts in the case of a *Blanco* victory. The language of the option to buy future rights changed from merely establishing the option to purchase the 1846 rights for \$500,000, to clarifying that the *Sociedad* could not be obligated to do so. An article was inserted insisting on the contract being “sacred and inviolable,” and another that no contract could supersede the *Sociedad* for repayment or in any way prejudice their rights.

What may have seemed like a plausible venture in 1843 must have seemed like a substantial risk in 1844, as evidenced by the evolution of the price and the contract terms. There was, however, little choice in the matter, for merchants already heavily invested in the *Colorado* cause: “To extricate the Government from its financial difficulties, and the company from such a heavy loss, no remedy was left but mutual support.”<sup>427</sup> Many merchants had made lucrative side deals with the government, purchasing lands and privileges, but these contracts might not be honoured in event of a *Blanco* victory, creating an incentive for the “mutual support” described above. The *Sociedad* was in a position where the *Colorados* were dependent on loans and other

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<sup>425</sup> “The River Plate,” *The Times of London*, Jan. 8, 1847, 5.

<sup>426</sup> *Contrato de Sociedad ... 1844, Segundo Contrato*.

<sup>427</sup> “The River Plate,” *The Times of London*, Jan. 8, 1847, 5.

revenue from the foreign merchants, but where the government also had the advantage, dubious though it may have seemed, of bargaining from necessity; without funds, the defence of the city would collapse, which would leave the merchants who had placed their money in speculative ventures in a difficult position.

The prospects of the *Sociedad Compradora* continued to look bleak until 1846, the first full year of the Anglo-French blockade of Buenos Aires. When the situation changed, however, the results were dramatic. The force of British and French warships temporarily redirected the flow of trade in the area, altering the balance between Montevideo and Buenos Aires in their competition for the interior trade. Exports from the interior of both countries, which might previously have been shipped at either port, were instead sent through the port of Montevideo. While Buenos Aires was not entirely cut off by the blockade, shipping was only allowed to proceed on the condition that it stop and pay duties at Montevideo beforehand. The increased customs revenue was a windfall for both the government and the *Sociedad Compradora*: \$1,768,763 for 1846, and \$2,965,493 for 1847. The returns from these particular years were nearly 200% on the purchase price, representing an enormous gain which more than evened out the substantial losses of the previous years.

During the last years before the *guerra grande*, with both ports free of blockades (1836 and 1837), Buenos Aires had shipped approximately 55% of the hides from the region, and Montevideo 45%, a substantial but not overwhelming advantage for Buenos Aires.<sup>428</sup> During the years when Buenos Aires was blockaded, 1838-1840, and late 1845-1848, trade at Buenos Aires diminished considerably, to Montevideo's benefit. For 1840, 1846 and 1847, Montevideo became the principal *entrepôt* of the region, commanding 94%, 73%, and 59% of the critical hides trade, their primary export commodity.<sup>429</sup> This situation was quite artificial, and trade at Montevideo crashed to very low levels following the withdrawal of European support, with the British fleet leaving the River Plate in 1848, and the French in 1849. Nevertheless, the blockade of Buenos Aires by the Anglo-French fleets was critical in the course of the war. This was not for its direct military consequences - of which the successful, but largely irrelevant, battle of Vuelta de Obligado was the only major confrontation involving the fleets - but for the impact it had on the fiscal

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<sup>428</sup> Rosal, Miguel and Schmit, Roberto, "Política comercial, flujos mercantiles, y negocios: Buenos Aires y Montevideo frente al comercio exterior rioplatense en el siglo XIX" *Revista de Indias*, Vol. 59, No. 215 (1999): 120-121.

<sup>429</sup> Ibid. Data is missing for Montevideo in 1838-39, but given that, in 1839, hides exports from Buenos Aires had dropped to an entirely trivial 8501 hides, it is very likely the same pattern persists for those years as well.

situation. The added customs revenue sustained the defence of Montevideo by providing a large, although temporary, source of income to the besieged state, and to the government's creditors.

The blockade also encouraged the further sale of customs rights, under slightly more generous terms predicated on the continuance of the blockade. The *Sociedad*, presumably enthused by the substantial returns of 1846, exercised their rights to extend the contract to include 1847-48, paying a full million pesos for half the two years' revenue, plus \$10,000 for the rights to the rest of the country's ports. There was also an additional contract for another quarter of the revenues of 1848, for \$300,000, with a minimum earnings of \$500,000 in the event of a shortfall, covered by revenue for 1849, and a minimum of \$600,000, provided the total revenue exceeded \$2,000,000.<sup>430</sup>

The speculations carried out by British merchants under the aegis of the *Sociedad* go further than purchasing the customs revenue. The *Sociedad* acted as a kind of organized government bank, not only in terms of providing finance, but also mediating the contracts between its members, whom held large quantities of government paper, and the state. As mentioned above, one of the articles of the initial contract stipulated that provisions needed by the government would be purchased through members of the *Sociedad*. Many contracts were offered as speculative ventures, increasing in size and frequency following the siege in 1843, and generally purchased by the same merchants who bought the customs revenue. The largest single on-going contract was for the provisioning of the garrison with food, which was filled by Italian merchant Esteban Antonini. Samuel Lafone contested this in court, indicating that conflict among the various members was hardly absent.<sup>431</sup>

Real estate was another potential source of revenue, and the state notoriously sold nearly all public lands and buildings to merchants, with British owners featuring prominently. The record of public (*ejido*) lands sold during this period shows a series of very large transactions.<sup>432</sup> While data is unavailable for earlier than 1839, it appears very little was sold prior the beginning of the siege of Montevideo. Once the sale of lands had begun in force, many of the members of the *Sociedad Compradora* bought properties: John Gowland, Thomas Tomkinson (in his role as manager of Stanley Black and Co.), Francis Hocquard, and Samuel Lafone. Some of these contracts became infamous, such as the mortgage of the *Cuartel de Dragones* to Hocquard, and the sale of

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<sup>430</sup> *Contrato de Sociedad ... 1844, Cuarto Contrato*.

<sup>431</sup> Mariani, "La familia y las empresas de Samuel Fisher Lafone," 12.

<sup>432</sup> Tierras de Ejido, T. 4203. Museo Histórico, Casa Lavalleja.

the city block including the customs house itself, to Samuel and Alexander Lafone for \$300,000,<sup>433</sup> along with dozens of smaller properties for lesser sums, including Punta del Este, and the Isla de Lobos, for which Lafone also obtained a lucrative sea wolf pelt concession. While it is difficult to establish total values, as some entries lack values, it is clear that many of these sales generated substantial revenue. Though Lafone's purchase of \$300,000 was exceptional, dozens of smaller purchases, from \$1,000 to \$25,000, were made by British merchants. Many of these purchases were made with very small quantities of hard currency; when Francis Hocquard bought the *Cuartel de Dragones*, one of the larger purchases, he paid \$24,500, but only \$4,500 in government credits.<sup>434</sup> These contracts could be used to recycle old government debts into tangible assets, or gain substantial returns on good securities.

Some of these "sales" were in fact repurchase agreements, where government land was discounted by 1/3 of its official valuation, and with a stipulation that the government repurchase the land, as a high-security loan, rather than an outright purchase of land. While some merchants presumably took the land as collateral when the government, almost inevitably, failed to repay, some used them as high-interest loans. One such contract is even mentioned specifically in the contract for the 1847-48 revenues, by Anderson Macfarlane and Co., in conjunction with Hughes Brothers and Co., two of the mid-size British merchant houses in the city, for \$36,875, which was accumulating 1.5% interest monthly until the government repurchased the land.<sup>435</sup> The integration of these kinds of contracts into the *Sociedad Compradora* points to the ways in which they acted as a clearing house for all kinds of government loans and contracts during the period. Shares in the main customs contract served as an entry point into other agreements with the *Colorado* government.

1849-51 was a difficult period for the defence of Montevideo. Under siege and without the protection of the British or French fleets, customs receipts dropped back down to the levels of 1844 and 1845, nowhere near sufficient to cover military expenses.<sup>436</sup> By 1849, the customs produced only \$642,763, and in the years afterwards, much less, although exact figures are unknown. The defence was able to obtain French, and later Brazilian, monthly subsidies to finance the continuation of the war. However, their debts were large, and what few sources of revenue they commanded were mortgaged during the years of the blockade, in anticipation of future

<sup>433</sup> Ibid, Jun. 27, 1843. See also Barrán, *Apogeo y crisis*, 25.

<sup>434</sup> Ibid.

<sup>435</sup> *Contrato de Sociedad ... 1844, Cuarto Contrato*.

<sup>436</sup> Etchechury, "La fiscalidad de la 'guerra permanente,'" 14.

revenues. The last years of the siege were characterized more by negotiation with Brazil over the possibility of intervention than negotiation with the already-committed merchants of the *Sociedad*, and while a new commission of government creditors, the *Comision de Contribuyentes*, was formed, the question facing the merchants by the end of the war was not how to speculate further, but how to recover their debts after the war, when so much was owed to so many parties.

### Neutrality versus Intervention

The sale of the Customs revenue also indirectly committed the purchasers to the government cause. The success of the investment was dependent on increased trade, which was itself contingent on a favourable military situation. It was especially dependent on the status of the naval conflict, because a port blockade at Montevideo would diminish trade to almost nothing, whereas the various blockades of Buenos Aires redirected traffic, and increased trade, and thus customs revenue, far above normal levels. While most merchants could only influence the outcome through providing funding via loans and government contracts, British merchants could lobby their government to secure their investment with diplomatic and military support.

British merchants used a variety of methods to lobby support for intervention. The *Britannia* was set up as an anti-Rosas newspaper, acting as a counterpart to the pro-Rosas *British Packet* from Buenos Aires.<sup>437</sup> It purveyed opinion from a British-Montevidean perspective, favourable to the defenders of the city, and trumpeting the advantages of intervention. They wrote or commissioned pamphlets and letters, usually written anonymously, to sway public and parliamentary opinion. Samuel Lafone, for his part, sent his brother Alexander back to Liverpool to rally support for the *Colorado* cause, in the process closing down his Buenos Aires branch. "An English Merchant," presumably a *Sociedad* member or a close ally, wrote to *The Times*, claiming that if Britain let Montevideo fall to Rosas, it would severely damage British "industry and enterprise" in the region to an extent the public "could not... be aware."<sup>438</sup> They rallied support among manufacturers and merchants in Liverpool through the Mexican and South American Association, who wrote that British trade in Montevideo was increasing, despite the raising of the blockade at Buenos Aires, that the cruelties of Rosas were well known, and that British interests

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<sup>437</sup> *Britannia and Montevideo Reporter*, 1842-43.

<sup>438</sup> *The Times of London*, Oct. 1, 1846, 8.

would be threatened by the taking of the city.<sup>439</sup> Pamphlets were written in support of intervention, with claims that the *entrepôt* in Uruguay was essential to commerce. For instance:

"… [the] Republic of Uruguay, governed as it has ever been since the date of its independence on the most liberal commercial principles, is the best of all checks on the commercial illiberality of the neighbouring countries, and is much too valuable to be sacrificed by the Government of any commercial nation..."<sup>440</sup>

Baines, the writer of the pamphlet also claimed that Britain had essentially obligated itself to intervene, since Lord Mandeville had committed them to do so, and that he may have exceeded his authority was beside the point, since Britain's reputation was at stake.

The merchant community at Buenos Aires, whose interests mirrored those at Montevideo, fought back, offering a very different set of opinions.<sup>441</sup> The *British Packet*, the main British newspaper in Buenos Aires, offered frequent denunciation of the speculators profiting from the siege in Montevideo.<sup>442</sup> The *Packet* was particularly critical of the British intervention, which was seen as ruining the reputation of the British in the region, of violating neutrality, and of harming the interests of British merchants at Buenos Aires. Pamphlets were written from the anti-intervention side as well. In one, Alfred Mallalieu argued that neutrality was the best course of action, since the defenders of Montevideo were disreputable and impoverished, that trade was harmed rather than helped by intervention, and that any perceived benefits in accessing interior markets such as Paraguay were overwhelmingly exaggerated.<sup>443</sup> Neutrality would have been to the benefit of Buenos Aires and the merchants there, since peace with Rosas meant an end to the blockade, and a return to the commercial supremacy of that port. Given the fragility of the defence of Montevideo, this position meant de facto support for the *Blancos*, and was the position adopted by most supporters of Oribe, and of Rosas.

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<sup>439</sup> Letter from the Mexican and South American Association to the Earl of Aberdeen, Jan. 8, 1842. National Archives at Kew, FO 51/21.

<sup>440</sup> Thomas Baines, *Observations on the Present State of the Affairs of the River Plate* (1845) Hume Tracts, accessed via Jstor, <http://www.jstor.org/stable/60206537>.

<sup>441</sup> It is certainly not the case that merchants operated only in one city or the other. However, the polarization of the war meant that those houses which operated primarily in one city or the other, rather than being able to shift operations, had an incentive to support "their" side of the river.

<sup>442</sup> *British Packet and Argentine News*, 1840-48.

<sup>443</sup> Alfred Mallalieu, *An Appeal on behalf of the British subjects residing in and connected with the River Plate: against any further violent intervention by the British and French governments in the affairs of that country*. (1846) Hume Tracts, accessed via Jstor, <http://www.jstor.org/stable/60204761>

Investment in the *Sociedad Compradora* or other government revenues was not universal among British entrepreneurs, even those operating primarily in Montevideo. Some merchant firms took a decidedly non-interventionist stance, advocating for neutrality and securing their assets rather than venturing them in hazardous speculation. One of the oldest and most successful British merchants in the country, John Jackson, was particularly critical of the stance taken by his fellow merchants, and by the British emissaries sent to negotiate an end to the conflict. Jackson fought the implicitly pro-*Colorado* Foreign Office position during the early stages of the *guerra grande*, and welcomed the end of the intervention in 1848.

*The Times* of November 25, 1844, contains a letter asking the British *charge d'affaires*, Adolphus Turner, to intervene against property taxes on foreign residents, signed by John Jackson and Co., Henry Sparks and Co., and Nicholson, Green and Co. Turner replied, with a distant formality, that the British government could neither prevent the tax, nor reimburse them, as “I [Turner] do not feel justified in authorizing you to resist the operation of a law which was passed with the usual formalities required by the constitution of the republic, and I cannot depart from the usual practice observed by Her Majesty’s diplomatic agents abroad, to give a guarantee with reference to possible future contingencies.” He also admonished them for making “statements which might be received as indicating a desire for the success of either of the contending parties.” There is some irony in this admonishment, as Jackson himself would accuse other merchants in the city of aiding the other side. Declaring one’s own neutrality, while declaring one’s opponents’ partisanship, was clearly a popular rhetorical strategy during the *guerra grande*, one that Jackson both used, and had used against him.

In an 1847 letter to Sir Thomas Herbert, reproduced in *The Times*, he sharply criticized the previous British policy of intervention, and expressed his gratitude at the restoration of official British neutrality through the negotiations of Lord Howden, “thereby rendering our property and persons incomparably more secure in these countries.”<sup>444</sup> Jackson, cannily, attributed the sale of government property and revenue to French meddling, and raised the spectre of direct occupation, claiming:

“ It is well known that he [Count Walewski, French diplomat] assured certain parties here that the French Government will send out troops to support their [French] views; and as these parties have taken forcible possession of 3-4ths of the property, both public and private, and are also

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<sup>444</sup> John Jackson and Co. to Sir Thomas Herbert, Aug. 28, 1874. Reproduced in *The Times of London*, “Commercial Affairs,” Nov. 13, 1847, 5.

contractors for the receipts of the Custom-house, Stamp-office, and Post-office, in Monte-Video, they will doubtless endeavour to sustain the present state of things for ever if possible, and thus to continue the destruction of life and property which during the last five years has been to an extent scarcely to be believed in a new country like this.”<sup>445</sup>

Unlike many other British merchants in the city, Jackson had not advanced loans to the *Colorados*. He was a close friend of Manuel Oribe, and also one of the few British merchants to have established extensive rural properties prior to the war. To what extent this stance represented economic interests against personal or political motives, is unknown. However, Jackson did pass these attitudes on to his son, who wrote that “Most of the Englishmen of note here [in Uruguay] have made their fortune in our revolutions, either buying confiscated or public properties or obtaining privileges from generally revolutionary & illegal governments...”<sup>446</sup> Even among some members of the British merchant community in Uruguay, wartime speculations were not thought of as purely mercantile decisions, but as controversial and politically loaded activities.

#### Aftermath and Legacy

The *guerra grande* had a mixed impact among the British holders of government debts. Some, such as Samuel Lafone and Thomas Tomkinson, appear to have profited handsomely from the war, and re-emerge in the 1850s as predominant merchant-entrepreneurs in Uruguay and beyond, rapidly expanding the scope of their business. Those two merchants were integral in the development of the post-war credit institutions of Uruguay: they participated in the *Junta de Crédito Público*, tasked with organizing and retiring the debt, the *Sociedad de Cambios*, which organized rediscounting of commercial bills, and were founding members of its successor, the *Banco Comercial*, one of the oldest and most successful banks in Uruguay.<sup>447</sup> Francis Hocquard was a founding director of the *Banco Montevideano*, another of the first banks in the city.<sup>448</sup> The most infamous of the “speculators” seem to have at least survived the war with their fortunes intact, and while it is difficult without their papers to know more, they likely did very well from their investments.

Others do not appear to have been so fortunate. John Macfarlane dissolved his company by 1851, having been unable to last out the war. Others, especially John Gowland, needed to suspend payments during the conflict, presumably having committed too large a share of their

<sup>445</sup> “Montevideo.” *The Times of London*, Nov. 25, 1844.

<sup>446</sup> John D. Jackson to William Rathbone, Aug. 30, 1858. Rathbone Papers, XXIV-2.42

<sup>447</sup> *El Banco Comercial a traves de un siglo: 1857-1957*. (Montevideo: Colombino Hermanos, 1957), 1.

<sup>448</sup> Hanon, *Diccionario* 426.

capital to government loans.<sup>449</sup> Still others found themselves fighting with both the Uruguayan and the British governments over the settlement of their outstanding loans for years following the end of the war. The Foreign Office received complaints from George Hodgskin, John Kemsley, William Jordan and James Nuttall, all claiming that they would not have advanced loans to the government of the defence, but for the guarantee of British diplomats, especially Ouseley who, along with Baron Deffaudis, signed and guaranteed the terms of the purchase of a quarter of the 1848 customs revenues.<sup>450</sup>

The British government was quite unwilling to take on any obligation, claiming that Ouseley may have guaranteed the terms of the contract, and that the British would ask for its enforcement, but that this did not commit the government to any repayment or guarantee of the contract itself.<sup>451</sup> George Hodgskin carried on an extensive complaint about the failure to repay, and the British government's breach of commitments he claimed Ouseley had made. He complained bitterly of the reduction of his interest; the British government had obtained some resettlement of the loans, but at 6%, which was not acceptable without either a British guarantee, or renewed control over the customs house.<sup>452</sup> It appears, then, that not all the British speculators of the *guerra grande* managed to translate their investments into great wealth, although others appear to have done very well. The success of key insiders to the defence of Montevideo, such as Lafone and Tomkinson, seems to reflect having obtained real property following the *guerra grande*, in addition to their loans, whereas those who were mostly reliant on the repayment of loans in silver were left with a turbulent decade of negotiation though the consulates.

### Conclusion

The risks of wartime finance and investment with the government in Montevideo during the *guerra grande* were both an advantage and a disadvantage for merchant speculators. On the one hand, with the *Colorado* government in an uncertain fiscal position, and with the possibility of repudiation in the event of a *Blanco* victory, any money loaned in support of the defence of Montevideo had highly uncertain returns. On the other, the uncertainty and desperation of the

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<sup>449</sup> Francis Falconnet, *List of English Establishments at Buenos Aires and Montevideo Barings Archive*, HC 16.114, Jun. 27, 1843 and *English Houses established at Buenos Ayres and Montevideo Barings Archive*, H16.115/1/127, Jun. 1844.

<sup>450</sup> FO 51/84, pages 88, 197, 199, 233, 239, 241. National Archives, Kew.

<sup>451</sup> *Ibid*, 246.

<sup>452</sup> FO 51/89, 274. Hodgskin also complained of having to leave for the Cape of Good Hope to support his family, given his situation, which either suggests he had not done well overall without the repayment of the loans, or that he had a flair for melodrama when asking the Foreign Office for support.

*Colorado* government made it possible for merchants to obtain otherwise unthinkable concessions, in access to public property and privileges, and especially government revenues. The variable income from import and export duties meant potentially extraordinary returns. This is evident during 1846 and 1847, when contracts negotiated in a time of deprivation paid its profits during a trade boom, induced by the intervention of Britain and France. Under peacetime circumstances, the diversion of trade by force would have been impossible, and the customs contracts much less potentially lucrative, although also much less risky.

War makes clear the problems with long-range contracting, especially with state entities, and this example allows some interesting observations with larger implications for entrepreneurship and speculation. If an entrepreneur must guess, *ex ante*, whether the counterparty in a contract will continue to possess either the legal authority or the resources to hold up their end of the bargain, this is a cost which must be taken into account. It becomes even more complicated if the contract itself may alter the likelihood of those events. In this case, the *Colorados* required money to pay and provision their troops, and without these resources, they would have been in no position to credibly promise privileges or mortgage revenues. With a loan, however, and especially with European support raised in part by merchant lobbying, they could commit much more credibly to contracts, since they were likely to remain in power, and solvent. For the entrepreneur, then, this required a judgement not only about the probability of events exogenous to their investment, but rather to think of their decision as an endogenous determinant of the enforceability of their own contracts. The complication of this situation was considerable, and given its wartime implications, it is unsurprising then that this type of investment was seen as risky or even immoral by other parties.

Investment in the *Sociedad Compradora* not only changed the fiscal situation of the *Colorados*, and the investment portfolios of the merchants. It was the purchase of the customs house, more than any other privilege that cemented the support of a core group of British merchants for the *Colorado* cause. With ordinary loans, maintaining an image of neutrality was almost certainly the easiest course of action. It allowed for greater mobility between the ports, easier relations with elites of both conflicting parties, and in general, the Foreign Office could be counted on to support, though not guarantee, the repayment of ordinary debts. With their returns tied to the customs revenue, British merchants pursued a much bolder strategy of encouraging intervention and committing even more heavily to maintaining the defence of the city. This created a situation of mutual support between the investors in the *Sociedad Compradora*, and the

*Colorados*. The investors, seeking to maximize their revenue and protect themselves from losses, could be counted on to offer whatever assistance they could muster. For the British and French merchants of the city, that meant lobbying their governments for intervention; the *Colorados*, needing to sustain their cause, offered increasingly lucrative opportunities to the *Sociedad* and its members. The stakes of the war were high enough that short-term needs outweighed long-term considerations for both parties, though for the defence more than for the merchants. Investors might lose their capital, but the choice for elites caught on the losing side of a civil war would probably be between exile and execution.

The role of British merchants in the conflict was significant, both as financiers, and as diplomatic links to Britain. They provided one plausible, although ultimately unsuccessful, resolution to the problems of the besieged *Colorados*: European intervention. The fate of the merchants of the *Sociedad* was variable. Some ended the war in a strong position due to the Anglo-French blockade and the properties and privileges they purchased were by and large honoured, but this was by no means a predictable outcome *ex ante*. The turbulent politics of the River Plate region took even its most seasoned veterans by surprise, in the morass of shifting alliances and sporadic violence. The possibility of a Foreign Office guarantee on investment no doubt increased the willingness of British merchants to commit to larger loans and more speculative contracts. However, having signed those contracts, they also had every incentive to encourage their government to intervene, and to remind them of their perceived obligations. They became much more than passive investors in government finance. The British merchants of Montevideo were active entrepreneurial agents in the field of war and diplomacy, using the powers at their disposal to defend their investments, and in the process, influenced the course of regional and state development on both sides of the River Plate.

## Chapter 7: Rural Entrepreneurship

The post-Independence economy of the River Plate was an emerging economy built on the extensive expansion of hide production. As the growth possibilities of cattle ranching were slowly exhausted, new capital-intensive methods were necessary to secure further growth. This chapter examines the rural entrepreneurship of British merchants as they shifted their investment from the ports into the countryside, becoming the vanguard of innovation in the livestock sector. Their investments at the high value-added margin of landownership included the introduction of sheep raising as an alternative to cattle ranching, importing European bloodstock of both sheep and cattle to improve the breeding of local animals through experimental intermixing, wire fencing, machinery for meat processing, and attempts to introduce commercialized agriculture. They sought new markets for both new and old rural products, and used their social connections abroad to help overcome glutted markets and depressed prices. They sold not only hides to markets in the United Kingdom and France, but wool to northern Europe, jerked beef to Cuba, and Brazil, and explored the possibility of expanding markets for Uruguayan beef to Europe. This change in products, production methods, and markets slowly transformed the Uruguayan economy from an entirely hides-driven economy of cattle ranches to a diversified pastoral producer, hosting Latin America's first industrialized meat processing firm, Liebig's Extract of Meat Co. This engagement with the rural economy forced merchant-*estancieros* to face the traditional problems with landownership: The organization of scarce labour, the maintenance of peace and order in the countryside, and the enforcement of property rights.

There was substantial investment by British merchants in rural property during the 19<sup>th</sup> century, dating at least as far back as the 1820s, but reaching a new order of magnitude in the wake of the *guerra grande*.<sup>453</sup> During the livestock boom of the 1850s and early 1860s, rural production expanded and diversified, notably into the wool trade, which would become critical in the subsequent decades in Uruguay as a major export commodity. This diversification and intensification went hand in hand with the incorporation of more sophisticated forms of finance, faster methods of communication, technological adaptation, and higher capital intensity in farming. Merchants increasingly integrated into the landowning classes both through investments, and by intermarriage. Many of the names associated with prominent merchant houses in the

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<sup>453</sup> Barrán, *Apogeo y crisis*, 49-50.

1830s and 1840s, such as Lafone, Tomkinson, Jackson and Hughes, were also among the vanguard of *estanciero* class. This process was accelerated by the crash of land prices and the impoverishment of the old Uruguayan landowning elite in the wake of the *guerra grande*. The pattern of landownership in Uruguay was thus transformed into a foreign-dominated “new rural upper class,” a group of merchant-*estancieros* with interests both in the port and in the countryside.

While the end of the *guerra grande* restored many of the conditions for economic growth in Uruguay, substantial obstacles remained. The war had drained the resources of the countryside, leaving widespread devastation.<sup>454</sup> The once-abundant livestock were reduced to a fraction of their previous numbers. The neutral outcome of the war, with neither victors nor vanquished, and the terms of Brazilian intervention, meant that the government could not disown the ruinous debts incurred by the *Colorado* side. The impoverishment of the Uruguayan *patriciado*, from donations, requisitions, depletion of livestock, and property damage during nearly ten years of conflict was substantial. Many previously prosperous *estancias* were sold off by their Uruguayan owners, mostly out of desperation for funds. However, a process of destruction can also be an opportunity for entrepreneurial creation, as per Schumpeter’s famous formulation. The crash of land prices and eradication of previous cattle stock represented an opportunity for those with the capital to take advantage of the shortage of credit. Foreign, and especially British, merchants were at the forefront of those able to make economic use of the crash in land prices. The opportunity to profit by rebuilding the rural productive base along modernizing lines was tempting enough that many of the wealthiest merchants ventured a substantial amount of wealth to take advantage of it.

Successful British merchants had substantial advantages in this process. The resolution of the conflict had left the British community in a position of advantage. The government in Montevideo was deeply indebted to the subscribers of various loans from the war, and the 1845 loan from the British merchant community factored prominently. Selling former state land in the countryside was one of the primary ways in which the government could settle its debts, as well as a popular form of collateral, leading to creditors becoming landowners. Many of the downstream elements of rural industry, including processing (*saladeros*), storage (*barracas*), shipping, trade and even marketing, were already in the hands of British merchants. Technology and expertise

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<sup>454</sup> For an account of the depletion of livestock and the destruction of rural industry, see: Barrán and Nahum, *Historia rural, t. I/1*, chapters 1-6, 16-57

from the capital-intensive economies of Europe could be more easily imported and applied by merchants because of their pre-existing network of contacts. At a regional level, the information transfer between the ports of South America, especially between Montevideo and Buenos Aires and along the littoral, allowed for more efficient experimentation and procurement of new ranching methods and technologies. From an institutional standpoint, the British community could also lean on the authority of their consul. During a time of widespread state disorganization, access to diplomatic levers of power could be a powerful tool to obtain contract enforcement. This was especially valuable for land titles of dubious provenance, which were purchased from local elites by foreign merchants as investments in the years following the *guerra grande*.<sup>455</sup> Foreignness was also used to claim extraterritoriality, a status that was especially useful in the borderlands between jurisdictions, where it could be used to both enforce and evade contracts.<sup>456</sup>

Becoming a rural entrepreneur, however, was neither easy nor painless. Counterbalancing their substantial advantages were a series of obstacles that needed to be overcome, almost all deriving from the underdevelopment of the Uruguayan state in what was still essentially a frontier society. Contract enforcement was poor, forcing owners to rely on their trust networks to protect them from fraud, or else engage in long and costly litigation. Policing was virtually nonexistent, and in the rural areas, banditry and cattle theft were regular sources of loss. Disease and poor weather were especially problematic for foreigners unfamiliar with the South American climate, and for new breeds of livestock, which were often maladapted to local biological conditions. Labour was a perennial complaint for *estancieros*. The labour market was poor, characterized by high wages, terrible labour discipline, and a perpetual scarcity of both skilled and unskilled workers. Political upheaval was a constant worry. Armed conflict resulting from uprisings or revolutions could be ruinous, as competing *caudillos* plundered the countryside in order to feed their gaucho armies. Moreover, a change in the political landscape would mean a change in access to power, with various leaders and politicians rising and falling in influence. This could disrupt the existing networks of connections that merchants used to obtain government privileges. Uruguay in the 1850s was a lucrative site for investment, but also as a risky one. There was much that could go wrong, and a fortune could be easily lost. Given both the opportunities and the risks, being an entrepreneur at this time meant making canny use of the available advantages, while guarding as best as possible against the ever-present dangers.

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<sup>455</sup> Barrán and Nahum, *Historia rural*, t. I/1, 78-79.

<sup>456</sup> Benton, "The Laws of This Country."

### Rural Modernization in Regional Context

During the whole 19<sup>th</sup> century, the economy of the southern cone of Latin America was mostly rural. Large estates, known as *estancias*, represented both a major form of landholding, and the principal method of organizing export production. Many authors have examined the evolution of the *estancia* as an enterprise, and demonstrated its role in the economic development of the region.<sup>457</sup> The old stereotype of a landscape dominated by enormous, low-productivity, undiversified cattle estates can no longer be maintained.<sup>458</sup> The general consensus is that, going back into the colonial period, the *estancia* had been a profit-making enterprise organized as a capitalist business, rather than a quasi-feudal social form of organization. Examining the estate of Clemente López Osornio, a landowner from Buenos Aires in the late colonial period, Samuel Amaral concluded that “cattle were produced for a sound profit in the context of uncertainty.”<sup>459</sup> Labour, a high-priced factor of production everywhere in the River Plate, was conserved by selecting cattle ranching, an land-extensive and therefore labour conserving, as the basic method of putting land into production. Workers were not tied to particular estates, and many changed employers regularly, indicating a flexible rather than feudal market for labour.<sup>460</sup> Payments were made in cash, rather than in kind.<sup>461</sup> He suggests that estate owners had an entrepreneurial mindset, incorporating skill in management along with commercial information, political connections, and other forms of entrepreneurial know-how.<sup>462</sup>

Uruguay occupies an intermediate place in the hierarchy of land values in the region, between the more advanced Buenos Aires economy, and the less developed region of Río Grande do Sul in Brazil. The *Banda Oriental* was centrally located in the regional economy, but Buenos Aires and its immediate hinterland represented a large enough agglomeration of political and economic power to prevent Montevideo from establishing itself as the primary regional metropolis. Río Grande do Sul, meanwhile, had the advantages of integration with the Brazilian

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<sup>457</sup> For Uruguay, Barrán and Nahum, *Historia rural*. For Argentina: Jonathan Brown, *A Socioeconomic History of Argentina, 1776-1860*. (Cambridge: Cambridge University Press, 1979), Hilda Sabato, *Agrarian Capitalism and the World Market: Buenos Aires in the Pastoral Age, 1840-1890*. (Albuquerque: University of New Mexico Press, 1990) and Samuel Amaral, *The Rise of Capitalism on the Pampas: The Estancias of Buenos Aires, 1785-1870*. (Cambridge: Cambridge University Press, 1998) For southern Brazil, Stephen Bell.

<sup>458</sup> Campanha Gaúcha: A Brazilian Ranching System, 1850-1920. (Stanford: Stanford University Press, 1998).

<sup>459</sup> Juan Carlos Garavaglia, and Jorge Gelman, “Rural History of the Rio de la Plata, 1600-1850: Results of a Historiographical Renaissance,” *Latin American Research Review*, Vol. 30, No. 3 (1995): 75-105.

<sup>460</sup> Amaral, *Capitalism on the Pampas*, 22.

<sup>461</sup> Ibid, 43, 179.

<sup>462</sup> Ibid, 47.

<sup>463</sup> Ibid, 207.

polity, even if economically it was peripheral prior to the arrival of railways. In these three regions, access to markets, internal order, and institutional developments started from different points and changed at different rates, due to warfare, investment, technology, and politics. The logic of using cattle ranching as a method of extracting profits from abundant land and minimizing the costs of scarce labour is even clearer in Uruguay than in the province of Buenos Aires, which is reflected in its slower uptake of sheep raising, whereas the potential for agglomeration due to the efficiency of river transportation was higher than in Río Grande do Sul, as seen in the higher levels of rural industrialization.

Extensive, unimproved cattle ranching continued for longer in Uruguay than in Buenos Aires. Cheaper land prices allowed for a greater specialization in *tasajo*, and later Liebig's Extract of Meat, for export. Neither product required substantial improvements in livestock through selective breeding. The value of the thicker hides taken from unimproved local breeds, along with *saladero* and meat extract production, meant that rural industrialization held back the development of crossbred cattle.<sup>463</sup> The market for fresh meat for local consumption was smaller than the one in Buenos Aires, and Uruguayan producers remained even more focused on low-value cattle product exports than their Argentine counterparts. Nevertheless, merchants still experimented with improving livestock, especially in sheep raising, where the demands of the international wool market for quality meant that crossbreeding was a potentially lucrative strategy for rural capital intensification.

David Rock interprets relative Argentine and Uruguayan development in the context of state formation, suggesting that the influence of merchants in the political economy of Uruguay was a major hindrance to economic growth. He writes that "In Uruguay merchants became more powerful than landowners, and political parties became stronger than the military, thereby hindering state formation."<sup>464</sup> This may be true until the end of the 1840s, and indeed, this interpretation fits neatly with the argument in chapter six of this thesis, that there was considerable entanglement of foreign merchants in state finance during the *guerra grande*. It is clear that this had a large influence on government in the 1850s, with the resolution of fiscal problems taking priority over state building, leading to weak government. However, by the 1860s, the situation was changing, for reasons directly related to Rock's argument, namely, that powerful merchants had become powerful landowners. While their influence had not waned, their interests

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<sup>463</sup> Barrán and Nahum, *Historia rural*, t. I/1, 627, and Winn, "British Informal Empire in Uruguay," 120.

<sup>464</sup> Rock, "State-Building and Political Systems," 178.

had shifted. Their investments in banking and state finance meant that they opposed inflationary paper money policies, a key distinction from an autonomous landowner class. Nevertheless, merchant-*estancieros*' interests displayed exactly the sorts of urban-rural links that Rock finds critical in Argentine political economy. That they were largely creditors and owners rather than debtors changes their perspective on monetary policy, but does not suggest an urban-rural divide. This challenges the argument that the key distinction is between a debtor (landowner) class being the key members of the governing coalition, as in Argentina, and a creditor class (merchant bankers), as in Uruguay. Merchants had considerable interests in both spheres, and exerted their influence accordingly.

### Diversification and Upstream Investment

Why did upstream investment from trade to production occur? One potential explanation is that diversification into ranching offered security against the inflationary risks of a paper currency economy by providing hard assets in the form of land and livestock.<sup>465</sup> While hedging against risk is a classic explanation for diversification, this explanation is difficult to sustain for the Uruguayan case. Diversification patterns into landownership were similar, but inconvertible paper currency was not introduced until 1865, and then only for a brief period. While extraordinary quantities of devalued government debt were held by merchants, they were under no obligation to accept devalued debts at face value. Important transactions were carried out in metal currency, and their own bank, the *Banco Comercial*, typically held gold reserves beyond the total liability of their issued notes. Thus, foreign merchants could control their exposure to government paper, to a greater extent than the domestic merchants of Buenos Aires, who faced greater exposure to a more coercive system of inconvertible paper currency.

The most convincing explanation for this phenomenon is that merchants invested because there was an opportunity, generated by the historical context, to buy lands with potentially high productive value at low prices when other actors had been bankrupted by war. As the richest and best-connected actors in the economy, merchants were the best positioned to exploit the opportunity. As Barrán claimed, "What magnificent opportunities [following the war] for the Brazilian buyer from Río Grande do Sul and the European immigrant with capital!"<sup>466</sup> While Uruguay was never a high-credit, high-land value economy in the 19<sup>th</sup> century, 1852 represents a major watershed, the bottom of a long crisis, when credit was most scarce, and therefore most

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<sup>465</sup> Irigoin, "Inconvertible Paper Money," 333-359.

<sup>466</sup> Barrán, *Apogeo y crisis*, 49.

valuable. Local elites were left desperate for liquidity. Absent any banking system to provide emergency loans against their collateral, landowners were forced to liquidate their assets to their creditors, and to those who had the means to buy: foreign merchants.<sup>467</sup> It is in the wake of this disaster that many merchants chose to move heavily into rural investments. This accounts for one of the primary differences between the Uruguayan and Buenos Airean cases: in Uruguay, the dominance of foreigners in the rural economy was much higher than in Buenos Aires, where a local landed elite maintained control over large proportions of the countryside. In Uruguay, the *patriciado* became predominantly a political elite, having been forced to abandon much of its economic function.<sup>468</sup>

Barrán and Nahum, in the first volume of the *Historia rural del Uruguay moderno*, interpret the *guerra grande* of 1839-51 as a disaster for the Uruguayan economy. War damages were so great that the economy returned to the colonial level of primitive production. The rural areas of the country were left in a state of subsistence, depopulated of both livestock and inhabitants. All previous efforts at development and modernization were halted and reversed by over a decade. "... from the economic [angle], its destructive effects in the existence of livestock and in the *saladero* industry gave impulse to a reconstruction of the material life of the country that found itself almost at the limits of subsistence. There was deterioration towards primitive forms of exploitation which provided a clear image of how the Republic was before the process of modernization."<sup>469</sup> Barrán and Nahum see the 1850s as a return to what Dámaso Antonio Larrañaga dubbed the *edad de cuero*, the age of leather, when the value of cattle was driven by this most basic product.

As the rural economy was ruined by war, the Uruguayan *patriciado* was largely bankrupted. The widespread devastation to the herds of cattle, the flight of population from the rural areas, and the predation of armies and bandits devalued their most important assets, the *estancias*. Donations, both voluntary and forced, to support one side or another, bankrupted many influential families; a combination of patriotism and government impoverishment prevented them from recouping their losses after the war. By the early 1850s, land prices dropped to the staggeringly low level of 0.6 pesos per hectare.<sup>470</sup> This reflected a whole series of adverse

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<sup>467</sup> On the absence of banks and<sup>467</sup> For an account of the depletion of livestock and the destruction of rural industry, see Barrán and Nahum, *Historia rural*, t. I/1, chapters 1-6, 16-57  
the supremacy of merchant credit, see Jacob, *Más allá de Montevideo*, 58.

<sup>468</sup> Barrán, *Apogeo y crisis*, 49.

<sup>469</sup> Barrán and Nahum, *Historia rural*, t.I/1,8-9.

<sup>470</sup> Barrán and Nahum, *Historia rural*, t.I/2, *apendice documental*, 319.

conditions: decline in livestock, the lack of credit, population flight, and the weakness of state institutions. Heavily indebted, both privately and publicly, and dominated by Brazil, the old *patriciado* had little ability to recover their wealth, nor even hold on to their assets and await recovery. Desperate for credit, they sold assets to cover their debts at low prices.

The ruin of the old class, however, was the making of a new one: the *nueva clase alta rural*. Foreign entrepreneurs moved in to fill the void, with their considerable advantages: the government was generally indebted to them; they could call upon diplomatic protection; and they had access to foreign capital stocks through their trade network. The result was a substantial transformation of ownership in the Uruguayan countryside. Merchant creditors purchased, or repossessed, substantial estates from former landowners, the most notorious case being the titles owned by the estate of Juan Lavalleja being purchased by Samuel Lafone.<sup>471</sup> A decade after the end of the *guerra grande*, in 1863, the French diplomat Maillefer estimated that three-quarters of the real estate in Uruguay was owned by foreigners.<sup>472</sup> Carlos Real de Azúa attributes this transformation to the crippling obligations of the government, in the form of unpaid loans, bought up by wealthy foreigners. Diplomatic pressure from the governments of France, Britain and Brazil forced the Uruguayan government to honour these commitments.

However, even without considering diplomatic pressure, it is clear that foreign merchant houses were the predominant source of credit in Uruguay. In this business, the British were among the vanguard. Without a mortgage bank to assist in borrowing money against their property, Uruguayan landowners were dependent on the new upper class for loans. Interest rates for private loans were only available at rates generally ranging from 1% to 2% monthly, or 12% to 24% annually.<sup>473</sup> One neighboring *estanciero* asked, through Hughes's shepherd C.B. Austin, for a loan of 1000 *patacones*, drawn upon Hughes's merchant house. He offered a rate of 2% monthly, with his land as collateral.<sup>474</sup> The endurance of such rates, even with collateral, likely indicates both substantial opportunities for the investment of capital, and conversely, a credit market unable to

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<sup>471</sup> Barrán and Nahum, *Historia rural*, t. I/1, 78-79.

<sup>472</sup> Real de Azúa, *El Patriciado*, 98. Quoting from the *Revista Historica* no. 55, 473.

<sup>473</sup> Contracts did not include compound interest in this period, which meant that longer contracts for the same monthly interest rate had an implicit backwards-bending yield curve. Lower yields for longer contracts appears to have been the general term structure of credit, although more research is necessary to determine the functioning of credit markets in this period. There were widespread "anchor" interest rates in increments of 0.25% (1, 1.25, 1.5 and 2% monthly) translated into 12, 15, 18 and 24% annually. This was either for convenience of calculation, or for customary reasons. For a selection of the terms of mortgage loans derived from the *Escribanía de Gobierno y Hacienda*, see Barrán and Nahum, *Historia rural*, t.I/2, *apendice documental*, 321-28.

<sup>474</sup> Hughes Papers, 1859/4. Archivo General de la Nación. Austin to Kennedy, Nov. 21, 1859.

meet the demands of the growing economy. In these conditions, the merchants who could provide credit had substantial advantages in lower cost of credit. Some chose to remain exclusively as creditors, but others used that advantage to take ownership rather than extend credit. The following section examines these direct investments in landowning.

### Rural Entrepreneurship among British Merchants

In examining the role played by merchants as rural entrepreneurs, the question of scale arises on two sides. First, how many British merchants invested in this way? And second, how much of the total rural investment was theirs? Answering either of these questions in a rigorous way is almost certainly beyond the evidence at hand, requiring lists and values for ownership that either do not exist, or must be pieced together from fragmentary sources. However, it is possible to obtain a general sense at least of the magnitude of the answer to both questions.

Uruguay had been the site of land investments by British merchants at least since the cisplatine period in the 1820s, and certainly during the early years of independence. Early entrepreneurs such as John Jackson developed sizeable estates in very much the same way as their later counterparts, using the returns and credit from their merchant houses to diversify into land. The “List of Rural Properties,” compiled in October 1864 for Consul Lettsom by four British merchant-*estancieros*, offers a large list of the owners of rural property, as well as their locations and the approximate size of their livestock herds and flocks.<sup>475</sup> Merchants, including many of Uruguay’s most prominent, are among the names mentioned, including: Fair, MacColl,<sup>476</sup> Hughes, MacEachen, Hodgskin, Drabble, Ricketts, Gale, Shaw, Lafone,<sup>477</sup> Lowry, Nicholson, Green, Jones, and Wilson. This list is far from inclusive, showing neither second-generation merchant landowners from British families, notably Juan D. Jackson, nor the rare landowner whose focus was not livestock, such as Thomas Tomkinson. Still, this list covers many of the largest merchant houses in the city, some of which are registered under the company name, such as Nicholson, Green & Co. or Ricketts and Gale, and others under their individual names. There are even hints at the future, company-driven pattern of investment, with two pastoral companies operating in

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<sup>475</sup> Oct. 8, 1864. FO 51/121, attached.

<sup>476</sup> Given in the document as McColl. References to Scottish and Irish names are ambiguous in this period, and change from source to source. I have standardized their names according to the most common spelling, in this case, MacColl.

<sup>477</sup> Lafone here refers to William Lafone, and not his half-brother, the more famous Samuel Fisher. Samuel had recently liquidated most of his assets to cover his debts, after the spectacular implosion of his business interests in 1858. Some of his properties may have been transferred to relatives, such as William, or his brother-in-law Juan Quevedo, who was an Argentine and would therefore not appear on this list.

Paysandú, the Uruguay Pastoral Association of London, with 70,000 sheep and 6,000 cattle on the Bichadero estate, and the much smaller Liverpool Grazing Company at Cerro Chato. Among the various names, representatives from many of the major commercial houses are mentioned.

It seems fair to say, then, that rural investment was a popular activity among British merchants in Uruguay, at least as a sideline investment, and sometimes as a major direction for entrepreneurial activity. However, the *guerra grande*, by paralyzing industry in the countryside, diverting large amounts of scarce labour, and inflicting substantial losses in deterioration and theft, generally aborted these early experiments, returning them to the state of the pre-independence period. It was in the 1850s and 1860s, as the *guerra grande* receded into history and relative prosperity returned to Uruguay, that the migrant-driven transformation of the economy towards intensive sheep ranching began again. Writers began publishing guides, extolling the virtues of the country as a potential location for migration and for investment. These give a detailed account of the situation faced by entrepreneurs, as these guides often described the potential of the land in light of what had been accomplished in the years prior. One such manual was written by John MacColl, a Scottish merchant in Montevideo, who worked as a partner in the house of Anderson Macfarlane and Co. His guide was published in 1861 at the behest of the Uruguayan government as propaganda to encourage the migration of British settlers to Uruguay.

The descriptions contained in MacColl's "Life in the River Plate" are naturally quite rosy, and tend to gloss over the political chaos that Uruguay had only recently emerged from, and into which it would soon enough descend again. Nevertheless, his book provides a first-hand account of the perceived prospects for rural investment from the perspective of a British merchant and landowner. He gives a glowing account of the various freedoms enjoyed in Uruguay under their liberal constitution, and picturesque descriptions of country and city life.<sup>478</sup> More importantly for our purposes, MacColl provides calculated estimates for the returns on capital invested in a sheep *estancia*, based on his own experiences and those he observed. The use of these figures is not new. Barrán and Nahum provide similar, but not identical figures, citing Eduardo Acevedo, himself quoting from MacColl, 1861. The only important difference between their numbers and mine, taken directly from MacColl's manual, is the price of land, which is given as \$10,000 (£2,000) in MacColl, but only \$8,000 (£1,600) in Barrán and Nahum. MacColl's values are as follows<sup>479</sup>:

<sup>478</sup> John MacColl, *Life in the River Plate* (London: 1862), 23-24.

<sup>479</sup> Barrán and Nahum, *Historia rural*, t. I/1. Foldout between 592 and 593.

Table 1: Capital Outlay for a Sheep Raising *Estancia*

3 suertes of land, at \$10000 each	30,000
15000 sheep at \$3 each	45,000
Homestead, outhouses, corrals and implements	2,000
Seven puestos, or shepherd's shanties, with chiqueros	1,000
Original Outlay	78,000

Source: John MacColl, *Life in the River Plate* (London: 1862), 23-24.

Thus for an *estancia* of three *suertes*, equal to 5962 hectares of land, the capital outlay would have been 78,000 Uruguayan pesos, which at an exchange rate of six to one, would require an investment of £13,000<sup>480</sup>, or £15,000, according to MacColl. From this initial investment, he posits a return of 2500 *arrobas* of wool each year, selling for \$5 per *arroba*, earning \$10,000 annually, or £1667. This alone would represent an almost 13% return annually on the initial investment, before considering any increase in the value of the land or the flock.<sup>481</sup> Any increase on the value of the flock through the introduction of superior breeds, such as Rambouillet and other Merino sheep, would increase the value further.

This breakdown exposes several notable features. First, all inputs are more or less trivial, except for land and livestock. This does not mean that the capital stock in things like ranch implements, fence posts and shearing shacks was unimportant. Quite the contrary, developing and maintaining these elements was a necessity of selective livestock breeding, and a major drain on already-scarce labour.<sup>482</sup> However, in terms of investment capital, the clear largest component was directed at livestock, followed closely by land. Labour was expensive on a per-unit basis, and was often scarce when most needed, but in general, ranching was not a labour intensive activity, and even a large *estancia* could be run with a comparably small team of *peones*. Land was extraordinarily cheap, by international standards, but was therefore used extensively and in

<sup>480</sup> My exchange rate of 6 to 1 is taken at Sept. 31, 1861 from an exchange rate series certified quarterly by local merchants for the British Consul, for extraordinary expenses in the period. It is drawn from FO 366/130, National Archives, Kew. It is a relative high point which may account for my calculated value being lower than MacColl's.

<sup>481</sup> MacColl, *Life in the River Plate*, 23-24.

<sup>482</sup> This illustrates a key point – the absence of large, fluid markets for most goods and services means that investment capital cannot directly overcome many of the problems involved in ranching. Scarcity of skilled labour and key materials had to be solved in part through information and procurement networks – simply offering more money was not always a solution.

compensation for other, scarcer factors, and thus still occupies a substantial share of the overall capital investment.

One check on the reasonableness of MacColl's figures is to compare it to other estimates from the time. Another guide to both Argentina and Uruguay was written by Wilfrid Latham, and published in 1866. He gives the following description of the state of economic opportunity in the region. "There is an unquestionable 'Eldorado' in the Rio de la Plata, but it is for the industrious, the intelligent, the practical, and the enterprising."<sup>483</sup> Published in 1866, he sees the era of easy fortunes earned on landownership alone as having ended with the 1850s. However, the potential for applied capital and labour was still high. "This industry [ranching] has simply passed through one stage of its progress and now enters upon another, requiring the employment of more capital and more intelligent industry to yield again what it has already yielded – viz.: large and accumulative profits." This account, and ones like it, was an open call for entrepreneurship, to remake the local economy to the benefit of the industrious individual.

Latham offers some calculations about the capital costs and potential returns for sheep raising. Although they are formulated on Buenos Aires prices, they give a sense of the relative values involved. His expenses for an *estancia* of one square league are calculated as follows: £3500 to £4000 for land; 5,000 sheep for £1250; four huts to serve as stations, £100; corrals £60; rams £640; housing for rams, £150. The total investment, then, for a square league of land used for sheep, would be £6200, although he later recommends selecting the best of any flock of sheep, and selling the rest for their skin and grease, and other sundry investments, for a total of £6500 to £7000 per square league. Shepherds' wages would account for £15 per month, whereas keeping the rams would cost £45 or £50, adding another £230 per year in operating costs.<sup>484</sup> The separate cost of rams, the capital investment in the corrals, the employment of shepherds, and the suggestion to select the "best" sheep, are all indicative of Latham's recommended selective breeding program, designed to improve the bloodlines of the livestock through intermixing with imported breeds, and in so doing, to multiply their value.

In capital-starved Uruguay, this would have been a substantial sum to invest, but these sums were certainly not excessive for a moderately successful merchant in Uruguay. Even for migrants with little capital to invest, a sizeable flock could be built by renting land and starting small, letting the natural reproduction of the flock generate the remaining capital over the years.

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<sup>483</sup> Wilfrid Latham, *The States of the River Plate* (London: Longmans, Green and Co., 1866), 178.

<sup>484</sup> *Ibid*, 185.

Latham indicates that, within three years of the establishment of the *estancia*, it will be earning £2000 to £2500 in wool sales annually, itself already a 20% or greater annual return on capital. The stock, both remaining and sold, would total £14000, and the land and 'plant' of improvements would represent another £6500 to £7000.<sup>485</sup> Even using the more conservative ends of his estimates, Latham's numbers imply more than a tripling of capital invested over the course of three years, which is consistent with the extraordinary rates of return posited by MacColl. Sheep raising in the 1850s and 1860s was a lucrative business, and so long as land prices continued to increase, prices for wool remained stable, and the country was free from internal warfare, entrepreneurs could make substantial fortunes in the ranching business.

### Land Prices

The value of livestock reflects only one channel for returns on capital invested in land. The increase of the value of land itself is another, and during the post-war recovery, it was a solid investment. As the country stabilized in the years following the *guerra grande*, the price of land increased dramatically, from an average of 0.60 pesos per hectare in the immediate postwar period, up to 2.09 pesos during 1857-61, representing an annual rate of return of 30%. Even when compared with Uruguayan interest rates from this period, often reaching as high as 2% monthly, land speculation was a major opportunity for growing wealth. While returns are not quite as spectacular when considering the entire period between the early 1850s until the early 1870s, the average annual growth returns for holding land during this period was 12.4% for the entirety of Uruguay, and 12.9% for the Littoral region.<sup>486</sup>

Landholding alone therefore represented a substantial method of increasing wealth, provided the land was purchased during the crash years immediately following the *guerra grande*. This was clearly seen by British and other foreign entrepreneurs at the time. They scrambled to obtain land however they could, either through purchase, by denouncing "empty" lands, or by outright fraud, forging titles. A major crisis arose over what was seen as rampant speculation, especially by certain British merchants (Samuel Lafone is usually implicated here, along with many others). In 1858, the legislature passed a law banning the denouncing of lands, ending that method of obtaining land. This act confirmed the titles of the possessors, but it certainly did not

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<sup>485</sup> Ibid, 187.

<sup>486</sup> Own elaboration of land value figures from Barrán and Nahum t. 1/2, p. 319, *apendice documental*.

stop speculation in land, which continued to the point of generating a real estate bubble during the Paraguayan war, only to burst in 1868.<sup>487</sup>

However, no opportunity lasts forever, and by the mid-1860s, land prices were no longer increasing rapidly. Between the 1867-71 and the 1872-76 periods, land was only increasing in value at 5% per year, far less than the typical return on capital of 12-18%. This meant that pure land speculation was no longer a profitable business; if one wanted to make money in land, productive development was necessary. The explanation for this slowdown in the increase of land prices is difficult to explain only in terms of land scarcity. Between 1852 and 1860, numbers of both inhabitants and livestock exploded upwards, which should have increased both the relative scarcity and productivity of land, driving its price upwards. While data on exact headcounts of cattle are unreliable at best, the growth between these two years, according to the available data, was between a doubling in this period, with lower estimates, and tripling, with higher ones. Sheep follow a similar, but slightly faster, growth pattern.<sup>488</sup> Population recovered more slowly than livestock, but only barely. Over the same period, the population grew from approximately 34,000 to 58,000, a growth rate of almost 7% annually.<sup>489</sup> This growth in population and livestock, combined with a slowdown in the increase in the value of land, leads us to a puzzle. Increasing these factors, *ceteris paribus*, should increase the relative value of land. Yet, land prices increased more and more slowly until the 1870s. By the 1860s, the opportunity to buy low during the crash following the *guerra grande* had run its course, and entrepreneurs had to either find other opportunities, or find some way to make the best of their existing investments.

### Management and Delegation

Management was a critical factor in the operation of a merchant house, and especially in the process of economic diversification. No merchant, however ambitious or competent, could overcome the fundamental restriction of travel time. British merchants travelled around the various ports in the region, and even back to Europe on occasion. However, for many, Montevideo was their primary residence. It was there that the imports that were their staple business entered the country, and where the bulk of the export production left. Throughout the 19<sup>th</sup> century, the capital was seldom less than ten times the size of the next largest urban center, and accounted for

<sup>487</sup> Eduardo Acevedo, *Notas y apuntes, contribución al estudio de la historia económica y financiera de la república oriental del Uruguay* (Montevideo: El Siglo Ilustrado, 1903), 227.

<sup>488</sup> Perfecto López Campaña, *El libro del centenario del Uruguay, 1825-1925* (Montevideo: Agencia Publicidad Capurro, 1925), 100.

<sup>489</sup> Rial Roade, *Estadísticas Históricas*, 108.

a fifth of the total population of the country.<sup>490</sup> Montevideo was the seat of government, the social hub, and the only city of relevance in the *Banda Oriental*.<sup>491</sup> There was little scope for a merchant to relocate on a permanent basis to the countryside, and although occasional visits were possible, direct and consistent personal monitoring was not. There was therefore a structural gap in the flow of information necessary to carry out business.

The obvious method of overcoming the barrier of distance was to give broad powers to an agent. For the rural entrepreneur, this usually took the form of an estate manager, who could then act as the merchant's agent in the countryside.<sup>492</sup> The ability to draw upon the merchant house was the key power for a manager, since without the ability to speak for the house's finances, few credible transactions could be made. However, such power was also very dangerous, since the ability to draw credit from a house could be used for personal, rather than estate, business – a classic case of the principal/agent problem, reinforced by the large distances involved and by the low security of property in the countryside. To mitigate these issues, *estancieros* kept in constant communication with their estate managers via correspondence, which provided both information flows and a degree of supervision.<sup>493</sup>

The position of estate manager therefore required substantial trust. In order to establish such trust, merchants used their contacts to find employees who could be relied upon. Recommendations from fellow merchants and family contacts were major sources of dependable employees in an environment where dependability was both rare and difficult to assess. Likely due to the necessity of binding them to their employers, managers were generally recruited from the English-speaking world, from Britain or North America. Richard B. Hughes employed Henry Kennedy, a Yankee, at his Rio Negro *estancia*, La Paz. The Jackson family, whose business dealings were largely inherited by Juan D. Jackson, used Pedro, Juan's middle brother, to run the family sheep *estancia*. When Samuel Lafone needed someone to manage his *saladero*, he called on John Pownall Dale, his brother in law from Liverpool, to emigrate. Later, Dale would also act as manager of Lafone's holdings in the Falkland Islands. The advantages of this personalist system of

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<sup>490</sup> I hesitate to call the urban centers in the countryside "cities." In 1852, for instance, the second largest urban area was Mercedes, with a population of only 2489. By 1860, Paysandú had overtaken it, but still had only 4866 inhabitants. These are better described as towns or river ports, rather than cities *per se*.

<sup>491</sup> Rial Roade, *Estadísticas Históricas*, 109.

<sup>492</sup> Samuel Amaral examines such a partnership between merchant and estate manager, using letters between Marcelo Ignes and Juan Pedro Aguirre, who operated an *estancia* in Buenos Aires province in the 1820s, in *Capitalism on the Pampas*, 182-208. This chapter will examine a similar relationship between Richard Hughes and William Kennedy, though the relationship is one of employment rather than partnership.

<sup>493</sup> Sabato, *Agrarian Capitalism*, 130.

recruitment were a level of increased trust and comfort, and an automatic integration into the social network. Managers recruited from abroad would be free of local connections, with the exception of their connection to their employer, and thus would be less susceptible to the kind of principal/agent problem that ordinarily plagues such dealings. Uruguayans, generally trusted much less, were involved in the management of British *estancias*, but generally at the level of lower management, as *capataces* (foremen).

We can see in this recruitment pattern the ground-level version of the theoretical predictions of Granovetter,<sup>494</sup> in terms of using pre-existing social ties as recruitment tools, and of Casson and Della Giusta on the importance of making use of scarce trust resources in entrepreneurship.<sup>495</sup> Strong ties, such as those shared between family or close friends, provided an obvious conduit for direct recruitment. Sons learned the family business, and eventually inherited estates and took over merchant firms; brothers and brothers-in-law were sent to operate *estancias*, or left behind to run the merchant house when the entrepreneurial brother left to pursue opportunities in the countryside. Weak ties, generated among acquaintances, co-religionists, ethnic communities, or through references provided by stronger ties, also contributed by improving the speed and quality of the search process for dependable agents. Indeed, the very lack of a broad network of weak ties for new migrants may have provided an incentive for English-speaking migrants to develop trust relations with more successful entrepreneurs with whom they shared national, linguistic and religious ties. The barriers created by culture, language, and religion meant that ties developed more slowly with the local population and other migrant communities, making it more costly, though certainly not impossible, to rely on them as agents and managers.

### Saladeros and Rural Industrialization

British merchants who purchased rural property formed a natural vanguard for technological advancement. Even before the *guerra grande*, some of the more successful merchants, including John Jackson and Samuel Lafone, had begun to diversify their businesses into the more progressive side of the rural economy, the *saladero* industry and sheep raising. The first major attempt by a British industrialist to modernize the traditional *saladero* was by Samuel Lafone, at his establishment La Teja. Described as a “colossus” in the industry, his model *saladero* introduced several important innovations. First, he established his facility in a non-traditional area.

<sup>494</sup> Mark Granovetter, “The Strength of Weak Ties,” *The American Journal of Sociology*, Vol. 78, No. 6 (May 1973): 1360-1380.

<sup>495</sup> Mark Casson and Maria Della Giusa, “The Economics of Trust,” in *The Handbook of Trust Research*, eds. Reinhard Bachmann and Akbar Zaheer (Cheltenham: Edward Elgar Publishing, 2006), 332-354.

Most *saladeros* had been located in the low land cost zone near the harbor at Buceo, on the southeast side of Montevideo. La Teja, by contrast, was located on the bay in the northwest, by the Cerro, the hill overlooking Montevideo. This location allowed for easy disposal of waste products into the bay, an improvement which allowed a larger scale of operations. As such, it became a new site for the *saladero* industry, and many other entrepreneurs followed Lafone's lead in this location, including Thomas Tomkinson and Jaime Cibils.

Figure 1: *Saladero La Teja*



Source: Museo Histórico, Casa Lavalleja, Montevideo.

Lafone also introduced capital-intensive machinery to save labour and improve quality for various tasks. These machines included steam cauldrons for rendering fats from meat, and a press to assist in the drying process. As Barrán and Nahum point out, the *saladero* was transformed, first by Lafone and later by other entrepreneurs, from being a proto-industrial adjunct of the *estancia*, into an economic force in its own right.<sup>496</sup> While the *saladero* industry did not survive beyond the 19<sup>th</sup> century, due to the loss of slave markets in Brazil and Cuba and to the advent of refrigeration,

<sup>496</sup> Barrán and Nahum, *Historia rural*, t. I/1, 96-97.

it was not entirely an industrial dead end. It was a transitional stage between the *edad de cuero*, and the industrial processing of cattle.

One can follow this transition in the career of Richard B. Hughes. Originally a merchant, operating up and down the Argentine littoral and even into Paraguay, by the 1850s he became involved in a colonization project along the river Uruguay, in the department of Rio Negro. The official name for this settlement was the nationalistic “Villa Independencia,” but it quickly became known by the colloquial title of “Fray Bentos.” Hughes was a member of a group of entrepreneurs looking to establish a colony in the region. The group were merchant-*estancieros*, each one from the *nueva clase alta rural*, or from one of the Uruguayan elite families who had established family connections with that group, including James (Santiago) Lowry, George Hodgskin, Joaquin Errazquin. As will be discussed extensively later in this chapter, Hughes was developing substantial investments in land and livestock. Looking to control the downstream elements of rural production, he established a modern *saladero* in the department of Rio Negro.

This *saladero* would be notable in itself as an example of early industrial development along the Uruguayan littoral. However, it is for its future as the antecedent for the Liebig’s Extract of Meat Company plant at Fray Bentos that it is most famous. This plant, established in 1865, represented the first major globalized industry established in Uruguay. Drawing upon Uruguayan production and established on Uruguayan soil, it was nonetheless a profoundly international enterprise. It drew its essential technology and its scientific brand identity from the German chemist Justus von Liebig, a famous scientific entrepreneur who transformed his theoretical discoveries into marketable products. The capital and management, however, were British.

These improvements to the *saladero* did not fundamentally alter the pattern of Uruguayan production, based almost entirely in cattle ranching. It did, however, signal the eventual end of the *edad de cuero*, the age of leather. The proto-industrial *saladero* could extract a much greater value of final product from a cow than merely removing its hide. While dried and salted hides remained the core product of the industry, alongside the dried meat product *tasajo*, these staples were increasingly supported by other saleable by-products: bone and bone ash, horn, and fats. As these commodities had different uses and different markets from the traditional hides and *tasajo*, they also provided limited, but much-needed, diversification for the emerging Uruguayan economy.

### Sheep and Wool

The most substantial transformation enacted by foreign entrepreneurs in this period was the introduction of sheep as a high-capital, land intensive type of livestock. Sheep raising allowed landowners to increase productivity, and mitigate the economy's monocultural dependence on cattle products. The scale of operations was also much smaller than in the extraordinarily extensive cattle *estancias*. Raising sheep was better suited to the emerging class of immigrant landowners of the middle and upper classes, either as a progressive adjunct to existing cattle estates, or as a method of transforming comparatively large stocks of capital and small stocks of land into a viable business. For the cattle-centric Uruguayan countryside, this new industry was transformative. Just after the end of the *guerra grande*, in 1852, there were more than twice as many cattle as sheep: 1,888,622 cattle against only 796,289 sheep. By 1872, while both stocks had grown enormously, the ratio had more than inverted, with almost three times as many sheep as cattle, 20,000,000 sheep against only 7,200,000 cattle.<sup>497</sup> Imported bloodstock in the form of Merino and Rambouillet sheep increased the value of livestock, as they were both larger and their wool was more competitive in foreign markets.<sup>498</sup>

British landowners owned a substantial share of both major types of livestock, but were especially influential in sheep raising. According to estimates given to Mr. Lettsom, the British Consul by several Uruguayan merchant-*estancieros* in 1864, there were 1,103,500 sheep and 167,000 cattle owned by British ranchers.<sup>499</sup> Peter Winn notes that these numbers are almost certainly lower than the correct figures, as they are missing the department of Salto, and do not include the *estancias* of Young or Jackson, both major *estancieros*.<sup>500</sup> The method of dealing with unknown values for all livestock for seven various estates, and with unknown numbers of cattle for several others, is to simply ignore them in the total. Values are also reported only in multiples of one thousand, meaning that these are very much general estimations rather than reliable data. This means that these values substantially underestimate the number of sheep under British ownership in the countryside, and should be thought of only as an estimated lower bound.

Flawed as they are, however, these figures do reveal a general picture about the level of British involvement in the livestock economy, as well as its regional dispersion. Totaling up the returns by region yields the following estimates for livestock by province:

<sup>497</sup> López, *Libro del Centenario*, 100.

<sup>498</sup> Sabato, *Agrarian Capitalism*, 25.

<sup>499</sup> Oct. 8, 1864. FO 51/121, attached.

<sup>500</sup> Winn, *Inglaterra y La Tierra Purpurea (1806-1880)*, 121.

Table 2: Sheep and Cattle Owned by British *Estancieros* in Uruguay, 1864

State	Sheep	Cattle
Durazno	103000	61200
San Jose	152500	1500
Florida	68600	2000
Mercedes	153500	13000
Paysandú	371000	58000
Canelones	29500	3300
Colonia	215000	25000
Maldonado	8000	2000
Montevideo	2400	-
Totals <sup>501</sup>	1103500	166000

Source: List of Rural Property, Oct. 8, 1864. FO 51/121, attached.

As can be seen from the table, British landownership was not exclusively focused in one region, but neither was it uniformly distributed. All of the *estancias* counted are either directly around Montevideo, along the littoral, or towards the center of the country, with major clusters at Colonia and in Paysandú. No British *estancias* are reported for the Brazilian border departments of Cerro Largo and Tacuarembó. These were areas where Brazilian rather than European *estancieros* dominated the landscape. To the east of Montevideo, none are reported for Lavalleja. Only three small ranches are reported for Maldonado, all of which are located around the Laguna del Sauce, by the southern coast and near the British-dominated port of Punta del Este, owned by the Lafone family.

This distribution of estates closely mirrors the distribution of British inhabitants of the country. According to the data from the census of 1860, there were 465 British inhabitants living in Uruguay outside of Montevideo, not counting those in Paysandú, where the data for foreign inhabitants was not disaggregated in the census.<sup>502</sup> Assuming the average of the proportion of British inhabitants from neighbouring Soriano (listed by its capital of Mercedes above) as a lower bound, there were at least 58 British residents in Paysandú. Given the known concentration of British residents in Paysandú, and the above statistics on livestock ownership, it is likely that this is

<sup>501</sup> The total for cattle is 1000 less than the listed total in the letter. I am unable to find the source of this error, and assume it is a miscalculation on the part of the writers. This has no effect on the analysis.

<sup>502</sup> Census data from Rial Roade, *Estadísticas Históricas*.

an underestimate. As a plausible upper bound, one could assume that British residents were 2% of the population of Paysandú, a proportion far higher than in any other area of Uruguay (the highest known proportion being Colonia with a proportion of 1.3%, and the country overall being 0.5%, excluding Paysandú.). That would yield 284 British inhabitants for that department and 749 for the entire countryside in 1860.

In any case, the number of British residents reflects the pattern of livestock *estancias* quite closely. There is little reason to believe that British residents outside Montevideo were generally engaged in any business except for ranching and its sidelines, including *saladero* operation. In all of Maldonado, for instance, there are only six registered British inhabitants, despite the presence of three *estancias* and the port at Punta del Este. British landowners themselves were often absentees, directing their estates through letters and local managers rather than performing these tasks in person. Still, this is a remarkably sparse level of coverage, and reflects British entrepreneurs' overall lack of interest in areas outside of the littoral.

What is also notable is that, at least according to these estimates, the British did not in general maintain particularly large cattle *estancias*, relative to the total cattle in Uruguay. Going on these estimates and the countrywide estimates of John MacColl for the same year of 1861, and assuming a 20% annual growth rate, the British owned approximately 17% of the sheep in Uruguay, but only 1.2% of the cattle.<sup>503</sup> While these rough approximate figures do not bear the weight of extensive calculation, they still give a clear impression: British landowners owned livestock, and especially sheep, far in excess of their proportion of the population. If the British were half a percent of the inhabitants of Uruguay, then they owned about 2.5 times as many cattle and 34 times as many sheep as they would have if livestock distributed equally. This discrepancy between dominance in sheep ownership and only moderately high cattle ownership follows from the more capital-intensive nature of sheep farming. Superior access to capital and credit was something British landowners had over other groups, and especially over Uruguayans, or Brazilians in the northern departments. These groups favoured extensive cattle ranching, directed at the *saladero* market to produce hides and *tasajo*.

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<sup>503</sup> Livestock data from MacColl, *Life in the River Plate*, 23. The calculations are my own. Estimates of livestock are at best educated guesses for this period. Different sources give different figures. My estimates for British ownership are conservative, as they take the data from the List of Rural Properties, which is likely an underestimate, and measure them against numbers derived from MacColl, whose values are high relative to others, such as Adolfo Vaillant. However, without solid comparable numbers, and assuming static annual growth, it is relatively easy to obtain figures such that the British own more sheep than exist in the entire republic.

The geographical distribution of British *estancias* also reflects the pattern which would yield maximum advantages for the British. Their high-capital, intensive methods of land use, heavily focused on sheep raising rather than cattle ranching, was best focused where transport costs were lowest, information was most easily obtainable, and where what little protection of property there was could be best exercised. In this period, this meant settling along the routes of water transport, or along the few good roads leading from Montevideo up into the interior, to the province of Durazno. Unlike cattle, sheep could not be driven to market or to a *saladero* easily, and instead, the use of carts or boats to transport the shorn wool and other produce was the norm. British merchants stand out as being particularly important in the modernization of Uruguayan rural production and the move away from extensive ranching of unimproved cattle. They were the first and most intensive in switching production to higher value-added products and increasing the capital intensification of land usage, which itself entailed the import of new bloodstock, the adoption of wire fencing, and agitation for superior property rights in the countryside.

### Labour Problems

As an under-populated, quasi-frontier society, Uruguay was faced with persistent shortages in both skilled and unskilled labour. Intensive sheep ranching required more than just a fenced enclosure and breeding stock; it also required specialized labour, which was largely unavailable: "Good shepherds are not to be found & much inquired for."<sup>504</sup> This represented more than simply a lack of skilled labour. There were also serious problems with labour discipline. Without a deep labour market, and with ample opportunities for employees to abandon their employment for better opportunities, employers had little credible threat with which to keep their employees in check. These shortages made improvements in the quality of production through labour intensive methods prohibitively expensive. Better quality product would command higher prices in international markets. Improving quality meant both selective breeding in order to improve the livestock, and also the introduction of processes to wash and otherwise clean wool prior to export. However, even the most elementary refining processes required capital and labour which were too scarce for the processes to be viable. While trying to improve the quality of wool at his *estancias* John D. Jackson complained that "... it may be possible but rather difficult to wash [the wool] better, with such people as we are obliged to occupy..."<sup>505</sup>

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<sup>504</sup> John D. Jackson to William Rathbone, February 4, 1857. Rathbone Papers, XXIV-2-36 (38).

<sup>505</sup> John D. Jackson to William Rathbone, January 4 1854. Rathbone Papers, XXIV-2-36 (5).

Direct colonization by European immigrants was the preferred method of obtaining labour. As early as the 1830s, Samuel Lafone received government permission for a migration scheme to bring Spanish Basques over from Europe to colonize Uruguay.<sup>506</sup> These Basque migrants, alongside other sheep-raising groups including the Irish, made ideal immigrants as they already possessed the skills necessary for pastoral work.<sup>507</sup> Immigration was a priority for both government and entrepreneurs, since the underpopulated countryside was neither easy to govern nor conducive to economic exploitation. Immigration schemes could not bring enough labour to Uruguay to alleviate the overall shortage, despite persistent attempts in the form of colonization projects and recruitment schemes. Workers were scarce throughout this period, and recruiting skilled and disciplined labourers remained a major priority for *estancieros*.

Without any single method of solving the immediate shortage of both skilled and unskilled labour, British entrepreneurs were forced to adapt. In this, they had one major advantage over Uruguayan landowners: an abundance of capital. Capital intensive methods could be more efficient in terms of manpower, and therefore compensate for the labour shortage. Samuel Lafone in particular is credited with saving labour through imported technology, buying enormous presses for drying meat at his *saladero*, La Teja. It is said he believed he would make back the money spent by savings on labour costs.<sup>508</sup> However, increasing capital intensity was itself a process which required substantial skilled labour.

Various methods were tried to solve this problem. Slavery was a possibility prior to the *guerra grande*, but by 1845, both sides of the civil war had outlawed slavery, although this was mostly to use the newly-freed slaves as recruits. While the number of slaves around Montevideo was not trivial, slavery was never a widespread institution in Uruguay in the way it was in Brazil. In any case was not a solution available to British entrepreneurs in the 1850s. One method of obtaining cheap labour from Europe was indenture. This method provided European workers, who were generally seen as more productive than locals, and easier to control. Henry Kennedy, the manager of Richard B. Hughes's *estancia* at Arroyo Negro, wrote glowingly about the concept of obtaining indentured workers from England, as the locals were not to be trusted. “[V]ery much rejoiced am I that you have sent to England for apprentices, the feeling carried by being surrounded by persons whose interest in your service is in exact proportion to the amount of

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<sup>506</sup> Azcona, *Possible Paradises*, 316-317.

<sup>507</sup> Sabato, *Agrarian Capitalism*, 90.

<sup>508</sup> Barrán and Nahum, *Historia Rural t.1/2, apendice documental*, 47. Quoting from the *Revista de la Asociación Rural*, 15 Dec., 1883.

deception they can with impunity practice upon you, is not agreeable."<sup>509</sup> Three Irish boys were brought over as indentures. Kennedy initially claimed that they were good boys, and ought to do well as workers. Indenture was not an easy life, however. His description of their conditions was bleak, writing that "the terms (of their indenture) are very hard for them. They cannot clothe themselves and pay for their working, the work here is very hard on pantaloons and they must give up all idea of wearing shoes, which I perceive is quite a trial to their tender feet," but presumed they would get used to their condition, as "time and patience are wonderful masters to teach conformity with a good grace..."<sup>510</sup> Beds too were lacking, and none were available in Paisandú, except at low qualities and high prices, 10 to 12 *patacones* for a bed made of grass. Needless to say, comfort for the indentured was not a priority.

Harsh conditions and a wide open space were not conducive to loyalty. In the Uruguayan countryside, indentured servants were no easier to control than local labourers. As Kennedy learned to his dismay some days later, the indentured boys clearly had other plans for themselves, and ran away. "They one and all appear to belong to the very dregs of the worst class of people and from what I can find out the plan of running away appears to have been formed on the voyage out, or perhaps when they signed their indentures their intention was to stay with us only as long as it was convenient."<sup>511</sup> Indenture posed many of the same problems as hiring local *peones*, the lack of credible disciplinary mechanisms, and the wide availability of alternative employment, and therefore could not solve the labour problems of rural entrepreneurs.

Richard Hughes's *estancia*, considered a model for a modernizing rural enterprise, was initially crippled by the lack of labour for very basic tasks, including putting down and pulling up posts for fencing, and building corrals. Even the simplest tasks required more labour than was readily available. The seasonal work involved in raising livestock meant a constant drain on workers that could otherwise have been employed developing the *estancia*. Even servants for basic domestic tasks were scarce. Kennedy complained constantly to Hughes about the lack of a cook, or anyone to wash his clothes. He asked repeatedly to be sent an immigrant couple to perform these tasks, as he found himself unable to hire one due to the great demand for them. Even on this 'model' *estancia*, clothes went for months without cleaning. "We literally belong to the 'great unwashed,'"<sup>512</sup> wrote Kennedy, despairing of the luxuries that would have been

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<sup>509</sup> Hughes Papers, 1857/20.

<sup>510</sup> Hughes Papers, 1858/1.

<sup>511</sup> Hughes Papers, 1858/3.

<sup>512</sup> Hughes Papers, 1857/30.

common even in Montevideo, but were scarce even in the best-developed sections of the countryside.

### Policing and Crime

Rural entrepreneurs faced constant problems with robbery. In some cases, the police were powerless to stop the thefts; in others, they were active contributors. “The police are a set of authorized thieves,” wrote John D. Jackson, “... now with roberies [sic] of consideration & common occurrence (some of 2 & 300 sheep at a time)...” Without the support of the government to police the countryside, mercenary security was the only available option. “We have sent an officer & six men with power to catch & punish people stealing sheep in the Estancia; these men we pay.”<sup>513</sup> Appeals to the government were, in this period, without effect, for several reasons. “Our police grows worse daily; a representation was made to the government, by the people, of the evils resulting from this inefficiency of the Gefe Politico [political boss] I understand no attention has or will be paid to it,” wrote Kennedy, complaining bitterly of the government agents’ inability to police the countryside. Property was critically insecure, a situation which called for drastic reform.

Upon the replacement of the previously mentioned *Gefe Politico*, Kennedy offers his approval of iron-fisted methods of imposing order on the countryside: “We are somewhat comforted by the arrival of a new Gefe Politico who is aware of the scandalous state of the police and is about to adopt measures which we most surely trust will give us some security,”<sup>514</sup> and “Our new ‘Gefe Politico’ is taking active means, to free us from the cow-thieves and although he may exceed the strict limits of the law now and then I do not think he can well avoid it and strike a wholesome terror into such a set of vagrants as he has to deal with.”<sup>515</sup> However, by the next year, these harsher methods had failed to bring peace to the countryside: “The efforts ... to put down cattle stealing have been so far without any beneficial result some men have been taken up, and confessed this crime but so many obstructions are placed in the way of justice that I shall not be surprised if the criminals be again let loose upon us to be more daring than ever. We have lost more animals this year than during the same time last, and I fear this is a contribution we will always be forced to pay.”<sup>516</sup> In such comments, one can see the impetus for the development of the *Asociación Rural*, to organize and lobby for the development of better policing, infrastructure, and property rights in the countryside, and the incentives to support military rule.

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<sup>513</sup> John D. Jackson to William Rathbone. 3 September, 1856, Rathbone Papers, XXIV-2-36 (7).

<sup>514</sup> Hughes Papers, 1857/14.

<sup>515</sup> Hughes Papers, 1857/12.

<sup>516</sup> Hughes Papers, 1858/3.

This fear of robbery was not only a loss that had to be absorbed out of profits. It also altered business decisions by shortening the time horizon, and reducing the value of livestock as capital. When a *saladero* began operating in the vicinity of Hughes's *estancia*, Kennedy's advice was conservative, to liquidate existing stocks if they can get a reasonable price. "I live in fear of robbers of every degree and think it well to secure what we have available."<sup>517</sup> The lack of a safe environment made carrying large stocks of cattle an inherently risky proposition. This was especially pertinent when breeding stock was imported from Europe or Buenos Aires. Local *criollo* cattle, valuable mostly for their hides, and whose meat was fit only for the *saladero*, represented a smaller risk than valuable European breeds. These offered a potential avenue for the advancement of productivity in the countryside, but only if they could be kept alive long enough to spread their genes through mixing (*mestizaje*) with the local animal populations. Before the introduction of wire fencing, first on Hughes's *estancia* La Paz, and later mandatorily for all *estancias*, keeping such non-adapted pedigree animals was a difficult task. They had to be healthy and safe from the dangers of robbery (official or otherwise), and also kept separate in order to avoid unwanted intermixing.

The needs of foreign entrepreneurs were not necessarily shared by the local community, however. The desired harsh punishments were not forthcoming, and foreign entrepreneurs' interests were not taken as seriously in the countryside as in Montevideo. The Uruguayan state, strained by debt and lacking in influence, could not intervene with enough strength to govern the countryside in a manner consistent with the expectations of foreign property owners. Kennedy notes that "... such is the demoralized state of the country that no proper steps are taken to stop it [cattle theft]; the community scarcely expresses any sympathy, and unless the government makes it a capital crime we will never be rid of this serious drawback to the interests of this country – there is nothing more difficult to obtain than the punishment of a cattle thief. The moment one is arrested the public makes every exertion to obtain the pardon of the culprit."<sup>518</sup>

While this is no doubt a heavily biased perspective, it highlights several important issues for British entrepreneurship in the countryside. First, the perception was that public sympathy in the countryside favored local Uruguayans over British landowners. Likely, they were seen as intruders and speculators. Second, it shows considerable impatience with the judicial institutions of the country, which were seen as slow, ineffective, and unable (or unwilling) to protect property

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<sup>517</sup> Hughes Papers, 1858/5.

<sup>518</sup> Hughes Papers, 1858/1.

rights. And third, it shows the clear linkage, in the thinking of the new class of foreign entrepreneurs and managers, between the institutions governing the security of their property, and the prosperity of the nation as a whole.

#### British Merchants and the *Asociación Rural*

The increasing capital and technological intensity of the investments involved in rural development increased the incentives for collective organization. There was substantial collaboration among landowners in sharing ideas, resolving conflicts, embarking on joint projects, and lobbying the government to defend their property rights. The social form of this collaboration began with clubs, and evolved into sophisticated industry lobby groups which considerable political influence in favour of landowners. In order to establish more intensive production in the countryside, the cycle of prosperity and violence had to be stopped. As they became landowners, merchants increasingly turned their attention to pressuring the state for solutions. As the merchants of Montevideo developed into landowners, the character of their social organization began to reflect this new identity.

Associations and clubs had always been a part of social life in the port. From the late 1850s onwards, however, they became the loci of organized lobby groups in favour of their new interests. The *Club de Extranjeros*, or foreigners' club, was a society of overseas merchants that combined social with commercial functions, and contained representatives of all the major nationalities in trade. Key British merchants including Thomas Tomkinson acted as directors, reflecting their place in the increasingly integrated merchant community.<sup>519</sup> Soon, however, another society, the *Club Nacional*, was created in imitation that served as integrated spaces where elite Uruguayans and foreign merchants could participate on explicitly equal footing.<sup>520</sup> The *Club Nacional*'s first directorship included names from the remaining Uruguayan merchant-landowners from the *patriciado*, such as Aureliano Berro, Juan Ramón Gómez, and Vicente Vásquez, with Richard Hughes as president.<sup>521</sup>

One function of the *Club Nacional* was to seek out new markets for *tasajo* in response to falling prices and limited, slave-oriented markets in Cuba and Brazil. British entrepreneurs whose fortunes were based on the sale of *tasajo* scrambled to find other markets, forming a transatlantic

<sup>519</sup> Alba Mariani, "Los negocios Británicos en el Río de la Plata: Tomás Tomkinson (1825-1875)," *Páginas: revista digital de la escuela de historia, Universidad Nacional de Rosario*, Year 5, No. 9 (2013), 168.

<sup>520</sup> *El Comercio*, July 9, 1858.

<sup>521</sup> It is unclear why Hughes was the only British merchant involved in this early project. Participation in the later *Asociación Rural* was broader, though Hughes remained important, serving as its first president.

committee to attempt to introduce the dried meat into English and Scottish markets. While this group is a remarkable case of network cooperation, both across firms in Uruguay and between the Uruguayan firms and their connections in Britain, the initiative was ultimately a failure; labour was too expensive in Uruguay to make use of superior curing and storing processes which might have made it palatable to European consumers. John D. Jackson, one of the *estancieros* involved in this effort, recounts several attempts to make this trade profitable. Using the Rathbones and their merchant empire as his point of entry, he had shipped a barrel of *tasajo*, as a sample. While the product itself did not stir the passions of the Liverpool consumer (Jackson held out hope for Glasgow), his problem was more fundamental: the cost of making barrels and packing the *tasajo* was itself higher than the value of the product, for “want of labourers.”<sup>522</sup> Various other solutions, such as shipping the meat, uncured, in brine in the bottom of the hold of a ship, were considered, but ultimately, the markets for *tasajo* remained the same as always: Cuba and Brazil, the slave economies.

Without a viable option for expanding markets for traditional products, the only available option for continued growth was to develop new products and processes of rural production. At the forefront of this developmental project was the colony of Villa Independencia. This colony was developed by the merchant-*estancieros* Richard Hughes, Joaquín Errazquin (brother-in-law of John Jackson), George Hodgskin, and James Lowry, hoping to compete with Argentine production in the littoral. This project, along with a series of other experiments in crossbreeding, wire fencing, and industrial meat processing, would form the core of the technological progress in land usage throughout the 1860s. In 1856, Hughes returned to Uruguay in order to focus on developing his landowning interests on the La Paz *estancia*, immediately outside of Fray Bentos. In addition to his estate, Hughes owned and operated a *saladero* which later became the beginnings of the Liebig’s Extract of Meat Company.<sup>523</sup>

The *Revista de la Asociación Rural del Uruguay*, the journal disseminated in order to share information and voice opinions among landowners, was a vehicle for merchants to disseminate their views regarding necessary institutional reforms. Thomas Tomkinson wrote, in an article pertaining to the development of a postal system for Uruguay:

“If our existing institutions are not adequate to this objective [establishing a postal service], let us imitate those other countries that have made the first and best progress in this sense. Where was

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<sup>522</sup> Rathbone Papers, XXIV-2-36 (62), 29 May, 1861.

<sup>523</sup> *Revista de la Asociación Rural del Uruguay*, 1893, 565-66.

the first mail established? In England. Where were the first and fastest stagecoaches? In England; and just as the establishment of these businesses in a country presupposes good roads, we should seek in England the ways that they have employed to obtain them.”<sup>524</sup>

This passage shows not only the increasing preoccupation with infrastructure, transportation, and communication, but also the suggestion of importing and imitating British institutions. Articles on topics of rural innovation and technological development were a mainstay of the journal, and British merchant-*estancieros* wrote many of them. Tomkinson contributed treatises on commercial botany, including acacia and eucalyptus, the latter of which he is credited with introducing into the country.<sup>525</sup> Hughes contributed articles about sheep raising, and about the growth of the Uruguayan population. Edward McEachen contributed articles on rural education, and on the London Wool Exhibition of 1880. The journal served as a way of disseminating information and conducting discussion, but also as a vehicle for organizing the landowning classes in their increasingly vocal lobbying for protection of property rights and maintenance of order in the countryside.

#### The Return of Crisis Conditions: 1869-1875

The golden era for rural entrepreneurship began with the end of the *guerra grande*, in 1851. It ended in 1869, for several concurrent reasons. First, the international context had changed. Prices of rural commodities had dropped enormously. Locally, Buenos Aires and the Argentine provinces, which had been mired in civil wars between city and countryside in this period, had re-emerged as major producers, and therefore, as competitors. Barrán and Nahum chart the price of a single head of cattle during the main years of economic recovery due to the increase of cattle herds, 1857-1862. In 1857, a head of cattle cost \$20<sup>526</sup>, and in 1858, \$18. By 1862, these prices had fallen by nearly half, to under \$10.<sup>527</sup> *Tasajo* had fallen even further, from \$6.50 and \$7 per *quintal* in 1857 and 1858, to merely \$2.25 by 1862. Thus, while the livestock population had doubled or tripled, its total value had not increased very much at all, especially insofar as it was to be sold to *saladeros* primarily for *tasajo* production.

Second, an epizootic<sup>528</sup> of livestock disease tore through the existing stocks, first sheep in 1869, and later cattle in 1874. Between 1869 and 1875, the number of sheep in Uruguay dropped

<sup>524</sup> *Revista de la Asociación Rural del Uruguay*, 1874, 433.

<sup>525</sup> *Revista de la Asociación Rural del Uruguay*, 1874, 501-546.

<sup>526</sup> Prices in *pesos fuertes*.

<sup>527</sup> Barrán and Nahum, *Historia rural*, t.I/1, 125.

<sup>528</sup> An epizootic is the animal kingdom equivalent of an epidemic.

from over 16 million to only 8 or 9 million, a loss of nearly half the stock. Cattle had similarly fallen from almost 8 million down to only 5 million. Millot and Bertino describe this loss as an “enormous destruction of capital,” which would have been all the more devastating in a capital-scarce country, where as we have seen from the above estimates, the majority of tangible capital was in the form of livestock.<sup>529</sup>

Third, and certainly not least, the relative peace of the 1850s and early 1860s had been broken by a series of revolutions and insurrections. In 1865, General Flores, a charismatic and influential *Colorado* general and onetime President, returned from Argentina at the head of an army, supported by Bartolomé Mitre, president of Argentina. Flores overthrew the *Blanco* government of Bernardo Berro, and allied Uruguay with Brazil and Argentina against Paraguay in the Paraguayan War. While Flores would eventually be assassinated,<sup>530</sup> the dominance of his party continued under successive presidents, including Lorenzo Batlle. That government was in turn assaulted from 1870 to 1872 by *Blanco* leader Timoteo Aparicio, in what is known as the Revolution of the Lances. This insurgency almost overthrew the government, although it was saved at the last minute by reinforcements, and eventually managed to suppress the rebellion. During this period, the British consul was swamped with protests from *estancieros* and residents, who complained of depredations by troops on both sides, especially by the government army. Sheep and cattle would be killed to feed passing armies without asking permission, and with repayment to be made in promissory notes of dubious value. By the time of Flores’ revolution, the security of property that characterized the late 1850s and early 1860s had been crushed by recurrent waves of internecine violence.

In the interpretation of Barrán and Nahum, this itself has an economic explanation: in the wake of the *guerra grande*, the depleted state of the productive base encouraged compromise rather than conflict, since the damages of warfare so clearly outweighed the potential benefits. However, as the economy recovered, and livestock was again plentiful, *estancieros* no longer had the same dire incentive to suppress warfare, and instead looked to the various political factions with an eye to their own grievances, not to mention potential gains. In this environment, depreciated cattle and sheep were of less importance than their relative position *vis a vis* the government. They were therefore more tolerant of losses, so long as this contributed to the

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<sup>529</sup> Millot and Bertino, *Historia Económica*, t. 2, 55.

<sup>530</sup> The story of the assassination of Flores and Berro on the same day, illustrates the extent of the internecine struggle in Uruguay during this period between the parties, as well as the marked inability of the state to control violence on the part of political factions.

success of their preferred political party, with associated institutional agenda and clientelistic network. While it downplays the destabilizing aspects of Brazilian and Argentine interference in Uruguayan political affairs, there must be at least some truth to this explanation. In an era where money was short and markets poor, armies had to subsist off the countryside, and *estancias* filled with livestock were both an encouragement to plunder and a means of sustaining an insurgency, or indeed a government army, as many British *estancieros* discovered through personal experience. Wars thus tended to come after times of prosperity, rather than times of dearth, when the most and most valuable property was vulnerable.

This process led to an increasingly vocal political coalition in favour of a stronger central government, capable of maintaining order in the countryside, and ending the recurrent cycle of revolution and rebellion. The increasingly professionalized military, the progressive landowners of the *Asociación Rural*, and the merchants of Montevideo (these last two groups being in many cases composed of the same individuals and families) threw their support behind Colonel Lorenzo Latorre, the minister of war, who, on March 10, 1876, overthrew the civilian government and established a military dictatorship that would last until the 1890s.<sup>531</sup> While this did not entirely foreclose the politico-military conflict between the parties, it established a new regime characterized by stronger institutions, foreign direct investment (notably, in building the railroad network), educational investment, and increased policing in the countryside. The intermittent conflict between the political parties that had both impeded rural development, and also provided lucrative opportunities for speculation on political and military outcomes, paused for nearly two decades. Having risen to predominance in the countryside during the years of conflict, the merchants of Montevideo increasingly prioritized security over ideology. In Latorre, they found a government able and willing to support their property rights, a goal which mattered more than the old conflicts between *Blancos* and *Colorados*, or between *doctores* and *caudillos*.

### Conclusion

This chapter has focused on the role of British merchants as *estancieros* from two broad perspectives. First, it examined the overall role and impact of the rural investments made by entrepreneurs, many of whom were key members of the Montevideo merchant community. Second, it gave an indication of the substantial potential for profit and growth in the sheep raising business, giving the motive to explain the movement into ranching in the post-*guerra grande*

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<sup>531</sup> Barrán, *Apogeo y crisis*, 145-46.

period. Several types of sources, including immigration guides, early statistical manuals, census data, personal and business correspondence, have been examined to flesh out this story.

The overall picture is of a vanguard group of entrepreneurs, facing substantial impediments to their activities in the form of institutional instability, shallow labour markets and unpredictable events such as wars and disease. Nevertheless, the British *estancieros* of Uruguay were quite successful, establishing themselves predominantly in the capital-intensive areas of rural production, sheep raising and cross-breeding of cattle, which in turn required a large degree of technical innovation, leading to wire fencing and the increasing industrialization of the *saladero* industry for processing large volumes of meat. The interaction between these *estancieros* and the *Blanco* and *Colorado* political factions was complex, but the political infighting that characterized the era was largely seen as an impediment to investment, as it was a source of appropriation of capital and a detriment to production and trade. Peace and prosperity brought its own problems, however, and British merchant-*estancieros* used their influence as best they could to expand their markets and stave off overproduction. In this, they were only partly successful.

Nevertheless, in the large picture of the development of the Uruguayan rural sector from an extensive, hides-based system, to a more intensive, diversified and technologically sophisticated mode of production, the British merchants who expanded upstream into rural production played a vanguard role. Investment within the meat processing industry through the expansion and modernization of the *saladero* industry, as pioneered by Samuel Lafone, gave value to existing stocks of cattle beyond their hides. It also represented the beginnings of the process of rural industrialization, the application of an early version of the techniques of mass production to the exploitation of livestock. This process would later be followed by the introduction of the Liebig's Extract of Meat plant, which had its origins in an entrepreneurial project of colonization and commercial ranching undertaken by British merchants such as Richard Hughes and John Jackson. The transition to sheep raising and the introduction of new bloodstock to crossbreed with local animals offered another route towards valorizing land through the application of capital. New products, including wool and higher-value meats, allowed for more intensive use of land, especially in zones with easy market access along the rivers. There was a clear entrepreneurial opportunity offered by the combination of low land prices and production methods that could be pushed towards the technological frontier, and it was in exploiting this opportunity for modernization that influence of British merchant-*estancieros* was the largest.

However, these changes also brought with them a host of requirements in terms of new technology, skilled labour, infrastructure such as wire fencing, and policing. Securing these changes became an increasingly important aspect of rural entrepreneurship, leading to the organization of groups such as the *Club Nacional* and the *Asociación Rural* in order to disseminate knowledge, organize collective action, and exert political influence. This increasing entanglement in the rural economy had consequences both for the interests of merchants as investors, and for the political economy of Uruguayan development. With the crises of the late 1860s and early 1870s, the considerable influence of the merchant elite was brought to bear to solve the problems of rural chaos, leading to the rise of Lorenzo Latorre, militarism, and the first major experiment in Uruguayan state building.

## Chapter 8: Conclusion

This thesis has examined the nature and influence of the British merchant community in Uruguay during the mid-19<sup>th</sup> century, through the lens of business history and political economy. This community consisted of entrepreneurial individuals who came together in networks comprising intermarried families and interlocking merchant partnerships to pursue a wide variety of business interests. In the process of doing so, they integrated with the local elite and with other merchant groups, gaining important political and economic connections, and developing regional expertise. This first served as a functional mechanism for enabling trade in a low-trust, institutionally difficult environment. However, as the economy developed, it allowed them to find and exploit opportunities for investment. It also positioned them to act as a bridge between the mid-19<sup>th</sup> century “pastoral and commercial” phase, dominated by foreign merchant houses whose financial intermediation put them at the centre of economic activity, to the late 19<sup>th</sup> century phase of British overseas investment, large-scale infrastructural development, and technological modernization. As the import/export house lost its central role with the deployment of the telegraph and the construction of the railway network, the influence of these early British merchants could still be seen in the directorships of banks and companies, in the most capital-intensive rural estates, and in the social networks of the Uruguayan political and economic elite.

The primary role of merchants was an entrepreneurial one. The merchants examined as case studies in this thesis began in the lucrative hides and textiles trades. They expanded the market for British textiles and provided valuable raw materials for European leather manufacturers. Success in these fields led to the accumulation of capital, local social connections, and regional expertise. These resources were combined with their transatlantic networks, which provided lower cost of capital, privileged access to information, and diplomatic influence. This combination led to entrepreneurship, as merchants expanded out of trade, and into services and upstream production. By the time an influential merchant like Samuel Lafone, Richard Hughes, or Thomas Tomkinson died in the 1870s, they had become broadly-based investors and innovators, acting across the entire economy, from sheep and cattle ranching, through meat processing, to banking, insurance, colonization, and infrastructure development.

The major arguments in this thesis concern the contingent path taken by merchants acting as entrepreneurs. It argues that, while merchants were inevitably going to play an important role in an export-driven economy, the particular roles filled by British merchants were the result of a

broad range of entrepreneurial activities taken in the context of a rapidly-changing environment. The reaction to particular situations had dynamic effects on the economic, political and social situation in Uruguay, which then fed back into the opportunity set faced by merchants. Decisions about government loans, tax farming, political support, landownership, capital investment, and even marriage shaped the interests of merchants, which in turn shaped their future decisions. Meanwhile, for Uruguayan and regional elites, alliances with merchants provided access to foreign capital and influence, which could then be applied to local conflicts, most notably in the case of the *Colorados* during the *guerra grande*.

### Contribution

This thesis partly fills the gap in the literature on trade and development in mid-19<sup>th</sup> century Uruguay. In this, it follows in the strand of literature begun by Ferns and Platt, and developed by Reber, Winn, Mayo, Jones, and most recently, Llorca-Jaña in examining British trade in the southern cone of Latin America and the role it played both locally and internationally.<sup>532</sup> It is the first study specifically to examine the role of British merchants in Uruguay. It is also one of the few works dealing with the mid-19<sup>th</sup> century, which has been examined by only a few scholars outside of Uruguay itself.<sup>533</sup> It also contributes to the broader literature on the evolution of business in Latin America, in the vein of Dávila and Miller, Jones and Lluch, and Barbero and Jacob.<sup>534</sup> It brings into clearer focus the distinctly Uruguayan context, linked to and similar to both Argentina and southern Brazil, but with distinct characteristics of its own, notably the distinctive entrepreneurial and social role of the merchants examined in this thesis.

The chapters of this thesis have also has shed light on the role of British merchants in the development of the Uruguayan economy, during the “pastoral and commercial” period, 1830-75. They have illuminated a series of thematically and chronologically selected conjunctures throughout the period in which British merchants played a particularly notable role. Largely, this

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<sup>532</sup> Ferns, *Britain and Argentina*, Platt, *Latin America and British Trade*, Reber, *British Mercantile Houses*, Winn, *Inglaterra y la Tierra Purpúrea*, Mayo, *British Merchants and Chilean Development*, C. Jones, *International Business*, Llorca-Jaña, *British Textile Trade*.

<sup>533</sup> Exceptions include Winn, McLean, and López-Alves. While these authors provide excellent insights, the focus of their work is slightly different from this thesis. The first two focus more heavily on documentation from formal British sources to examine questions of informal empire, and the third, on the evolution of state development at a more holistic level. None have used merchants as the primary unit of analysis, nor examined merchant correspondence as a primary source.

<sup>534</sup> Dávila and Miller, *Business history in Latin America*, Geoffrey Jones and Andrea Lluch, eds., *El impacto histórico de la globalización en Argentina y Chile: empresas y empresarios* (Buenos Aires: Editorial Temas, 2011), Barbero and Jacob, *La nueva historia de empresas*.

influence was economic, with British merchants acting as entrepreneurial conduits for European products, capital, technology, immigrants, and institutions. However, in the perpetual upheaval of the political contests for control of the state between city and countryside, *Blancos* and *Colorados*, *caudillos* and *doctores*, Brazilian and Argentine interests, merchants could not and did not remain neutral bystanders. They reacted to the local situation, taking advantage of opportunities provided by the struggle for political power. They were also agents of change themselves. In the 1840s, their lobbying efforts and connections with local British and French diplomats altered the course of the *guerra grande*, likely extending it by several years, and plausibly contributing to the downfall of Rosas and the federalist system in Argentina.

Part of the contribution made by this thesis is in the variety of sources brought to light, both published and archival, several of which were previously unexamined or underused. The background information provided in chapter four, and elaborated in appendix three, brings together the various strands of data on both the composition and volume of trade with Uruguay, which have previously only been examined separately. Much of this information is available only from quasi-primary statistical sources, such as the *apuntes estadísticos* of Andrés Lamas, and the early statistical work of Adolfo Vaillant.<sup>535</sup> The sources used for chapter five, concerning the social networks of merchants, are a combination of new and unexamined material, such as the letter book of Anderson Macfarlane and Co. from the National Archives at Kew, and underused collections, including the Hughes papers (both from the Hughes family and the *archivo general de la nación* in Montevideo), and the Jackson correspondence in the Rathbone papers at the University of Liverpool. The ability to combine newly digitized genealogical material, made available at ancestry.co.uk, with more traditional secondary sources such as biographical dictionaries and regional family histories,<sup>536</sup> has made possible a more thorough mapping of the social relationships of merchants on both sides of the Atlantic.<sup>537</sup> The analysis of the *Sociedad Compradora* and the interactions between merchants and the state during the *guerra grande* draws upon archival material from both Uruguay and the United Kingdom. Documents uncovered during this research provide the basis for the analysis of chapter six, along with information drawn from press accounts and diplomatic correspondence. Chapter seven makes use of previously unused and underused correspondence concerning the management of rural estates in Uruguay,

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<sup>535</sup> Lamas, *Apuntes estadísticos* and Vaillant, *Apuntes estadísticos y mercantiles* and *Exposición de Viena*.

<sup>536</sup> Hanon, *Diccionario biográfico*, Schulkin, *Historia de Paysandú: diccionario biográfico*, Saldaña, *Diccionario Uruguayo de biografías*, Goldaracena, *El libro de los linajes*.

<sup>537</sup> See appendix 2.

as well as drawing extensively from contemporary pamphlets to establish the contemporary perceptions of entrepreneurial opportunities in the rural sector.

### Firms, Organization, and Networks

The evidence presented in chapters five, six and seven sheds new light on how Uruguayan firm structure fits into the larger evolution of business forms. The period of this thesis begins with a time of horizontally and vertically disaggregated merchant firms, often comprised of an individual merchant or two-person partnership, connected by formal or informal links to a network of other merchant houses, producers, suppliers, shippers, and merchant banks. These small, flexible firms reflected the characteristics of the market they operated in. Conditions were volatile, and little could be taken for granted, from large-scale global factors such as war and peace, technological developments, and international diplomacy, to more local factors of tastes and preferences, market prices, and political stability. The information necessary to deal with this uncertainty was dispersed, difficult to transmit, and largely implicit. Some aspects of these difficulties have been explored in this thesis, through both internal and external correspondence, showing how firms managed information, both at transatlantic distance, in the case of Anderson Macfarlane and Co., and between Montevideo and the Uruguayan hinterland, in the case of Richard Hughes and his estate manager Henry Kennedy.

Social links were an essential part of how merchants organized their business, and especially, how they adapted to local circumstances. Coming to the River Plate from the industrialized north of Britain, merchants were well-positioned to pursue economic opportunities. Not all merchant firms in the River Plate were branches of existing houses, and not all merchants arrived with access to substantial fortunes. Many firms were founded during the process of individual exploration of new markets, often by merchants with only limited initial access to funds. However, their origins nevertheless gave them the cultural connection to established trade networks that provided entrepreneurial advantages. Clusters of interlinked firms on both sides of the River Plate, and on both sides of the Atlantic, made possible the integrated transactions necessary to maintain not only the exchange of hides for textiles, but also the web of credit that was the single most important advantage available to foreign merchants over their local competitors. Meanwhile, intermarriage with well-connected families within the *patriciado* and other regional elites provided political clout and local expertise in landownership. These links have been explored through several case studies, including: John Jackson and the Errazquin family while maintaining his high-prestige links with the Rathbones of Liverpool; Thomas Tomkinson marrying

into the Navia clan; and Samuel Lafone, whose controversial marriage into the Quevedo-Alsina family provided him with valuable contacts, but also made him a deeply controversial figure involved in the outbreak and progression of the *guerra grande*.

While this thesis has not explored the transition to the age of foreign direct investment in detail, there are nevertheless insights that can be drawn from chapters six and seven on the gradual emergence of larger forms of collective business organization in Uruguay. The mercantile networks of merchants functioned as one method of exploiting larger business opportunities without having to formally organize into integrated firms. As the nature of opportunities changed with the development of the economy, larger firms began forming along the lines traced out by the links of the social networks. Nevertheless, contingency plays a role in this process as well. The first joint stock company in Uruguay, the *Sociedad Compradora de los Derechos de Aduana*, was created not for ranching, meat processing, banking, or infrastructure, but for tax farming. Its existence depended on the necessities, and opportunities, presented by the *guerra grande*. At the conclusion of the war, the accumulation of both government debt and land ownership in the hands of those merchants who had been creditors of the government shaped the emergence of post-*guerra grande* firms, especially in the banking sector: the *Banco Comercial*, *Banco Navia*, and *Banco Montevideano* were all established primarily by *Sociedad* merchants. Other early joint stock projects, including the Liebig's Extract of Meat plant at Fray Bentos, and the first railway in Uruguay, the *Ferrocarril Central de Uruguay*, were created by the same networks of merchants, although in both cases they rapidly passed into the hands of foreign investors.

### Entrepreneurship and Historical Contingency

In understanding the strategic behaviour of merchants, the dynamic context is critical. Entrepreneurship has an effect on both the actor, by changing their future interests, and on the surrounding environment, and these processes fed back in to one another. Uruguay provides a useful case for examining this feedback, as the influence of merchant-entrepreneurs on the small and little-developed state was large enough to be historically visible. The 19th century were years of chaos, but also of transformation. Accounts from the period consistently emphasize both the possibilities for economic growth, and the ever-changing military and political dynamics which hindered the potential of the region, and with which any entrepreneurial agent had to contend. The economy and society of the Uruguayan republic went through profound changes from its independence until 1875. Production in the country transformed from a single-export focus with almost no industrialized production, to being at the (regional) forefront of mechanized, export-

oriented meat and livestock production, with the Liebig's Extract of Meat plant being the outstanding example. The countryside had been brought into productive use, however marginal. Rural Uruguay had been divided up into extensive cattle ranches in the hinterland, and more capital-intensive wire-fenced sheep ranches closer to the coast and rivers. Finance had evolved from being entirely merchant-centred, to an unstable, but nevertheless tangible banking system supporting a sovereign Uruguayan currency. The population of the country doubled, and the population composition changed from a small, Spanish late-colonial mix of Basque, Catalan and Galician migrants, with a substantial minority of slaves, to being a mix of French, Spanish and Italians, who emigrated in the mid-19<sup>th</sup> century. Institutionally, the state remained weakly developed and almost exclusively reliant on customs revenues. There was, however, evidence of nascent state development by the 1860s, with the professionalization of the army, and by 1875, state building had begun in earnest under Latorre.

This transformation suggests a parallel, mutually reinforcing development of the careers of these vanguard entrepreneurs, and the development of the Uruguayan economy itself. Opportunities created by circumstance were exploited by merchants to earn entrepreneurial rents. Their investments redirected resources towards new and more productive sectors, and increasingly linked the production of the rural hinterland with the urban economy of Montevideo, and with global markets through a process of exploration and innovation. These changes then led to further potential opportunities in interlinked sectors, which merchant-entrepreneurs were best positioned to exploit due to their regional expertise. Their importance, in terms of resources, political clout, and the scope of their activities increased over the period. This influence began to decline only after the undercutting of the fundamental source of their power, the exclusive combination of international connections and local knowledge. The introduction of the telegraph, mass migration, and large-scale international investment, alongside the development of the Uruguayan state as a countervailing force, ended the era of merchant economic dominance. By the 1870s, however, merchant had not only shaped the evolution of the economy for half a century, but had also evolved alongside it, participating in the same transformative process as the Uruguayan economy.

#### The Role of Merchants in State Formation

The entrepreneurship of merchants also contributed to the political economy of the Uruguayan state. The case of Uruguay provides an interesting contrast to the typical models of state development, and merchants play a critical role, as evidenced in chapters six and seven. As

frontier economy with a rural production base dependent on largely unimproved land, the government in Montevideo drew its fiscal resources from the customs house, orienting policy towards alternative means of attracting trade, and putting merchants in a powerful position as the source of government revenue. Merchants, able to draw funds from overseas at a time when domestic sources of savings and credit were practically non-existent, were in a powerful position to exploit opportunities in financing the state. The availability of this merchant finance made possible modes of conflict that would otherwise have been constrained by the lack of resources. The *guerra grande*, and to a lesser extent, the internal conflicts of the 1830s and 1860s, were funded by merchant credit, including through tax farming, as examined in chapter six.

Uruguay provides a case of early globalization, as a small, export-oriented frontier economy tied closely to European producers as well as both European and colonial markets. The tight integration with Europe, the cosmopolitan community of foreign merchants, and its position as a regional *entrepôt* place Uruguay firmly within the larger 19<sup>th</sup> century framework of globalization. This integration and Europeanization distinguishes it from less integrated areas in Rio Grande do Sul, Paraguay, and northern Argentina. Merchants were the conduits for technological improvement, capital intensification, firm organization, and financial innovation in Uruguay, in a way that was less true for areas where the landowning elite were local.<sup>538</sup>

On the other hand, its small size, persistent internal conflicts, and vulnerability in the face of other regional powers kept the country from developing at the same pace as Buenos Aires. The thesis of David Rock, that the dominance of merchants in Uruguay relative to Argentina generated a weak state incapable of overcoming inter-party conflict, seems difficult to reconcile with the either the vanguard role of merchants in entrepreneurship, or their persistent support for strong property rights institutions in the rural sector in the 1850s and beyond, as shown in chapter seven.<sup>539</sup> Whatever held back Uruguay from achieving the levels of state development attained in on the other side of the River Plate, it does not seem to have been primarily the influence of merchants, British or otherwise.

The most likely culprit for late state development remains the one, suggested by countless observers at the time, that it was constant internal and regional warfare that prevented Uruguay from developing stronger state institutions. The consolidation of power by an Uruguayan political faction would always be made difficult by the regional alliances forged by their opponents: Oribe

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<sup>538</sup> Bell, "Social Networks and Innovation."

<sup>539</sup> Rock, "State-Building and Political Systems."

could not build a state in the 1830s, because Rivera had the support of the Brazilians and the French; Rivera could not build a state in the 1840s, because Oribe had the support of Rosas; Berro could not build a state in the 1860s because Flores had the support of Brazil and Argentina, and so on. Neither in Brazil nor Argentina did the central government have internal control over regional elites or popular forces, which made shifting alliances and cross-border rebellions a constant factor. The existence of sophisticated and wealthy merchants changed the possibilities of military and political conflict, since they provided support in exchange for privileges, as shown in chapter six. Nevertheless, merchants were only one group of actors, whose interests conflicted not only with other groups, but frequently with each other.

This thesis also presents evidence for a slightly different role for merchants than suggested by Lopez-Alves, who posits that the disentanglement of merchant-*estancieros* from politics led to a political economy dominated by less entrepreneurial landowners. The thesis diverges from this hypothesis on two levels.<sup>540</sup> First, as shown in chapter five, there was extensive intermarriage between the foreign merchants who made progressive investments in the rural sector and the old rural elite. It is difficult to imagine these interconnections through marriage as having no effect on the integration of the interests of progressive landowners into the government of the country. Nor is it the case that merchant-entrepreneurs stood aloof from the system, or only showed support for the most intellectual, ineffectual *principista* parties. As shown in chapter six, some British merchants agitated for both formal and informal intervention in support of their interests. While a lack of archival material prevents us from quantifying any gains or losses, it seems clear that many merchants profited handsomely from war, through loans, tax farming, and provisioning. The complexity of the wars and interventions of the guerra grande involved substantial risk. The fate of the two warring parties was unclear, and tied to a web of regional and international factors. The merchants of Montevideo used their influence to push events in favourable directions, but the shifting mix of success and failure highlights how contingent the results were on the vagaries of diplomacy, politics and war.

At least for an influential sub-section of the merchant community, they did not remain aloof from political entanglement, but rather were active participants in the ongoing political struggles. The eventual triumph of the *Colorado* party was, to a large extent, the product of the combination of the funds provided by merchants to sustain the conflict, and the Anglo-French intervention, arranged and prolonged by the lobbying efforts of Samuel Lafone and his allies.

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<sup>540</sup> López-Alves, *Between the Economy and the Polity*, 62-63.

There was a divide within the British merchant community itself between the politically active Lafone group, who opposed Rosas, Oribe and the *Blancos*, and those who either sought a neutral position, or who actively opposed the *Colorados*. While this intervention did not prove decisive in ending the conflict, its absence would almost certainly have led to an early Blanco victory, rather than an impoverishing nine-year siege. Merchants mattered, both for their ideological orientation, and for exercise of entrepreneurial judgement during wartime.

The overall result of the entrepreneurship of merchants during the mid-19<sup>th</sup> century was the development of a small, cosmopolitan country with notably different political economy characteristics than its neighbours in Buenos Aires, Entre Ríos, and Rio Grande do Sul. Local elites, having fought themselves into poverty, had a less prominent role in the process of rural development, and concentrated their attentions on the political contest for control. Their replacements as the predominant landowners, the *nueva clase alta rural* were, to a large extent, the same pluriactive entrepreneurs who had dominated trade in the 1830s, who had provided finance for the *guerra grande* in the 1840s, and who formed the core of the nascent banking sector in the 1850s. The establishment of a broad economic elite composed of foreign merchants, of whom the British were a small but tremendously influential subset, created a wealthy base of support for the first major state-building project, under Lorenzo Latorre. In this, they became a powerful force for modernization and development, through entrepreneurial initiatives including colonization schemes, the mechanization of cattle processing, banking, and a host of infrastructural projects.

While it is hazardous to reason counterfactually, it seems likely that this would have changed the political economy of development in Uruguay. Powerful, highly indebted, local landowning elites were critical to the trajectory of politics in Argentina, and their relative absence in Uruguay is an important difference between the countries. Such an outcome may also have had larger regional implications, both for the balance of power between Brazil and Argentina, as well as the internal Argentine question of Federalism versus Unitarianism. The shift into landownership by influential merchants in the wake of the *guerra grande* slowly changed their interests. Whereas from the 1810s until the end of the 1840s, merchants could interact as traders and creditors, playing off the political parties as necessary, while remaining largely indifferent to the state of affairs in the countryside, by the 1850s, they had investments, and therefore interests, in ensuring rural stability. Their self-organization into lobby groups to promote rural modernization and shift the position of government towards improving the infrastructure and policing in the interior led

within a decade to the rise of Lorenzo Latorre and the first serious state-building project in the *Banda Oriental*.

That the merchants of Montevideo were also to a large extent the great landowners perhaps explains why Uruguay remained committed to a metallic currency standard, despite Argentine commitment to inconvertible paper currency, and repeated inflations in Brazil. It was not only in Uruguay's interest as an *entrepôt* to maintain stable prices to facilitate trade, but it was also in the interest of many landowners, as they were in many influential cases the same merchants who were the government's creditors. None of this is to suggest that the Uruguayan fiscal system did not suffer from the similar or worse problems as the neighbouring states. The debts accumulated during and following the *guerra grande* were obviously unpayable. This led to an unusual case of a runaway government debt, in practical default, but without a bona fide sovereign currency. When these debts were finally resolved in the late 1850s, it was not by the action of the state, but by the combination of the Brazilian banker Mauá and the coalition of merchant-*estancieros* who formed the *Banco Comercial*. These groups jointly maintained the commitment to metallic currency through private means, separate from the state, and distinct from the Argentine or Brazilian cases.<sup>541</sup>

Different cases show different paths based on the contingencies of personality and judgement. The case of Samuel Lafone provides one path through the turbulent period mid-century, characterized by the use of extreme political partisanship, social entanglement, and diplomatic connections to support a broad and high-risk portfolio of entrepreneurial ventures. By contrast, the case of John Jackson exemplifies how a different set of entrepreneurial choices concerning the timing of investment and the relative importance of landownership, credit, and merchant trade, led (or at least incentivised) him and his descendants into political and social alignment with the Blanco faction. Other British merchants, including Hughes and Tomkinson, picked a more moderate path, making carefully timed moves into different fields of investment on the basis of accumulating information about the changing situation, and adapting appropriately. Not all were successful; the examples of George Hodgskin and Daniel Gowland show how easy it was to misjudge the political, military, and diplomatic situation, and be forced into default or ruin.

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<sup>541</sup> While this thesis does not explore in depth the currency issues of the late 1860s and beyond, Mauá pursued a highly leveraged, inflationary banking policy, which eventually forced the Uruguayan government to suspend convertibility following the spread of the Overend Gurney crisis to Uruguay in 1867-68. The *Banco Comercial*, by contrast, maintained convertibility throughout, even going so far as to defy the government in order to redeem their obligations in gold. Barrán, *Apogeo y crisis*, 138-140.

Neither the bankruptcy of the old *patriciado*, nor the transition of merchants into landownership was inevitable. It was instead the result of a complex set of judgements made about political and economic conditions during a time of great uncertainty. Had merchants chosen to remain on the sidelines of the regional conflicts of the late 1830s, the path of local and regional history might have followed another course. If the merchants of Montevideo had decided, as many did, that reconciliation with Buenos Aires was more fundamental to their commercial interests, or had supported the *Blancos* rather than the *Colorados*, the complex web of contingencies, alliances, and interests might have led to any number of possibilities for the country and for the region. Nevertheless, it is clear that influence of British merchants in Uruguay was a major shaping factor in the Uruguayan path of development during the transition from independence to the first globalization.

## Appendix 1: Lists

Table 3: British merchants appearing on the List of Approved Merchants, *Sociedad Compradora de los Derechos de la Aduana*, 1844

Samuel Lafone	Edward Gowland
Stanley Black and Co.	Tayleur and Co.
Rodger Bros.	Brownell Stegmann and Co.
Carlisle Smith and Co.	J. S. Kemsley
J. Nuttall	G. Hodgskin
Robert Niblett	Dickson and Co.
Shaw Brothers	Briscoe Stewart and Co.
Parlane McLean and Co.	McKinnon
Rennie McFarlane and Co.	Daniel Cash
Hughes Brothers	Edward McEachen
Bradshaw Wanklyn and Co.	Bertram Le Breton and Delisle
Henry Sparks	Francis Hocquard
Nicholson Green and Co.	Anderson McFarlane and Co.
Jackson and Co.	Smith Bros.

Source: April 10, 1844, Carpeta 13, Caja 1632, *Ministerio de Hacienda, Archivo General de la Nación*. Source:

Table 4: Anderson Macfarlane and Co.: List of Correspondents

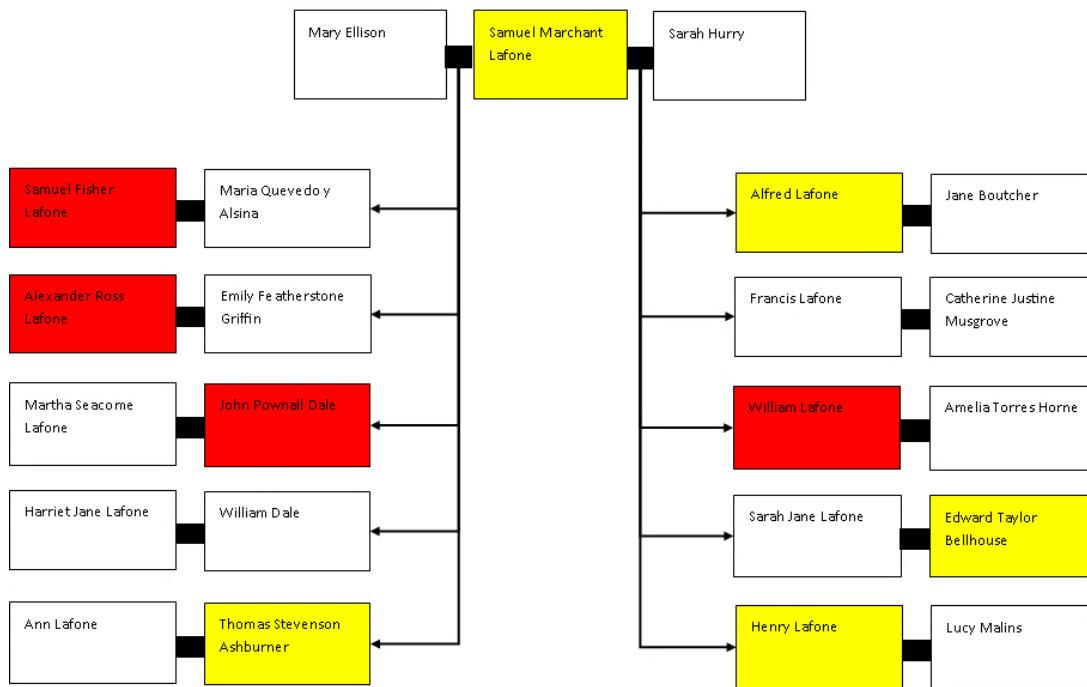
Location	Correspondents
Glasgow	48
Greenock	3
Dundee	1
Kirkaldy	1
Dunfermline	1
Kilmarnock	1
London	10
Liverpool	7
Manchester	3
Halifax	2
Bury	1
Falmouth	1
Belfast	2
Bayonne	1
Antwerp	1
Buenos Aires	7
Gualeguay	1
Montevideo	9
Buceo	2
Río grande	2
Río de Janeiro	1
Porto Alegre	1
Total	106

Source: Anderson Macfarlane Letter book, 1846-1850. Foreign Office 508-1, National Archives, Kew.

## Appendix 2: Family Networks

Figure 3: Lafone Family Network: Siblings of Samuel Fisher Lafone

Lafone Family Network— Siblings



Legend:

Yellow: Merchants or manufacturers in Britain

Red: Merchants or *estancieros* in the River Plate

Sources for appendices 3-5: Jose Fernandez Saldaña, *Diccionario Uruguayo de biografías* (Montevideo: Amerindia, 1945); Augusto Schulkin, *Historia de Paysandú : diccionario biográfico*, 3 vols. (Buenos Aires: Editorial Von Roosen, 1958); Maxine Hanon, *Diccionario de británicos en Buenos Aires* (Buenos Aires, 2005; Ricardo Goldaracena, *El libro de los linajes*, t. 1-6 (Montevideo: Arca, 2001); Genealogical records retrieved from ancestry.co.uk.

Figure 4: Lafone Family Network: Samuel Lafone's Connections in the River Plate

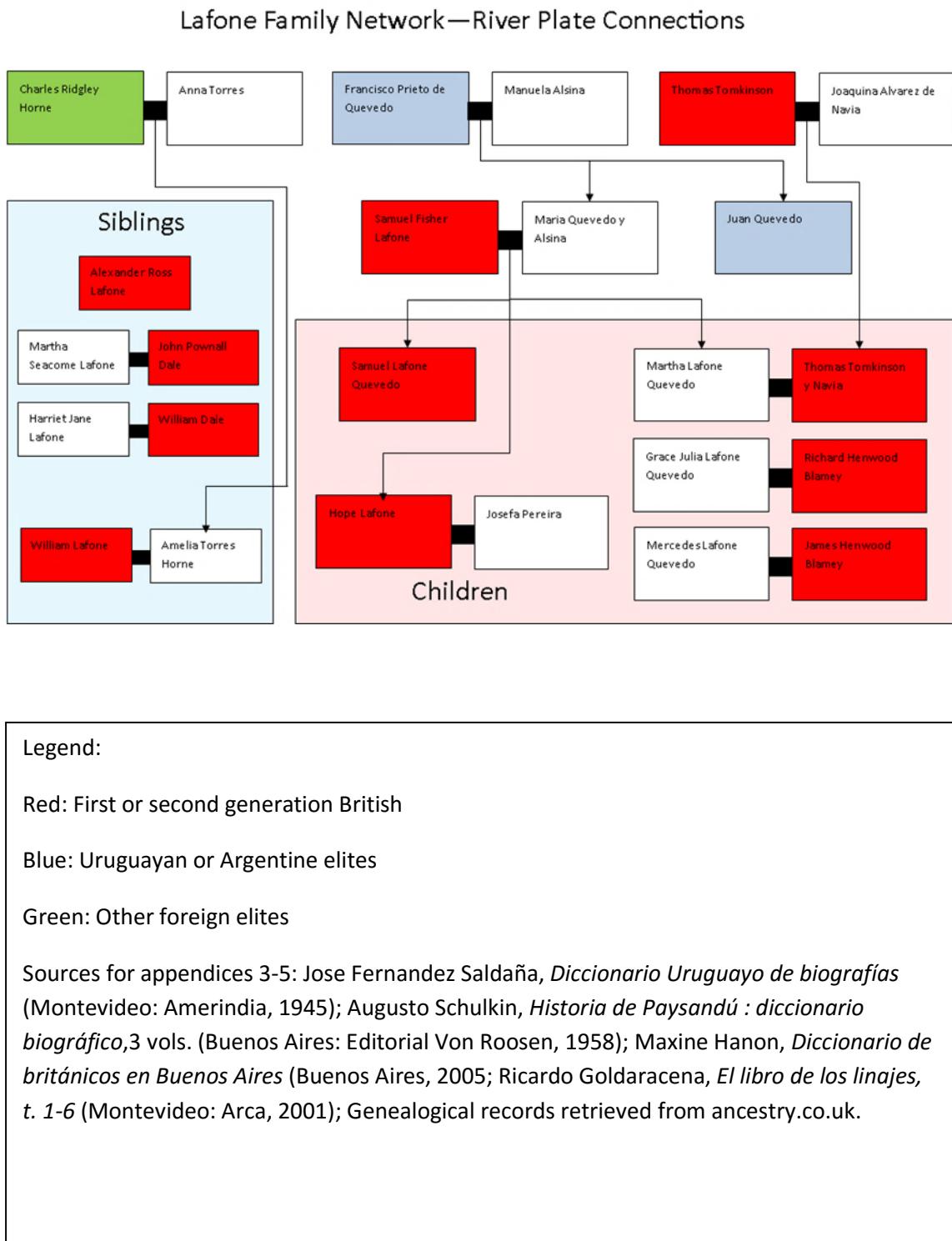
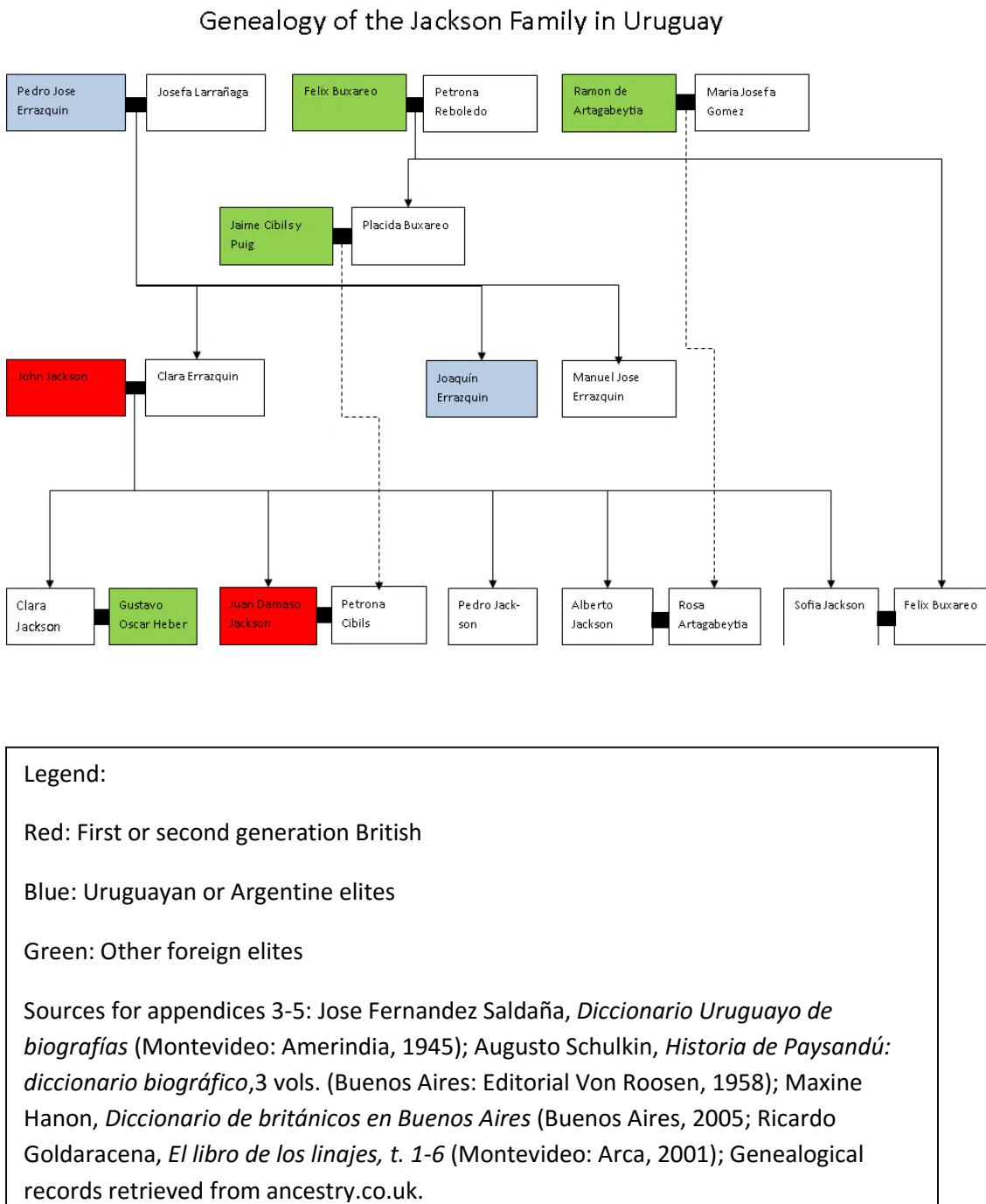


Figure 5: Family Network of John Jackson



### Appendix 3: Tables and Figures

Table 5: Population of Uruguay

Year	Uruguay	Montevideo
1829	74000	9000
1835	128000	12000
1840	200000	42000
1843		31000
1852	132000	34000
1860	221000	45000

Source: Millot and Bertino, *Historia Económica*, t.1, 85. Table I-D-1.

Table 6: Rural Exports and Prices, 1829-62

Year	Cattle Hides	Hides Price	Horse Hides	Horse Hides Price	Wool (arrobas)	Wool Price	Tasajo (quintal)	Tasajo Price	Fats	Fats Price
<b>1829</b>	312613	5 to 6	128105				32732	5		
<b>1830</b>	294714	"	222521				101479	4	1279	
<b>1831</b>		"	182678						1303	
<b>1832</b>		"							5650	
<b>1833</b>		"			25000	1.37			6565	
<b>1834</b>		"					180950	5	12877	
<b>1835</b>	420513	"	52000		29000		180950	5	18497	
<b>1836</b>	513401	"	37000		34000		306354		23568	
<b>1837</b>	617382	"	24000		39000		338126		38304	
<b>1838</b>		"							83674	
<b>1839</b>		"							89480	
<b>1840</b>	1258345	4	45177	2.25	87000	3	673000	2.75	259284	1.94
<b>1841</b>	1191897	4	52800	2.25	80000	3	603000	2.58	209103	1.87
<b>1842</b>	1141045	4	65824	2.25	92000	3	368000	2.75	118965	1.87
<b>1853</b>	891000		311000		150457				159425	
<b>1854</b>	571000	7.2	227000		37614				146887	
<b>1855</b>	484000		190000		37440		200000		157335	
<b>1856</b>	479000	9.5	148000		56770	1.75	231000	6.5	381628	
<b>1857</b>	630000	12.25	189000		79234	2.25	301000	6.5	206966	
<b>1858</b>	566000	8 to 8.5	115000		91598	1.87	283000			
<b>1859</b>						3.75	305000	5.75		
<b>1860</b>							413000	4.25		
<b>1861</b>							392000	3		
<b>1862</b>	1139000	4 to 5	129000	2	407488	5	741000	2.25	748280	2.3

Source Millot and Bertino, *Historia Económica*, t.1, 131. Table III-A-2. Prices and values in pesos.

Table 7: Import tariff rates, 1829-61

Import Goods	1829	1831	1833	1837	1838-39	1840	1853	1854	1856	1859	1861
Machines, books, printing presses, hides, fats, etc...	No tariff										
General Tax	15	18	18	19	25	35	24	20	15	17	17
Wood	5	6	6	6	12	22	7.2	5	3	5	7
Steel, iron, coal, iron products	5	6	6	6	12	22	7.2	5	5	7	7
Silks, pocketwatches, etc.	5	6	6	10	16	26	18	10	7	9	7
Consumables, woodworking, leaf tobacco, etc.	20	23	23	24	24						
Footwear, clothing	25	30	30	31.5	37.5	47.5	36	30	20	22	24
Furniture, doors, plowshares, maize, black tobacco	25	30	30	31.5	37.5	47.5	36	30	30	32	24
Wines, liquors, candles	25	30	30	31.5	37.5	47.5	42	35	25	27	24
Cigars, playing cards, salted meats	25	30	30	25	41	51	32	35	35	37	24
Wheat	Sliding scale	Plus 3%	Plus 3%	31.5	31.5	31.5	36	30	30	30	2 pesos/fanega
Flour	Sliding Scale	mas 10%	Sliding Scale	35	Sliding scale	Sliding Scale	42	35	Sliding scale	Sliding scale	Sliding scale

Source: Millot and Bertino, *Historia Económica*, t.1, 210. Table III-F-2. Note: rates are applied *ad valorem*, which makes the above table difficult to interpret without a corresponding series of official values.

Table 8: Balance of Trade, 1829-42 (*pesos fuertes*)

Year	Imports	Exports	Total	Balance
1829	2651067	2077276	4728343	-573791
1830	2672516	2399264	5071780	-273252
1831	2200733	1413112	3613845	-787621
1832	2450670	1920714	4371384	-529956
1833	3090737	2280701	5371438	-810036
1834	2987203	2685975	5673178	-301228
1835	3097774	2764540	5862314	-333234
1836	3597437	3443949	7041386	-153488
1837	4497373	4100000	8597373	-397373
1838	7652792	5601583	13254375	-2051209
1839	11799320	6203000	18002320	-5596320
1840	11070960	7830845	18901805	-3240115
1841	9042232	6910210	15952442	-2132022
1842	9234696	7301764	16536460	-1932932

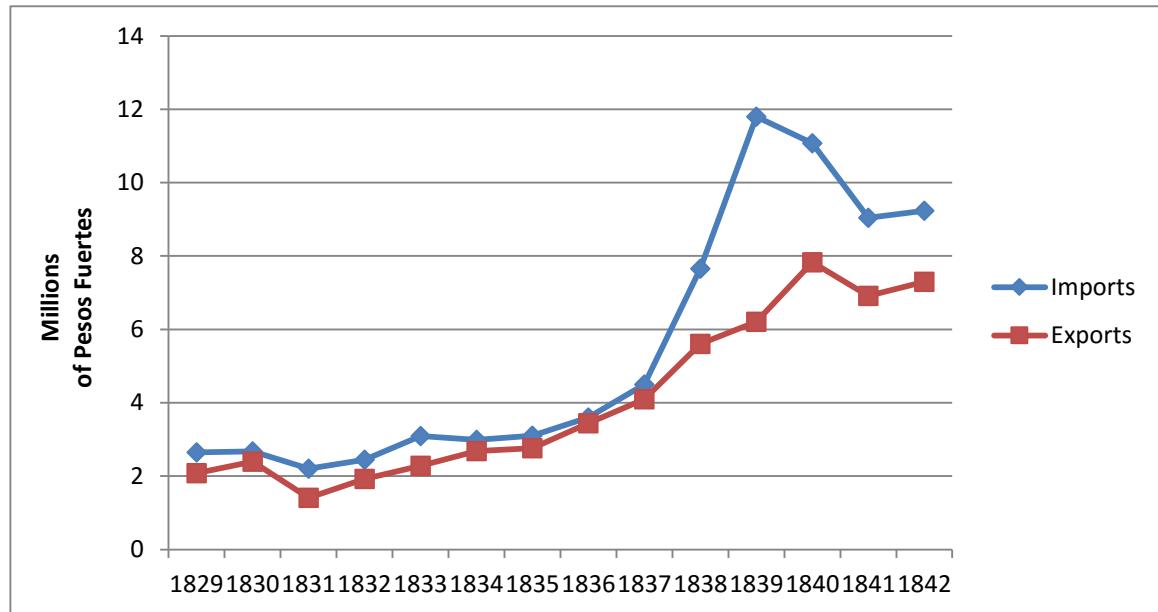
Figure 6: Balance of Trade, 1829-42 (*pesos Fuertes*)Source: Lamas, *Apuntes estadisticos*, 79-84.

Table 9: Imports, 1830-35 (*pesos fuertes*)

	1830	1831	1835
<b>England</b>	486415	512881	946312
<b>Brazil</b>	718624	723034	726290
<b>France</b>	271529	165771	353763
<b>Prov. Argentina</b>	238563	237287	275881
<b>North America</b>	498562	201655	333881
<b>Mediterranean</b>	369826		348195
<b>Spain</b>		213232	
<b>Genoa</b>		61059	
<b>Gibraltar</b>		55841	
<b>Bremen</b>	510		16805
<b>Cabo Verde</b>	29364		8370
<b>Chile</b>	4050		
<b>Patagones</b>	4296		
<b>Havana</b>	36875	8404	3127
<b>Trieste</b>	11268		
<b>Isla de Granada</b>	2634		
<b>Valparaiso</b>			28539
<b>Lisbon</b>			4350
<b>Hamburg</b>			38000
<b>Santa Teresa</b>			14261
<b>Various</b>		21569	
<b>Total</b>	2672516	2200733	3097774

Source: Lamas, *Apuntes estadísticos*, 79-80.

Table 10: Exports, 1830-42 (*pesos fuertes*)

Destination	1830	1834	1836	1840	1842
<b>England</b>	656186	1026955	951423	2113780	2357566
<b>North America</b>	305039	449468	295829	457647	436304
<b>France</b>	259259	429182	464430	800394	1224871
<b>Brazil</b>	407004	329583	825440	1513758	921984
<b>Havana</b>	127565	183669	319481	1150462	616887
<b>Mediterranean</b>	387535				27010
<b>Spain</b>		94114	236673	623662	780344
<b>Genoa</b>		44062	30252	201514	349451
<b>Gibraltar</b>				29211	
<b>Antwerp</b>	251476	102204	313909	723842	317626
<b>Granada</b>	1800				
<b>Borbon</b>	3400				22991
<b>Chile</b>					5811
<b>Valparaiso</b>		1950		5364	
<b>St. Helena</b>		24788			
<b>Trinidad</b>			3740		
<b>Mauricio</b>			2772		
<b>Amsterdam</b>				116658	
<b>Bremen</b>				63416	
<b>Altona</b>				29737	14920
<b>West Indies</b>					14400
<b>Quebec</b>					4950
<b>Canary Islands</b>					5310
<b>Hamburg</b>					62337
<b>Portugal</b>					2201
<b>European Ports</b>					136801
<b>Various</b>				1400	
<b>Total</b>	2399264	2685975	3443949	7830845	7301764

Source: Lamas, *Apuntes estadísticos*, 82-4.

Table 11: Wheat Production, 1855-72

Year	Wheat Production (thousand <i>fanegas</i> )	Wheat export	Wheat consumption	Price (pesos per <i>fanega</i> )	Value (pesos)
<b>1855</b>	200	20	180	8.8	1760
<b>1856</b>	250	25	225	6.2	1550
<b>1857</b>	300	30	270	5.4	1620
<b>1858</b>	350	30	320	4	1400
<b>1859</b>	380	35	345	3.6	1368
<b>1860</b>	390	40	350	4.4	1716
<b>1861</b>	120	10	110	9.2	1104
<b>1862</b>	400	50	350	5.4	2160
<b>1863</b>	420	40	380	5.6	2352
<b>1864</b>	450	30	420	5.8	2610
<b>1865</b>	480	20	460	5.6	2688
<b>1866</b>	490	25	465	5.2	2548
<b>1867</b>	500	80	420	6	3000
<b>1868</b>	520	70	450	6.5	3380
<b>1869</b>	350	35	315	5.5	1925
<b>1870</b>	600	30	570	4.8	2880
<b>1871</b>	500	20	480	4.8	2400
<b>1872</b>	800	30	770	4.8	3840

Source: Vaillant, *Exposición de Viena*, 1873, 165.

Table 12: Maize production, 1855-72

Year	Maize production (thousand <i>fanegas</i> )	Maize export	Maize consumption	Price (pesos per <i>fanega</i> )	Value (pesos)
<b>1855</b>	100	20	80	4.4	440
<b>1856</b>	125	25	100	2.8	350
<b>1857</b>	130	30	100	3.6	468
<b>1858</b>	140	35	105	4.4	616
<b>1859</b>	150	40	110	4.4	660
<b>1860</b>	155	30	125	1.8	279
<b>1861</b>	160	35	125	2	320
<b>1862</b>	135	30	105	2.4	324
<b>1863</b>	140	20	120	4	560
<b>1864</b>	150	20	130	2.8	420
<b>1865</b>	180	10	170	3	540
<b>1866</b>	190	5	185	2.2	418
<b>1867</b>	150	5	145	5	750
<b>1868</b>	190	40	150	4.8	912
<b>1869</b>	200	0	200	3.2	640
<b>1870</b>	205	0	205	4	820
<b>1871</b>	210	0	210	3.8	798
<b>1872</b>	150	0	150	4.2	630

Source: Vaillant, *Exposición de Viena*, 1873, 165.

Table 13: Balance of Trade by Destination, 1869 (Market value, “valores de plaza,” Uruguayan Pesos)

Destination	Imports	Exports	Total	Balance
<b>England</b>	5508016	1558715	7066731	-3949301
<b>France</b>	6470187	8501264	14971451	2031077
<b>Belgium</b>	694961	3129168	3824129	2434207
<b>US</b>	1361192	2175322	3536514	814130
<b>Brazil</b>	1718758	3142108	4860866	1423350
<b>Spain/Cuba</b>	2037304	487802	2525106	-1549502
<b>Italy</b>	780532	170614	951146	-609918
<b>Argentina</b>	444312	0	444312	-444312
<b>Germany</b>	1684451	0	1684451	-1684451
<b>Chile</b>	888018	24272	912290	-863746
<b>Holland</b>	544728	0	544728	-544728
<b>India</b>	52912	0	52912	-52912
<b>Portugal</b>	111307	0	111307	-111307
<b>Others</b>	1968	114000	115968	112032
<b>Total</b>	22298646	19303265	41601911	-2995381

Source: Vaillant, *Exposición de Viena, 1873*, 34-5. Figures for Brazil do not include overland traffic of livestock.

Table 14: Export Composition, 1869

Item	Unit	Quantity	Value (Uruguayan pesos)
Wool, unwashed	kg	29034240	6933328
Wool, washed	kg	298000	69832
Wool, cerda	kg	573820	315600
Cow hides, dry	hides	637774	2284768
Cow hides, salted	hides	499981	2890271
Calf hides, dry	hides	41121	63412
Calf hides, salted	hides	5120	10538
Horse hides, dry	hides	9602	11516
Horse hides, salted	hides	24414	44828
Sea wolf hides	hides		
Sheep hides	kg	5497024	937870
Ostrich feathers	kg	9200	26400
Fats	kg	7499000	1158436
<i>Tasajo</i> (dried beef)	kg	32425944	1311430
Neatsfoot oil	kg	211680	43000
Meat extract			400000
Goat hides	kg	57000	44420
Calf leather	kg	29130	5630
Horns and hooves			26881
Bone and ash	tons	57825	92767
Rags			1120
Mules and horses		9243	114000
Various products			17220
			16803267
Cattle on the hoof, to Brazil		200000	2500000
Total			19303267

Source: Vaillant, *Exposición de Viena*, 1873, 39.

Table 15: *Tasajo* Exports from the River Plate (in *quintales*, 100 lbs.)

Year	To Brazil	From Uruguay	Uru. Share	To Havana	From Uruguay	Uruguay Share	England	Total	Uru. Share
<b>1860</b>	495186			623457				1118643	
<b>1861</b>	528285			429874				958159	
<b>1862</b>	596992			651145				1248137	
<b>1863</b>	656448			701805			18250	1376503	
<b>1864</b>	580246			752385			56330	1388961	
<b>1865</b>	750910			758300			4000	1513210	
<b>1866</b>	828600			704000				1532600	
<b>1867</b>	830700	517100	0.62	746000	330100	0.44		1576700	0.54
<b>1868</b>	555900	388900	0.70	941700	414600	0.44		1497600	0.54
<b>1869</b>	813900	461200	0.57	693700	266400	0.38		1507600	0.48
<b>1870</b>	897700	531600	0.59	861270	330500	0.38		1758970	0.49
<b>1871</b>	786700	410800	0.52	620300	308100	0.50		1407000	0.51
<b>1872</b>	843200	445400	0.53	696600	320200	0.46		1539800	0.50

Source: Vaillant, *Exposición de Viena*, 1873, 179-180.

Table 16: Buenos Aires and Montevideo hides exports, 1815-82

Year	Buenos Aires cattle hides	Montevideo cattle hides	Mtvd share	Year	Buenos Aires cattle hides	Montevideo cattle hides	Mtvd share
<b>1815</b>	850242	169200	0.17	<b>1856</b>	1214772	479000	0.28
<b>1816</b>	691321	196444	0.22	<b>1857</b>	1409301	630000	0.31
<b>1817</b>	798599	39115	0.05	<b>1858</b>	1372625	566000	0.29
<b>1818</b>	728539	60803	0.08	<b>1859</b>	1508902		
<b>1819</b>	519991	19650	0.04	<b>1860</b>	1613130		
<b>1820</b>	469138			<b>1861</b>	1438350		
<b>1821</b>				<b>1862</b>	155129	1139000	0.88
<b>1822</b>	590372			<b>1863</b>		1406000	
<b>1823</b>				<b>1864</b>			
<b>1824</b>				<b>1865</b>	2034000		
<b>1825</b>	655255			<b>1866</b>	1980000		
<b>1826</b>				<b>1867</b>	2399000	1155000	0.32
<b>1827</b>				<b>1868</b>	2355000	871000	0.27
<b>1828</b>				<b>1869</b>	2928000	1136000	0.28
<b>1829</b>	854799	312613	0.27	<b>1870</b>	2712000	1087000	0.29
<b>1830</b>	965556	294754	0.23	<b>1871</b>	2433000	1277000	0.34
<b>1831</b>				<b>1872</b>	3240000	1227000	0.27
<b>1832</b>				<b>1873</b>	2671000	1166000	0.30
<b>1833</b>				<b>1874</b>	3106000	1152000	0.27
<b>1834</b>				<b>1875</b>	2883000	934000	0.24
<b>1835</b>	534213	420513	0.44	<b>1876</b>	2325000		
<b>1836</b>	622702	513401	0.45	<b>1877</b>	2488000	1114000	0.31
<b>1837</b>	823635	617382	0.43	<b>1878</b>	2239000	1209000	0.35
<b>1838</b>	355993			<b>1879</b>	2337000	1390000	0.37
<b>1839</b>	8501			<b>1880</b>	2791000	1777000	0.39
<b>1840</b>	83779	1258345	0.94	<b>1881</b>	2192000	2142000	0.49
<b>1841</b>	2340638	1191897	0.34	<b>1882</b>	1945000	1674000	0.46
<b>1842</b>	1399471	1141054	0.45				
<b>1843</b>	2054715						
<b>1844</b>	1786351						
<b>1845</b>	1942297						
<b>1846</b>	436739	1185440	0.73				
<b>1847</b>	1545307	2229806	0.59				
<b>1848</b>	1384790	860060	0.38				
<b>1849</b>	2961342	67856	0.02				
<b>1850</b>	2424251	17695	0.01				
<b>1851</b>	2601140	64822	0.02				
<b>1852</b>	1976173	458863	0.19				
<b>1853</b>	1199935	765000	0.39				
<b>1854</b>	759968	571000	0.43				
<b>1855</b>	1300081	484000	0.27				

Source: Schmit and Rosal, Política Comercial, 115-117.

Table 17: *Tasajo* exports, Buenos Aires and Montevideo (in *quintales*, 100lbs.)

Year	Buenos Aires	BA%	Montevideo	Mtvd%	Total
<b>1829</b>	164818	0.82	35732	0.18	200550
<b>1830</b>	261284	0.72	101479	0.28	362763
<b>1831</b>					
<b>1832</b>					
<b>1833</b>					
<b>1834</b>			180950		
<b>1835</b>	119017	0.40	180950	0.60	299967
<b>1836</b>	150579	0.33	306354	0.67	456933
<b>1837</b>	178877	0.35	338126	0.65	517003
<b>1838</b>	165304				
<b>1839</b>	6670				
<b>1840</b>	8630	0.01	673362	0.99	681992
<b>1841</b>	217671	0.27	603052	0.73	820723
<b>1842</b>	133795	0.27	367715	0.73	501510
<b>1843</b>	182940				
<b>1844</b>	328182				
<b>1845</b>	274330				
<b>1846</b>	21298				21298
<b>1847</b>	225481	0.56	176717	0.44	402198
<b>1848</b>	314352	0.95	16963	0.05	331315
<b>1849</b>	559969	1.00	2273	0.00	562242
<b>1850</b>	390731				390731
<b>1851</b>	431873				
<b>1852</b>	521975				
<b>1853</b>	335165				
<b>1854</b>	157998				
<b>1855</b>			200000		
<b>1856</b>			231000		
<b>1857</b>			301000		
<b>1858</b>			283000		
<b>1859</b>			305000		
<b>1860</b>			413000		
<b>1861</b>			392000		
<b>1862</b>			741000		
<b>1863</b>			911957		
<b>1864</b>					
<b>1865</b>	772587				
<b>1866</b>	497674				
<b>1867</b>	695217	0.45	847000	0.55	1542217
<b>1868</b>	603783	0.43	802000	0.57	1405783
<b>1869</b>	824022	0.54	704891	0.46	1528913
<b>1870</b>	841957	0.60	558652	0.40	1400609
<b>1871</b>	700826	0.55	562804	0.45	1263630
<b>1872</b>	905630	0.55	742543	0.45	1648174
<b>1873</b>	669848	0.46	795174	0.54	1465022
<b>1874</b>	552935	0.41	780239	0.59	1333174
<b>1875</b>	740174	0.60	490261	0.40	1230435
<b>1876</b>	642239				
<b>1877</b>	841717	0.63	494022	0.37	1335739
<b>1878</b>	729978	0.50	716630	0.5	1446609
<b>1879</b>	702391	0.58	509761	0.42	1212152
<b>1880</b>	567587	0.44	718978	0.56	1286565
<b>1881</b>	486935	0.45	605478	0.55	1092413
<b>1882</b>	586891	0.44	739696	0.56	1326587

Source: Schmit and Rosal, *Política Comercial*, 115-117.

Table 18: Wool exports, Buenos Aires and Montevideo, 1829-82 (*arrobas*)

Year	Buenos Aires	Montevideo	Year	Buenos Aires	Montevideo
<b>1829</b>	30334		1860	1410535	
<b>1830</b>	6921		1861	2041845	
<b>1831</b>			1862	2346970	407488
<b>1832</b>		25000	1863		521739
<b>1833</b>			1864		
<b>1834</b>			1865	4776174	
<b>1835</b>	130308	29000	1866	4699478	
<b>1836</b>	132580	34000	1867	5514870	1477478
<b>1837</b>	164706	39000	1868	6106957	1646609
<b>1838</b>	166796		1869	6300087	1663652
<b>1839</b>	25038		1870	5713391	1090870
<b>1840</b>	3818	86724	1871	6223043	1356870
<b>1841</b>	304872	79740	1872	8037043	1413565
<b>1842</b>	124696	92068	1873	7281130	1393478
<b>1843</b>	172635		1874	6974522	1473652
<b>1844</b>	139215		1875	7889043	793652
<b>1845</b>	172509		1876	7786609	
<b>1846</b>	65197	110635	1877	8464696	1490870
<b>1847</b>	317102	317126	1878	7121217	1470609
<b>1848</b>	507300	153947	1879	8009739	1557217
<b>1849</b>	934780	1649	1880	8479826	1631739
<b>1850</b>	739550	1494	1881	9109304	1581043
<b>1851</b>	769090		1882	9660435	1846522
<b>1852</b>	724268				
<b>1853</b>	808999	150457			
<b>1854</b>	485380	37614			
<b>1855</b>	1005358	37440			
<b>1856</b>	1126095	56770			
<b>1857</b>	1313353	79234			
<b>1858</b>	1259269	91598			
<b>1859</b>	1591823				

Source: Schmit and Rosal, *Política Comercial*, 115-117.

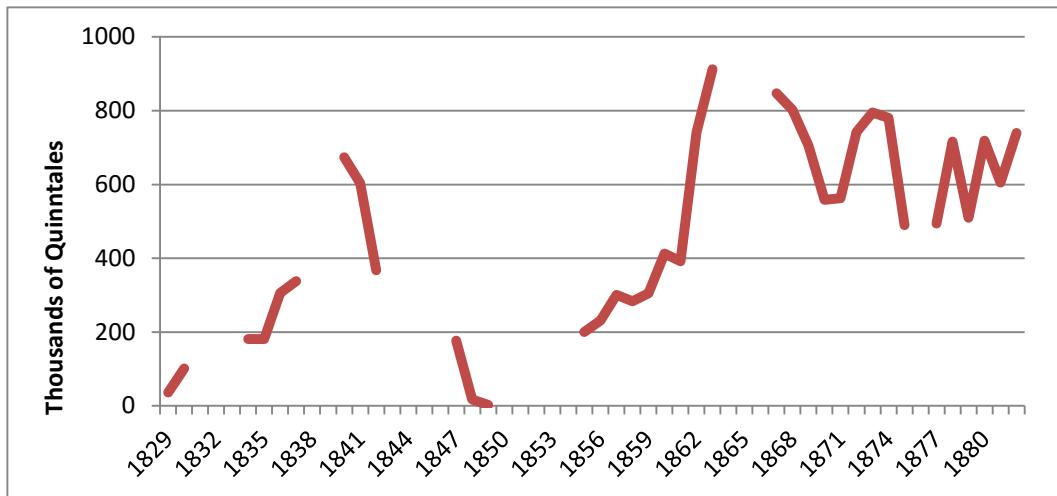
Figure 7: *Tasajo* exports, Montevideo, 1829-82

Figure 8: Hides exports, Montevideo, 1815-82

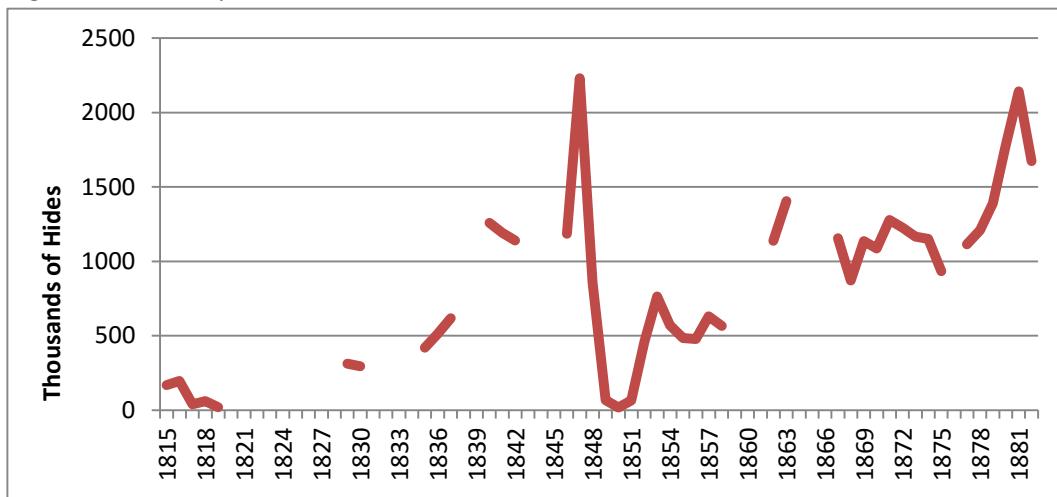
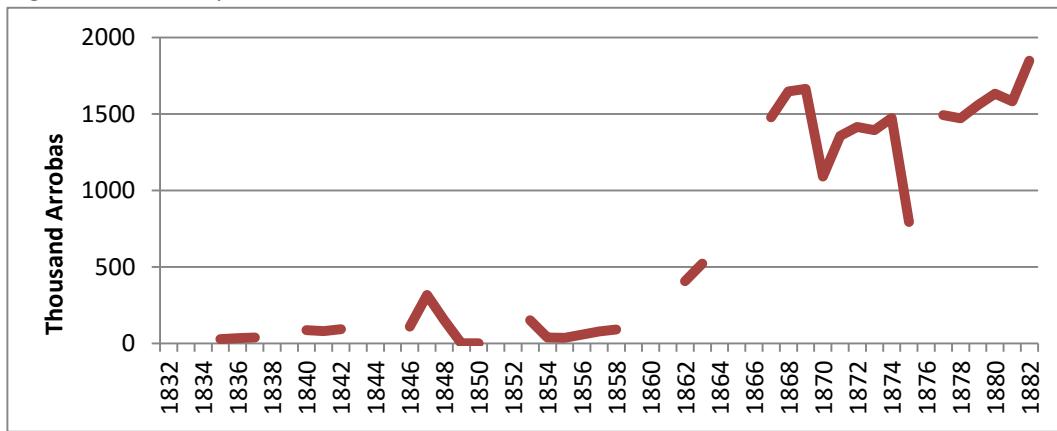


Figure 9: Wool exports, Montevideo, 1829-82



Source: Schmit and Rosal, *Política Comercial*, 115-117.

Table 19: British Exports to Montevideo, 1846-79 (in British Pounds)(2 pages)

Year	Total	Cottons	Linens	Silks	Wool manuf.	Apparel, Slops, & Haberdashery
<b>1846</b>	153,478	76,888	8,182	1,254	36,891	4,450
<b>1847</b>	334,082	226,377	24,309	2,826	48,166	4,544
<b>1848</b>	156,758	70,044	7,944	835	48,491	3,669
<b>1849</b>	36,665	19,162	2,570	1,432	6,915	1,348
<b>1850</b>	60,480	26,054	1,787	2,798	6,892	3,908
<b>1851</b>	218,078	87,989	11,331	2,833	69,656	8,497
<b>1852</b>	615,453	297,978	34,407	12,412	162,618	16,106
<b>1853</b>	529,883	264,442	8,252	6,631	165,799	14,529
<b>1854</b>	462,210	213,753	21,427	5,826	101,344	32,153
<b>1855</b>	294,938	121,945	10,344	2,732	71,625	12,046
<b>1856</b>	391,323	188,454	14,656	7,150	87,410	10,175
<b>1857</b>	515,902	237,314	13,602	9,897	140,162	11,697
<b>1858</b>	522,670	213,760	22,606	5,034	118,956	32,319
<b>1859</b>	693,622	314,734	26,731	7,912	154,029	42,308
<b>1860</b>	922,732	457,467	26,328	11,665	195,157	46,174
<b>1861</b>	581,638	225,770	13,714	6,112	129,929	29,232
<b>1862</b>	453,790	210,211	18,872	5,697	65,136	18,775
<b>1863</b>	534,973	184,003	45,100	5,183	91,439	28,896
<b>1864</b>	993,951	520,533	76,543	12,568	110,541	44,469
<b>1865</b>	812,861	313,488	52,006	13,406	128,728	47,631
<b>1866</b>	1,392,803	597,983	74,920	16,655	203,262	66,895
<b>1867</b>	1,452,508	496,048	82,897	9,972	199,744	91,738
<b>1868</b>	930,422	266,181	35,964	7,274	123,542	68,726
<b>1869</b>	1,078,938	303,134	36,299	1,891	101,632	48,639
<b>1870</b>	806,405	245,341	20,616	2,709	75,541	23,611
<b>1871</b>	1,044,797	470,209	23,214	3,051	93,533	41,291
<b>1872</b>	1,817,783	610,983	40,382	8,555	208,691	96,519
<b>1873</b>	1,762,042	376,751	42,586	6,604	171,444	102,796
<b>1874</b>	1,224,038	271,906	22,481	3,319	82,516	59,044
<b>1875</b>	713,830	219,176	11,264	1,107	62,745	41,169
<b>1876</b>	1,006,307	473,352	24,475	2,289	97,119	33,776
<b>1877</b>	1,077,780	470,209	37,110	2,801	151,671	32,566
<b>1878</b>	997,866	402,515	19,505	2,139	168,623	29,121
<b>1879</b>	922,625	375,760	17,580	1,148	142,320	23,560

Year	Hardware & Cutlery	Iron and Steel	Coal, Cinders & Culm	Machinery	All others
<b>1846</b>	4,349	4,242	3,281	167	13,774
<b>1847</b>	4,337	5,607	1,957	120	15,839
<b>1848</b>	4,815	3,746	2,786	145	14,283
<b>1849</b>	976	1,066	874	0	2,322
<b>1850</b>	2,321	1,999	2,564	384	11,773
<b>1851</b>	7,745	4,297	3,044	165	22,521
<b>1852</b>	31,698	13,887	1,876	233	44,238
<b>1853</b>	27,918	10,581	4,391	831	26,509
<b>1854</b>	31,594	13,732	4,410	1,080	36,891
<b>1855</b>	27,602	13,853	5,259	87	29,445
<b>1856</b>	20,384	22,407	5,982	2,003	32,702
<b>1857</b>	24,100	17,756	9,205	2,002	50,167
<b>1858</b>	25,558	19,950	21,120	2,123	61,244
<b>1859</b>	33,227	26,555	11,625	4,092	72,409
<b>1860</b>	44,394	28,092	12,884	5,615	94,956
<b>1861</b>	43,868	25,560	20,205	3,583	83,665
<b>1862</b>	23,079	37,081	16,484	2,472	55,983
<b>1863</b>	30,391	30,927	24,746	6,018	88,270
<b>1864</b>	40,066	38,329	24,140	7,033	119,729
<b>1865</b>	51,388	37,737	37,882	8,267	122,328
<b>1866</b>	55,818	90,199	70,412	12,369	204,290
<b>1867</b>	76,109	135,686	75,535	12,993	271,786
<b>1868</b>	58,594	91,189	105,711	16,798	156,443
<b>1869</b>	76,116	163,528	94,024	16,842	236,833
<b>1870</b>	49,933	123,295	70,741	26,666	167,952
<b>1871</b>	54,997	103,398	66,116	10,200	178,788
<b>1872</b>	93,348	282,307	122,724	40,167	314,107
<b>1873</b>	73,982	428,268	118,397	87,269	353,945
<b>1874</b>	58,464	260,994	175,636	50,328	239,350
<b>1875</b>	32,705	116,749	94,551	13,455	120,909
<b>1876</b>	24,427	113,246	74,687	26,743	136,193
<b>1877</b>	20,810	119,410	78,728	16,383	148,092
<b>1878</b>	32,869	95,433	70,891	22,008	154,762
<b>1879</b>	30,410	129,865	62,033	12,744	127,205

Source: Disaggregated data for Uruguay courtesy of Manuel Llorca-Jaña, from: *The British Textile Trade in South America in the Nineteenth Century*, 2012.

Appendix 4, Figure 10: Pictures of the British Community in Uruguay (part 1)



Figure 11: Pictures of the British Community in Uruguay (part 2)

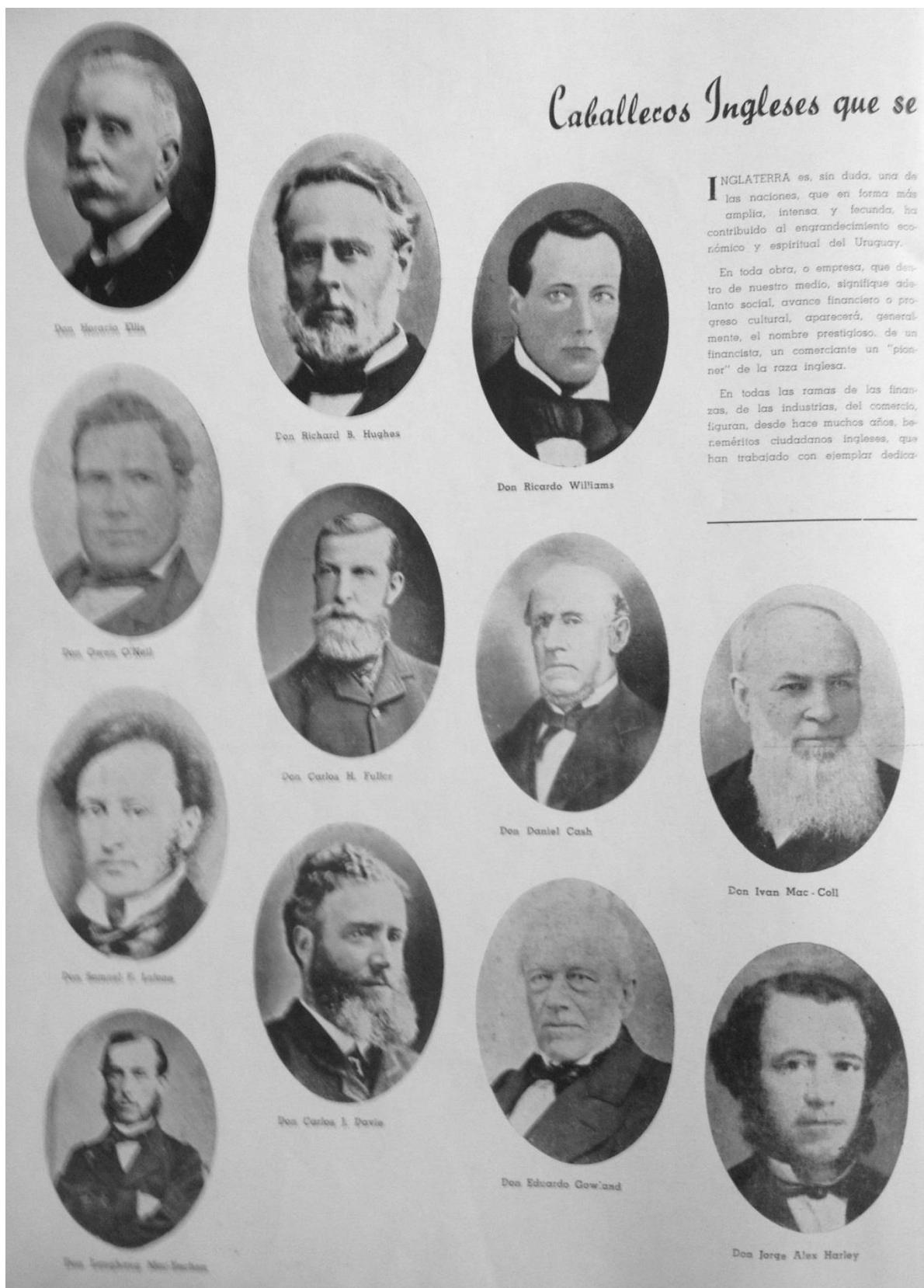


Figure 12: Pictures of the British Community in Uruguay (part 3)



Source: *Anales* No. 124. Note that not all figures depicted are from the 1830-75 period. Courtesy of Juan Oribe Stemmer.

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