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THE NATIONALISATION OF THE BRITISH RAILWAYS IN URUGUAY

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Abstract.
While much work has been done on the expansion of the British economic empire, its contraction has received less attention. The aim of this paper is to study in detail how British economic interests retreated from Uruguay after the Second World War. It also throws some light on how certain Latin American countries behaved as creditor nations: we know much about their behaviour as debtors but almost nothing about how they used their creditor status.
In these negotiations, where financial and economic aspects were closely linked, Uruguay accepted most of Britain's demands, including the use of its sterling balances for the nationalization of the British owned railways. By doing this, and not buying back its foreign debt, Uruguay was soon in need to ask for a credit to Britain and thus return to an old pattern of indebtedness.

The Nationalisation of the British Railways in Uruguay

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The nationalisation of the British railways in Uruguay is, generally speaking, not very different from the ones in Argentina and Brazil. In all these cases the railways were bought, not very enthusiastically, in exchange for sterling balances which were almost impossible to spend otherwise. But each case has its own peculiarities and it is the details that are especially interesting. Because of this I have explored in some detail a few aspects of this process in Uruguay, leaving aside other problems, like commercial negotiations or the exchange guarantee, that were closely linked with the sale of the railways. Given my interpretation of what happened, already explained briefly above, the particular attention paid here to financial problems is inevitable. I believe they contain the explanation of much of what happened.

It is difficult to transmit the “feeling” of these negotiations. In order to come closer to this aim, I have endeavoured to let the original participants, insofar as possible, to speak for themselves. I have preferred to quote extensively instead of paraphrasing the different documents; I hope that this decision will allow the reader to enjoy a little of the excitement that I have felt while reading the files. It should also allow him to perceive unexpected details, which makes each negotiation unique. It will be clear that I have seen only the British side of the picture, as recorded by members of a brilliant Civil Service, who wrote with precision and confidence, knowing that they were addressing other members of their caste. The Uruguayan point of view is completely missing and is only presented as it emerged from confidences from Uruguayans to the British. I hope that this work will stimulate others to complete the partial picture I have been able to reconstruct.

Britain came out of the war seriously weakened, in particular insofar as the balance of payments was concerned. Her prewar equilibrium had been precarious and her deficit with the dollar area very marked. Invisibles had been extremely important but a substantial part of her foreign investments had been liquidated to finance the war, while a part of her merchant fleet had been lost. She had also accumulated enormous liabilities in sterling, both to countries of the Sterling Area and to countries like Argentina, Brazil and Uruguay. It was clear that Britain would continue to have a deficit in its balance of payments for some years after the war: in 1945 Keynes estimated the the British deficit in the three years after victory over Japan would be £650-£850 million in the first year, about £500 million in the second year and about £200 million in the third.[1] As her sterling liabilities were about £3 billion (at the official rate of exchange about $12 billion) it was clear that these liabilities not only would not be repaid; it was very likely that they would be increased. Already in January 1944 Keynes foresaw that this would happen in Latin America for the first two years after the war. This meant that Great Britain would be unable to repay old debts; no only, she had to make new ones to finance the transition to a peace economy.

The American Administration was very suspicious of the Sterling Area, fearing that Britain would use it to resist demands for multilateral, non discriminatory trade. There was also suspicion that Britain would use this area to create a closed trading block and many considered trading blocks as sources of international tensions that ended in war. And they didn't want that their financial aid to Britain leaked elsewhere. They were therefore very favourable to unilateral cancellation of a substantial part of these sterling balances. In the Anglo-American negotiations of September 1945, Keynes presented a plan in which of the £3 billion of sterling balances a third would be cancelled, 10% of the rest made convertible for current account purposes and the rest, equivalent to $7.2 billion at the official exchange rate, would be funded at no interest to be repaid over fifty years, with annual instalments of 2% beginning after five years. The plan of the US Treasury was to buy $5

[1] Fforde *The Bank of England and Public Policy 1941- 1958*, London 1991, p.810

billion of sterling balances with $3 billion of US currency , of the remaining $8 billion, $4 would be cancelled, $2 billion freed as working balances while the last $2 billion would be used to offset British foreign installations, etc.[2]

At the US Treasury there was a very accurate understanding of the real worth of these sterling balances. "Without American assistance to Britain, the value of the $13 billion of blocked sterling claims against Britain is, on a realistic appraisal, almost nil."[3] At the end of 1945 reserves of the sterling area were about £500 million against liabilities to the Sterling Area of about £3 billion.[4] What was to become India, Pakistan and Ceylon had £1358 million, the Middle East about £590 million and Latin America about £166 million.

To put matters in perspective it is important to keep in mind that Uruguay had about £17 million. This was a small amount for Britain, but a large one for Uruguay that hoped to use it to refurbish its dilapidated economy. On the other hand, it should be noticed that the Bank of England in the Spring of 1946 envisaged releasing to the whole world only between £100 million and £60 million per year. Britain needed all the dollars it had to finance its own needs, and did not want to use its scarce exports to pay old debts; they had to be used to pay for current imports. On the other hand, for other countries, exporting to Britain without being paid neither with exports nor dollars was not very different than throwing goods into the sea.[5] It benefited the producers of exportable goods at the expense of the rest of the population, who had to bear the inflationary consequences of these useless exports. Britain's problem was that she wanted to be able to pay in sterling, and in order to obtain this it was almost impossible to cancel unilaterally the existing sterling debts. It also had to give some inducements to holders of

[2] For a comparison of the two main schemes for dealing with sterling balances see L.S. Pressnell *External economic policy since the war, vol.1: the post-war financial settlement*, 1986 p.291.

[3] Fforde, p.816

[4] The Sterling Area had very complicated financial arrangements. For an introduction see B.I.S *The Sterling Area*, Basle 1953; E.C.A. *The Sterling Area: an American Analysis*, London 1951, Wright, K. Dollar pooling in the sterling area 1939-1952, *American Economic Review* September 1954.

[5] Argentina had a similar problem. See my "Peron's policies for agricultural exports 1946-48, dogmatism or common-sense?" In D.Rock ed. *Argentina in the Twentieth Century*, London 1975

sterling, in the form of a partial release, that is allowing a partial use of this old sterling to buy in other areas, which meant converting them into dollars.

The Anglo-Financial Agreement, with the loan of $3.75 billion, placed some stringent obligations on Britain. These dollars could not be used to repay sterling balances [6] and one year after the Agreement came into force sterling earned on current account had to be made convertible. This meant that after July 15 1947 countries could earn dollars by having a current account surplus with Britain. For countries like Argentina and Canada, with a big surplus with Britain and a big deficit with the US, this was an enormous benefit.

It is in this context that the sale of the railways has to be seen. Britain couldn't export enough but had foreign investments in Latin America. They were in a bad state and had very unpromising perspectives, but the fact that Latin American countries had a huge amount of sterling which they could not use presented an unique opportunity. If the railways could be sold at a good price shareholders would be saved from certain ruin and a good part of the sterling debt would be wiped out. Sterling could even become scarce for these countries and therefore they would be keen to export to Britain. In short, the chaotic situation of the early postwar period seemed to offer a chance of salvation for the British shareholders of Latin American railways. To grasp this chance, that vastly benefited the balance of payments, was the aim of British negotiators.

Their view of the prospects of the British railways in Uruguay was extremely negative.

"The Railway, with a nominal capital of £15 million, are our biggest single capital investment in Uruguay. Their financial future is precarious in the extreme. Their general condition is far worse than that of the Argentine railways and there is no possibility of raising new money over here to provide for rehabilitation, modernisation, etc. There is in fact far less hope for railways run under British ownership in Uruguay than in Argentina. For over 15 years there has been no dividend on the Ordinary Shares of the Central Railway. The Midland last paid in 1896…In short, the Railways cannot hope to pay their way under foreign ownership, wage increases have swamped earnings and it is probable that to-day the Railways are not

[6] Article 6 (i) Stated "It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this agreement will be found from resources other than this line of credit."

earning enough to cover running costs…The Uruguayans should, therefore, be pressed to take the whole matter in hand, either by guaranteeing a minimum return on the capital investment or, better still, by buying the Railways out."[7] In a subsequent Treasury memorandum, annotated by the Chancellor of the Exchequer, these concepts were repeated and two new pieces of information on the Central Uruguay added " It has the power to raise rates but the transport structure of Uruguay is developing much more on the roads. Here we know that the Directors of the Railway would be glad to sell out, and if we can get a figure round about £5 ½ million, I should think it would be a good sale."[8] The fact that the railways were free to set their tariffs is significant, because it made it more difficult to discuss their problems in intergovernmental discussions. In the Argentine case, were tariffs had to be approved by the Government, it had been natural to discuss their problems and their future profits during the Anglo-Argentine negotiations of September 1946.

The Anglo-American Financial Agreement imposed a clear deadline: sterling earned on current account from 15th July 1947 was convertible (unless special circumstances forced the UK to ask the US for a brief moratorium for some countries with whom no agreement had been reached. A postponement to 15 September 1947 proved necessary for fourteen countries, including France and Denmark.[9]

This deadline had a clear impact on UK-Uruguay economic relations. For the UK it was crucial to segregate new from old sterling, otherwise her scarce dollars would not cover current imports but would have been bought with old sterling; the ideal was to freeze as much of Uruguay's sterling balances as possible. Uruguay, on the other hand, wanted to have a substantial sum released in order to pay for dollar imports, which included imports from Argentina and Brazil. July 1947 was a deadline, but an early agreement meant that convertibility could start sooner. The sooner an agreement was reached, the sooner could Uruguay convert into dollars sterling acquired in current account transactions. Argentina had enjoyed this

[7] Uruguay. Visit of Uruguayan Financial Delegation to UK 1947. PRO T236 2445.
[8] Eady for Trend 21/3/1947. PRO T236 2445.
[9] . Tew, J .*International Monetary Co-operation*, London, 1952 p.132n.. The best account of the Anglo.American Loan Negotiations remains R.N.Gardner *Sterling- Dollar Diplomacy* New York 1956; see also L.S.Pressnell op.cit.

advantage from the last quarter of 1946 and had been a substantial source of dollars, Brazil from 1 April 1947.[10]

There was also the threat of an unilateral British cancellation of a part of the sterling balances. This would have been a major change in policy, forced by wider considerations than relations with a single country. It should however be kept in mind that Dalton, the Chancellor of the Exchequer had made a few days before the beginning of the formal Anglo- Uruguayan negotiations a very public request for cancellation. On May 6, 1947 at the Brazilian Chamber of Commerce, referring to the over £3 billion of sterling balances, Dalton declared "This vast accumulation of debt represents an unreal, unjust, and unsupportable burden. …Sooner or later this mass must be very substantially scaled down. Britain is strong, but one sign of her strength must be refusal to take on fantastic commitments which are beyond her strength and beyond all limits of good sense and fair play." His statement in the House of Commons on July 3, on Egyptian sterling balances, while negotiations with Uruguay were proceeding, are even stronger.

The Bank of England was totally opposed to this approach, both because it believed it wouldn't work and also because it would have dealt a possibly mortal blow to London as an international financial center. When Keynes had negotiated with White possible schemes to abolish sterling balances, the Bank of England had commented, refering to sterling countries that this "would presumably force them to remove all their current banking business from London to New York."[11] It would have implied the end of sterling as an international currency, not a very wise move when deficits were envisaged for the future.

The Uruguayan Government had at first thought of sending a Mission to London to collect information but then decided that it was better to give to the Delegation the task of negotiating an agreement.

"The reason for this abrupt change of policy would appear to be that the Uruguayan Government fears that unless the matter of the liquidation of the blocked sterling funds is arranged by the end of June they may lose the

[10] On Brazil the indispensable reference is Abreu, M.de Paiva "Brazil as a creditor: sterling balances, 1940-1952", *Economic History Review* 1990, pp.450-469; on Argentina see Fodor and O'Connell "La Argentina en la economia atlàntica en la primera mitad del siglo XX", *Desarrollo economico* 1973

[11] Pressnell p.292

immediate use of them, or else, at least, that Great Britain will insist on a drastic reduction in the use of the sum owed."[12]

The railways also informed the Foreign Office that Zorzi, the manager of the Banco de la Republica seemed to accept the idea of using the sterling balances to buy the railways, but this seems a very tendentious and interested version of what was said between Zorzi and Grindley. Zorzi opposed this use of Uruguay's sterling balances and preferred to buy back foreign debt.

"Senor Silveiro Zorzi added that from the Uruguayan Treasury and non-political party point of view, amongst the Government people, there was no real desire to buy the railways but that it is considered necessary to do so in order that the Uruguayan Government shall be able to use the blocked funds to the advantage of Uruguay."[13]

The railways had excellent information on the Uruguayan side. In a telegram of early March from the manager of the Central Uruguay Railway to his Board in London, giving information on the members of the Uruguayan Delegation, he mentions someone in terms that raised a few eyebrows in London. Talking of Dr.Cuadros " Battllista Deputy, who enjoys the complete confidence of the President of the Republic, and also that of the President of the Bank of the Republic", Grindley adds "Cuadros is an intimate friend of mine and has offered me his services confidentially and privately as an inside informant."[14] Not surprisingly, the British Ambassador in Montevideo thought this was quite odd. "Grindley mentioned that Cuadros had offered him his services "confidentially and privately as an inside informant", which may indeed strike you, as it does me, as a rather odd idea coming, moreover, specially from Grindley!"[15] The fact that the Railways had access to such good information on the Uruguayan side could be very helpful, but it could also cause problems for the British officials. The interests of the Railways and those of the British Government were similar in the sense that both wanted the railways to be sold and both wanted Uruguay to pay as high a price as possible. But we

[12] 26-3-47 Letter from the Secretary of the Central Uruguay Railway in Montevideo to the Under Secretary of State of the Foreign Office, reporting information received from Grindley, the manager of the railway. PRO T236 2445

[13] idem PRO T236 2445

[14] Telegram from Grindley to London Board, 7.3.47 PRO.T236 2445.

[15] Letter from Gordon Vereker to J.D.Murray, at the Foreign Office, 14.3.47 PRO T2362445.

will see that they were not identical, and that there were areas of potential conflict. In these cases, the access to information on the part of the railways could create very awkward situations.

While preparing for the negotiations with Uruguay, there were some discussions between British officials on the results they wanted to obtain. On these there was a general agreement and no major interdepartmental difference, except on cancellation, where the Bank of England constantly showed its opposition. Negotiations like the ones with Uruguay had already been carried by the same officials with many other countries and although each case was different, the general lines had much in common. Eady had recently dealt with the enormously difficult question of India's sterling balances. In the case of India, the transfer of power was announced on June 3: India was the major holder of sterling balances and had suffered the Bengal famine, with over two million dead of starvation, in part because of the inflation caused by war financing, of which her sterling balances were a cause and consequence.

Already at the beginning of 1947 Eady began planning the negotiations with Uruguay and decided to reinforce the Treasury calling back Simon "because the Uruguayan Minister whom we met paid him, and with justice, considerable deference." Eady planned to come back from India in mid-March and thought that mid-April would be a good time to start negotiations with Uruguay. He also thought that he would not be in a mood to offer many concessions. "In any case I shall be very surprised if I return from this Indian and Middle East trip in an entirely gracious mood."[16] A Foreign Office official minuted that "Sir W.Eady thinks that the experience gained in India would be useful in negotiating with the Uruguayans."[17] Eady had carried the very long and difficult negotiations with the Peronist Government in 1946 and concluded the Eady-Miranda Agreement. He had also visited Montevideo at the time and had a good grasp of the issues in question.

The negotiations were strongly conditioned not only by the general problems of Great Britain and the Sterling Area, but also by the precedents set by Britain's agreements with Argentina and Brazil. This problem was always present to both sides.

[16] Letter to Perowne 4 January 1947.PRO AS 183/84/46 in FO371 61369.
[17]PRO. AS 183/84/46 in FO371 61369

Already in March the question was raised in a telegram from the British Ambassador in Montevideo. “It seems that President Berreta is particularly anxious that terms of any agreement reached should be not (repeat not) less favourable than those of recent Anglo-Argentine agreement as prestige of the Uruguayan Government is involved.” He also reported that according to the Minister of Finance, the President was willing to buy the tramways and the waterworks but not the railways.[18] This produced a sceptical note of the head of the Latin American Department at the Foreign Office.

“As regards the Uruguayan desire to be treated pari passu with Argentina, I fear that the Treasury may make difficulties. Our September agreement with Argentina gave that country the right to free use of about 20% of her sterling balance of £125 million. The Treasury are already making great difficulties about according pari passu treatment to Brazil in respect of her sterling balance of £65 million; they say that Argentina was a special case, and that they cannot agree to pari passu treatment for Brazil without endangering their negotiations with India and Egypt. This argument will, of course, apply also to the Uruguayan sterling balances."”[19] Towards the end of March Eady envisaged releasing a substantial amount of sterling. Uruguay’s sterling balances at the end of 1946 were £17.5 million. “On the basis of the balances as they stand at present I think we could, and should, agree to pay up to £1 million a year for 4 to 5 years with a revision at the end of that time. We should try for £4 million over 5 years.[20] He envisaged paying ½% interest. This was a very high rate of release if compared with other countries, although the rate of interest was extraordinarily low. This rate of interest, however, was the one prevailing in Britain for short term loans, and was the consequence of the policy of ultra-cheap money championed by Dalton. As prices of world commodities were exploding due to the American decision to decontrol prices, Uruguayan sterling balances were rapidly loosing their purchasing power.

In talks with the Uruguayan Ambassador an important Treasury official raised the question of cancellation in early April and Dalton himself wrote a

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[18] Telegram 74 from Vereker in Montevideo to FO, 3 March 1947. PRO.AS1431/84/46 in FO371 61369

[19] Memo by Perowne, 5 March 1947. PRO AS1549/84/46 in FO371 61369.

[20] Uruguayan Sterling Balances. Note by Eady for Trend, 21 March 1947. PRO T236 1727.

rather long minute supporting this action stressing that Britain had protected Uruguay from Nazism..[21]

In the meantime things were moving on the question of the other British owned public utilities. Commenting on a Press report that the Waterworks had been sold for £3.25 million and the Tramways for £1.75 million, a Treasury official saw a possible solution to the existing problems: “If a deal can be made in regard to the railways, and taking into account the value of the waterworks and tramways, the whole accumulated sterling balances should disappear as in the case of the Argentine.”[22] Relief at the successful sale of the tramways was evident in the Bank of England. “Crabbe, after seven years of donkey-work, has, so Vereker reports in his 57 of the 14th February, at last managed to trade the derelict trams…”[23] Clearly this sale was the result of a long term effort, of which probably only the Bank of England, with its close contact with the City, followed closely.

The special circumstances of the early postwar period made it possible to carry out plans thought out much earlier. While the Board of Trade was worried that the sale of the British investments in Latin America would damage the long term prospects of British exports, the Bank of England had for a long time decided that sale was the best alternative and considered that the sterling balances provided an unique occasion of selling at a very satisfactory price for British shareholders. Otherwise, the British owned public utilities would face ruin. Powell made this very clear. “As regards the railways. I do not myself believe that any arrangement- co-ordination of transport, guaranteed income, mixed company, or what you will- is going to do the British-owned companies lasting good, and I think that you yourself are pretty well convinced that an outright sale is the only thing likely to save some of this British capital from the wreck.”[24]

Soon afterwards the Uruguayan Ambassador in London discussed pending matters at the Treasury where it was acknowledged that Uruguay had been a loyal friend during the war “which strongly inclined us to reach a friendly settlement. At the same time the range of possible settlement was not dictated by questions of friendships, but by the hard realities of the financial

[21] Note by Eady for Trend, 3 April 1947 with comment in red ink by Dalton, 3 April 1947. PRO T236 2445.
[22] Talks with Uruguay, note by Eggers for Rowe-Dutton and Eady, 2 April 1947. PRO T236 2445.
[23] Uruguay, Powell to Eady, 9 April 1947.PRO T236 2445.
[24] Uruguay, Powell to Eady, 9 April 1947. PRO T236 2445

position we had explained."[25] To the suggestion of partial cancellation of the sterling balances, the Ambassador gave an interesting reply, pointing out that if Britain wanted this, then, as compensation, it should release more free sterling from what was left. This suggestion was very unwelcome to the Bank of England, because if part of the sterling balances were cancelled and a substantial sum was released, not enough sterling would be left for Uruguay to buy the railways at a good price. In a way, there was a conflict of interest between the British taxpayer and British shareholders of investments in Uruguay. Powell immediately expressed his worry that so much had been discussed with the Ambassador before the arrival of the Mission. If discussions concentrated only on sterling and trade, the railways would be left to their fate. "As a result, Uruguay may take the same unfortunate turn as Brazil and we may get little or no opportunity to deal with the Railways and the other Utility problems."[26] A week later, much stronger words were used. "What, however, does concern and disappoint me is the Treasury's apparent abandonment of the Railways in their difficulties."[27]

On tactics, it was agreed that it was convenient to start by asking Uruguay to cancel a part of its sterling balances as a gesture of solidarity with Great Britain. This had already been done with Brazil, who had refused but was put in the defensive. Referring to negotiations with Brazil, an official predicted that the same thing would happen.

"The discussions with Uruguay would probably follow a similar course (to Brazil GF): we should ask for cancellation, and it would be refused, and we should proceed to consider all the other points."[28]

The case of Uruguay had a peculiar aspect: Uruguay had a substantial amount of sterling but at the same time it also had a substantial foreign debt in London. While its sterling assets received ½% interest, its sterling debts paid a much higher rate. Other countries in this situation had already bought back its foreign debt (Argentina and Brazil had done so in the last years of the War), but curiously Uruguay had delayed action. It is also not surprising that the British side tried to see if it could prevent this from happening.

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[25]Note by Eady on his talks, together with Rowe Dutton, with the Uruguayan Ambassador, 11 April 1947. PRO T236 2445

[26]Powell to Eady, 14 April 1947. PRO T236 2445

[27] "Uruguay" Powell to Rowe-Dutton, 21 April 1947. PRO T236 2445

[28] Eggers, Minutes Meeting 19 May 1947 "Uruguay Financial Mission" . PRO T236 2446

"The idea of repatriating UK assets in Uruguay has been mentioned and the intention would appear to be to redeem what are in the main remunerative investments. However natural this may be from an Uruguayan point of view, inevitably it must cause us grave preoccupations. Indeed if carried through it might mean that our remaining stake in Uruguay was completely unremunerative."[29]

Clearly, if there was any hope of selling the railways, it was essential to prevent Uruguay from buying back its debt, for there was not enough sterling for both operations (if British shareholders were to get a good price). If a sale proved impossible, another possible solution was to obtain a guarantee of a minimum income for the railways. Argentina had given such a guarantee in the Eady- Miranda Agreement in September 1946. But the more Uruguay spent buying back its debt, the less sterling there would be available for British shareholders. This was the crucial point, and we will return to it often. It should be kept in mind that Uruguay was perfectly within its right to use its sterling for buying back its sterling debt, without any discussions whatsoever. "It is probably true that if the Uruguayans care to accelerate their redemption they are strictly within their rights, but this course would not be very welcome to us. Apart from the obvious fact that, if the Uruguayans spend their money on buying bonds from which we derive a regular income they will have none for the Railways (which bring in nothing).."[30] Uruguay's major mistake was to accept to discuss the question of debt redemption at all.

During the negotiations the Uruguayan Ambassador made an able exposition of the origin of their sterling balances: they had arisen out of normal exports, subsidised by Uruguay through a preferential rate of exchange, they had lost purchasing power through inflation and Uruguay had to spend approximately 10 % of their value in dollar imports in order to be able to export to Britain. Presumably this was a rough calculation of the cost of tinplate, oil and similar goods that had to be imported from the dollar area in order to export to Britain. He also emphasised the fact that Britain paid Uruguay ½% for her sterling debts while obtaining a much higher interest on Uruguay's sterling debts. He proposed a five year agreement, with part of the balances to be spent in the repatriation of a part of the debt,

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[29] Sterling Balances Negotiations" Unsigned 3 June 1947. PRO T236 2446

[30] Powell to Eady, 28 May 1947. PRO T236 1727

a part in buying some Utility Companies (Tramways and possible Waterworks) and , as a sign of goodwill, a part in buying an Embassy and in scholarships for Uruguayan students. Eady replied stressing the enormous debts of the UK “£4000 million was not a sum which we could manage to repay in less than a century. Had the Uruguayans, he asked, considered adjusting the amount of their balances or was the present level to be maintained as the book debt?”[31]

Maceachen replied saying that sterling balances should not be cancelled and said that they wanted about half to be used for repatriation of debt and half released, although he made it clear that a smaller release was acceptable. To think of having half of their sterling released for current transactions with the rest of the world (basically dollars)was wildly optimistic because other countries, in a much stronger bargaining position, had obtained a much smaller proportion of their sterling released. He also informed the British delegation that his Mission was not empowered to discuss the purchase of the Railways nor a minimum guaranteed income for them.

Eady expressed surprise that in this way “we had thereby been excluded from discussing the two main aspects of our principal Foreign investment in Uruguay.”

As it was not obvious that a private company should be discussed in the context of inter- governmental negotiations, Eady felt it was necessary to explain more fully the position of the British Government on this question, which, as we will see, caused trouble even after everything had been concluded.

“Sir Wilfrid Eady pointed out that we were not here to discuss the value of the railways, but from our balance of payments point of view we had to consider their position in relation to the releases which it would be possible for us to make. In our negotiations with Argentina the question of the sterling balances, meat and railways, were closely related – the Argentines had to consider what income they might expect from sales of meat, and we had to consider our likely income from the railways. In the past the British Government had given no more than diplomatic protection to investments

[31] Minutes of the third Meeting of Finance Sub-committee held in the Treasury, Whitehall, on Wednesday, 4th June; these minutes were written however on June 10th and contain references to the meeting of 7th June 1947. PRO T236 2446

abroad, but our present financial position made it essential for us to pay special regard to our income from such investments."

When Posadas pointed out that Uruguay wanted to repatriate between £7 million and £10 million of its sterling debt, and suggested to discuss the sterling balances in this light, Eady was very dismissive and ended the meeting.

"Sir Wilfrid Eady pointed out that the repatriation of their debt meant a further charge on us, since we would have to bear in mind the subsequent loss of income. He disliked going back to the Chancellor on the basis of the Uruguayan attitude, and asked them seriously to considere the points we had made."

After the meeting Powell gave his evaluation of how the negotiations were proceeding, making it clear that the Bank of England had no faith in the possibility of cancellation of a part of the sterling balances, a subject in which Dalton, the Chancellor of the Exchequer, was very keen.

Things were developing as expected: "This morning's meeting went very much according to plan,…"but it was important to deal with the railways. "As you know, I have always felt that a satisfactory Railway settlement is far more important to us in Uruguay than cancellation, but as a matter of fact, unless I am gravely mistaken, the chances of the latter on a worth while scale are non-existent."[32] In order to keep the negotiations going, Powell proposed to follow a suggestion made by Posadas "A certain amount to be hypothecated to the redemption of debt (the Banco de la Republica seem to think that £7 million would suffice) against which the Uruguayans would agree to a similar hypothecation, or alternatively a guarantee for the Utilities, <u>including the Railways -</u>releases to be dependent upon our receiving satisfaction of our claims for the Railways.. The trouble is that the difference between maximum and minimum releases must necessarily be small and I fear that the Uruguayans still cherish extravagant views about the actual amount we would release if they met us."[33]

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[32] Letter from Powell, Bank of England to Eady, Treasury, "Uruguay"4 June 47. PRO T236 2446.
[33]Letter from Powell to Eady, 4th June 1947, PRO T236 2446.

Although official negotiations continued and minutes of the discussions are available, the real negotiations occurred outside their formal framework. The Uruguayan Ambassador had rapidly emerged as the leading figure of his team: he was clear, forceful and well informed and presented the case for his country in a reasonable and effective way. On the British side it was clearly perceived that it would be useful to weaken him.

After a meeting of the Delegations, Powell raised the problem in a letter to Eady. "It is a pity that Maceachen, mainly because of his English, should be leading the Uruguayans- by the nose. However, in conversation with some of his colleagues from Uruguay, I detected a distinctly critical note of their self-constituted leader."[34]

As members of the Uruguayan Delegation were unwise in making negative comments about people on their own side, it was natural for the British side to exploit this cleavage and treat some members of the Uruguayan Delegation in a privileged way. Posadas became important. He was taken by Powell and a Treasury official to the country for a day, and gave very useful information on the political cleavages in Uruguay on the various aspects of the negotiation and gave his personal opinion of how to deal with political opposition in Montevideo and gave the impression that in a future trip to Paris he would try to convince a powerful Uruguayan politician. He also showed himself inclined to the minimum income for the Railways, a key point that his Delegation had rejected out of hand.[35]

A good synthesis of how the negotiations developed is given in a letter from Simon, who was to head a Mission to Uruguay, to Vereker, the British Ambassador in Montevideo.

"The opening stages of our discussions were thus very difficult and indeed, after several official meetings with the Uruguayan Mission at which Mac Eachan acted as spokesman, it became evident that no progress would be made in formal negotiations. The whole of the Agreement was therefore worked out, backstage, with Posados,(sic!) in very friendly conversations at meals etc. and the Uruguayan Mission never met us again officially, until the formal signature took place in the Foreign Office with the traditional glass of sherry afterwards.

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[34]Letter from Powell to Eady, 28 May 1947. PRO T236 1727.
[35] Uruguay. Manuscript note dated 8/6.

MacEachan had, of course, to fall in line with the others and to make the best of having been over-ridden."[36]

The Agreement was valid from July 15th 1947, the deadline imposed by the Anglo-American Financial Agreement. It was agreed that sterling would be used for trade and financial transactions between the two countries and Uruguay would get convertibility for sterling obtained through current account transactions (Account N°1). The sterling balances (£17 million) would be blocked in a N°2 Account, with ½% interest, this interest payable in free sterling. Only £1 million was released immediately and a further £700.000 would be released one year after the Agreement came into force. Releases were about 10% of balances A further £1.8 million could be released for the purchase of the Tramways, £120.000 for an Embassy building in London and £130.000 for bursaries. There were strong inducements for Uruguay to buy the railways. If Uruguay bought "British Transport Undertakings", and the British Government approved the price, a further £4 million would be released, but if a part was not used for this purpose it would be blocked. A further £3 million could be used to buy Transport undertakings, and the rest again for purchases of transport companies and repatriation of loans. If there was an agreement with the Transport companies before the end of 1948, a further £1.5 would be released between that date and July 1951. The whole deal was designed to give Uruguay a strong incentive to buy the railways. On an similar formula discussed a few days earlier a Treasury official commented to a Foreign Office official: "I do not think it is at all unfavourable on the face of it, though I do not know if we shall really be able to bring them to buy the railways. The whole shape of the formula is designed to put as large a carrot as possible before them to induce them to do so."[37]

This was a complete British success. First of all, Uruguay did not redeem any part of its debt. Just by discussing the matter, it weakened a most important right, a thing that had not been done neither by Argentina nor Brazil, who were well aware that they had the right to use freely their sterling to buy back their sterling debt. The date of the agreement was in the last possible day (although Britain could have asked the US for a

[36].Letter. Secret. Walter Simon to Vereker, 15 August 1947. PRO T236 1727
[37] Playfair to Shuckburgh, 7 July 1947. BoE OV24/43

postponement for making convertible Uruguayan current account sterling). On that same July 15th Britain signed Convertibility Agreements with three other countries: Iran, Sweden and Ethiopia.[38] Uruguay therefore enjoyed the advantages of convertibility for a very short period, as convertibility was suspended on August 20 1947. It must be noted, however, that Uruguay's surplus with the sterling area was not significant, and that therefore convertibility became less important than for a country like Argentina, with an enormous sterling surplus. On the other hand Uruguay did not get the right to use blocked sterling to pay for a future deficit with the Sterling Area. Argentina had asked and obtained this right in September 1946; it would have proved very useful for Uruguay after the nationalisation of the railways. Releases into convertible sterling were small, much smaller than those envisaged a few months before. This however was mainly due to the dramatic deterioration of Britain's dollar position in the preceding weeks. What seemed affordable in 1946 or early 1947 was out of the question in July. In 1947 the trade balance of Great Britain, instead of improving, deteriorated dramatically; its dollar balance worsened even more.

The position of the Railways was therefore much strengthened: if Uruguay had much sterling blocked which paid almost no interest, it became almost inevitable to spend this almost useless money in buying them. In order to leave no doubts, in a Note exchange accompanying the payments agreement it was stated that the British Government would send a delegation to Uruguay to discuss the purchase of the railways. The sale was now an official aim made public.

It is impossible to understand these and the following negotiations without taking into account Uruguay's attitude towards Britain. One of the main obstacles to the sale of the railways was the widespread wish, in Uruguayan ruling circles, to keep close ties with Britain. "Incidentally, one of the arguments we have repeatedly met with has been the desire of the Uruguayans, for political and economic reasons, to keep this British investment in their country."[39]The speech made by Gallinal, the head of the Mission to London, in the Uruguayan Senate on 2 December 1947, is very explicit. The Uruguayan Government had instructed the Mission "que debia actuar teniendo en cuenta la enorme deuda de gratitud que el mundo libre

[38] R.Clarke, edited by A.Cairncross *Anglo-American Economic Collaboration in War and Peace 1942-1949*, Oxford 1982, p.185.
[39] Simon to Eady, 17 December 1947. PRO T236 1728.

debe a Gran Bretana…(Apoyados)..que debia actuar pensando que algun sacrificio que nuestra economia hiciera para apoyar, en la medida de nuestras débiles fuerzas, a Gran Bretana, era un sacrificio justificado porque representaba devolver, en minima parte, los grandes bienes recibidos durante la épica lucha por las libertades humanas y doblemente justificado porque durante su historia, a partir de los dias de la independencia, el Uruguay no ha tenido amigo mas leal y mas cordial que el pueblo de Gran Bretana, al que lo anudan lazos que queremos mantener para el futuro y no aflojar ni olvidar el las horas de prueba. Llevamos instrucciones que no nos convertian en una mision que va a cobrar una deuda con el criterio estrecho y ciego, del acreedor de estrechas miras…El convenio que hemos suscrito- no soy un financista, y a veces me felicito de no serlo- no creo que sea, fundamentalmente, un convenio financiero hecho de acuerdo con formulas técnicas. Es, esencialmente, un convenio politico entre dos pueblos amigos y por el cual solucionan las dificultades creadas por el caos financiero original al atravesar una de las mas siniestras encrucijadas de la historia, preparandose para reanudar sus relaciones de todo orden en el porvenir."

The dollar situation of the United Kingdom became much more serious than envisaged in 1946 and the whole postwar financial strategy collapsed when convertibility had to be suspended in August 20, 1947. This was a very heavy blow for many countries and destroyed the foundations of many postwar agreements. The American Loan Agreement as well as many others had to be revised. In the case of Uruguay, releases meant now something totally different than before; furthermore, exports to Britain would not get convertible sterling. On the same day that Embassies abroad were informed of the suspension of convertibility, a telegram to the British Embassy in Montevideo stressed the need for the railway sale. "His Majesty's Government hope that the Uruguayan Government will agree that the present situation strengthens the need for the utilisation of Uruguay's accumulated balances in the manner laid down in the Agreement, particularly so far as this concerns the settlement of outstanding railway problems."[40]

There was no advantage whatsoever for Uruguay to ratify the agreement signed a few weeks before. "Although we have every hope that they will do so, you will appreciate that two of the principal attractions for them have

[40] Telegram 130 from Foreign Office to Montevideo, 18 August 1947. PRO T236 2447

ceased to operate i.e. dollar convertibility as mentioned in Article 6 (A) and Article 13 of agreement."[41] Like many other Central Banks, including the Argentine one, the Banco de la Republica suspended quotations for sterling. On September 10th Argentina even announced a ban on shipments to Britain, as exports there seemed useless, although the ban was soon lifted.

A major aim of British financial diplomacy was now to get Uruguay to ratify the agreement, as it meant officially blocking old sterling and discussing the sale of the railways. Once again, when official channels proved inflexible, private conversations with more favourably inclined Uruguayans officials were very useful. In this case also La Gama played an important role, convincing the highest authorities of the advantages of ratifying the agreement. "He was also (Simon told me afterwards) a bit worried about McEachan, but decided during lunch to side-track him and write privately to Silvera Zorzi recommending the resumption of quotations amd early ratification."[42]Also Zorzi had to be side-tracked. "Zorzi is a slippery customer and is not going to renounce a claim to dollars without a struggle. I am not at all sure however that Simon and Powell will want to deal primarily with him: I think they will pin their faith on Posadas….In short our best line is to tell Montevideo to keep out of Zorzi's way until Simon arrives."[43]

After November 20th 1947 there were in Montevideo two different missions: the official Simon Mission, whose aim was to help to make possible the sale of the railways and then there was the mission of the railways themselves, who conducted the actual negotiations. As it was impossible to disentangle the railways from the rest of Anglo-Uruguayan economic relations, the Simon Mission had to deal with many crucial problems, including the guarantee given to Uruguay for its sterling holdings, Uruguayan relations with the rest of the sterling area as well as other commercial questions. And in some occasions when a crisis exploded in the railway negotiations, the Simon Mission proved invaluable. I will follow here only the railway negotiations.

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[41] Telegram 271 from Montevideo to Foreign Office, 17 October 1947. PRO T236 1727

[42] "He" is La Gama, who had been invited to lunch by Simon at his club. Memo by Playfair for Eggers, 9 September 1947. PRO T236 1727

[43] "Uruguay", Memorandum by Eggers, 12 November 1947. PRO T236 2447

Their first task was to get the Agreement ratified. In order to obtain approval in Congress the Minister of Finance advised not to mention the railways.[44]. "Minister stated that the attitude of the Chambers towards the purchase of the railways was unfavourable at the moment."

If the Chambers were to feel that by ratifying the agreement they were automatically committed in advance to the purchase of the railways they might well refuse ratification. Minister therefore advises most strongly against any discussion or reference to the sale of the railways until agreement has been actually ratified."[45] Posadas later claimed to have been important in changing the attitude of the Uruguayan Government towards ratification. "Posadas has told me that, when the convertibility bombshell fell in August, the President and leading Ministers became opposed to the ratification of the Payments Agreement, but that when he (Posads) arrived back from Paris he was able to persuade them to go on with it."[46] The death of Berreta had also introduced a different climate that could affect the sale of the railways. While Berreta wanted to govern alone, his successor wanted an agreement with the Herrerista Party. "The Herreristas, who had been violently opposing the purchase of the Tramway Co., have now been won over by promises of Directorships of the 'Ente Autonomo' which will control a co-ordinated Montevideo traffic system….Some such inducements may ultimately be offered in the event that the Railways are purchased, whereas an outright Herrerista opposition might well have made the not too popular purchase proposal quite unacceptable." (Harris to Simon, 27 September 1947,cit).

The Senate ratified the Agreement on December 2nd 1947; in the other Chamber our old friend Cuadros was present. "The Ratification Bill has now to go to the Chamber of Deputies where Quadros (sic), as President of the Foreign Affairs Committee, told me he would be the rapporteur. He said passage was assured and would be effected in the next fortnight."[47] The Chamber of Deputies approved the Agreement on December 17th 1947.

At the beginning the Simon Mission stood aside "available for consultation at any time by either side and ready to intervene if any deadlock arose. It took some time to get the negotiations direct with the Railways Directors

[44] Letter from Harris, British Embassy Montevideo to Simon, 27 September 1947. PRO T236 1727

[45] Telegram ftom Montevideo 25 September 1947 Remac 5. PRO T236 1727

[46] Letter from Simon in Montevideo to Eady 26 November 1947.PRO T236 1727

[47] Letter from Simon to Eady, 3 December 1947. PRO T236 1727

started, especially as before we arrived there was a strong feeling adverse to purchase at all. On two occasions contact was lost and we had to intervene in order to get things going again."

Because of its position, the Simon Mission did not get involved in actual bargaining when the Uruguayans finally decided to buy the railways. The first figures the Simon Mission actually discussed was when Fabini, a member of the Uruguayan Delegation, told them that the evaluations of experts ranged from £2 million to £5,7 million, and that Fabini would do his best to get an agreement for an offer of £5.7 million, "but still had political difficulties. 3. Without involving ourselves in bargaining at this stage we implied clearly that the figure was disappointing and that we had been thinking on a considerably higher plane. 4. If he succeeds in getting his commission to offer 5.7 million to the railway delegation there is a chance of screwing him up to 6.5 million."[48] A very interesting fact is that the Simon Mission did not inform the railway delegation of this crucial offer. In part this may have been because personal relations had become difficult, in part because Simon and Powell were very clear that they had been consulted as representatives of the British Government and not of the railways. In those same days there were frantic negotiations concerning whether to bilateralise trade between Uruguay and Great Britain and other questions of similar importance; probably the attitude of the railway delegation was creating strains with the Uruguayan Government."6.We have not (repeat not) told the railways of this conversation which was secret and personal to us as Government representatives." (idem) On February 12th, 1948, the Andes Agreement was signed between Argentina and Great Britain, which among other things, concluded the sale of the British railways in Argentina for £150 million.

In Montevideo, meanwhile, very important questions were being settled: on February 18th Simon and Zorzi agreed in Montevideo that Uruguay would not remain any longer in the transferable sterling area[49]. At the same time, a potentially explosive issue arose: the price paid by Britain for Uruguayan meat. The Minister for Foreign Affairs demanded that Uruguay be paid the same price obtained by Argentina. What was especially worrying were the possible implications for the railway sale. "It is

[48] Telegram 23 from Montevideo to Foreign Office, from Simon Mission personal for Eady, 27 January 1948. PRO T236 1728.
[49] Telegram 35 from Montevideo to Foreign Office, 18th February 1948. PRO T236 1728.

particularly embarrassing that the Minister for Foreign Affairs has raised this question especially in such a vehement manner as he was until he became Minister a member of the railway negotiating commission and will be concerned with cabinet approval of the sale contract which we hope is now approaching conclusion. A blank refusal or temporising reply might well upset the railway deal and also affect commercial relations."”[50]Although genuine friendship towards Britain was widespread in Uruguay the question of meat remained potentially very dangerous because it touched directly the interests of important social groups. It may be worth mentioning that when Eady had visited Montevideo in 1946, while Miranda the Argentine negotiator was bargaining very hard, the Minister of Agriculture was opposed to the Argentine tactics. “At dinner last night the Minister expressed himself freely to me about the madness of the Argentine policy in pushing up the price of all their products."”[51]Eady had in those days been extremely outspoken when Gigovre, the Acting President of the Banco de la Republica, had expressed his unease at the rapid growth of sterling balances. “From the financial angle, therefore, we said the only way of working down the balance, at an early date, was by means of purchase by the Uruguayans of British-owned public utilities such as the water-works (already before Congress), the Railways and trams.”(Note by Eady, 3 September 1946, cit.). These aims had not changed in the following year and a half.

Three days later the sale of the railways was agreed. “The Railway directors, flushed with triumph, reported to us at 3 o’clock on the 21st February the result of their morning meeting with the subcommittee of the Uruguayan Commission. They said that they had obtained a final offer from the Uruguayans of £7.2 million which they had accepted, subject to certain adjustments of assets and liabilities as at 30th June 1947 and to our agreement.”[52]

In earlier negotiations the railways had asked for £10.7 million to which the Uruguayans had proposed little more than £5,7 million, basing themselves on the stock market prices. The offer was subsequently

[50] Telegram 36 from Montevideo to Foreign Office, 18 February 1948. PRO T236 1728
[51] Note by Eady, 3 September 1946, on his conversations in Montevideo on the 2nd and 3rd of September 1946. PRO T236 2445
[52]The Railways: Uruguay ”, 4 page report 23rd February 1948, seems written by Simon in third person; the following paragraphs are based on this report. PRO T236 1728.

increased to £6.2 and £6.5 million, while the railways counterproposed £7.5 million. The Uruguayan side then offered £6.9 million less some railway liabilities which they believed were £400.000, that is, apparently remained at £6.5 million. These liabilities were however only £50.000 so that the offer was for £6.850.000. On the last day the railways came down to £7.25 million and finally accepted a counteroffer of £7.2 million "subject only to adjustment of the liability question and to our approval." On receiving these news, Simon congratulated Hammond and the directors "adding that it might be of some satisfaction to them to know that the figure they had accepted was, in our opinion and from such experience as we had gained in discussions with members of the Government and others, the highest possible in all the circumstances." Then an extraordinary thing happened. Hammond exploded with accusations that the Treasury and the Simon Mission had been unhelpful.

"4. Simon's remarks were immediately followed by a violent outburst by Hammond against the Mission and His Majesty's Treasury which he prefaced with the remark that he had bottled it up during his whole stay in Montevideo. It was poisonous in the extreme. He alleged that we had wilfully withheld information, that we had deliberately given them depressing news, that far from helping we had proved a handicap, that Sir Wilfrid Eady had told them they would be lucky if they got £6 million. (It has been privately alleged by Grindley, though this was not mentioned at the meeting, that Sir Wilfrid Eady had told Posadas in London that Uruguay could get the Railways for a figure which he understood was about £6 million.)"

From the beginning of their Mission Simon and Powell had been worried about possible accusations from the railways. It was in the national interest to convince Uruguay to use its sterling balances to buy the railways; this prevented their use to redeem debt, which was a much better asset and also solved a part of the problem of British indebtedness to Uruguay. The higher the price paid by Uruguay, the better, especially for the British balance of payments in a very critical moment. But it was against the national interest for the railways destroying the deal by asking an unrealistic price. This was further complicated by the fact that the railways expectations were greatly increased by the diplomatic support they were getting. This placed the Simon Mission in a difficult position "from the first we realised that there was a danger that His Majesty's Government and we might be accused of "grinding the railways down"." It was also because of this that Simon and

Powell did not want to get directly involved in the negotiations, providing only support and making it possible for talks to continue when they had broken down, which happened in two occasions.

"Our job was therefore to inflate the Uruguayans by attempting to raise a willingness to purchase at a fair price by saying that His Majesty's Government would not be satisfied with a poor deal and by implication, linking this with the balance available on blocked account (say some £8 million), some of which the Uruguayans wished to retain for debt redemption. At the same time we had to the best of our ability to keep the Railway directors from thinking in the clouds on the strength of His Majesty's Government's support." In the last stages of the negotiations, the Railway directors asked "full support" from Simon and Powell when the remaining difference was between the £7.5 million asked and the £7.2 million offered. Although the railways were invited to continued to aim for the higher figure Simon and Powell refused to be committed to a specific figure as a "breaking" figure, and expressed doubts whether the railways could get £7.5 million even with full diplomatic support.

As we have seen, only one important piece of information was withheld from Simon to the railway delegation: the figures mentioned by Fabini under pledge of secrecy, but these figures were given to the railways soon afterwards, during the negotiations, by the Uruguayans themselves. But, as we have already seen, the railways had excellent information from the Uruguayan side, and presumable knew everything that was said during the negotiations between the two Governments, including some hints made by the British who would have preferred to have them kept secret from the railways. We have seen that the Railway directors could refer to a conversation between Eady and Posadas, a clear proof that there were important leakages. Paradoxically enough, sometimes one has the impression that the leakages to the Railways were more frequent from the Uruguayan than from the British side. And the Railway delegation was, perhaps because of this, very suspicious of the Simon delegation; the personal relations between the two British delegations were often difficult and sometimes unpleasant. ("Although we had little from Hammond during the voyage out and subsequently, except unpleasantness,…"). The railways' suspicions of the attitude of the British Government were so strong that they sometimes openly refused to inform Simon of how the negotiations were proceeding; strangely enough they also completely misunderstood the

Payments Agreement between the two countries, that had been the key instrument in forcing Uruguay to buy the railways.

"It should perhaps be added that there has always been an ineradicable misunderstanding in the minds of the Railway directors about the relationship of the Payments Agreement to the Railway problem. At one stage in the proceedings, they explained their unwillingness to give us information about the bids made by the Commission by saying that "they feared that we should report it to London and that, if they secured too high a figure, we should beat them down". Explain as we might that the Payments Agreement neither bound them to a minimum or a maximum figure but was merely the instrument which gave them the chance they had been seeking, the atmosphere of suspicion persisted and they continued to regard the Payments Agreement as a kind of trap."

On the 23rd of February the railway directors visited the British Ambassador. They felt that Fabini and the Uruguayan Commission "had gone to the limit of their authority" with their high offer, but when asked whether the Ambassador could help, for example by a visit to the President, they asked him to try to get £8 million. The Ambassador consulted Simon and Powell, who pointed out that the deal had been already agreed (subject to the question of the liabilities) and that on the 21st the Railway directors had told them that it was useless to try to get more than £7.2 million. "As regards this latest proposal, there were risks of upsetting the deal by going over the heads of the Commission which is essentially political and an all party body." Simon and Powell clearly felt it was dangerous to try to reopen the negotiations but given the previous problems with the Railway directors, did not want to seem enemies of the railways. They therefore told the Ambassador that as their object was to get as much as possible, if he thought that his intervention could be useful, they would welcome it. In a further meeting with both the Railway delegation and the Simon Mission, the Ambassador, having heard from Hammond that Fabini had gone to the limit of his authority and had consulted the President twice and also that the directors had already accepted the Uruguayan offer, decided that it was unlikely that his intervention would get results. He feared that the deal could collapse or even get mixed up in the meat negotiations. He therefore decided not to intervene, as the sum offered by Uruguay was "a fair bargain".[53]

[53] For the meetings of February 23 1948 see The Railways, Secret. Memorandum by Simon, 23 February 1948. PRO T236 1728

After long negotiations it was agreed that, because of the railway liabilities, £50.000 had to be deducted from the £7.2 million, making the final sum £7.150.000. Simon and Powell tried to obtain £7.2 million but on midnight of February 27th "the Directors asked us (since confirmed in writing) to desist from further efforts as they feared that this might upset the deal owing to political rifts that had set in."[54] The danger of a collapse of the sale for a moment seemed very real. "Both Simon and I were disappointed that at least the full £7.2 million was not obtained but, in the light of the Directors' last minute fears (bordering on panic) we felt we could not stand out any longer."[55]

The result, from the British point of view, was very satisfactory and much higher than what was expected one year earlier when Dalton had authorised negotiations with a significantly lower objective. "As for the Railways, you will agree that the figure is better than expected and much better than the £5 ½ million on which the late Chancellor authorised the Payments Agreement negotiations (your Minute of March 21st, 1947 to the Chancellor), an appreciably larger sum back from this unremunerative foreign investment than was anticipated."[56]

The key for this success was in the earlier financial negotiations, which had ended in a result that made the sale of the railways almost inevitable. This was stressed by Eady when the negotiations had been successfully concluded. "If it had not been for the way we handled the Uruguayans last summer there would have been no discussions about the sale of the railways and if it had not been for Walter's skill in getting Posadas on our side this price would not have been achieved….One thing is quite certain- that this price would not have been obtained had you and Walter not used your skill to pack away the blocked sterling last summer in such a manner that it could come out for the railway deal."[57]

I hope that, at this stage, the reader will agree that this was a vital fact that explains much of what happened.

I have stressed here the financial aspects of the negotiations, both because of their importance and because of their complexity. I have carefully

[54] Telegram 44 from Montevideo to Foreign Office, from Simon Mission to Eady, 28 February 1948. PRO T236 1728
[55]Powell to Eady, 16 March 1948. PRO T236 1728
[56] Secret letter from Simon to Eady, 25th February, 1948. PRO T236 1728
[57] Powell to Eady, 16 March 1948. PRO T236 1728

refrained from entering into wider aspects, such as the relationships that may exist between the sale of the railways and the economic development of Uruguay. I think, however, that it may be useful to indicate one aspect of these wider questions: it refers to British exports.

Given the enormous demands of the home market, where Labour was carrying out very deep social changes, and the problems of the balance of payments, Great Britain had to choose very carefully where to send her scarce exports of essential goods. The harder the currency of a country, the higher was the priority on the export list. If a country had been willing to accumulate passively sterling balances it would have been useless to export to her steel and coal, which could be sent to more demanding countries. Britain could also not afford to send goods to countries who lacked dollars and with whom she had a surplus, as it would have meant accumulating useless inconvertible credits. The ideal was to have a surplus with a country that paid with dollars and a deficit with a country that accepted to accumulate sterling.

Trade agreements in the early postwar period very often specified essential commodities to be exchanged: in the Andes Agreement, for example, both meat and coal were clearly indicated. Uruguay, by being too accomodating, sacrificed the opportunity to get more scarce goods which would have helped her economic development. This does not mean that the sterling used to buy the railways could have been used to buy capital goods; it means however that by spending all her sterling and not buying back her debt, Uruguay soon found herself in difficulties.

After the collapse of convertibility in August 1947, British officials looked with great care at the prospective balance of payments with different countries. As early as November 1947 they were aware that Uruguay could be short of sterling in 1948. The implication of this was that it was unnecessary to send to Uruguay scarce goods, although it was unwise to do so in a blatant way. “ONC will want to consider export policy to Uruguay. Instinct prompts me against any kind of violent shut-down, though plainly it isn’t a destination for our scarcest goods.”[58] Uruguay was not aware of this, and granted very generous and flexible import permits, accepting luxury goods like whisky and not demanding explicitly scarce goods. Zorzi saw the

[58] “Uruguay”, note by Playfair for Eggers, 22/11/1947. ONC stands for Overseas Negotiating Committee. PRO T236 1727

end of sterling convertibility as a return to the trading patterns of the thirties. "Zorzi admitted quite frankly that Uruguay was forced to turn to the bilateral trading arrangements made before the war when she was short of foreign currency…"[59] ; he also promised to keep trade balanced and therefore to be generous with imports from the Sterling Area.[60]

This was a serious misreading of the situation, and even in January 1948 Zorzi was worried about accumulating too much sterling.[61]

Even when goods were available, Uruguay's friendly behaviour was not rewarded. In March 1948, with the end of the British winter, coal was finally available for export and the British Embassy in Montevideo was informed that the National Coal Board was willing to sell to Uruguay 200.000 tons. The reply was discouraging: "I consider present moment inopportune to inform Uruguayans about coal since there is no present equivalent concession which we can at the moment hope to extract. Opportunity may however occur later."[62] But at this stage it was in the interest of the National Coal Board to sell and the offer was made anyway.[63]

By April 1948 Uruguay had exhausted her sterling, it had still its old sterling debt to service and had to pay £4 million for goods already ordered but that still had not arrived. The Banco de la Republica was forced to ask to the Bank of England for a temporary loan of £2 million.[64]

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[59] Letter from the British Embassy , Montevideo Hams? To Davies, Export Promotion Department, 9 September 1947. PRO T236 2447.

[60] Telegram 254 from Montevideo to Foreign Office, 9 September 1947. PRO T236 2447

[61] Telegram 3 from Montevideo to Foreign Office, 4 January 1948. BoE OV24/27

[62]Telegram 52 from Vereker, 5 March 1948. PRO T236 1728

[63]Telegram from the Board of Trade to Montevideo N.4 Askew, 20 March 1948. PRO T236 1728

[64] Messages from the Banco de la Republica of April 6 and April 7 1948. BoE OV24/27

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