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TITLE: Railway investment in Uruguay before 1914: profitability, subsidies, and economic impact

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**Abstract:** Railways were an important factor in the expansion of Latin American economies in the late-nineteenth century. Due to their potential impact, governments often promoted railway construction through subsidies. The Uruguayan state offered profit guarantees to foreign railway companies and was able to attract massive investment in the railway sector. This paper asks the question of whether these railway guarantees were efficient, and estimates subsidized and unsubsidized private returns, as well as the social returns, of the Uruguayan railway network from 1869 to 1913. The results show that subsidies more than doubled profitability, but did not compensate the opportunity cost of capital. Social returns were low relative to railways in other regions, and benefits created by new investment in each year did not justify subsidies. However, average social returns were higher than the likely returns for alternative investments and the distribution of these returns was not unfavorable to the consumers of railway services.

REFERENCE: European Review of Economic History (2017) [LINK]