

The Decline of South America's First Welfare State: Uruguay's Economic Problems in Historical Perspective

1. Introduction

Uruguay has long been considered as one of the most democratic nations in Latin American. The average level of literacy among its people is high, and social security and labor laws are among the most comprehensive in the world. Indeed, as George Pendle suggested in the title of his book,¹ Uruguay became South America's first welfare state. The perception that this Latin American welfare state is no longer viable is increasingly being shared by observers in Uruguay and abroad.² Recent United Nations figures indicate that per capital Gross National Product fell by an average annual rate of over one percent between 1955 and 1967.³ A protracted decline in per capita real income, as reflected in these statistics, is likely to prove to be unacceptable to that nation's citizenry and portends grave repercussions in the political system. Increasingly, interest groups are pitted, one against the other, in the attempt to capture a larger share of

¹ PENDLE, GEORGE. *Uruguay, South America's First Welfare State*. London, Royal Institute of International Affairs, 1952.

² See HERMAN E. DALY's suggestive article, The Uruguayan Economy: Its Basic Nature and Current Problems. *Journal of Inter-American Studies*, vol. VII, n.º 3, Jul. 1965.

³ See *Alliance for Progress Newsletter*, vol. IV, n.º 11, March 14, 1966 and vol. VI, n.º 4, Jan. 22, 1968. And U. S. Department of State Bureau of Inter-American Affairs, *Seven Years of the Alliance for Progress*, Apr. 1968, p. 54.

a constant national product. Uruguay, as one writer observed, has become the land of the "permanent strike".

Modern Uruguay's political economy was decisively shaped by José Batlle y Ordóñez who was twice called to the presidency (1903/1907 and 1911/1915). Even after his presidential terms he maintained a commanding influence over his *Colorado* party and dominated the nation's political scene until his death in 1929. In the course of three decades, he was instrumental in establishing a Social-Democratic regime in Uruguay with heavy emphasis on social welfare and government intervention in the economy. Batlle used the state as a means to redistribute national income and to emancipate Uruguay from domination by foreign investment through nationalization of public utilities.

The battlist formula – grafting a welfare state into a semi-developed pastoral-economy – laid the groundwork for several decades of political tranquility and social progress. It is our contention that the formula, as interpreted by Batlle's political heirs, has proven to be abortive of Uruguay's long-run economic development and, possibly, political stability as well. Philip Taylor, in his insightful monograph, wrote:

Subtly, but again for understandable reasons, the goal changed. The State tended to become an end in itself, with its multitude of semi-employed officials. Where Batlle has considered the State's role in economic planning as central, but modestly confined to its areas of competence, the new leaders considered it qualified to manage virtually everything without forethought or system.⁴

My purpose is to inquire into the causes that have contributed to Uruguay's postwar economic problems. We look at the significant policy choices and their consequences. We ask the question: after such an auspicious beginning (from the 1860's to 1929), which propelled Uruguay to the top of Latin America's development ladder, how do we account for the fact of national economic decay?

2. Dimensions of the Economic Crisis

Significantly, the fall in per capita income has been so notable that Uruguay requested and received, as a temporary measure, the status of *less developed country* within the frame work of the Latin American

⁴ *Government and Politics in Uruguay*, New Orleans, Tulane University, 1960, p. 156, [Tulane Studies in Political Science, vol. VII]

Free Trade Association (LAFTA). Stagnation in the nation's total output between 1957 and 1967 has resulted in a sharp rise in the level of unemployment, estimated at 13 percent of the labor force. At the same time the ratio of *disguised unemployment* has undoubtedly increased as the public sector (comprising almost 40 percent of the labor force) has assumed the role of employer of last resort. Hundreds of skilled workers and scientists have been leaving crisis-ridden Uruguay each year. Conservative estimates are that the number of trained persons who leave this country to settle abroad has grown to about 2.000 per year.

Another dimension of the economic crisis is suggested by the accelerating rate of inflation. Prices, which rose by an average of 45 percent a year from 1961 to 1966, soared to over 130 percent in 1967.

By the middle sixties, Uruguay's external public debt became unsustainable, forcing official rescheduling of debt service vis-a-vis foreign creditors. Foreign reserves of the Bank of the Republic declined from a high of 305 million in 1953 to a net negative position of \$88 million at the end of 1967.

In the fall of 1967 recently-deceased President Oscar Gestido introduced powerful economic austerity measures in an effort to rescue the nation from what he termed an "extremely grave" crisis.⁵ The new policy directives, which have been continued by Gestido's successor, President Jorge Pacheco Areco, have resulted in a series of paralyzing general strikes, work stoppage and violent demonstrations which have unfolded with mounting intensity. The Government, while attempting to cut the huge budgetary deficits and bring Uruguay's external payments into balance, is on a collision course with the 400,000 – members National Workers Convention (CNT) whose officials are demanding substantial wage increases and additional welfare benefits. The Government has responded by suspending constitutional guarantees, applying a measure of censorship over the press, and by expanding Uruguay's armed forces.⁶ The nation's political and economic difficulties have been exacerbated by the machinations of the small (10,000 members) but deeply entrenched Communist Party. Numbering fewer than three percent of union members, they nevertheless spearhead the labor movement and wield influence out of all proportion to their numbers.⁷

⁵ *The Times of the Americas*, Nov. 1964, p. 4.

⁶ *The Times of the Americas*, Jun. 26, 1968, p. 2, and Jul. 16, 1969, p. 3.

⁷ *Latin American Digest*, vol. 2, n.º 1, Sept. 1967, p. 7.

3. The Standard of Living

Notwithstanding a decline in real per capita income of 14 percent since 1955, the Uruguayan people in the mid-sixties enjoyed a standard of living roughly on par with Argentina's.⁸ The nation's population was 91 percent literate and 66 percent urban, with about one-half of the people living in a single metropolitan center — the city of Montevideo and its suburbs. Among Latin American nations, Uruguay ranked first in the number of radios and newspaper circulation per 1,000 inhabitants and in hospital beds per 100,000 persons; second in average daily caloric intake, in the number of physicians per 10,000 inhabitants, and in per capita cement consumption. Life expectancy, the highest in Latin American, average 69 years, and Uruguay's infant mortality rate (42 per 1000 live births) was the lowest in the area. Of the twenty Latin American nations, Uruguay's real income per capita of \$560 in 1965 ranked third, with Venezuela (\$835) and Argentina (\$645) holding first and second place, respectively. Available information on income distribution indicates that Uruguay's position was much closer to some of the industrialized nations of Western Europe than to most of the less-developed countries.⁹

Uruguay's relatively high standard of living rests on a generally favorable endowment of productive factors. The nation's agricultural land of 16 acres per capita is the second highest ratio in Latin America and the third highest in the world. Virtually the entire land mass of the country (89 percent) is topographically and climatically suitable for pastoral or crop production. Of the 41 million acres of arable land, 86 percent is devoted to extensive ranching, 10 percent to farm crops, and the remaining 4 percent to forests. Well distributed natural waterways are suited to irrigation, transportation, and hydroelectric power. The country has 775 miles of navigable waterways and several excellent ports on the Uruguay river.

In contrast to such sister nations as Peru and Ecuador, Uruguay is not faced with the problems of assimilating an indigenous population into her national life. An unusually high proportion (64 percent) of the population in the productive age bracket (15-64 years) places Uruguay in a very favorable position in comparison with the other Latin American

⁸ See OAS. *América en Cifras 1965*. Pan American Union, Washington D.C., 1967 and U.S. Dept. of Commerce. *Market Indicators for Latin America*. OBR 67/74, Nov. 1967.

⁹ OAS. Panel of Experts, Inter-American Committee on the Alliance for Progress. *Evaluation of the National Economic and Social Development Plan of the Republic of Uruguay, 1965/1974*. Vol. I, Pan American Union, Washington, D.C., 1967.

countries. The nation's working population of more than one million persons has achieved a level of literacy matched only by Argentina among Latin American nations. Finally Uruguay's slow demographic growth rate (1.3 percent annually in recent years) contrasts markedly with the *population explosions* taking place in the majority of Latin American nations.

4. Anatomy of an Export Economy, 1860's — 1929

The formative stage of Uruguay's modern economic development rested on the rapid accumulation and efficient combination of the factors of production. Uruguay offered the natural resource base and some unskilled labor; the rest of the world supplied much of the capital, technical capacity, and entrepreneurship.

The expansion of Uruguay's economy in its initial phase was intimately linked with the international economic hegemony of the United Kingdom. Uruguay, an agricultural-pastoral economy, was sparsely settled, little industrialized and capital-poor while disposing of abundant land suitable for grazing. The United Kingdom, in contrast, was heavily settled, the most industrialized nation in the world and deficient in domestic production of food and agricultural raw materials while rich in capital resources and in technology. This complementary relationship was to shape the direction and rhythm of Uruguay's economic development from the 1860's to 1914. Uruguay, together with other *lands of recent settlement*, benefited from a massive inflow of British capital during the half century preceding the First World War. By 1914 British capital in Uruguay had accumulated to a sum of \$244 million, a little over one-third representing outstanding sterling bonds and the remainder in direct business investments (see table 1). Between 1864 and 1914 British capital and enterprise created 80 percent of Uruguay's 1,800 mile fan-shaped railway network and the urban infrastructure of the city of Montevideo: The streetcars, telephone system, and gas and water service.¹⁰ British capital also established Uruguay's first major meatpacking plant at Fray Bentos in 1864 and assumed prominence in the nation's banking, shipping, and commercial establishments.

As was true of Argentina, the Uruguayan livestock industry was "radically changed during the latter part of the nineteenth century by

¹⁰ U.N. Department of Economic and Social Affairs. *Foreign Capital in Latin America*. New York, 1955, p. 139-158.

the introduction of barbed wire to fence in the ranges, by the development of refrigerated ships to carry chilled and frozen meats to European markets, and by the improvement of livestock quality, thanks to the importation of European breeding stock".¹¹

Between the establishment of the British meatpacking plant in 1864 and 1908 there was a rapid increase in Uruguay's livestock population, particularly of sheep. As table 2 indicates, only minor variations in livestock numbers have occurred since 1908.

At the beginning of the First World War, foreign capital outstanding in Uruguay (table 1) had reached a sum of nearly one-half billion dollars — a massive accumulation for a nation with only a little over one million inhabitants. Indeed, Uruguay's ratio of foreign capital per head of population in 1914 was the highest in Latin America. About one-half of this accumulated capital had its origin in the United Kingdom. Much of the remainder listed in the category of *others*, appears to represent holdings of recent immigrants who had not yet acquired permanent resident or citizenship status in Uruguay. About one-fourth of the foreign stake in Uruguay consisted of the nation's external public debt (including an obligation of \$30 million to French bond holders) and the remainder was directly held.

The achievement of political stability and vigorous economic growth during the latter part of the 19th century induced a substantial immigration from abroad. European immigrants, principally from Italy and Spain, came to Uruguay in large numbers at the end of the nineteenth and beginning of the twentieth centuries. The migratory tide contributed to the rapid 3 percent annual demographic expansion between 1860 and 1908, so that in the latter year nearly a fifth of Uruguay's total population consisted of foreign born.¹² The immigrants contributed new skills of many kinds disproportionate to their numbers. Slightly more than half of the nation's population in 1912 was literate, an achievement that only Argentina could match in Latin America.¹³

¹¹ Uruguay. *Focus*. American Geographical Society, vol. VII, n.º 8, Apr. 1957, p. 2.

¹² SOCIAL PROGRESS TRUST FUND. *Fifth Annual Report, 1965*. Inter-American Development Bank Washington, D.C., 1966, p. 548.

¹³ ENOCK, C. Reginald. *The Republics of Central and South America*. New York, Charles Scribners' Sons, 1918, p. 176.

TABLE 1
Foreign Capital Outstanding in Uruguay, 1914
(Millions of U.S. dollars)

	Direct investment	External public debt	Total Capital
United Kingdom	154	[90]	244
France	—	30	30
Others	201	—	201
Total	355	120	475

Source: U. N., Economic Commission for Latin America. *External Financing in Latin America*. New York, 1965, p. 16-17, tables 16 and 17.

TABLE 2
Uruguay's Livestock Population for Selected Years
(In millions of heads)

	1864	1908	1937	1959	1966
Cattle	3.5	8.3	8.3	7.6	8.1
Sheep	2	26.3	19.6	21.3	22.8

Sources: For 1864, Uruguay. *Focus*. American Geographical Society, vol. VII, n.º 8, Apr. 1957, p. 2. For 1908, U. S. Department of Commerce. *Basic Data on the Economy of Uruguay*. World Trade Information Service, part 1, n.º 60-34, p. 5, table 1. For 1937 and 1959, F.A.O. and U.N. *Livestock in Latin America*. New York, 1962, p. 51. The preliminary results of the 1966 census were cited in Social Progress Trust Fund. *Seventh Annual Report, 1967*. Inter-American Development Bank, Washington, D.C., 1968, p. 293.

We may infer from the rapid buildup of livestock herds, the extension of the railway network, the creation of a modern urban infrastructure and the accumulation of external debt that the rate of capital formation during the five decades preceding the First World War was very high indeed. The pattern of investment both supported and responded to Uruguay's export-oriented economy. The nation's trade logically favored the United Kingdom, both as market for her pastoral products and as source of consumer goods and capital equipment. Uruguay's foreign trade more than doubled during the 1904/1913 decade and, in the latter year, the value of her foreign commerce per inhabitant reached £21 sterling, only slightly less than Argentina's.¹⁴

¹⁴ ENOCK, *Op.cit.*, p. 181.

In the time span between the outbreak of World War I and the Great Depression foreign capital continued to flow to Uruguay, but with a radical change in country origins. The United States emerged at the end of hostilities as an international creditor nation, reflecting a major shift in the world economic balance in its favor. Uruguay continued to draw on foreign capital by floating dollar bonds in New York City and by attracting U.S. direct investments. The U.S. stake in Uruguay increased rapidly, from only \$5 million in 1913 to \$64 million in 1929, while in the same period British holdings began their protracted decline.

United States investors assumed a major position in Uruguay's packing-house industry with the establishment of two modern plants during World War I. In the 1920's subsidiaries and branches of large U.S. enterprises in Uruguay also engaged in the assembly of motor vehicles and the production of office equipment, sewing machines and agricultural equipment.¹⁵ Petroleum distribution and banking were also favored by U.S. direct investments, as were a number of public utilities formerly controlled by British capital.

In organization and structure, Uruguay between the 1860's and 1929 typified what economists have come to call an "export economy". Such an economy exhibits the following properties: a high ratio of export production to total output in the cash sector of the economy; a concentrated export structure; substantial inflow of long-term capital, including the presence of foreign-owned enterprises; and a high marginal propensity to import.¹⁶ Commonly, in such an economy a large fraction of government revenue is derived from customs receipts. The export sector constitutes the dynamic, autonomous variable which powers the nation's development; it is also the short-run disturber. The sheer weight of exports in relation to total economic activity dictates that the external market rather than private investment or government expenditure exercise predominant influence on aggregate demand. Because of its specialized structure, the export economy is heavily dependent on foreign sources for many kinds of consumer and capital goods.

5. Policy Options: Livestock Development or Import-Substitution

With most of the agricultural land ideal for ranch farming, Uruguay has traditionally maintained a comparative advantage in the production

¹⁵ *Foreign Capital in Latin America. Loc.cit.*

¹⁶ MEIER, Gerald M. *International Trade and Development*, New York and Evanston, Harper & Row, 1963, p. 5-6.

os livestock products — chiefly meat and wool — which have contributed between two-thirds and four-fifths of the nation's export revenue.¹⁷ Significantly, neither José Batlle y Ordóñez nor his subsequent *Colorado* followers in the presidency took much interest in promoting Uruguay's pastoral sector. The *Colorado* Party, which was heavily urban-based, found it expedient to discriminate against the *Blanco dominated* interior provinces.¹⁸ At a crucial stage in Uruguay's livestock development, requiring a shift from extensive to intensive land use and the infusion of new methods and technology, the State assigned no priority to the provision of technical assistance to this key sector in the form of research, experimentation, and extension services. The neglect of agriculture has also been reflected in the composition of Uruguay's university enrollment. For example, less than 5 percent of the nation's university students in 1963 were specializing in agronomy and veterinary science, while one-third were enrolled in law.¹⁹

The economic and political consequences of the Great Depression generated a vigorous debate in Uruguay, and in Latin America generally, concerning the proper policies for economic recovery and development. The perceptive Uruguayan economist, Julio Martínez Lamas (1872/1939), leading exponent of neo-classical economics in his country, argued strongly against the proposition that Uruguay should forsake its traditional export orientation in favor of industrialization.²⁰ A policy of forced industrialization, he contended, would damage Uruguay's most efficient sector and source of foreign exchange. For Martínez Lamas the import — substitution doctrine (which has received its most elegant articulation in the publications of the Economic Commission for Latin America) was irrelevant to Uruguay's economic organization and structure.

The sharply differing policy prescriptions cited above found expression in the diverging *development paths* chosen by Uruguay and New Zealand after World War II. In the latter thirties Uruguay and New Zealand achieved roughly identical stages of economic development. Pastoral-agricultural activities dominated the economy. The size of their population, their land-man ratios, the quantity of capital stock per head

¹⁷ ECLA and FAO. *Livestock in Latin America*, 1, New York, United Nations, 1962, p. 49-66.

¹⁸ WHITAKER, Arthur P. & JORDAN, David C. *Nationalism in Contemporary Latin America*. New York, the Free Press, 1966, p. 126.

¹⁹ SOCIAL PROGRESS TRUST FUND. *Fifth Annual Report, 1965*. Inter-American Development Bank, Washington, D.C. 1966, p. 555.

²⁰ See *Riqueza y Pobreza del Uruguay*. Montevideo. Tipografía Atlántida, 1946.

of population,²¹ the pattern of exports and imports – all these were roughly similar. From this we may infer that per capita income between the two nations, while somewhat higher in New Zealand, did not vary significantly. New Zealand, as Uruguay, had relied on massive British investments to finance her railway system and urban infrastructure. In both countries, in the thirties, agricultural and pastoral production was on the extensive margin. C. P. McMeekan, a New Zealand economist and staff member of the World Bank, writes of his country's agricultural underdevelopment of 30 years ago:

“... the problems that then faced New Zealand in the development of a modern agriculture were little different in principle and nature from those facing most of the newly emerging nations today. There was no organized agricultural research. The use of the land was based upon rule of thumb-experience, upon tradition, upon trial and error”.²²

With the close of the Second World War and the opening of world shipping routes for trade, New Zealand and Uruguay faced much the same decisions concerning future patterns of resource allocation, including the role of international trade in the process of economic development. The New Zealanders set to work in applying to the domestic economy the fruits of basic agricultural research developed abroad. Agricultural scientists and agricultural economists worked as a team on high priority projects promising quick economic payoff. The results proved to be spectacular:

“In the last 15 years, during which the sheep population of her two foremost competitors in South America remained static, that of New Zealand doubled to over 50 million head. Today New Zealand is the world's largest exporter of dairy produce mutton, and second largest supplier of wool to world markets. Its people enjoy a standard of living comparable to that of the most advanced countries”.²³

New Zealand's total world trade per capita at present is one of the highest among nations. Her principal industries have continued to be

²¹ According to the eminent economist, COLIN CLARK, Argentina and Uruguay, taken together, had the sixth highest per capita supply of capital in the world in the period 1935/38, and fell just below Canada and above Switzerland in an array of countries ranked by capital supply per capita. Other countries above Argentina-Uruguay were the U.S., Australia, New Zealand, and Great Britain, in ascending order. See his *The economics of 1960*. London, Macmillan Company, 1942, p. 80.

²² What Kind of Agricultural Research? *Finance and Development, The Fund and Bank Review*, vol. II, n.º 2, Jun. 1965, p. 73.

²³ *Ibid.*, p. 75

closely related to the products of the agricultural-pastoral sector: meat freezing and preserving; butter, cheese, condensed and dried milk products; sawmilling and manufacturing of forestry products; woolens and clothing. In the manufacture of food products for export the New Zealanders have applied the principles of mass production and quality control.

New Zealand's per capita GNP in 1966 (\$1930) was more than three times greater than Uruguay's (\$570).

In contrast to New Zealand's export orientation, Uruguay after World War II chose the import-substitution path to industrialization. With the support offered by a rapid improvement in the nation's terms of international trade during the immediate postwar period, Uruguay achieved a swift but temporary advance of industrial output. Following a decade of virtual stagnation in manufacturing output between 1936 and 1945, production increased at a cumulative rate of 8.5 percent from 1945 to 1954.²⁴ Since 1955 the rate of manufacturing production has lagged behind the slow growth of Uruguay's population.²⁵ Alongside Uruguay's traditional manufacturing activities, mainly woolen textiles and garments and meat products for export, the government encouraged the creation of new industries under a strong protective umbrella. Unlike the traditional branches of Uruguay's industrial profile, whose inputs were largely supplied by domestic agricultural resources, the new manufactures were heavily dependent on imports of foreign raw materials. The narrowness of the home market, the high-unit cost of the new industries and the shortage of foreign exchange became obstacles to further expansion of the manufacturing sector.

The policy choice in support of artificial stimulus to industry inhibited investment and technical advance in the livestock sector; subsidized urban manufacturing was purchased at the expense of the rural economy. Investment in livestock was discouraged by subjecting the traditional exports of ranch products (wool, meat, hides) to exchange-rate penalties. The basic export rate of exchange was frozen at about 1.5 pesos per dollar while inflation reduced the internal purchasing power of the Uruguayan currency, raising domestic money costs. For example, in 1953 when ranchers should have received 2.5 pesos per dollar for their exports (according to my calculation of the equilibrium exchange

²⁴ REPÚBLICA ORIENTAL DEL URUGUAY. Comisión de Inversiones y Desarrollo Económico. *Estudio Económico del Uruguay*. Vol. I, Montevideo, 1963, p. 56.

²⁵ SOCIAL PROGRESS TRUST FUND. *Sixth Annual Report, 1966*. Inter-American Development Bank, Washington, D.C., 1967, section on Uruguay.

rate) they received only 1.5 pesos.²⁶ That is to say, exporters of traditional commodities received from the government an equivalent of only 60 percent of the world market value of their products. More, the government distributed home-produced agricultural commodities at below world market prices, thereby subsidizing living standards in Montevideo and diverting exportable commodities to domestic consumption.²⁷

The combination of government attitudes and policies, discussed above, helped bring to a close the expansion phase of Uruguay's stock farming industry. From the 1930's onward the livestock sector stagnated, annual exports of meat fell by one-half (from 100,000 tons during 1934/38 to 45,000 tons in 1958/60) and the nation's percentage share of the world market shrank to a negligible figure.²⁸ Concurrently, the process of industrialization through import substitution led to increasing dependence on specialized raw materials, fuels and capital goods — all of which had to be purchased abroad. Together these *maintenance* and *development* imports absorbed 90 percent of the nation's foreign exchange earnings by 1965. Hence, the contraction in exports resulting from stagnation in livestock output and the diversion of a growing share of ranch products into domestic consumption became a major obstacle to the economic development of Uruguay.

6. The Welfare State: Redistribution or Growth

Mainly through an extensive welfare program and large operating deficits of the numerous public enterprises (partly due to grossly inadequate rates), the nation committed itself to increasing consumption rather than investment. A large share of the potential work force was diverted to early retirement and to government agencies where flagrant cases of redundancy exist.²⁹ The reorganization of Uruguay's economy along welfare state lines has contributed to the rapid development of an

²⁶ I assumed that the 1937 exchange rate provided a rough equilibrium in Uruguay's balance of international payments. Hence, the 1953 purchasing power parity is derived by multiply the 1937 exchange rate by the Montevideo cost-of-living Index for 1953 (1937 = 100), and dividing the result by the U.S. Wholesale Price Index for 1953 (1937 = 100).

²⁷ For example, Uruguay's per capita meat consumption in 1965 was the highest in all of the Americas, even exceeding the levels of the U.S., Canada and Argentina. *El Mercado de Valores*, n.º 2, Jan. 8, 1968, p. 27.

²⁸ ECLA and FAO. *Op.cit.*, p. 50.

²⁹ For example, in the *Frigorífico Nacional*, the publicly-owned meatpacking enterprise which enjoys a monopoly on the Montevideo market, the ratio of administrative personnel to plant workers was 1 to 2, compared with around 1 to 7 or 1 to 8 in the private meatpacking establishments. (See DALY, Herman E. *Trade Control and the Uruguayan Economy*. Vanderbilt University, Jan. 1967, unpublished doctoral dissertation, p. 180.)

urban-oriented middle class, a middle class increasingly dependent on the government for *white collar* jobs. At present about 40 percent of the labor force is employed in the public sector and this proportion is increasing. For Uruguay's urban middle groups, "the State has been a main source of employment and provider of opportunities for social betterment rather than an instrument for promoting development".³⁰ The sharp intensification of middle group expenditure claims against the public sector were not matched by fundamental tax reforms: income tax proceeds as a share of total tax revenues averaged only 4 percent in the early sixties (the lowest in Latin America). According to the official Investment and Economic Development Commission (CIDE), the public sector in recent years allocated an average of about 90 percent of total disbursement to consumption and transfer payments, leaving only 10 percent for real investment.³¹ The shortfall in tax revenues in relation to public outlays had two important consequences: 1. an inherent tendency toward unbalanced budgets; and 2. a tendency to shift a disproportionate share of the tax burden to the politically weaker rural classes.

The drift of private economic activities, both domestic and foreign-owned, into the public sector has been a second inexorable feature of Uruguay's economic life since Batlle's second presidential term.³² Currently, twenty-two *autonomous entities* of the State are responsible for electricity, transportation, communication, petroleum refining, cement, alcohol, meat packing, dairy products, fishing, mortgage banking, and social insurance, to name a few of the more important ones. The autonomous public enterprises, except for 1960, have been operating at a loss for over a decade, reflecting the low prices charged for their services relative to their cost, including increases in wages and social security contributions.³³ The total income of the state railways system, for example, has not even covered direct labor costs. Poor maintenance and antiquated equipment have in turn reduced the carrying capacity of this formerly vital transportation grid. José Batlle y Ordóñez wrote:

³⁰ PINTO, Anibal. *Political Aspects of Economic Development in Latin America*. In: VELIZ, Claudio (ed.). *Obstacles to Change in Latin America*. London, Oxford University Press, 1965, p. 25.

³¹ SOCIAL PROGRESS TRUST FUND. *Fifth Annual Report, 1965*. Inter-American Development Bank. Washington, D.C. 1966, p. 560.

³² For a good comprehensive discussion of the public sector's role see BURTON, Robert H. *Uruguay: A Study of Arrested Economic Development*. Louisiana State University, 1967, unpublished Ph.D. dissertation, chapter II.

³³ SOCIAL PROGRESS TRUST FUND, *loc.cit.*

"From the point of view of the national economy, a wasteful administration by the State is always preferable to the efficient management of an industry by foreign enterprise".³⁴

The validity of this idea seems to find no basis in recent Uruguayan experience. Despite their commercial insolvency, the continued existence of these public enterprises has become a matter of national pride.³⁵

The welfare measures, widely distributed among the citizens of the capital city,³⁶ together with the plethora of public subsidies, appear to have been purchased at the expense of the nation's stock of productive capital. Capital shrinkage has occurred since at least the 1950's in such critical sectors as the railways, the communications network, port facilities and harbours and in the export-oriented meat packing industry. The State has failed to make provisions for replacement of depreciated machinery, equipment and plant in the majority of its enterprises. The failure to generate adequate depreciation reserves, the deteriorating financial position of the *cajas* (the institutions which pay out social benefits) and the protracted reduction of the nation's foreign reserves are all suggestive of Uruguay's propensity to consume at the costs of capital formation. The nation's social investments (schools, other education buildings, and hospitals) have also been deteriorating as a consequence of inflation and improper channeling of public expenditures.

7. Conclusions and Prospects

Uruguay's economic evolution over the past century has been characterized by two distinct phases: 1. an initial period of rapid growth when the economy was transformed and shaped by the international commodity, labor and capital markets; and 2. a phase of mixed trends characterized by a) stagnation during the Great Depression and World War II; b) a decade of rapid growth from 1945 to 1954; and c) a process of economic decay beginning in the middle 1950's and continuing to the present. Exports of livestock products provided the main thrust of the initial period, while industrial growth through import-substitution led the expansion of total output during 1945/55.

³⁴ See HANSON, Simon G. *Utopia in Uruguay*. New York, Oxford University Press, 1938. for an exposition of Batlle's economic creed.

³⁵ TAYLOR, *op.cit.*, p. 133.

³⁶ For example, in 1966 potable water was supplied to 89 percent of population in Montevideo and 51 percent of the population elsewhere in the country. Sewerage facilities served 67 percent of the people in Montevideo and 21 percent in the rest of the country. (See SOCIAL PROGRESS TRUST FUND. *Seventh Annual Report, 1967*. Inter-American Development Bank, Washington, D.C. 1968, p. 291.)

We focused on two significant sets of policy choices influenced both the direction and rate of growth. The first, introduced by President José Batlle y Ordoñez early in the current century and extended by his successors in the *Colorado* Party, involved the grafting of an advanced welfare state into a semi-developed pastoral economy. The second crucial policy choice was implemented at the close of the Second World War via the mechanism of multiple exchange control and other official measures. Its aim was to launch Uruguay on a new "development path" toward greater economic independence and industrial diversification.

Two conclusions emerge from our historical venture: 1. Uruguay's *economic engine* has been debilitated by official support of high-cost industry and its corollary, the neglect of the nation's basic pastoral sector; 2. additionally, this weakened economy has been overloaded with heavy public subsidies for state enterprises, the burden of social welfare, and a large and growing bureaucracy. Uruguay's welfare state rests upon a shaky economic foundation. The necessity for economic discipline — of weighing benefits against costs, of relating economic rewards to productivity — finds little application in today's Uruguay. Carlos Maggi, the Uruguayan essayist, expressed this aptly:

"Y sobre esta inundación de satisfacciones gratuitas llovió Batlle, anticipándose a tantas necesidades; paliando aquí los rigores, haciendo inútil allá toda fricción violenta.

Desde siempre los conocimientos y los objetos nos llegan hechos de afuera, y desde Batlle, muchos derechos y mucha seguridad se tuvieron de golpe, y a crédito, antes de que fueran pagados, como corresponde, con esfuerzo y con dolor. Y así vivimos: de rentas; dos veces".³⁷

Uruguay's pastoral sector must once again become central in the development process. Of the Nation's two major exports meat is the one with the better long-range prospects, for unlike wool it does not face immediate competition from synthetic substitutes. Also, since Uruguayan exports of pastoral products have represented small and diminishing share of world markets, a recovery is possible.

The enormous margin by which productivity could be increased represents a vast livestock potential.³⁸ Despite the high quality of

³⁷ *El Uruguay y su gente*. Montevideo, Editorial Alfa, 1965, p. 45-46.

³⁸ ECLA and FAO. *Op.cit.*, p. 50-51.

Uruguayan cattle, efficiency and productivity indices compare very unfavorably with those in such countries as Argentina, Australia, New Zealand and the United States. Low productivity characterizes not only ranching, but also marketing and the industrial production of meat in *frigorificos*.³⁹ The ECLA-FAO Mission concluded that most producers in Uruguay have failed to assimilate modern farming techniques and stressed the importance of "two production factors in particular: the improvement of the condition and handling of pasture-land and the introduction of rational and modern methods of administration".⁴⁰ The carrying capacity of the land can support a large increase in herds through improvement of natural pastures and partial replacement by artificial pastures. Clearly, the opportunity is at hand to reverse the long-run decline of the nation's cattle-to-population ratio.

Because of the importance of livestock to the Uruguayan economy, the World Bank made a loan of \$7 million in 1959 for a pilot project to increase production by demonstrating the advantages of modern techniques of pasture improvement and management. According to the Bank the "three to fourfold increase in livestock production from the improved grasslands over that of native pastures has attracted the attention of farmers everywhere in the country".⁴¹ The second stage of the program, also financed by the Bank, involves a total investment of \$35 million over a four-year-period, beginning in 1965. As there are 37 million acres of native grasslands capable of similar improvement, the program points the way in the Bank's view "to profound economic and social consequences for the nation as a whole".⁴² The adoption of policies favorable to rural development, together with external assistance, may initiate in Uruguay a new "golden era of stockfarming" based, henceforth, on the intensive rather than the extensive margin.

Uruguay's National Plan of Economic and Social Development, 1965/74, was made public by the Investment and Economic Development Commission in early 1966.⁴³ According to the targets set by the plan, the nation hoped to attain an average growth rate (GDP) of 5.2 percent a year, resulting in an annual average increase of 4 percent in per capita income.

³⁹ DALY, Herman E. *Trade Control and the Uruguayan Economy*. Vanderbilt University, Jan. 1967, unpublished Ph.D. dissertation, p. 176-182.

⁴⁰ ECLA and FAO. *Op.cit.*, p. 66.

⁴¹ IBRD and IDA. *Annual Report 1964/65*. Washington, D.C., 1965, p. 84.

⁴² *Loc.cit.*

⁴³ REPUBLICA ORIENTAL DEL URUGUAY, CIDE. *Plan Nacional de Desarrollo Economico y Social, 1965/1974*. Montevideo, 1965.

The achievement of these objectives is contingent upon exports, which are projected to expand at an annual rate of 8.1 percent. The Commission recognized that the possibilities of expansion in the industrial sector are limited by the size of the small domestic market. Consequently, priority is to be given to manufactures that can generate foreign exchange through 1. the expansion of existing industries that process traditional exports, such as meat, textiles, leather, and shoes; and 2. new intermediate producers goods needed by other members of the Latin American Free Trade Association. Road construction programs with emphasis on farm-to-market roads and structural reforms in land tenure will support the export promotion measures.

In its evaluation of the development efforts of Uruguay, including the Commission's ten-year plan, a subcommittee of the Inter-American Committee on the Alliance for Progress (CIAP) noted with satisfaction the significant steps that are being taken to reshape the nation's monetary and fiscal policies and to curb inflation.⁴⁴ The subcommittee concurred with the general criterion of the plan that high priority should be given to the traditional export industries based on the use of livestock and agricultural inputs, particularly the former. It also recommended that the public enterprises revise their rate systems with a view to mobilizing resources for the replacement of facilities and the partial financing of expansions. In analysing Uruguay's critical economic position, the CIAP subcommittee reached a general conclusion with which we are in complete accord: "The country must channel its investments properly and, at the present stage, concentrate on restoring its economic basis rather than proceeding with new, wholly unrealistic distributions of a static national income. . .".⁴⁵ In view of Uruguay's negative performance in the 1955/67 period, the desired pace of growth envisioned by the National Plan of Economic and Social Development poses a question whose answer we will leave to the political experts: Is the nation prepared to make the current sacrifices that such a growth rate implies and can the government, which in 1966 returned to the presidential system, achieve the necessary *social compact* to implement the measures of austerity and structural change?

⁴⁴ OAS. Panel of Experts, Inter-American Committee on the Alliance for Progress. *Op.cit.*, p. 37-38.

⁴⁵ *Ibid*, p. 7.