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by Howard Handelman
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Economic Policy and Elite Pressures in Uruguay: Interest Groups in an Authoritarian Political System

The study of interest (or pressure) groups has been a central preoccupation of political scientists in the United States for at least three decades, dating back to the publication of David Truman's *The Governmental Process.*[1] Voluminous theoretical works and case studies have shown how organized socioeconomic sectors (business, labor, farmers, religious groups) or ideologically motivated citizens (conservationists, civil libertarians) articulate their members' interests to political parties or governmental bodies in the United States and in other Western democracies in order to influence public policy.[2]

With the tremendous growth in the 1960s of research on political development, scholars such as Gabriel Almond insisted on the need to understand how secondary associations in Third World political systems articulate the needs of specialized sectors. "The kinds of interest groups which are present in a society,... their demands, their conception of the political arena and the rules of the game... these are the raw materials of politics...."[3] George Blanksten echoed Almond's call the next year by citing the need for greater investigation of "political groups in Latin America." The result has been a smattering of carefully done country studies, but relatively little has been written about the ways in which industrial associations, landowners' organizations, labor unions, and other organized groups influence governmental decision-making in Latin America.[4] While it is widely understood that Latin American economic elites usually exercise disproportionate power and influence within their political systems, fairly little is known about intra-elite splits, channels of elite interest group communication, and the relative success of elite groups in determining economic policy. One reason for this gap is that so much pressure group activity is conducted not in public but through private family and other personal ties such as often link political and economic elites.

The breakdown of formal, democratic institutions in most of Latin America during the past decade has further obscured interest group politics. The rise of military-authoritarian governments throughout the continent has often terminated political party activity, eliminated mass-media campaigns aimed at public opinion, abolished elected legislatures, banned strikes and mass demonstrations, and generally further removed public officials from external pressures. Yet, studies of the Soviet Union, for example, demonstrate that even within totalitarian systems interest group politics continues to function.[5]

The Uruguayan political system offers a unique opportunity for the study of elite interest group activity in a Latin American bureaucratic-authoritarian regime.[6] Any interested observer who carefully examines the streets of downtown Montevideo can note the high number of secondary associations dotting various office buildings: the Association of Civil Servants, the Association of Uruguayan writers, the Uruguayan Press Association, the Organization of Musicians, and many more. In 1972, an American political scientist identified 100 professional and elite interest groups listed in the Montevideo telephone directory.[7] During much of the twentieth century, into the late 1960s, Uruguay enjoyed one of the most democratic and participatory political systems in Latin America. The combination of a well-educated population (over 90% literacy), an unusually high degree of urbanization (over 85%), most of it concentrated in the nation's capital (35-40%), and an active free press all contributed to a very mobilized and organized citizenry.[8]

Interest group activity was also encouraged by the state's pervasive role in the economy since the early twentieth century. The Uruguayan government created an extensive welfare apparatus as well as a series of state enterprises (*entes*) in the electric power, petroleum refining, cement, railroad, and meat packing industries. Through the 1930s and 1940s a vast government bureaucracy became the nation's dominant employer. Finally, because of Uruguay's small population (under three million) and its limited industrial base, the nation's manufacturing sector has looked to the state for protection against economic domination by the world's industrial powers (first Britain and then the United States) or by Uruguay's large neighbors, Argentina and Brazil. Thus, critical economic actors came to accept the importance of influencing government decision-making.

In 1973, after a decade of deteriorating economic and political conditions, Uruguayan democratic processes came to an end with the establishment of a civil-military dictatorship. The new authoritarian regime in many ways resembles the political system previously established in Brazil as well as those later instituted by military coups in Chile and Argentina. Obviously, the dissolution of democracy has greatly altered the rules of the game governing interest group behavior. But for the Uruguayan economic elite, at least, pressure group politics has not terminated altogether. In 1976, I had the opportunity of interviewing the leadership of most of the country's economic elite interest groups as well as officers in the largest commercial and industrial firms (over 90 in all) and several high-ranking government officials. In addition, a survey was conducted among the officers of over 300 major industrial and commercial firms.[9]

This *Report* examines the historical development of Uruguayan elite interest associations, the major changes in economic policy brought about by the 1973 coup, the effect of those policy changes on the Uruguayan economy as a whole and on various sectors of the economic elite, and the nature of elite interest group behavior under the current authoritarian regime. Developments since the end of 1976 have been included with the help of Uruguayan economic data, a review of the nation's press, and recent interviews with Uruguayan exiles in Venezuela and Ecuador.

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The principal elite interest groups in Uruguay can be grouped into three categories: the rural aristocracy, the commercial elite, and the urban industrialists.[10] A brief examination of their composition and typical modes of behavior is a useful preliminary for understanding the economic developments since World War II, and especially since 1955, that underlie the trend toward an authoritarian political alternative.

The Rural Aristocracy

Although Uruguay is the most urbanized country in Latin America, and has been predominantly urban since the start of the century, the source of the nation's economic wealth has always been in the countryside. Some 88 percent of Uruguayan land, most of it treeless grassland, can be used for pasture or cultivation—the highest proportion in Latin America and among the highest in the world. Lacking a significant indigenous Indian population, Uruguay developed little of the feudal *hacienda* tradition common to Latin America. Instead, its sparse European population in the nineteenth century turned to ranching. Between 1850-1975, cattle and sheep raising expanded rapidly until Uruguay joined Australia, New Zealand, and neighboring Argentina as a major wool and beef exporter. By 1908, with a population of only one million, the country had 9 million cattle and 27 million sheep. Pasture was fairly heavily concentrated in large estates and the nation's major ranch-owners (*estancieros*), especially in the south, emerged as economic barons, a landed aristocracy.

In 1871, a number of more capitalistic, modernizing ranchers—many of Brazilian, British, or other foreign origin—formed the Asociación Rural. The organization's original purpose was to improve and maintain the quality of livestock herds and these technical goals have tended to supersede more overt political activity. Indeed, the Asociación has never admitted to being a political interest group, although it has been offered official representation in various government administrative agencies dealing with livestock production and sales. Moreover, the tremendous prestige, social contacts, and economic power of its leadership has enabled the Asociación to wield a great deal of political power through informal channels.

The Federación Rural, formed in 1915, has been from its inception a more broadly based politically oriented organization. In fact, the Federación was founded by landowners who were dissatisfied with the lack of aggressiveness shown by the Asociación Rural in furthering rural political and economic interests. Unlike the Asociacion, its membership has included farmers as well as ranchers, although the latter group has always dominated the organization. While the Federación's most influential spokesmen have usually come from the nation's largest ranching families—indeed, the leadership of the Asociación and Federación has often overlapped—the Federación has had a significant contingent of middle-sized ranchers whose interests sometimes differ from those of the largest *estancieros*. Unlike the Asociación Rural, the Federación has been openly political in its activities, seeing itself as the foremost spokesman for ranching and agricultural interests in dealing with the government. Throughout the years, the Federación has consistently fought for price subsidies on internal meat sales, lower land taxes, and lower export taxes on wool and beef. At the same time it has stood guard against any proposals for land reform (never a major threat).

As the owners of Uruguay's most critical resources—wool and beef—have long accounted for most of the nation's exports, the rural landowning elite has always been a powerful political force. Writing in the early 1960s, one political expert called the large ranchers the nation's "most effectively organized economically-based group" in terms of their ability to influence government legislation.[11] To be sure, the Uruguayan *estancieros* have not enjoyed the dominant position of the *hacienda* elite in Latin America's more feudal nations. Indeed, their power was greatly reduced by the 1904 election of Uruguay's most prominent modern political figure, President José Batlle y Ordoñez. Batlle and his Colorado Party (victors in a long civil war) built a powerful coalition of urban working class, middle class, and incipient industrial interests. The Colorados drew their strength from the Spanish and Italian immigrants who had flooded into Montevideo during the preceding decades, bolstering the ranks of the capital's artisans, workers, and bourgeoisie and raising the nation's population from 200,000 in 1860 to 1,000,000 in 1904.[12] Lacking allegiance to any of Uruguay's established parties, these urban immigrants were open to organization under Batlle's skillful leadership.

During his two terms as president (1904-1908 and 1911-1915) and his subsequent domination of Colorado policies through the 1920s, Batlle y Ordoñez greatly increased the role of the state in the Uruguayan economy in order to create an economic base for the predominantly urban population. The various state economic enterprises (meat packing, telephones, railroads, petroleum refining, cement) and a huge, indeed bloated, bureaucracy provided employment for the nation's extensive middle class. Workers were offered generous welfare benefits and firm guarantees of the right to unionize. Much of the urban population enjoyed liberal retirement pensions, government-supported medical care programs, and the most extensive (and, likely, highest quality) educational system in Latin America. In short, Batlle's reformist policies helped Uruguay to achieve the highest standard of living, the greatest literacy level, and one of the least inequitable patterns of economic distribution in Latin America (though distribution was still somewhat skewed by the standards of developed nations). Not surprisingly, the Colorados dominated Uruguayan electoral politics for the first 50 years of this century.

The political superiority of the urban-based Colorados over the rural-rooted Blanco Party constrained the power of the landed elite.[13] Uruguay's welfare state and huge bureaucracy were in fact financed largely by export taxes on wool, meat, and other agricultural products. Consequently, the nation's ranchers have long considered themselves the unappreciated golden goose whose wealth supports the urban population. Both before and since the 1973 military coup, the big *estancieros* have insisted that the rural sector has been the victim of discriminatory government economic policy.

Despite their protestations of political weakness, however, the landed elite have been able to protect their most basic interests quite well. While *Batllista* ideology has frequently been described as Henry Georgist or quasi-socialist, the Colorados actually reached a modus vivendi with the landowning class whereby the government never introduced land reform legislation or threatened the rural elite's dominance of the countryside. As late as 1966, 1.5 percent of the landowners controlled 35.2 percent of the usable land.[14] Rural tax levels were maintained at a fairly low level throughout the *Batllista* reform period and social legislation (minimum wage, pensions) rarely covered rural workers.[15] While the Uruguayan landed elite have usually avoided direct political roles in the government (unlike in Peru, Colombia, and other Latin American nations), their social contacts with political leaders have served them well. With the Blancos' return to power in the mid-1950s, the political influence of the *estancieros* increased further as government tax and subsidy policies heavily favored wool producers. Nor were rancher contacts limited to one party. Juan María Bordaberry, the Colorado president who helped terminate Uruguayan democracy in 1973, is the son of the Federación Rural's most outspoken leader. When ranchers have considered export taxes too high or have felt "unable" to pay their land taxes (during bad years), the Federación Rural has not hesitated to urge its members to smuggle their beef out of the country (in the 1960s) or to withhold land tax payments (in 1976, under the military regime).

The Commercial Elite

Given Uruguay's limited natural resources (other than good land) and its small industrial base, the country has always been dependent on the importation of raw materials and (particularly prior to adoption of protectionist, import-substitution policies) manufactured or semifinished goods. Consequently, commercial interests, especially importers, were (along with ranchers) among the earliest sectors of the economic elite to organize politically. In 1867, leading bankers and importers formed the National Chamber of Commerce (CNC). In addition to its role as a lobbyist (pushing for the reduction of tariffs and other trade barriers), from its inception the Chamber was given legal control over the nation's small stock exchange.

In 1893, trading interests involved in exporting Uruguay's wool and grain broke away from the importer-dominated CNC to form their own organization, the Mercantile Chamber of National Products (CMPN).[16] With the tripling of agricultural exports between 1900 and 1930, the CMPN established itself as a powerful interest group.

Yet another important commercial pressure group is the more recently founded Asociación de Bancos (Bank Association). The banks' role in financing agriculture as well as industrial import substitution afforded them obvious economic and political leverage. Following the founding of the Uruguayan national, Central Bank, the Asociación was given permanent representation on the Central Bank's governing board. Indeed, its monopoly over critical financial data enabled it to dominate Central Bank policy on exchange rates, liquidity, etc. During the 1950s and 1960s a major task of the organization was to unite its members in a common front against the bank employees union, one of the nation's most militant labor organizations.

There has always been considerable overlap and close bonds between the various commercial elites and Uruguay's large landowners. Many of the early banking and commercial enterprises were financed by major *estancieros*, while at the same time the urban commercial elite often invested in rural land for purposes of social status. Uruguayan historian Carlos Real de Azúa noted the high rate of intermarriage between the country's commercial and agricultural elites.[17] Thus, like the officers of the Asociación Rural, leaders of the three major commercial organizations have usually emerged from the nation's most powerful and aristocratic families. Both commercial and ranching interests have generally favored laissez-faire economic policies, strong guarantees on private property, relatively free trade and export subsidies (or, at least, low export taxes). They have differed, however, on the issues of interest rates (with rural spokesmen favoring lower rates) and government currency backing (with commercial and banking sectors more inclined to a strong, stable currency).

The Urban Industrialists

Because Uruguay has long been a predominantly urban nation (by 1900, 80 percent of its population was already living in cities), it could not maintain an economy based solely on ranching (a sector needing little manpower). Jobs had to be found for the urban middle and working classes. As early as the last quarter of the nineteenth century, small-scale firms began to produce textiles, clothing, beverages, processed foods, and other consumer goods.[18] Unfortunately, from the perspective of the country's incipient industrial class, Uruguay not only had to fend off competition from the major world powers (first Britain and then the United States) but it also bordered on two large countries which either already had a much more extensive industrial base (Argentina) or were later to develop one (Brazil). Given Uruguay's weak position in international trade, and her limited domestic market in a nation with less than two million people (until the 1940s), industrial development depended heavily on government subsidies and strong protectionist policies.

In 1893, the small industrial elite formed the Unión Industrial de Uruguay (UIU), later becoming the Uruguayan Chamber of Industry (CIU). In time, the CIU included a large number of subsector associations representing leather manufactures, beverage firms, rubber products, etc. The CIU's major task has always been to fight for protective barriers against manufactured imports, for government subsidies, and for the particular interests of subgroup members.

In 1912, José Batlle's government introduced the first important protective tariffs. But it was not until the period of 1929 through the early 1950s that industry took root as a major sector of the economy. The economic crisis brought on by the worldwide depression moved the Colorado governments toward a policy of strong protectionism and import substitution. Eventually, industry surpassed agriculture-ranching in its share of GNP and employed a far larger portion of the population.[19]

Throughout the period of 1929 to the 1960s, government economic policies favored import substitution and the interests of the industrial sector. Besides high tariff barriers and import quotas, industry was given tax breaks on new investments as well as cheap credit from government banks. Yet, favorable government action seems to have stemmed less from the political influence of the industrial elite than from the fact that the needs and interests of the manufacturers coincided closely with those of Uruguay's political leadership. Import substitution and industrialization not only conformed with the Colorado Party's ideological preference for greater Uruguayan economic self-sufficiency, but also provided jobs for the party's urban voter base.

Despite its expansion, the scale of Uruguayan industry has remained fairly limited. Most of the industrial work force still produces basic consumer items for the local market; currently over half are employed in the production of shoes, clothing, textiles, processed foods, and beverages. Some 97 percent of Uruguayan industrial firms employ fewer than 50 workers and less than 100 companies have over 250 employees (these larger firms employ almost 25 percent of the industrial work force).[20] Consequently, the industrial elite have never had the concentrated wealth or economic power of their commercial and agricultural counterparts nor has the Chamber of Industry been as effective politically as the commercial and ranching groups discussed above.

The power of the industrial elite has been further weakened by the fact that most of them are of fairly recent immigrant stock and have only moved up from the middle class in the past generation or two. There are some powerful manufacturing families with links to the nation's social elite, but most industrialists—the Germans who dominate the leather industry and the Jews in clothing manufacturing, for example—lack the prestige and social connections of the *criollo* (pure Spanish) commercial-rural aristocracy.[21]

1939-1955: Economic Boom and Political Tranquility

World War II and the end of the depression ushered in a period of Uruguayan economic growth and prosperity which lasted through Europe's postwar recovery and the Korean War. The world price of wool (which had fallen precipitously during the depression) rose sharply as did the demand for wool and beef. Extensive tax revenues and foreign reserves from these exports helped finance the rapid expansion of the country's manufacturing sector so that industrial production rose by an annual average of 10 percent from 1945-1955.[22] In terms of virtually all socioeconomic indicators—per capita income, life expectancy, protein consumption, literacy, education, distribution of mass media—Uruguay ranked first or second in Latin America. Indeed, its culture and lifestyle were more akin to Europe's than to that of the Third World.

Economic expansion helped nurture participatory political values, a large and ideologically diverse press, and political awareness. A five-year dictatorship was peacefully terminated in 1938 and the country returned to a prolonged period of democratic, civilian government rarely matched in Latin America (only Chile and perhaps Costa Rica had comparable records). The open political atmosphere—generally regarded as the freest in the continent—nourished vigorous interest group activity. The Asociación Rural and Chamber of Commerce sought to sway public opinion in favor of their organizations' policies through the publication of trade journals and through mass media campaigns. In the 1950s, the Federación Rural (and an associated political movement, the neo-fascist *ruralistas*) portrayed itself as the spokesman for the allegedly beleaguered small and medium ranchers (though the Federación more vigorously represented the interests of the larger landowners) and organized mass meetings and demonstrations throughout the country.

The existence of corporatist governmental bodies—a common phenomenon in Latin America—afforded elite interest groups direct access to government decision-making. For example, both the organization of meat packers and the Federación Rural were allocated positions on the National Meat Institute (INAC), the government agency which regulates domestic beef prices and determines quotas for exports. A variety of government regulatory agencies included members of the relevant agricultural and business associations. And, as noted earlier, the Bank Association exercised great influence on the board of the national Central Bank.

Obviously, interest groups also attempted to extend their influence in the legislature, political parties, and the government bureaucracy. The highly decentralized, nonideological, "catch all" nature of Uruguay's major parties made them a fertile ground for pressure group activity. In fact, by the 1950s, the Colorados and Blancos were each little more than a coalition of factions (called *sub-lemas*) which often had little programmatic or ideological affinity with each other. Certain *sub-lemas* were virtual spokesmen for particular economic interests. Finally, regular contacts existed between elite interest groups and relevant ministry officials. The Ministry of Agriculture and Livestock, for example, was closely tied to the Federación Rural, and Agriculture Ministers were not named by the President before they had received Federación approval.

Yet, the economic elite could not dictate government policy. For one thing, elite interests sometimes conflicted with each other. The Chamber of Commerce and the Federación Rural usually opposed the protectionism and industrial tax benefits favored by the Chamber of Industry. While the Association of Banks and CNC favored tight-money fiscal policies, the ranchers were opposed. On other occasions the elite might meet opposition from organizations representing small businessmen or small farmers. Finally, business groups had to contend with the powerful National Labor Convention (CNT), the militant, communist-led federation.

1955-1973: Economic Decay and the Collapse of Democracy

From the early 1950s onward the market for Uruguayan exports deteriorated greatly. The growth of synthetic alternatives to wool, the United States' ban on imported meat from South America (due to hoof and mouth disease), and the irregular demand from European markets all contributed to an economic crisis. From 1951-1961, the Uruguayan terms of trade declined from an index of 100 to 59.[23] During the 1960s the nation's balance of trade still worsened. Although the value of wool and meat exports rose slightly (if irregularly) in current dollars—from an annual average of $117 million in the first 3 years of the decade to an average of $127 million in the last 3—that increase failed to match the rate of inflation (in dollars) on imports, and represented a loss of more than 40 percent in constant (noninflated) dollars. Thus, the economic basis of Uruguay's welfare state and high standard of living gradually eroded.

Trade difficulties were exacerbated by waste and inefficiency within the domestic economy. Lulled into complacency by the availability of cheap labor and plentiful land and by two decades of strong demand for their produce, ranchers had failed to modernize their breeding techniques or to make needed capital investments. Consequently, by the late 1950s Uruguayan wool yields (per acre and per animal) were far below those of Australia and New Zealand. In the industrial sector, excessive import substitution—epitomized by an extremely small and inefficient auto assembly industry producing Volkswagens and Fords at over $10,000 per vehicle—and the absence of external competition allowed manufacturers to use totally outdated management and production techniques. Finally, the country was saddled with a huge, inefficient bureaucracy and an overly generous welfare system which it could no longer afford.[24]

Germán Rama, a leading Uruguayan sociologist, argues persuasively that the intense involvement of economic interest groups in the nation's political system, and the distorted political-economic perceptions of these groups, contributed to the country's political and economic decline.[25] During

Uruguay's economic boom, when there had been sufficient resources to satisfy the contending demands of various socioeconomic sectors, pressure groups had come to look to the state for a solution to all problems. The government provided subsidies (for business and agriculture), welfare (for labor), and scholarships (for students). As the economy declined, an overly protected industrial elite, an undertaxed, overendowed landed aristocracy, and an overpampered bureaucracy clung to the government subsidies and benefits they had accrued without asking how such benefits were to be paid for. Political parties and government officials, lacking any ideology or long-term vision for the country and merely responding to a series of competing pressures, produced a "society of deadlock." Bold new initiatives to meet the economic crisis were impossible.

The combined effects of external market factors, antiquated production techniques, and low labor productivity produced a prolonged economic slide. Uruguay's GNP fell 12 percent from 1956-1972, the worst economic performance in Latin America. Inflation soared totally out of control, reaching 135 percent in 1967 and 67 percent in 1968. Wages of industrial workers and government employees failed to keep pace with spiraling prices, producing a 24 percent decline in real wages from 1957-1967 and a 40 percent decrease in living standards among government employees. Not surprisingly, the sharp decline in the living standards of white- and blue-collar workers contributed to intensified trade union militancy. The 1960s were marked by a wave of strikes, lockouts and other labor-management confrontations. Labor unrest was soon accompanied by the rise of the Tupamaros, a powerful and well-organized urban guerrilla movement.

The government's response to growing class polarization and guerrilla activity was a series of repressive measures tearing away the foundations of Uruguayan democracy. Under presidents Jorge Pacheco Areco (1967-1972) and Juan Maria Bordaberry (1972-1976), the leftist press was shut down, many trade union leaders were arrested, torture of suspected Tupamaros and even of labor unionists became common (in a country where torture had never been practiced), and the military for the first time became a dominant force in the nation's politics. Finally, in June 1973, President Bordaberry, prompted by the armed forces, dissolved the national Congress—the last bastion of effective opposition to government repression—and established a civil-military dictatorship which has remained in power until today.[26]

The New Regime: Leadership and Ideology

The dissolution of Congress was soon followed by the destruction of the CNT labor federation, the termination of union activity, the banning of all left-of-center political parties (from the Communists through the Christian Democrats), the prohibition of public activity by the Colorados and Blancos, and the abrogation of any remaining freedom of press, speech, or assembly. Unlike their counterparts in Argentina, Chile, and Brazil, the Uruguayan armed forces maintained the fiction that a coup had not taken place and that Bordaberry, the legally elected civilian president, had merely exercised his emergency powers in dissolving Congress. Thus, the presidency and nearly all cabinet posts have been held by civilians throughout the current regime. However, the Generals have clearly exercised ultimate decision-making power. Since their ouster of Bordaberry in June 1976, they have reduced the current civilian President, Aparicio Mendes, to a meaningless figurehead.

At the time of their 1973 takeover, the military's political orientation was by no means clear. A powerful faction headed by General Gregorio Alvarez (then founder and head of ESMACO—the Supreme Military Command—and, more recently, the Commander-in-Chief of the Armed Forces), was reputed to have a progressive or "populist" outlook. In February 1973, while consolidating their political position, the military had issued two public Communiqués (reportedly written by Colonel Carlos Trabal, head of military intelligence and a leading "populist theoretician"), calling for land redistribution, an end to government corruption, and other reforms. But the depths of the "populists'" reformist commitment were limited and, in any event, they represented a minority viewpoint which was more than balanced by conservative, military hard-liners.[27] Moreover, populist and rightist officers alike shared a common antipathy toward the nation's leftist political parties and toward the communist-led labor movement. Once in power, they were far more intent on "rooting out subversion" than in instituting socioeconomic reform.

While a portion of the economic elite privately disapproved of the military's termination of Uruguayan democracy, much of the Montevideo business community hailed the hard-line, law-and-order policies of the new authoritarian regime. Industrialists in particular, embittered by years of acrimonious labor conflict and Tupamaro guerrilla activity, generally welcomed the destruction of the trade unions and the prohibition of strikes. In my interviews with industrial and commercial spokesmen, respondents often expressed the belief that the 1973 military takeover had saved the country from communism and chaos.[28]

If the majority of the business community initially reacted favorably to the Generals' campaign against "subversion," they were equally pleased by the appointment, in 1974, of the new Economics and Finance Minister, Alejandro Vegh Villegas, a Harvard-trained business engineer and economist. Having served as an economic adviser during the 1960s to military regimes in Argentina and Brazil, and later as a consultant to multinational firms operating in the southern tier of South America, Vegh had established strong links with the International Monetary Fund, the Inter-American Development Bank, the international banking and financial community, and the American Embassy in Montevideo. Backed by his powerful foreign connections, the extremely bright and arrogant Finance Minister quickly established himself as the dominant architect of Uruguayan economic policy and as the only civilian government figure capable of successfully challenging the armed forces. The nation's ruling military officers, lacking political experience or technical training, were painfully aware of their inability to manage the country's floundering economy. Conversely, even the staunchest critics of Vegh's economic philosophy credit him with being Uruguay's most articulate, forceful, and competent Finance Minister in many years, and the first in decades to offer a coherent, long-term economic strategy.

As a member of a leading Uruguayan banking family, and the son of a recent president of the National Chamber of Commerce (CNC), Vegh Villegas was a familiar figure to the country's financial and industrial elite. His laissez-faire economic philosophy, closely associated with Milton Friedman and the University of Chicago school of economics, was equally well-known. Over the years, in a series of articles in *Bûsqueda*, the nation's leading business journal, he had expressed his support for "free enterprise" and his admiration for the Brazilian bureaucratic-authoritarian development model.[29]

Once in office, the new Finance Minister set about dismantling many of the complex regulations and government controls which highly statist Uruguayan policy-makers had introduced over the years. Taxes on personal income and on inheritance were eliminated and corporate taxes lowered. A complex multiple-exchange rate was greatly simplified and the peso was allowed to float freely in international exchange so as to reach its "natural market" value. Severe restrictions on the importation of raw materials (including quotas and the posting by the importer of prior-deposits in hard currency) were relaxed or terminated. Price controls, which once covered virtually all Uruguayan consumer goods, were gradually removed from most products and services. Interest rates were allowed to rise sharply and many government restrictions on credit were removed.

At the same time Vegh sought to reduce the size of the government bureaucracy and gradually to eliminate the chronically large budgetary deficit. Because the Finance Minister was unable to touch the country's huge military and "internal security" expenditures (whose exact size is secret, but is estimated to be 40-55 percent of the national budget), budgetary cuts came mostly out of social services. Attempts were also made to "privatize" the national economy by selling such government-owned enterprises as cement manufacture and petroleum refining to the private sector (presumably to multinational corporations since no Uruguayan business interests had the required capital). These efforts to buttress the private sector were complemented by legislation encouraging foreign investments.[30]

A central goal of Vegh's financial policies was reducing the country's long-term, run-away inflation rates of 50-90 percent annually. Besides his attempts to balance the budget, the Finance Minister's attack on inflation featured an induced reduction in the real income of the working class. With the imprisonment of many labor leaders, the termination of union activity, and the prohibition of strikes and collective bargaining, wage increases depended on government decrees. Throughout Vegh's term in office and that of his successor, wage hikes lagged significantly behind increases in the cost of living. Indeed, in a 1975 speech, Vegh Villegas admitted that real incomes had dropped sharply in recent years but warned that "further sacrifices would have to be made" in order to control inflation.[31] To be sure, government wage controls violated his professed commitment to laissez-faire and stood in sharp contrast to his progressive deregulation of prices.[32] I was told by informed sources that the decline in workers' real wages would have been sharper had not "populist" elements in the armed forces—more concerned than was Vegh about the dangers of excessive worker discontent—pressured the Finance Minister to raise wages more rapidly.

A final cornerstone of the government's new economic policy was the reversal of Uruguay's long-term stress on import substitution and protectionism. Vegh argued, undoubtedly correctly, that protective tariffs of 100-300 percent had contributed to a low level of national productivity (in the absence of import competition) and had fostered a number of industries which the country's size and economic resources did not warrant. Thus, he sought to reduce the protectionist, artificial exchange rates (called *recargos*) which often doubled the local cost of imported goods and priced them out of the market.[33] Those industries which were unable to become more competitive with imports, argued Vegh, should be phased out of the economy.

A critical complement to that policy was the replacement of noncompetitive import-substitution industries with an expanding export sector. Indeed, the Finance Minister's long-term development plans centered on the expansion of nontraditional exports—that is, exports other than meat, wool, and unmanufactured leather. Exporters of textiles, clothing, shoes, leather products, and other manufactured goods were afforded preferential credit rates, exonerations on tariffs for their imported raw materials, and tax rebates (*reintegros*) which could be credited against other corporate taxes.[34] Both Vegh and his close adviser, Ramón Díaz, argued that given the availability of skilled labor in Uruguay and a low wage level, the country could look forward to exporting electronic parts, clothing, toys, dolls, and other labor-intensive manufactured goods. Díaz indicated to me that local wages should continue to fall until they were competitive with those of Singapore, Taiwan, Hong Kong, and Korea so that Uruguay could become "the Hong Kong of Latin America."

Changes and Continuities in Policies: Intragovernmental Divisions

In short, Alejandro Vegh Villegas sought to put an end to several decades of *dirigismo* (heavy government economic intervention and regulation) and to "liberalize" the economy in the classical Adam Smith tradition. On the surface, most of the Uruguayan business community seemed to react favorably to the new order. The industrialists and commercial spokesmen whom I interviewed generally indicated that Vegh had eliminated excessive government interference in the private sector, created a favorable climate for business (buttressed, of course, with the labor peace enforced by the military), lowered corporate taxes and "social expenditures" (i.e., contributions to social security and worker fringe benefits), facilitated the importation of raw materials, and cleared away price controls on many items. Bankers and merchants were pleased with policies facilitating credit and increasing the volume of both imports and exports.

Yet, some sectors of the economic elite were worried about the consequences of greater liberalization. Many businessmen had become accustomed to operating within a tightly controlled and predictable set of rules. The dismantling of *dirigismo* presented them with an unknown environment. In the meat-packing industry, for example, the Ministry of Agriculture and the National Meat Institute (INAC) had long established quotas on the volume of meat which each packing house could buy from the nation's ranchers, set the price paid for that meat, and determined the proportions that could be exported or sold on the domestic market. Nearly all the packing industry executives whom I interviewed favored continued government regulation which they felt prevented price wars between the packing houses and excessive speculation in the market. Similarly, while ranching spokesmen expressed dissatisfaction over the prices set by the government for their beef, they still opposed deregulation because, under the existing system, the government's Banco de la República guaranteed them prompt and dependable payment. In the tanning industry, officers of all but the very largest firms favored continuing government regulations which allocated a quota of hides to each company. In the absence of such controls, they said, the industry's two or three giants could buy up the nation's entire stock of hides and drive their competitors off the market. Neither of these two industries (packing and tanning) were deregulated during Vegh Villegas' administration.

Many industrialists felt threatened by other aspects of the new economic liberalization. Some were fearful that investment laws geared toward attracting foreign investment would allow giant multinationals to drive smaller, less capital-intensive Uruguayan firms out of business. Many manufacturers of import substitution products were terrified by the prospects of reduced tariffs and the free entry of imports with which they couldn't compete. Finally, industrialists who produced exclusively or primarily for the local Uruguayan market were greatly troubled by the continued decline in real incomes.

Some of Vegh Villegas' critics, particularly within the industrial sector, began to look to the military for support. Several powerful officers—most notably the director of the Banco de la República, General Abdón Raimúndez—disapproved of the Finance Minister's liberalization policies. *Dirigismo* appealed to their military mentality, and now that they were in charge of the government, they saw no reason to abandon state regulation of the economy or to leave decision-making in the hands of businessmen, subject to the vagaries of the marketplace.

Vegh Villegas' desire to convert major state enterprises to the private sector and to cultivate foreign investment also ran counter to nationalist sentiment within the armed forces. On one occasion the Finance Minister indicated privately to representatives of American meat packing firms that he would like to reintroduce foreign ownership within the packing industry (where it once was dominant), but that he was inhibited from doing so by the armed forces.[35] Similarly, the military apparently frustrated his efforts to sell the state-owned petroleum refining and cement industries to foreign investors. Indeed xenophobic officers were generally suspicious of Vegh Villegas' close links to the U.S. Embassy and to the international banking community. In August 1975, for example, they reacted indignantly when he used the country's extensive gold reserves as collatoral to secure a loan from the International Monetary Fund (IMF). Indeed they attempted to block the transaction and only backed down when the Finance Minister threatened to resign.

Finally, populist sectors within the armed forces stymied Vegh Villegas' efforts to reduce sharply the size of the government bureaucracy and vetoed several reductions in protectionist barriers that threatened local employment. While the officers endorsed the stimulation of nontraditional export manufacturing, they opposed measures that endangered already-existing import-substitution industries.

To some extent, conflict over economic policy between the Finance Minister and his military critics was mitigated by a division of priorities. Vegh was reconciled to the fact that his attempts at balancing the budget could not involve any cuts in military and police expenditures. He was willing to give ground (though reluctantly) on other issues as well, most notably in his attempts to reduce the number of government employees. In the policy areas most critical to him, however, he was able to exercise a fairly free hand. As a monetarist, he was strongly committed to freeing the currency exchange rate and to facilitating the flow of credit—areas in which the armed forces had no vested interest. For the most part the Finance Minister ceded ground over issues which were of less concern to him—such as easing the importation of assembled automobiles—and about which his military opponents felt strongly. Then, when critical differences arose leading him to confront Generals Raimúndez and Alvarez head on, Vegh Villegas usually secured most of what he wanted. On several such occasions, including the aforementioned conflict over an IMF loan, he threatened to resign unless he got his way. Each time the military relented. Thus, on the whole the military *dirigistas* failed to derail Vegh's liberalization program, but they did slow the pace of change in several important areas.

In August 1976 Vegh Villegas resigned from the Cabinet in a dispute with the military over a political issue unrelated to economic policy.[36] Many observers, including some of Vegh's closest advisers, felt at the time that his resignation would put a brake on further economic liberalization and signal a return to more government regulation and protectionism. Yet, despite rumors that he would be replaced by a *pro-dirigista* minister (amenable to General Raimúndez and his allies), Vegh Villegas was able to handpick his own Deputy Minister, Valentín Arismendi, as his successor. Moreover, armed with his contacts with both private and state international lending agencies, he has remained a major force behind the scenes in shaping economic policy.[37]

Arismendi has further reduced the number of items subject to government price controls (eliminating eggs and many other basic consumer items), intensified Vegh's cuts in social service expenditures, reduced the budget deficit, and continued to restrict real incomes. Early in 1979 he announced a major assault on protectionist, import surcharges, declaring that the *recargos* on manufactured imports (already cut from levels of 110-150% to a lower 90-110% surcharge) would be reduced gradually over the next 6 years to a flat level of 35 percent.[38] At the same time, he indicated that the government would finally achieve a balanced budget in the coming fiscal year by reducing the number of public employees *outside the military sector*. Finally, he stated that employers would no longer contribute to their workers' social security fund. Thus, while Valentín Arismendi has lacked Vegh Villegas' political power and has undoubtedly been less capable of introducing major policy innovations, he has continued and extended the liberalization programs initiated by his mentor.

Economic Performance: Who Has Gained and Who Has Lost?

Evaluating the effects of Uruguay's economic liberalization is difficult since the nation's economic performance depends heavily on a variety of factors that interact with, but are distinct from, government policy. Indeed, one leading Uruguayan banker insisted to me that the country's economic health depended less on the nuances of state policy than on the volume of demand for meat and wool and their price on the world market, on the cost of petroleum, and on the degree of protectionism afforded by European and North American governments to their own footwear, clothing, and textile manufacturers.

Table 1

Leading Uruguayan Economic Indicators: 1970-1978

Year	Growth in GDP	Real Income (1968 = 100)	Non-Traditional Exports	Inflation Rate	Average Price of Beef/Ton	Balance of Trade
1970	4.6%	110	$ 58.2 (million)	25%	$ 502	$ 1.8
1971	-1.1%	115.6	58.2	44%	659	-23.2
1972	-3.3%	95.9	51.3	79%	851	2.5
1973	0.8%	94.3	85.8	97%	1,068	36.7
1974	3.1%	93.5	144.3	77%	1,184	-104.5
1975	4.4%	85.2	189.9	81%	624	-162.8
1976	2.6%	80.2	301	51%	623	- 30.2
1977	3.5%	70.7	322 (approx.)	58%	754	-120
1978	3.0%	67.9	na	43%	800	-115

Sources: Banco Central, Banco de la República, *Informes y Testimonias, Latin America: Economic Report.*

The policies carried out by Vegh Villegas and Arismendi have most directly influenced levels of real income and social welfare, inflation rates, and the volume of nontraditional exports. Their effect on the rural economy and on the income of the ranching elite, whose health depends primarily on world trade conditions, has been minimal.

As Table 1 indicates, during the past five years the Uruguayan economy has achieved a steady, though quite modest, growth in GDP of 2.6-4.4 percent per year. While these rates did not reach the government's goal of 5 percent annual growth, they did reverse a sustained period of economic stagnation. Similarly, while Arismendi has not yet achieved the long-sought-after goal of a balanced budget, deficits have been cut from levels of 25-30 percent during the first 3 years of the civil-military dictatorship to 10-15 percent in the past 3. Reduced deficits and tight wage controls have enabled the government to reduce inflation rates from 97 percent in 1973 to 43 percent in 1978.[39] Finally, as Table 1 reveals, efforts at stimulating nontraditional exports have been highly successful with nearly 400 percent growth between 1973-1977. Whereas shoes, leather goods, textiles, clothing, and other nontraditional products constituted only 11 percent of Uruguay's 1973 export earnings, by 1977 they represented 57 percent.

Yet, such gains have been achieved at a tremendous social cost. From the time of the military's takeover in 1973, the real income of Uruguayan workers has fallen 29 percent and current purchasing power is over 40 percent below 1971 levels (Table 1). To be sure, the declines in workers' living standards predate the current regime, with real income falling 28 percent between 1957 and 1973. But, as workers' purchasing power hits poverty levels, further declines become harder and harder to sustain. How far working class living standards have declined is graphically revealed in Table 2, which shows that the purchasing power of an average daily wage had been cut in half between 1968 and 1976. Since that time, real income has eroded another 15 percent (Table 1), and the unemployment picture has been equally bleak. While the official unemployment figures have held fairly constant at about 11-13 percent of the work force, the number of underemployed is far higher. Several industrialists told me that, in an attempt to avoid dismissing workers, many firms have been reducing the work week of their labor force.

A final area of difficulty for the Uruguayan economy has been the balance of trade (Table 1) and the foreign debt. Impressive growth in nontraditional exports has offset a disasterous decline in meat prices (particularly acute when beef prices are expressed in constant dollars). Consequently, between 1973 and 1977 the value of all Uruguayan exports grew nearly 100 percent. At the same time, however, imports rose by some 155 percent producing a negative balance of trade. To some extent, of course, the surge in imports reflects the tripling of petroleum prices in 1973-74—Uruguay is totally dependent on petroleum imports as it has no fossil fuel of its own—although the value of nonpetroleum imports has risen at a higher rate since 1976 than have fuel imports. Indeed, the Vegh-Arismendi liberalization of raw material and capital equipment imports has undoubtedly contributed to that surge. The country's external debt, which stood at $770 million in 1973, reached $1.3 billion by the close of 1977. Uruguay's short-term debt obligations relative to its GDP are now among the highest in Latin America.

On the whole, the effect of the Vegh-Arismendi policies has been to intensify the concentration of wealth within a country that once had one of the more equitable income distributions in Latin America (though still quite skewed). The president of one of Uruguay's largest textile firms, a strong government supporter, noted to me: "With labor peace, lower wage scales and reduced corporate and personal income taxes, we [industrialists] are doing much better now." "But," he admitted, "it is true that you see more poor people today digging things out of garbage cans." Between 1971 and 1977, the share of Uruguay's national income going to employers increased by 27 percent, while the proportion going to wage earners fell by 34 percent.[40] Yet, the economic elite has not shared equally in these gains. From 1975 onward, exporters of clothing, shoes, leather goods, and other nontraditional exports enjoyed far greater profit increases than those who manufactured for the local market. In addition, store owners (particularly those who sold electrical appliances and other nonessential goods) suffered from the severe drop in consumer purchasing power. The rural

Table 2

Real Income: Purchasing Power of an Average Daily Wage

	Milk	Bread	Meat	Eggs	Rice	Potatoes
1968	40 liters	30.7 kg.	4.9 kg.	7.2 doz.	19.7 kg.	26.7 kg.
1976	20 liters	15.5 kg.	2.0 kg.	4.0 doz.	11.7 kg.	14.0 kg.

Source: *Informes y Testimonias* (Geneva): April 1977.

ranching elite was neither positively nor negatively affected by most of Vegh's policy innovations, though ranchers complained bitterly about the government's failure to afford them tax relief and other aid in the face of a disastrous post-1974 decline in beef export prices (Table 1).

The New Rules of Interest Group Activity

Just as Uruguay's new authoritarian government introduced fundamental changes in economic policy, so too it altered the manner in which the nation's elites could respond to those changes. The dissolution of Congress and the banning of political party activity shut down two important channels of interest group access to government. Contrary to expectations, given the neo-fascist nature of the current Uruguayan regime, several government advisory or policy-making boards which had afforded official representation to elite interest groups were abolished and others lost much of their power. For example, COPRIN, the government's wage and price control board, had been a very powerful organism whose directorship included representatives of the Chamber of Industry and the Chamber of Commerce as well as the National Labor Convention. After the coup, labor's representative was immediately eliminated and the CNC and CIU representatives were also removed soon afterward. After Vegh Villegas took office, COPRIN was transformed into a rubber stamp, merely formalizing price and wage decisions made by the Ministry of Finance. Sinced 1977 almost all price controls have been lifted.

Similarly, the present government has weakened the policy-making role of the Industry and Agriculture Ministries. Manufacturers whom I interviewed told me that they had ceased going to the Ministry of Industry with their problems and policy suggestions (unless they were minor, administrative issues) because it was clear that fundamental decisions were being made at the Finance Ministry. Moreover, the Minister of Industry serving concurrently with Vegh Villegas was particularly ineffective in channeling inputs from his sector of the economy. Julio Aznárez, the Minister of Agriculture (through 1977), was a more effective spokesman for rural interests. Officers of the Asociación Rural and Federación Rural felt that he was generally sympathetic to their problems, but they too realized that ultimate decision-making power lay with Vegh Villegas.

Thus, elite interest group influence has been constrained by two factors. First, with the weakening (or elimination) of most formal channels of communication between pressure groups (elite or otherwise) and the government, elite influences have become more dependent than ever on direct, personal contacts with critical decision-makers. Second, economic policy-making has become centralized in two bodies. All policy initiatives in this area have emanated from Vegh Villegas or his successor, Arismendi, at the Finance Ministry. Should a sector of the elite not be satisfied with a new Ministry policy, and should they be unable to persuade Vegh or Arismendi to change it, the only other government body worth turning to has been the military, specifically ESMACO. Both power centers, however, have presented formidable obstacles to outside access.

While Vegh Villegas was closely linked by bonds of family and friendship to the country's financial elite, he was an extremely inaccessible figure. Vegh had strong convictions about what measures were needed to cure Uruguay's economic ills. Consequently, he planned his programs in textbook-like fashion, and saw little need for consulting with affected interests. Indeed, he told me that the greatest advantage of military rule was that technically skilled decision-makers (such as himself) could dictate policy according to their own (allegedly more objective) criteria without the heavy interference of vested interest groups. Indeed, he indicated that he had little respect for the economic expertise of the major pressure groups (with the exception of the Bank Association) and only met with their representatives to explain his policies or as a courtesy. On those occasions when he did want intelligent input from the business sector, he felt it was much more useful to talk to selected officers of major corporations (particularly those of foreign corporations, who he felt were the most well-informed) than to meet with CNC, CIU, or other interest group spokesmen.

Elite interests wishing to alter or to override decisions by Vegh might approach Colonels within the government ministries, or General Raimúndez (chief of the Banco de la República) or officers of the ESMACO.[41] Yet, here too there were difficulties. Uruguay is a small country, where, before 1973, all political and economic decisions were made by a highly inbred national leadership in Montevideo. Since the country has only one university, business and political leaders were often former classmates (particularly in the faculties of law and economics). Political and economic leaders of all sectors and all political persuasions (including, even, the Marxist left) had been linked by family ties or long-standing personal contacts. The military, however, was entirely outside these circles. Prior to the late 1960s it had exercised little influence in Uruguayan politics and enjoyed little prestige. High-ranking officers were either the sons of military families or tended to come from the rural, lower-middle class. In neither case had they had much social contact with the Montevideo elite. Thus, members of the economic elite—accustomed to dealing with government figures whom they knew on a first name basis—now had to contend with a powerful group of "outsiders."

Many upper class Uruguayans, particularly among the financial and rural aristocracy, viewed the newly powerful officer corps as "uncouth." Even in areas where elite spokesmen approved of military policy, they often found the officers' tactics highhanded. For example, most industrialists supported the military's destruction of the labor movement, but they complained that Colonel Betancourt, the ESMACO officer in charge of labor-management issues, acted in an arbitrary and unpredictable manner.[42] In short, while some sectors of the elite—particularly industrialists—were able to successfully cultivate military "protectors," others—most notably the rural aristocracy—found that route even less accessible than the Finance Minister's office.

Since the resignation of Alejandro Vegh Villegas in August 1976, elite interest groups have considered the Finance Ministry somewhat more open. Industrialists in particular know Arismendi from his days as head of the Wage and Price Control Board (COPRIN) and feel he is less arrogant than Vegh. The appointment of a new Minister of Industry, Luis Meyer, at the time of Arismendi's accession also gave that sector a more capable and responsive Cabinet representative. The rural elite, however, felt their position was weakened by the 1977 resignation of Agriculture Minister Aznárez. Indeed, for most of 1978, the country had no Agriculture Minister and that ministry was temporarily handled by Meyer.

The Relationship of Elite Sectors to the Authoritarian Regime

The differential effects of liberalization on various sectors of the Uruguayan economy suggests that it is not appropriate to view the nation's elites or their relationship to government policy as a homogeneous unit. Some elements of the elite clearly benefited from the new state policies, others were adversely affected, and some were not specifically touched by the changing order. Similarly, in my conversations with representatives of various segments of the business and agricultural communities, I found they differed considerably in terms of the governmental bodies which they approached as an interest group; their ability to influence government decision-makers; and their satisfaction or dissatisfaction with current policies.

Commercial Interests

The portion of the elite most closely associated with Alejandro Vegh Villegas and most supportive of his new policies was undoubtedly the nation's banking and financial community. Importers, largely associated with the National Chamber of Commerce (CNC), and exporters of wool and grain (represented by the Mercantile Chamber of Commerce) also benefited greatly from freer international trade and the resulting export-import boom.

Banking spokesmen noted that previous governments had set interest rates both for bank deposits and loans which were well below the prevailing rate of inflation. Consequently, attracting deposits was difficult and offering loans was not profitable. By allowing interest rates to rise sharply (to 62% on commercial loans by 1976 and 90% by early 1978), introducing free currency exchange, and permitting accounts in dollars or other hard currencies, Vegh gave the banking industry a tremendous stimulus. Tax laws permitting foreign depositors to open dollar accounts with favorable interest rates (and with no Uruguayan taxes) stimulated a huge inflow of deposits from Argentina and other Latin American nations. By 1977, 65 percent of all Uruguayan, long-term bank deposits were in foreign currencies. Finally, the enormous growth in the volume of exports and imports in the past five years has greatly increased the level of banking transactions. Thus, Uruguayan financiers speak happily of turning their country into the commercial banking center of South America.

The Association of Bankers, followed by the CNC, also enjoyed preferential access to the Finance Minister's ear. To some extent, these contacts were facilitated by personal ties. Vegh and several other high-ranking civilian economic policy-makers (including the Uruguayan delegate to the IMF Nilo Berchesi) had entered government service directly from the banking sector. Indeed, one informant close to the Finance Minister told me that Vegh had continued to serve on the board of directors of an Argentine bank (operating in Uruguay) concurrently with his Cabinet appointment (a violation of Uruguayan conflict of interest laws). Yet, most Uruguayan business leaders and independent economists felt it would be a mistake to assume that the banks dictated government economic policy or that Vegh Villegas (or Arismendi) was a "tool" of big financial interests. Rather, viewing the economy from similar ideological perspectives, their position on most issues coincided.

On those occasions when Vegh Villegas' perceptions differed from those of his banking colleagues, he seemed to be as intransigent as ever in resisting external pressures. In July 1976 the Finance Minister and the Director of the Central Bank decided to raise the reserve margin banks had to retain on hand, thereby reducing their liquidity and lending power (as a means of cooling down the economy). Despite the great impact this action would have on the banks, the decision was apparently made without consulting private banking representatives. Unable to alter the government's decision, the board of directors of the Bank Association resigned en masse as a show of protest. The resignations seemed to have little effect, however, and two weeks later the government's Central Bank announced strict measures for enforcing the new banking regulations. Government agents could inspect the books of private banks and, should violations be found, the Central Bank could impose heavy fines or even suspend a bank's activities.[43] On the whole, however, conflicts such as these have been rare. More typically, the Bank Association and Chamber of

Commerce have enjoyed close ties with both Vegh and Arismendi.

The relationship between the Finance Ministry and local retailers has been far less amicable. Sharp declines in the population's real income (brought about by the Vegh-Arismendi policies) have dramatically reduced Uruguayan retail sales. Owners of several leading department and appliance stores told me that, while they appreciated the need to stem inflation, they considered the government's suppression of wages excessive. As one critic said, "Uruguay used to have a large middle and upper-middle class. Now the upper-middle class has sunk to the middle and the middle has sunk to the lower class. There are 500-600 very rich families who are the only ones remaining with real purchasing power [for the kind of "big ticket items" this merchant sold]. We are becoming as polarized as other Latin American nations."

The position of Uruguayan retailers was further eroded in late 1975 and early 1976 by the precipitous devaluation of the Argentine peso. Prices across the border were so cheap for consumers with foreign (non-Argentine) currency that thousands of Uruguayans crossed the River Plate to buy appliances, clothing, and other durable goods. Such purchases served to curtail Uruguayan local sales for a year or more. Department store and appliance shop owners told me their sales had dropped up to 40 percent in the past 4 years. Indeed, many merchants said that the only thing keeping them afloat was the significant number of Brazilians who came to Uruguay to buy cheaper clothing (though these sales were also hurt during the period of drastic Argentine devaluation when Brazilians went there instead). In 1977-78, as Uruguayan purchasing power dropped still further, tight money policies and economic recession in Brazil sharply reduced the number of Brazilian tourists visiting Uruguay and, thereby, diminished that source of partial relief.

In the closing months of 1976, the Uruguayan Commercial Association, an interest group within the CNC representing 130 department stores and large retailers, placed ads in Montevideo's newspapers urging the government to stop any further depression of real income. Carlos Angenscheidt, then president of the Association and owner of one of Montevideo's largest department stores, told me that the combination of high interest rates on commercial credit and declining real income had driven many retail establishments, including his own, to the brink of bankruptcy. In May 1977 Mauricio Rovira, President of the Association of Small Shopkeepers, told the press that his members were caught in a cost-price squeeze. While consumers could not afford to pay the cost of goods being sold, shopkeepers could not possibly lower their prices in the face of operating costs that were rising at a rate of 60 percent annually. Like Angenscheidt, he called for a reversal of the government's tight wage policy.

The political position of Uruguay's disgruntled retail merchants is nonetheless quite weak. They have neither the social prestige (nor contacts) of the financial and ranching aristocracy nor the impact on the economy (and employment) of the industrialists. Thus, they have been unable to elicit much support either at the Finance Ministry or from the military. In early 1976, they met with Vegh Villegas (on one of the few occasions when they were able to see him personally) and requested tighter customs restrictions to stem the flood of Uruguayan purchases in Argentina. Their pleas were soundly rebuffed. Commercial Association figures indicated to me that the military is somewhat more sympathetic to their plight but not enough to prompt intervention on their behalf. Indeed, their only hope of exerting effective pressure on the government lies in securing the active support of their parent organization, the National Chamber of Commerce. But, dominated as it is by pro-liberalization importers and financial interests, the CNC has offered no help to the nation's retail merchants.

The Industrial Elite

The official position of Uruguay's large manufacturers, as expressed by the CIU and in the many interviews I held with corporate leaders, has been very supportive of government economic policy. Industrial spokesmen credit the current regime with "creating a better business atmosphere," lessening bureaucratic regulations and red tape, developing a more favorable tax structure, easing importation of raw materials, and bringing "labor peace." Beyond this generalized homage to Vegh Villegas and Arismendi, one discerns that, like the commercial sector, industrialists are sharply divided according to the way in which liberalization has affected their own interests.

Manufacturers of shoes, leather goods, and clothing, particularly the largest firms, have been among the government's most enthusiastic supporters. Of course, these are precisely the nontraditional exporters who experienced tremendous growth between 1973 and 1977. Interestingly, many exporters credited Vegh Villegas (or the military) with policies that were actually instituted before 1973. For example, a number of them believed that Vegh had introduced or expanded the *reintegro* system (i.e., tax credits for nontraditional exports). In fact, *reintegros* were first introduced in the 1960s and were expanded in 1973-74 by Vegh's predecessor, Moisés Cohen. Vegh Villegas had actually lowered the rate of these export credits somewhat in order to encourage greater productivity and efficiency among exporters. In 1978, Valentín Arismendi reduced the *reintegro* rate still further.

Industrialists producing largely or exclusively for the Uruguayan domestic market have been affected quite differently by government policy and, not surprisingly, tend to react somewhat less enthusiastically. Like domestic retailers, many manufacturers have been adversely affected by the continuous declines in consumer purchasing power. Not all firms have suffered equally and some have increased their profits in the face of falling sales. However, many industrialists told me that "while Vegh and Arismendi's liberalization and their anti-inflationary policy have been good for Uruguay, they haven't been good for us."

Manufacturers of basic or low-priced consumer items have been less seriously hurt by declining purchasing power. Indeed, producers of cigarettes, soft drinks, beer, and similar items told me that while sales have declined somewhat (typically 5-10 percent), reduced labor costs, the end of the chronic work stoppages that characterized the pre-1973 period, and lower tax rates have resulted in higher profits. On the other hand, firms producing textiles and clothing for the Uruguayan market (and not exporting), electrical appliance manufacturers, and producers of nonessential items like cosmetics have suffered sales declines of 40 percent or more. Like retailers, they see a reversal of government wage policy as essential for their own survival.

On the whole, larger industrial firms have fared better than their smaller competitors under the new economic order. In the textile and clothing industries, larger companies with greater access to credit and better external contacts (especially firms directly linked to multinationals such as McGregors) were more able to reorient their sales from the local market to exports. The presidents of the country's largest companies selling men's suits and blue jeans told me that as recently as 1973-74, virtually all their sales were within Uruguay. By 1976, as a result of declining local demand and because of government export incentives, exports had grown to 30-40 percent of their total sales. Ultimately, they expected them to reach 50-60 percent. Other industrial firms have moved indirectly into the export sector. Some chemical companies, for example, have compensated for declining domestic sales by selling more to tanneries that are expanding their leather exports. Smaller companies have been less capable of reorienting their market. Finally, some large firms have taken advantage of the economic woes of their smaller competitors. For example, General Electric and TEM, the two largest producers of refrigerators, water heaters, and kitchen ranges for local consumption, have seen most of their competitors go bankrupt as the result of declining sales. Consequently, although the total sales volume of these products has declined, the two dominant firms have more than compensated by increasing their share of the domestic market.

Faced with a dramatically changing business outlook, industrialists have vigorously sought to protect their interests and to influence government policy. The CIU, for example, took an active role in 1975-76 in negotiating complementary trade agreements with Argentina and Brazil designed to integrate Uruguayan industrial imports more closely into those far larger industrial systems.[44] Through 1977, industrial *exporters* indicated to me that they engaged in little active lobbying with the government and had limited contact with either the Finance or Industrial Ministries simply because they had no problems, were satisfied with government policy, and saw no need to lobby. In 1978, that situation changed somewhat as *reintegros* were reduced by Arismendi (fairly sharply in some cases) and shoe and clothing exporters faced new protective tariffs in the United States.[45] Shoe manufacturers have been particularly hard hit and have approached military and civilian government officials seeking relief (so far with no apparent success).

Industrialists producing for the local market have been far more vigorous in their lobbying activities. Beyond their dismay over declining local purchasing power, they have viewed with alarm Vegh's and Arismendi's long-term interest in dismantling the formidable protective barrier for domestic production (with *recargos* of 100% or more). The Finance Minister's recently announced plan to reduce drastically protective *recargos* over the next six years suggests that these fears are quite justified. Industrial spokesmen have received little encouragement from the Finance Ministry. Indeed, Vegh Villegas told me that many industrialists could survive the dismantling of protectionism (even if they themselves did not believe it) and those who couldn't compete in the new environment would just have to go under.

More than any other sector of the economic elite, industrialists who have been dissatisfied with Vegh-Arismendi policies, or who simply have needed governmental assistance, have gone to the military for support. The affinity between many industrialists and elements of the armed forces is grounded in common background and similarity of political-economic orientation. Both groups tend to be of middle class origin and, despite their upward mobility, remain outsiders to the agrarian-financial aristocracy. Populist military officers are committed to continued protection of import-substitution industries, while many manufacturers credit the armed forces with "restoring law and order" and ending a long period of labor-management conflict.

Repeatedly, manufacturers producing for the local Uruguayan market told me that the military was their staunchest ally in putting a brake on "excessively rapid liberalization of the economy." In fact, industrial firms tend to have a "favorite captain or colonel" in various government agencies whom they approach to cut through bureaucratic red tape or to resolve other minor problems. At higher levels of policy, spokesmen for the

Chamber of Industry, the Association of Meat Packers, and other industrial interest groups told me that they had received critical military support in modifying "unfavorable" Vegh-Arismendi policies.

Perhaps the most outstanding example of such support involved the auto and truck assembly industry. The Uruguayan vehicle assembly sector began operations in 1960, but only initiated significant production in 1969-70 when the government virtually banned the importation of fully assembled autos and trucks. Fiat, Ford, Nordex (a French conglomerate) and several smaller firms now import vehicle kits (motors, drive components, and parts of the body) from Argentina (or, in the case of Volkswagen, from Brazil) and assemble them in Uruguay. Total production is small—some 3,400 to 4,200 vehicles per year—and the price of the autos high. In 1976, the cheapest car assembled in Uruguay (a Renault produced by Nordex) sold for $4,500. Volkswagens cost $10,000 and Ford Falcons $13,000 (though much of the price was tax).

In October 1975 Vegh Villegas let it be known that his Ministry was working on a new automobile industry decree which would allow the importation of already-assembled vehicles. Initially, these imports would be subject to *recargos* of 300 percent. Over a period of 5 years, however, that would gradually be lowered to 50 percent. Industry spokesmen reacted with alarm. As one high-ranking Fiat official told me, "If that decree were issued, within ten days our home office would be planning a withdrawal from Uruguay." Vegh's reaction, again expressed in *Búsqueda*, was that the country really couldn't afford the luxury of maintaining such an inefficient industry anyway.

Faced with the approaching demise of their industry, auto assembly executives joined with vehicle parts companies (particularly FUNSA, manufacturer of tires and auto batteries and Uruguay's largest private industrial employer), and CIU officers in approaching sympathetic military officials, including General Raimúndez of the Banco de la República. Arguing that the decree would result in the loss of 2,000 jobs in the assembly industry and 5,000 more in the auto parts and other related industries, they lined up strong military opposition to the prospective change. Six months after he first announced plans for import liberalization, Vegh Villegas told the head of the Association of Automobile Assemblers that the issue was not important enough for him (Vegh) to become entangled with and that he was passing it on to the Ministry of Industry. The matter died there and the proposed auto decree was not issued.

While a direct confrontation such as this was rather unusual, large manufacturers have often gone to the Supreme Military Command (ESMACO) for assistance in modifying "excessive liberalization measures" by Vegh and Arismendi. Such support has been critical in slowing down efforts by the Finance Ministry to reduce export subsidies (for manufacturers of nontraditional exports) or to lower protection of import-substitution industries.

The Rural Elite

No sector of the Uruguayan economic elite has voiced less enthusiasm for the current regime than the rural aristocracy. Their dissatisfaction stems not from any concrete actions taken by the government *against* their interests, but from the absence of government economic support and a lack of rapport with the military. The close political association of many *estancieros* with the Blanco Party and its leader, Wilson Ferreira (himself a wealthy landowner and former Agriculture Minister) has complicated military-ranching relations since Ferreira (now in exile) is the leading political critic and opponent of the military authoritarian government.[46] On a purely social level, relations between the rural elite and the military also tend to be strained. Many officers consider the *estancieros* effete snobs who were born with a silver spoon in their mouths and don't know the meaning of hard work. A number of wealthy ranchers, in turn, expressed to me their disdain for the rural, lower-middle-class origins and low educational level of most officers.

The June 1973 military takeover came during a period of booming beef prices in the world market. From 1970-1973 the world price of beef had doubled and it continued to rise through early 1974 (Table 1). From May 1974 through May 1976, however, beef export prices plummeted. Moreover, since the price paid to the meat packing companies (nearly half of whom are government owned) by the National Meat Board (INAC) remained fairly constant, ranchers felt that they were absorbing all the loss. By mid-1976, farmers were being paid less than half the price per ton, in current dollars, they had received two years before. At the same time, soaring petroleum prices and general inflation had raised production costs (in dollars) by 60 percent. Thus, cattle ranchers—the most powerful sector of the rural elite—were suffering from a severe cost-price squeeze. Their dilemma was exacerbated by a European Common Market (EEC) ban on beef imports from late-1974 through early 1976, producing a disastrous drop in the volume of sales (the EEC had been Uruguay's primary beef customer). By mid-1976, the volume of sales had rebounded to record levels and the price had recovered slightly. Still, the small increase in beef prices since 1976 (Table 1) has failed to keep pace with rises in production costs or with international inflation (indeed the 1978 price of beef was lower in current dollars than in 1972). The price of beef in constant (noninflated) dollars fell some 70 percent from 1974-1978.

While officials of the Federación and Asociación Rural recognize that the rural crisis has been the result of external market factors and not government policy, they have been incensed by the government's failure to grant them significant aid or tax relief. The nation's ranchers also complain about the government's reluctance to raise the price of beef for the domestic market or to increase the proportion of import revenues paid to them by the packers.

The most heated dispute between the rural elite and the government involved the IMPROME, the agro-livestock land tax. Shortly after the 1973 coup, the government had taken advantage of the prevailing beef boom by raising the IMPROME slightly. In the post-1974 period, however, as ranchers' earnings dropped sharply, the government failed to lower the land tax (a fixed tax unrelated to income). Federación Rural officials told me that Vegh Villegas, who was vitally interested in balancing the budget, had no interest in lowering their taxes. Colonel José Severo, Director of DINACOSE—the government agency charged with collecting the IMPROME—was even less sympathetic and was viewed by the ranchers as an implacable enemy.

The conflict between the rural elite and the military regime surfaced openly in May 1975 at the Federación Rural's annual congress when Federación president, Walter Pages, was jailed briefly following his speech to the congress strongly criticizing government policy. In 1976 many of Uruguay's rural landowners (perhaps 70% or more) engaged in an unofficial tax strike claiming they were unable to pay their 1975 IMPROME. While the Federación Rural strenuously denied that it was encouraging its members to participate, one must imagine that both the Federación and the Asociación Rural served as communications channels between the "striking" landlords. Finally, after warnings by Colonel Severo that ranchers who failed to pay their IMPROME faced imprisonment, Agricultural Minister Julio Arnárez (one of the few high-ranking government officials allied with landowning interests) appointed a commission which included Federación and Asociación Rural representatives to study the IMPROME issue. Several months later the government accepted the commission's recommendation that the land tax be lowered somewhat for less wealthy landlords. While the president of the Asociación Rural expressed to me his satisfaction with the agreement, several large ranchers and Federación officials said the reduction only affected landowners with low quality land and was of little help to them. In addition, the government rejected rancher efforts to lower the IMPROME retroactively.

In April 1977 the Ministry of Agriculture "asked" Montevideo's newspapers not to print a Federación Rural statement which was highly critical of government agriculture policy. Two months later, at the Federación's annual congress, the organization's president charged the government with having no long-term plan for agricultural development. He noted that in the past six years the cost (in Uruguayan currency) of tractors had risen 1,242 percent, fuel 9,900 percent, freight charges 1,672 percent, and phosphates 3,790 percent, while beef prices (in pesos) had lagged far behind. In the agricultural sector, grains (primarily wheat) and oilseeds—previously the most lucrative crops—were no longer profitable. In short, claimed the Federación's leader, the rural sector was at the point of bankruptcy. When asked by the press to comment, DINACOSE chief, Colonel José Severo, replied, "If anyone [of the Federación] goes under, gentlemen, that's their hard luck."

The Federación Rural's running feud with the government continued at the organization's last congress in May 1978. Federación spokesmen criticized government tax, price, and credit policies in the agricultural and livestock sectors. The rural economy, they claimed, had reached "generalized indebtedness to the point of bankruptcy." In the 1976-77 period, crop production had actually fallen by 6.6 percent while total agro-livestock production declined 1.9 percent. Though meat production was up slightly, milk output was at its lowest level since 1932.

Yet, the plight of the rural elite is not as grave as they would have one believe. Even in bad years, the nation's largest ranchers have more than ehough accumulated capital to maintain a quite luxurious lifestyle. Moreover, to the extent that their economic position has deteriorated in recent years, their problems are largely attributable not to government policy, but to their own long-standing failure to modernize production techniques and to remain competitive internationally. Finally, the ranchers do continue to wield enough political influence to protect their most vital interests. Though the Federación Rural may complain about low meat prices set by the government and the absence of state aid or tax relief, they concede that ranchers (and farmers) have not been subjected to new punitive legislation. Nor has their grip over the nation's most vital resource (pastureland) been reduced.

One year after his brief 1975 arrest, former Federación Rural president Walter Pages told me that relations between the rural sector and the government had improved considerably. In early 1979, Jorge León Otero, another former Federación Rural president, was named as the new Minister of Agriculture and Livestock, suggesting that the rural elite's influence was still significant. While the rural aristocracy remains a powerful interest group, however, it clearly has lost the dominant economic and political role it once exercised. Under the present regime the rural elite's political influence has diminished relative to that of both the banking and industrial sectors. That decline has been the result both of a changing economic and trade environment as well as new government priorities.

Conclusions

Paradoxically, with the fall of Uruguayan democracy, the political influence of elite interest groups has diminished in one sense and increased in another. Because of the authoritarian regime's immunity to public opinion pressures, the influence of *all* pressure groups—elite or otherwise—has been reduced in an absolute sense. But, the political power of the upper class *relative* to that of other sectors of Uruguayan society—most notably labor and, less obviously, consumers—has been greatly enhanced. Thus, at least at the elite level, interest group politics continues to function even under a tightly controlled authoritarian regime. The civil-military dictatorship is not a homogeneous government. Consequently, policy differences between the Finance Minister and the military have permitted the Federación Rural, the CIU, the CNC, and the Association of Bankers to seek the support of one government sector against another.

Just as the government is not fully homogeneous, neither are the interests of the economic elite. While government policy has tended to favor the position of some sectors of the Uruguayan upper class, it has often affected others adversely. On the whole, the economic elite has fared better under the pro-business policies of the rightist government than has any other socioeconomic sector. It is an oversimplification, however, to categorize the government as a mere "agent" of upper class interests. Although such a description may more accurately depict the situation in other Latin American rightist authoritarian regimes, the Uruguayan case is more complex. Finally, given Uruguay's great foreign indebtedness, its small GNP, and its limited resources, government economic policy is dictated more by external market factors and by the demands of the IMF and World Bank than by domestic economic elites.

(May 1979)

NOTES

1. David B. Truman, *The Governmental Process* (New York: Alfred Knopf, 1953).

2. For a review of major research on interest group politics, see: Henry Ehrmann (ed.), *Interest Groups on Four Continents* (Pittsburgh: University of Pittsburgh Press, 1958); Roy Macridis, "Interest Groups in Comparative Analysis," *The Journal of Politics* (February 1961); Maurice Duverger, *Party Politics and Pressure Groups* (New York: Thomas Crowell, 1972).

3. Gabriel Almond, "A Comparative Study of Interest Groups and the Political Process," *The American Political Science Review* (March 1958).

4. George Blanksten, "Political Groups in Latin America," *American Political Science Review* (March 1959). Major case studies include: Merle Kling, *A Mexican Interest Group in Action* (New York: Prentice Hall, 1961); Constantine Menges, "Public Policy and Organized Business in Chile," *Journal of International Affairs* (Number 2, 1966); Philippe Schmitter, *Interest Conflict and Political Change in Brazil* (Stanford: Stanford University Press, 1971). Schmitter's is one of the few studies of interest groups in an authoritarian Latin American regime.

5. See H.G. Skilling and F. Griffiths (eds.), *Interest Groups in Soviet Politics* (Princeton: Princeton University Press, 1971).

6. For a discussion of the Bureaucratic-Authoritarian model, see: Guillermo O'Donnell, *Modernization and Bureaucratic Authoritarianism* (Berkeley: University of California Institute of International Studies, 1973); G.O'Donnell, "Reflexiones sobre las tendencias generales de cambio en el Estado burocrãtico-autoritario" (Buenos Aires, 1975). A shorter English version of the latter article appears in the *Latin American Research Review*, Volume XIII, Number 1 (1978).

7. William Berenson, "Group Politics in Uruguay: The Development, Political Activity and Effectiveness of Uruguayan Trade Associations," (Nashville: Unpublished Ph.D. Dissertation at Vanderbilt University, 1975).

8. The director of the Gallup Institute of Uruguay told me that when Henry Kissinger was first named Secretary of State, the proportion of Uruguayans who could correctly identify him was higher than the percentage of Americans who could.

9. The bulk of research for this article was conducted in Uruguay from June-December 1976 under a grant from the Midwest Universities Consortium for International Activities (MUCIA). Much of the research (and interviewing) was conducted jointly with Uruguayan sociologist Dr. Mercedes Quijano. Professor Quijano, who left the country during the course of the project, is responsible for many of this *Report*'s insights. However, since she did not participate in the writing of the article, responsibility for any errors of judgment or of fact are mine alone.

10. The only theoretical studies of Uruguayan interest group politics are: Germãn Rama, "Conducta de los grupos de presiõn," *Uruguay: Una Polítíca de Desarrollo* (Montevideo: Cuadernos de la Facultad de Derechos y Ciencias Sociales, No. 16, 1966); Nestor Campiglia, *Los Grupos de Presion Politico* (Montevideo: Arca, 1970); and, Berenson, "Group Politics in Uruguay...." All these (as well as other case studies) cover the period before the 1973 coup. I was told by Uruguayan social scientists that a study of interest group behavior under the current government could not be carried out by an Uruguayan national. To my knowledge, no such studies by foreign scholars have been conducted either. Indeed, the coup has brought scholarly research on contemporary Uruguayan politics nearly to a halt.

11. Philip B. Taylor, Jr., *Government and Politics in Uruguay* (New Orleans: Tulane University Press, 1962), p. 55.

12. Martin Weinstein, *Uruguay: The Politics of Failure* (Westport: Greenwood Press, 1975), p. 20. This book is a useful source on Uruguayan politics from 1900-1973 and is one of the few recent works in English of its kind.

13. The names of the two traditionally dominant parties, Blancos (whites) and Colorados (reds) stem from the flags used by the opposing factions in their nineteenth century civil war and have no ideological significance.

14. Carlos Real de Azúa, *La Clase Dirigente* (Montevideo: Nuestra Tierra, 1969), p. 26.

15. Mercedes Quijano, "El batllismo: su política fiscal entre 1900-1930," *Cuadernos de Ciencias Sóciales* (1972).

16. Until recently, wool was Uruguay's largest export by far. The meat packers, traditionally the nation's second largest export sector (and the largest one since the 1970s) never belonged to the CMPN and have had their own interest association. Because of the early dominance of foreign interests in meat packing, however, and the later nationalization of much of the industry, the packers have never been as powerful an interest group.

17. Real de Azúa, *op. cit.*, pp. 24-28.

18. For histories of the Uruguayan industrialization process through the 1960s, see: Instituto de Economia, *El Proceso Económico del Uruguay* (Montevideo: Universidad de la República, 1969); Roque Faraone, *Introducción a la Historia Económica del Uruguay* (Montevideo: Arca, 1974).

19. Since 1960, industry has regularly accounted for 23-24 percent of the GNP and agriculture for 15-17 percent. Both sectors are exceeded in size by services. See Banco Central de Uruguay.

20. Juan Anichini, *El Sector Industrial* (Montevideo: Nuestra Tierra, 1969), pp. 14-15.

21. At the time this study was conducted, the presidents of the Chamber of Commerce (CNC), the Federación Rural and the Asociación Rural all came from wealthy, aristocratic families. The president of the Chamber of Industry (CIU), on the other hand, ran a small kitchen appliance firm that was in the process of going bankrupt. His family background was unknown to any of the persons I interviewed and none of the members of the nation's social elite claimed to know him or think much of him.

22. Berenson, "Group Politics in Uruguay...," p. 161.

23. That is, the value of a fixed quantity of Uruguayan exports relative to a fixed volume of imports fell 41 percent. See, CIDE, *Estudio Económico del Uruguay* (Montevideo: 1963).

24. See, Luis Faroppa, *Perspectivas Para Un País en Crisis* (Montevideo: Nuestra Tierra, 1969); *Cuatro Tesis Sobre La Situación Económica Nacional* (Montevideo: Fundación de Cultura Universitaria, 1974); S. Shapiro, "Uruguay: A Bankrupt Welfare State," *Current History* (January 1969).

25. G. Rama, "Conducta de los grupos de presión," *Uruguay: Una Política de Desarrollo* (Montevideo: Cuadernos de la Facultad de Derechos, 1966).

26. Bordaberry was removed from the presidency by the military in June 1976 and replaced by another civilian. On the collapse of Uruguayan democracy from 1967-1973, see: Weinstein, *Uruguay: The Politics of Failure*; also Latin America Political Report, *Generals and Tupamaros* (London: 1974).

27. While Alvarez, his brother-in-law, General Raimúndez, and Colonel Trabal were among the most politically capable military officers, the conservatives—led by General Esteban Cristi, commander of the critical Montevideo military district—had more armed strength. For an analysis of the policy differences within the Uruguayan armed forces, see this author's "Military Authoritarianism and Political Change in Uruguay" [HH-1-'78], *AUFS Reports*, No. 26, 1978.

28. Many businessmen were obviously traumatized by the unrest prior to the coup and, years later, still became highly emotional when talking about the Tupamaros or about labor conflict. It is only fair to note, however, that other members of the economic elite whom I interviewed had strong democratic convictions and expressed their distaste for the current repression. The latter group included two businessmen who had been kidnapped and held captive for prolonged periods by the Tupamaros.

29. The editor of *Búsqueda*, Ramón Díaz, is one of Vegh Villegas' closest associates and is a hard-line proponent of eighteenth-century economic liberalism. Díaz was on the board of directors of General Electric of Uruguay and his law firm represents a number of multinationals.

30. Vegh admitted to me that he had failed to convert much of the state sector to private ownership (only a municipally owned bus company was sold—to a drivers' cooperative) and that this constituted one of his greatest disappointments. Attempts to attract foreign industrial or agricultural investment have not been very successful either (though much "flight capital" from Argentina and Italy has moved into Uruguayan banks and real estate). Between 1974 and 1977, there were only 89 industrial firms established or purchased by foreign capital (representing only $15 million in investment) and 53 of these investments involved the purchase of existing Uruguayan plants.

31. It should be noted that the sharpest drops in real income preceded Vegh and the 1973 coup (see Table 1). However, the cumulative effects of declining living standards obviously were becoming more oppressive. Vegh showed his insensitivity to the increasingly desperate plight of Uruguayan workers when he indicated to me that the nation's big ranchers (who were having trouble keeping up payments on their private airplanes and Montevideo luxury apartments) had suffered a sharper income decline in the early years of the current regime than had workers.

32. In 1976, the government "deregulated" wages by permitting employers to raise salaries beyond the base level decreed by the Ministry of Economics. In the absence of unions, collective bargaining, or the right to strike, employers have obviously rarely made such charitable contributions to their workers' salaries (though some firms with more skilled workers have exceeded government guidelines in order to keep talented employees).

33. Rather than tariffs per se, the government has imposed a special exchange rate on the importation of protected manufactured goods, thereby driving up their price beyond that of local products. *Recargos* have ranged from 100 to 300 percent.

34. The rebates applied only to manufactured, nontraditional exports. *Reintegros* ranged from 20-40 percent of the value of the export (depending on the amount of Uruguayan labor and raw materials used) which could be credited against the firm's taxes.

35. Foreign packers had once dominated the Uruguayan economy and had allegedly engaged in dubious business practices including late payment (or, occasionally, nonpayment) to ranchers. Foreign packing firms were nationalized decades ago by the Uruguayan government and their re-entry into the country would greatly offend nationalist sensibilities.

36. The dispute revolved around a decree, introduced by far-right military elements, which excluded all leftist and many Blanco and Colorado politicians from holding office through the 1980s. Some of the affected Colorado

politicians were friends of Vegh's. The Finance Minister favored a loosening of the military dictatorship and a limited return to democracy (i.e., he supported the continued ban of leftist parties but urged the restoration of the two traditional parties).

37. After his June 1976 ouster, President Bordaberry disappeared totally from the political scene, was never mentioned in the media, and became a "nonperson." In contrast, Vegh Villegas, who stepped down two months later, was made a member of the Council of the Nation—the country's current "legislative body"—and has continued to speak out on economic issues.

38. As of early 1979, protection of domestic industry had still not been greatly reduced. All industrialists whom I interviewed told me that a liberalization of imports such as that proposed by Arismendi would drive them out of business. Thus, it is unlikely that such a drastic cut in *recargos* will actually take place.

39. Critics of government liberalization policies point out that the removal of price controls and of limits on commercial loan interest rates contradict government wage policies and have created cycles of "administratively-induced inflation." Thus, while the rate of inflation fell in 1974, 1976, and 1978, it rose in 1975 and 1977 (albeit less sharply) and appears to be rising more rapidly again in 1979. From December 1, 1978 to January 31, 1979, prices rose a total of 10.8 percent, a rate which, if maintained, would produce 1979 inflation of 85 percent, the highest level since 1973.

40. In a 1978 speech, Vegh Villegas argued that the negative redistribution of income toward the wealthy was necessary in order to stimulate capital investment. Yet, from 1970-1976 the Uruguayan coefficient of reinvestment (i.e., the percentage of GNP reinvested) was about half the average for all of Latin America and ranked second to Haiti as the lowest in the hemisphere. From 1971-1975, the coefficient of investment fell steadily from 12.9 to 9.9 percent. In short, there is no evidence that greater concentration of income is producing greater rates of capital investment.

41. ESMACO, the Supreme Military Command, was created in 1971 to formulate and administer military policy. Since the 1973 coup it has become a major center of government decision-making. At its top, a board of ranking officers (Generals, Admirals, Colonels, and naval Captains) set policy on a broad range of issues and are, in fact, the ultimate power in the government. At lower levels, ESMACO representatives operate in almost all government ministries and agencies to make sure that policy administration satisfies the military. In short, the ESMACO has created a government bureaucracy that parallels the civilian government.

42. Military populists see themselves as the protectors of workers' interests. They feel they have done this in two ways: first, by removing Marxist union leaders who had "deceived the rank-and-file and led them into constant, politically motivated strikes" (this has been done by imprisoning and torturing many former union officials and destroying the labor unions); second, by preventing Vegh and Arismendi from dismissing large numbers of government employees or from introducing import liberalization measures that would create large-scale unemployment in previously protected industries (they have indeed done both those things). The ESMACO labor office has, on occasion, arrested employers who fail to pay the minimum wage. At the same time, by destroying the labor movement and terminating collective bargaining or the right to strike, they have created the conditions which have permitted a 28 percent decline in workers' real incomes since 1973.

43. *El País* (Montevideo): July 22, 1976; July 27, 1976; August 4, 1976; August 5, 1976; August 18, 1976; *La Mañana* (Montevideo): August 4-5, 1976.

44. Despite the CIU's high expectations for the two trade agreements, so far they have proven to be of little value to Uruguayan manufacturers. The president of the Chamber of Commerce expressed to me his opposition to the agreements at the time they were signed.

45. In November 1978 the United States imposed a 42 percent tariff on Uruguayan wool garment imports and a 13 percent tax on Uruguayan leather goods because of the Uruguayan government's subsidization of those exports (through *reintegros*). The lower tariff on leather goods will actually hurt Uruguayan manufacturers more since the United States accounted for 70 percent of Uruguay's leather goods exports in 1977 but purchased only 8 percent of its wool garments (most of which go to Europe).

46. Ferreira, as leader of the Blanco congressional delegation, was one of the leading congressional critics of increasing political repression in the years preceding the 1973 military takeover. In the 1971 presidential election, the last before the coup, he received the most votes of any presidential candidate in the nation's history but lost the election because the combined votes of the several Colorado candidates for the presidency slightly exceeded those of the Blanco candidates (under the pre-coup electoral law, each party could run multiple candidates and the winner was the leading candidate of the party which had the largest combined vote. After the coup, he fled to Buenos Aires where he narrowly escaped being murdered by a right wing "death squad" in 1976. Ferreira has been closely associated with several high-ranking Federación Rural officials, one of whom was briefly arrested in 1976 on charges of circulating Ferreira's speeches.