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## Uruguay's Continuing Dilemma

BY ARTURO C. PORZECANSKI

*Assistant Professor of Economics, University of Pittsburgh*

**W**HAT HAPPENED to Uruguay? She was supposed to be "the Switzerland of the Americas" and "the first welfare state," and had become known to foreigners for her highly cultured, well-fed, healthy, well-dressed, comfortably housed, happy, prosperous people. Uruguay had enjoyed a reputation for being a socially advanced and politically stable nation where statesmen kept introducing political reforms and generous social legislation. To what extent is the country in economic and political trouble?

Uruguay has by now a two-decade-old stagnant economy and a semidictatorial and quasi-military political regime. Although economic and political events are usually interrelated—and Uruguay is no exception—this discussion is divided, for the sake of clarity, into an analysis of economic and political events.

During the past quarter century, Uruguayans became known among social scientists for their relatively high income per capita (the third largest in Latin America), very low population growth rate (1.3 per cent per year, the lowest in Latin America), and an unusually large urban agglomeration (80 per cent of the population lives in urban areas, almost half of the country's total in the capital city alone). During the past 15 years, however, Uruguay has also acquired a disastrous economic record. Per capita output has either stagnated or fallen, and gross investment, per capita agricultural production, and per capita food production have all tended to drop rather dramatically. Although no reliable unemployment figures are available, the data in Table 1 and most other economic indicators suggest a rather marked increase in the rate of unemployment and an overall decline in living standards.

To compound Uruguay's production troubles, important inflationary pressures manifested themselves all through the 1960's as well as during the past three years. As shown in Table 2, inflation accelerated

during the early 1960's and reached the yearly rate of 125 per cent during 1967/68. After that year, deflationary government policies—including a wage-and-price freeze—succeeded in bringing the rate of inflation down to about 20 per cent yearly. Although a thorough study of inflation in Uruguay has yet to be undertaken, there seems to be little doubt that fiscal and monetary mismanagement greatly contributed to (if they did not cause) the inflation spiral. For example, the year prior to the 125 per cent record inflation, the country's money supply was expanded by 110 per cent (from 14,725 million to 30,976 million

**Table 1: URUGUAY: INDEX OF THE BEHAVIOR OF KEY ECONOMIC AGGREGATES**

Item	1961	1963	1965	1967	1969	1971*
Per Capita GNP**	100	94	95	91	95	100
Gross Investment**	100	86	61	71	83	78
Per Capita Agricultural Production***	98	98	101	78	88	84
Per Capita Food Production***	95	96	104	76	89	88

\* = Preliminary; \*\* = 1961 = 100; \*\*\* = 1961-1965 = 100.

Source: Bureau for Latin America, Agency for International Development, *Summary Economic and Social Indicators, 18 Latin American Countries: 1960-1971* (Washington, D.C.: A.I.D., June 1972), various tables.

pesos) and the government deficit rose by an unheard-of 1,500 per cent (from 295 million to 4,705 million pesos). Part of the inflation may also have been caused or aggravated by food shortages. For instance, during 1966/67, per capita food production fell by almost 16 per cent. (See Table 2.)

What are the reasons for Uruguay's tremendous economic failures? Why did output fail to grow, and why did the government allow inflation to get so out of hand? To these questions we now turn our attention.

The process of economic development is a very complicated one, and economists are still trying to

**Table 2: URUGUAY: INFLATION, THE QUANTITY OF MONEY, THE GOVERNMENT DEFICIT, AND FOOD PRODUCTION**

Years	Yearly Percentage Consumer Prices	Changes In: Money Supply	Government Deficit	Food Production
1962/63	22.0	29.0		1.1
1963/64	41.0	42.0		13.5
1964/65	56.7	102.7		- 4.6
1965/66	73.8	40.1	- 84.5	- 13.5
1966/67	89.6	110.4	1,500.0	- 15.6
1967/68	125.1	53.5	- 11.2	21.1
1968/69	20.3	61.3	184.5	- 3.3
1969/70	17.3	14.4	-31.9	9.0
1970/71	23.6	54.1	414.9	-9.3*

\* = Preliminary

Source: Consumer prices (index, 1963 = 100), money supply (in millions of pesos), and government deficit data (in millions of pesos) are from the International Monetary Fund's *International Financial Statistics*, various issues; per capita food production data (index, 1961-1965 = 100) is from A.I.D.'s *Summary Economic and Social Indicators*. . . , *op. cit.*, p. 46.

understand the secrets of that process. It is known, for instance, that the quantity and quality of labor, the availability of natural resources, the introduction of modern technology, the transformation of economic and political institutions, the supply of managerial and entrepreneurial talent, the degree and form of government intervention, and the widespread use of machinery and other capital goods play key roles in the economic development of a nation. What is still being researched is the particular manner in which all these forces of economic growth combine themselves at the "right" time and in the "right" way to cause a sustained increase in aggregate output.

Yet one fundamental relationship is clear. Just as the individual has the choice of whether to consume all of his income at once and save nothing, or consume part of his income and save the rest for future consumption, nations are faced by the same dilemma. Unless it is assisted by massive doses of foreign aid and capital, a nation must somehow decide how much to consume in the present and how much to invest for future consumption, bearing in mind that greater consumption today necessarily implies lesser economic growth and consumption tomorrow.

### "MISPLACED MODERNITY"

Herein lies the key to understanding Uruguay's economic reality. It is a society which chose to "live it up" while neglecting the need to nurture the country's economic future. Several authors have already

commented on this point. In 1965 and 1966, Herman E. Daly described how Uruguayans were concerned with the distribution of output rather than with its production, and how three different hypotheses concerning the decline of the country's economy coincided on blaming "misplaced modernity," i.e., a desire on the part of Uruguayans for leading a life which the economy could not really afford.<sup>1</sup> In reviewing the economic decline of Uruguay, David C. Redding concluded in 1967 that:

If the general public cannot be convinced that a more competitive economic system, harder work and a changed pattern of investment are necessary to preserve the good life, stabilization prospects will be dim and Uruguay will continue to face an uncertain economic future.<sup>2</sup>

Samuel Shapiro has also written that Uruguayan political leaders:

have felt it psychologically unpalatable and politically impossible to tell their countrymen the truth: that they are living beyond their means, not working hard enough, retiring too early, and aspiring to consume without producing.<sup>3</sup>

Two facts illustrate the point and suggest necessary reforms. Table 3 shows the ratio of consumption (private and private plus government) to gross fixed capital formation during 1966 and 1971. The gap between Uruguay's ratio and that of other countries is illuminating. In 1971, for instance, for every unit of realized investment, Uruguayans and their government consumed 9.5 units. In New Zealand, a country similar to Uruguay in terms of population and livestock production, the ratio was 1 to 3.3. This means that for every unit of investment, Uruguayans consumed three times more of their own output than New Zealanders did. South Korea's gap is similar; Japan's is much greater; the Uruguayan gap is somewhat narrower than that of such high-income countries as the United Kingdom and the United States.

The second fact concerns Uruguay's sectoral struc-

<sup>1</sup> Herman E. Daly, "The Uruguayan Economy: Its Basic Nature and Current Problems," *Journal of Inter-American Studies*, Vol. III, No. 3 (July, 1965), pp. 316-330; and also "An Historical Question and Three Hypotheses Concerning the Uruguayan Economy," *Inter-American Economic Affairs*, Vol. XX, No. 1 (Summer, 1966), pp. 87-93.

<sup>2</sup> David C. Redding, "The Economic Decline of Uruguay," *Inter-American Economic Affairs*, Vol. XX, No. 4 (Spring, 1967), p. 72.

<sup>3</sup> Samuel Shapiro, "Uruguay's Lost Paradise," *Current History*, Vol. LXII, No. 366 (February, 1972), pp. 100-101.

**Table 3: PRIVATE AND PUBLIC CONSUMPTION VS. CAPITAL FORMATION: AN INTERNATIONAL COMPARISON**

Country	Year	Private Consumption Per Gross Fixed Capital Formation	Private Plus Public Con- sumption Per Gross Fixed Capital Formation
URUGUAY	1966	6.7	7.9
	1971	7.7	9.5
New Zealand	1966	2.5	3.1
	1971	2.6	3.3
South Korea	1966	3.9	4.4
	1971	3.2	3.7
Japan	1966	1.8	2.1
	1971	1.5	1.8
United Kingdom	1966	3.6	4.6
	1971	3.5	4.5
United States	1966	4.4	5.9
	1971	4.5	6.1

Source: Computed from the International Monetary Fund's *International Financial Statistics*, vol. XXVI, no. 8 (August, 1973), pp. 210, 222, 264, 364, 368, 372.

ture of production. In this respect, the country's economy is radically different from those of other less developed nations. In most less developed nations, agriculture usually generates from 35 to 60 per cent of the domestic product; in Uruguay, it generates only 15 per cent. As concerns industry and services, they form about 35 and 50 per cent of Uruguay's domestic product, respectively. These statistics tend to identify Uruguay as a country whose sectoral structure is much closer to that of the industrial countries of the world. In the developed countries, however, industry and agriculture appear to have been the source of most output and productivity gains as well as the heaviest contributors to economic growth. In Uruguay, dependence on a huge services sector reflects the nation's bias in favor of the amenities and comforts it provides, despite few possibilities that the services sector can be a source of long-run output and productivity growth.

Hence, if the country wishes to improve its economic record it will have to enact policies designed to encourage an expansion of long-neglected agricultural and industrial supplies while curbing private and government consumption. In the case of agriculture, proper economic incentives and institutions must be introduced so that sizable investments on expanded and improved livestock and crops, technology, disease control, and other sources of high output and productivity growth become profitable to the individual entrepreneur. In this respect, Uruguay's tax system, credit opportunities, exchange rate policies, price-and-wage legislation, land tenure systems, agricultural research capabilities, and other economic and social structures must begin to favor agricultural producers.

Industry, on the other hand, has stagnated because of its confinement in a small domestic market under heavy protectionism. Much of the current inefficient and expensive industrial structure may have to be abandoned in favor of light manufacturing designed to process an expanded livestock and crop output.

None of this can take place until the Uruguayan government and its people decide to tighten their belts and give the highest priority to investment for the well-being of future generations.

## RECENT POLITICAL HISTORY

Uruguay's twentieth century history was, up to the early 1960's, one of relative stability, constitutional rule, and representative democracy. But as the economy began to falter and economic growth came to a grinding halt, social tensions heightened and the entire political system was forced to perform under heavy strain. The gross national product had stopped growing and had started to shrink; so various social groups engaged in aggressive market behavior to preserve their share of the domestic product. Labor strikes became a monthly and then a weekly activity in which mailmen, textile workers, teachers, bus drivers, meat-packers, students, hospital employees, bank clerks, and so on took turns in demanding a "fair" share for their services. As inflation mounted, so did the struggle to maintain everyone's purchasing power, and cost and profit-push inflation aggravated the initial price-level increases. The confrontation between workers and management, students and administrators, and public employees and government budgeting officials placed an incredible strain on Uruguay's traditional political parties, government structure, and individual political leaders.

As a last resort on the part of politicians, the constitution was amended in 1966 to provide for a strong, one-man executive branch as a replacement of the country's unique nine-man Executive Council. Retired General Oscar Gestido, a liberal politician and able administrator, became the new President and made a promising beginning. Nine months later, however, he died of a heart attack and was replaced by his Vice President, Jorge Pacheco Areco. Pacheco, a little-known politician nominated after an obscure intraparty deal, was thrown into the challenging yet uncomfortable position of having to preside over a country in economic trouble and political turmoil.

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Arturo C. Porzecanski is the author of *Uruguay's Tupamaros: The Urban Guerrilla* (New York: Praeger, 1973). Former visiting economist to the International Monetary Fund, he serves as assistant to the editor of *Portfolio: International Perspectives*.

Geisel administration will have to deal seriously with the question of whether, to what extent, and how many of the Brazilian people should take part in the political process at all levels, from simple discussion of political issues to the selection of the President. The decision could determine the shape of the new Brazilian democracy for a generation.

## ARGENTINA

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frequent press reports of shoot-outs and kidnappings of businessmen. At this writing, there is no indication that terrorist activities will end. Perón finds himself in a political quagmire of indecision because, as an astute politician, he knows he cannot really afford to antagonize the left or the right within his own Justicialist movement. His ability to rule and to exercise his presidential authority effectively is severely circumscribed by this division among his followers. Still, Perón has assumed the awesome responsibility of working toward pacification and thereby hopefully precluding the continuing violence and chaos that could shorten his tenure as President.

In an address to the Argentine Legislative Assembly on May 1, 1966, President Arturo Illia made the now famous announcement: "El pasado no puede dividir a los Argentinos, de la misma manera que no puede regresar." That is to say: "The past cannot divide the Argentines, and it cannot return."<sup>16</sup> But Argentina has really never been able to shake off the cloak of her past, and now the past is part of her future. Juan Perón has returned, and many who once wished he were dead now consider him their only hope for some measure of stability. It is Perón's responsibility to make sure that past mistakes do not continue to divide this remarkable country and to set the nation back on the path toward political development.

<sup>16</sup> Arturo Illia, "Mensaje Presidencial," *Diario de Sesiones Cámara de Senadores de la Nación*, May 1, 1966.

## PANAMA

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drawal from administration and operation of the canal in no less than 50 years. Although widely differing in their suggested timetables, both governments agree in principle that Panama will reassert her sovereignty and do so in two stages, first over the Zone, and then over the canal. Panama resents the United States military presence and asks for the withdrawal of the Southern Military Command with its 11 bases and 12,000 troops, while the United States seeks to retain those installations for "an additional, specified period of time."

<sup>16</sup> Illueca, "Las Negociaciones sobre el Canal de Panamá," p. 142.

Eventually, Panama hopes to neutralize the canal and secure global recognition for its permanent neutrality. All rational arguments in this nuclear missile age indicate that such neutralization is the only possible viable defense for the canal. Meanwhile, Panama asks that payments for the use of the canal more realistically mirror its value. The United States, in turn, offers to raise the rent to \$25 million a year. Panamanians point out that this figure fails to reflect economic realities, an observation strengthened by the impressive studies of the U.N. Economic Commission for Latin America. As to the question of the construction of any future canals across the Isthmus, Panama prefers first to renegotiate a treaty for the present canal and then discuss separately any agreement on canals which might be built in the future. In that regard—having learned her lessons the hard way—Panama insists that her people alone will select the new routes in accordance with national interests, will exercise all jurisdictional rights and powers over any new canal, and will exclude foreign bases.

Panama's position in these negotiations is firmly rooted in nationalism, the most potent force in Latin America in the second half of the twentieth century and one which the United States Department of State consistently fails to understand or appreciate. Perhaps Jorge E. Illueca, Panama's leading authority in international law, best summarized Panama's goals within the context of nationalism when he concluded: "What Panama desires is a Panamanian canal, run by the Panamanians for the Panamanians to benefit Panama."<sup>15</sup> Only by exerting her effective sovereignty over the Zone and canal will Panama gain the independence she so hopefully proclaimed 70 years ago.

## URUGUAY

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Lacking any background in or ideas about how to get the economy moving, he designed narrow and short-lived policies. In answer to the economic demands of the people, he printed money and enlarged the government deficit; in response to political dissent, he adopted a "get tough" attitude which resulted in shutting down of opposition newspapers and in the outlawing of leftist political parties.

Meanwhile, a group of disenchanted peasants and Montevideo leftists had formed the Tupamaro National Liberation Movement.<sup>4</sup> Frustrated by the unresponsiveness of the Uruguayan political system to people's demands for economic progress and by its inability to continue delivering "the good life," they chose to wage an armed struggle with the purpose of seizing political power. Once in power, they hoped to resolve Uruguay's economic condition by introducing

<sup>4</sup> Arturo C. Porzecanski, *Uruguay's Tupamaros: The Urban Guerrilla* (New York: Praeger, 1973).

substantial economic reforms under the direction of strong state intervention and planning. Also, they wanted the new government to pursue nationalistic political and cultural goals.

The Tupamaros chose to establish an urban guerrilla group and to operate in and around the capital city, Montevideo. Joined by an increasing number of men and women from Uruguay's middle class (students, employees, professionals), the Tupamaro organization was able to attract many devoted and intelligent people. The guerrillas designed and successfully carried out many ingenious military and political strategies and tactics, and became known in many countries for their daring actions. The Tupamaros tried to embarrass the Uruguayan government and weaken its power and respectability, thus highlighting its impotence and ineptness. President Pacheco tried to isolate the guerrillas by adopting emergency "state-of-siege" powers, banning political gatherings, instituting press censorship, and other similar policies. In the meantime, the country's poorly trained and little motivated police force engaged in the actual counterinsurgency operations.

By the time his term of office was ending (1971), President Pacheco believed that the police were by no means able to control the Tupamaros. Kidnappings, robberies, massive jail breaks, and other propagandistic actions kept the Tupamaros in the spotlight while the government's power continued to deflate. In desperation, Pacheco turned to the armed forces and put them in charge of the counterinsurgency effort. National elections were held and, under charges of electoral fraud, Juan M. Bordaberry, Pacheco's hand-picked successor, became the new President.

A law-and-order man, Bordaberry declared war on the Tupamaros and made it possible for the armed forces to engage in a massive and definitive anti-guerrilla campaign by declaring a "state of war" which effectively cancelled all constitutional rights and individual freedom. The armed forces became free to engage in massive arrests, interrogations, and searches, and to obtain confessions from thousands of Tupamaro members, collaborators, and sympathizers. Consequently, by early 1973 the Tupamaro organization was disbanded and most of its active membership imprisoned.

The military became increasingly disenchanted with and contemptuous of traditional politicians during their struggle against the guerrillas. Heady from their military success, the armed forces staged a "soft coup" when a series of political scandals were discovered in February, 1973. The officers who directed the coup nevertheless allowed President Bordaberry to remain in office although he subsequently had to rule through the chairmanship of a newly formed Security Council, whose members included key ministers (approved by

the military) and the commanders-in-chief of the three armed forces.

During June, 1973, Uruguay took one step which brought it closer to becoming just another military-controlled dictatorship. President Bordaberry, urged by the military, closed Parliament and arrested many legislators from a broad political spectrum.

However, as of this writing, the Uruguayan armed forces have not been able to agree on a political or economic ideology, nor have they been able to find a leader who would mercifully depose President Bordaberry and move the country in some direction or other. Until this happens, Uruguay will continue to behave as a decrepit and sinking ship of state with no captain, an incompetent crew, and a host of hungry passengers.

## VENEZUELA

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*Times*, tourist promotion brochures which used to identify the nation as the northern-most country of South America are now describing it as "the country in the Caribbean."<sup>14</sup>

Interest in the Caribbean extends to Cuba. Upon discovering a cache of arms supplied to local guerrillas by Castro, the Venezuelan government severed diplomatic relations with Havana in 1963 and spearheaded the move within the Organization of American States (O.A.S.) to have sanctions applied to the Communist regime by other nations. Now that Cuba's Premier has taken revolution off his export list, Caldera's foreign minister, Aristides Calvani Silva, has been leading the fight within the O.A.S. General Assembly to remove sanctions and allow individual countries—congruent with the precepts of ideological pluralism—to conduct relations with Cuba in accord with their own interests. "There is no reason why, when international organizations such as the United Nations recognize Marxism-Leninism, the American states should not do so,"<sup>15</sup> Calvani has stated.

Although unable to gain O.A.S. approval of her position, Venezuela will almost certainly restore diplomatic ties with Cuba within the next few months—an act that follows increased professional, cultural, and athletic contacts and that may be viewed as the counterpart in foreign relations to Caldera's domestic pacification of the far left. Because of its growing influence in the Caribbean and its aggressive advocacy of ideological pluralism, the Caracas government sees itself playing an increasingly important leadership role among the developing nations.

Despite greater independence and rising economic nationalism, the Caldera administration has maintained its country's traditionally friendly relations with the United States. Unlike the one-sided rela-

<sup>14</sup> April 22, 1973, p. 17.

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