

## Uruguay

<b>Status Index</b> (Democracy: 5.0 / Market economy: 3.6)		<b>8.6</b>	<b>Management Index</b>		<b>7.4</b>
<b>System of government</b>	Presidential Demokratie		<b>Population</b>	3.4 mill.	
<b>Voter turnout</b>	91.8 %		<b>GDP p. c. (\$, PPP)</b>	8,400	
<b>Women in Parliament</b>	12.1 % (2003)		<b>Unemployment rate</b>	13.6 % (2000)	
<b>Population growth<sup>a</sup></b>	0.7 %		<b>HDI</b>	0.834	
<b>Largest ethnic minority</b>	8 % <sup>c</sup>		<b>UN Education Index</b>	0.93	
			<b>Gini Index</b>	44.8 (1998) <sup>b</sup>	
Data for 2001 – if not indicated otherwise. <sup>a</sup> Annual growth between 1975 and 2001. <sup>b</sup> Data from urban areas only. <sup>c</sup> Whites 88 %, Mestizos 8 %, Blacks 4 %. Source: UN Human Development Report 2003.					

### 1. Introduction

Uruguay's development in the twentieth century, marked by early, if "dependent," modernization, stable democracy, and an active, powerful civil society, is unusual in the Latin American context. A continuous boom in beef exports, lasting until the start of the 1950s, made the small, highly urbanized country prosperous and allowed for distribution policies that, with the Batlle reforms (1900–1930) turned Uruguay into one of the first modern welfare states in the world.

The Uruguay model also included the early implementation and practice of a multi-party democracy that was rooted throughout the country. Despite being highly factionalized, the traditional parties, the Blancos and Colorados, were able to organize political debate in the country with a high degree of participation and, when needed, to reform political institutions right into the 1960s. The degree of social homogeneity was high, and the metropolis of Montevideo played an increasingly dominant role. Notwithstanding the tension between capital and labor, there were no noteworthy national, religious or social conflicts.

The Uruguay model went into crisis when the price of beef exports began to decline in the 1950s, undermining the foundation for the model's distribution policies. The ruling party, which became increasingly rigid, was unable to combat growing social impoverishment or resolutely diversify and regenerate the economy. Instead, between 1967 and 1973, the government transferred power to the military, and technocrats associated with it, to combat protests against these developments by the organized Left, in particular by the powerful *Tupamaros* urban guerilla movement.

This authoritarian military regime lasted from 1973 until 1985 and was at times extremely repressive. After a series of failures and defeats, it was succeeded by a transition government (1985–1989) that was negotiated between the military and the civilian opposition. Democracy was restored and can be considered consolidated since the first third of the 1990s. In 1996 it was strengthened by long-overdue institutional reforms of the party and electoral systems. In contrast, necessary reforms to the state administration, social security system and the economy, which remains heavily dominated by the state, have progressed more slowly. They are being further hindered by the acute financial and economic crisis facing the countries in South America's southern cone, a crisis that has particularly weakened Uruguay.

## **2. History and characteristics of transformation**

The transformation processes in politics and the economy have proceeded at different speeds and with varying results. While the transition to democracy was successfully completed in barely a decade, the gradual reorganization of the economy, which had already been initiated under the dictatorship, has progressed more haltingly and remained more limited. After the authoritarian regime went into decline and a phase of gradual liberalization was introduced after 1980, the actual political transition began with the implementation of a pact that provided for the restoration of the 1967 constitution. The pact was negotiated in the summer of 1984 between the “softliners” in the regime and the moderate opposition. This pact, made among the political elites, quickly slipped out the military's control. The Blancos, headed by Wilson Ferreira Aldunate, and who were radically opposed to the military regime, initially were excluded from the pact but were later brought on board, which then made the pact fully representative.

President Julio María Sanguinetti (1985–1989) of the opposition wing of the Colorado Party, which was close to the military regime, won the fair, if not quite free, elections of 1985. Just like his successors, he was dependent upon working closely together with the parliamentary opposition. As a result, institutional democratization was carried out in broad consensus. In the process, the military retained their former posts. Their demand for amnesty for violations of human rights during the dictatorship launched a three-year tug-of-war. Finally, a workable solution in the form of a statute of limitations was found that was acceptable to the military. In 1989, it was written into law and finally passed in a referendum by a convincing majority. The moral coming to terms with the issue was postponed for a later date, however. Since then, there have been three successful democratic transfers of power. The first, in 1989, put the Blancos' candidate, Luis Alberto Lacalle (1990–1995) in power, and the second, in 1995, returned Sanguinetti to power (1995–1999). After a new electoral system was introduced, Sanguinetti was succeeded at the beginning of 2000 by Jorge Batlle (2000–2004), another traditional Colorado politician, although from a different faction.

Uruguay's problems with economic transformation have consisted primarily of the need to diversify a fundamentally market-based, though traditionally state-dominated, agrarian export economy that is dependent on the global market and has fallen into crisis. The state-controlled economy had to be modernized through deregulation and privatization, and the social security system that expanded during boom times, but was no longer efficient, had to be reformed. At the same time, growing social impoverishment, a phenomenon of all southern cone countries, had to be fought. The repression and initially unbridled neo-liberal experiments of the military regime (with approximately 50 % loss of real wages between 1970 and 1983) had rapidly accelerated poverty.

Economic reform has been checked since the 1980s, however, by Uruguay's tendency to stick to its tradition of consensus, moderation, gradualism, and limited entrepreneurial risk. Still, despite the pressures of stagnation, capital flight and increasing foreign debt in the 1980s, some progress was made during the phase of democratic consolidation, following on the more moderate neo-liberal concepts of Végh Villegas, who was economics minister during the dictatorship.

The relative successes included increased exports of non-traditional products, debt restructuring, lower energy prices, and—despite initially faltering and even being voted down in a 1992 plebiscite—increased deregulation and privatization of the bloated state and state-controlled business sector (*entes autónomos*). Finally, in the 1990s, growth rates increased and reached a constant level of around 5 %, inflation was checked, and unemployment was maintained at rates around 10 %.

There was no sign of a sustainable change of direction, however, in part because of limited exertion on the part of the reformers. Since the end of the 1990s, Uruguay has once again been drawn into the maelstrom of economic instability in the shape of the recent financial and debt crisis, caused by deteriorating terms of trade and the economic slowdown of its larger neighbors.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Since the early 1990s Uruguay has once again become a stable democracy based on the rule of law, without serious deficiencies in any of the most important areas. Existing social and economic problems have not impeded or delayed the transformation to democracy. The initial weakness posed by reduced institutional efficiency and legitimacy was largely ameliorated by the electoral reforms of 1996. The one outstanding deficit, that of morally coming to terms with the dictatorship's crimes, is now being addressed.

### 3.1.1. Political system

(1) *Stateness*: Uruguay has no problems in this field. The state has a monopoly on the use of force, as well as the resources and instruments to implement political decisions. Defining citizenship and who qualifies as a citizen poses no politically relevant problems. All citizens have the same civil rights. State and religion are separate, and the political process has been secularized. Public safety and order are ensured, although crime is increasing in Montevideo. The administrative system is sufficiently efficient, even if in need of reform.

(2) *Political participation*: There is effective universal suffrage, and elections are carried out appropriately. The elected government observes the principles of an open, competitive electoral process. It has the power to govern effectively. There are no entities with veto power or political enclaves in the grip of the military or other groups. Freedom of opinion, the press, and information are not impinged upon, nor are freedom of assembly and association. The media is varied and free from government influence, and there is public debate. There is broad citizen participation and a traditionally strong civil society without ethnic tensions. Territories are proportionately represented.

(3) *Rule of law*: There is a functioning system of checks and balances. The legislature, executive and judiciary operate independently of each other. There is, however, a traditional tendency and institutional pressure for government and parliament to find consensus. Corruption is, by Latin American standards, rather low and, according to the Corruption Perceptions Index of Transparency International, has even diminished somewhat in recent years from 4.3 in 1998 to 5.1 in 2002 (larger numbers indicate a higher degree of perceived honesty). Government actions are subject to judicial and parliamentary review, and scandals are often uncovered.

The Uruguayan administration of justice is well differentiated and traditionally independent, although it suffers at times from lack of efficiency, slow procedures, and aging staff. Civil rights and the rule of law for citizens are in place. The outstanding human rights issue of coming to terms with the crimes of the military regime has now been addressed by the *Comisión de la Paz*, an initiative of President Jorge Batlle, and by the public at large. This also represents a legal obligation derived from the 1989 Limitation Act which in its art. 4 had obliged the government to clarify the remaining of the registered „disappeared“ people and which had been accomplished only partially.

### 3.1.2 Patterns of political behavior and attitudes

(1) *Institutional stability*: The democratic system is effective and efficient, and its institutions are stable and are accepted as legitimate by all important actors. On the

whole, there is no illegal exercise of influence by state bodies. As in any democracy, exceptions become the subject of scandal, are publicized and the perpetrators prosecuted. There are no forces with veto powers, nor is there any indication of lingering putsch ambitions on the part of the military.

(2) *Political and social integration*: The party system is stable, and the level of fragmentation and volatility is low. By tradition, the parties, their candidates and different factions are deeply anchored in society. The long-overdue and much-postponed 1996 reform of Uruguay's traditional electoral and party system, which introduced primaries and a run-off decision (*ballotage*) between the two leading presidential candidates, further reduced the degree of fragmentation, facilitated the creation of stable majorities, and improved the government's ability to act.

The first implementation of these new rules in the 1999 election cost the candidate of the left coalition, Vázquez, the election after he had won the first round (Vázquez 38.2 %, Batlle 31.5 %, Lacalle 21.1 %), and put Jorge Batlle, a Colorado veteran, in power, with 51.6 % of the votes (compared with Vázquez's 44 %). Batlle won thanks to the Blanco votes he gained after Lacalle was eliminated. There is a very high degree of organization and ability to cooperate among representatives of various interest groups. The population's rejection of an authoritarian regime (around 90 %) and approval of democracy (at or above 80 % from 1995 to 2000, according to Latinobarómetro) are certainly among the highest in Latin America, even though politicians are sharply criticized at times. The strong, democratic civil society in Uruguay, where political and social grassroots organizations have a long tradition, has worked in favor of democracy and did so even during the dictatorship. From the beginning this has played a large part in the transformation process.

## 3.2 Market economy

Uruguay has made some progress in transforming its economic system, but that progress is still limited and not particularly sustainable. In recent years progress has been increasingly hindered by the effects of the acute financial and economic crisis gripping all the southern cone countries.

### 3.2.1 Level of socioeconomic development

Uruguay's economy is not typical for a developing country. Its primary indicators reflect a decades-long structural decline from earlier prosperity. It has been possible to hold off such decline at times when growth and favorable influences from neighboring countries, Argentina and Brazil, allowed. Because Uruguay is a small country without strategic raw materials and without diversified exports, it is extremely dependent on external forces—especially growth in neighboring countries

as well as, more recently, Mercosur—to fuel a high service sector ratio (70 % of the employed), an especially prominent banking and finance sector, and tourism. Uruguay's level of economic development is relatively high in the Latin American context, although it remains significantly below that of the developed world.

Measured by HDI and the UN education index, its developmental status reflects the legacies of earlier eras in its clearly higher development level, traditionally relatively balanced income distribution, low regional disparities, and an expansive, if technically outmoded, infrastructure. There are no sections of society excluded from the economy on the basis of poverty, education, or gender. Poverty has increased overall, however, caused by the waves of impoverishment during the 1970s and 1980s, which weakened even upper income groups and which to this day have not yet been structurally contained. The 2002 economic and financial crisis led to further impoverishment.

### **3.2.2 Market structures and competition**

The fundamental elements of a market economy with free competition are in place. Traditionally, Uruguay is an economically liberal country with corresponding institutions and guarantees, including the banking system, capital market, and open foreign trade. However, one legacy of the twentieth century has been strong state activity in numerous sectors aimed at developing the economy and infrastructure and at guaranteeing the welfare state.

The process of deregulation and decentralization, along with divestiture and privatization of state-owned or state-controlled enterprises, had already begun under the dictatorship and has continued since then. The fact that Uruguay did not make much progress during the reporting period is partly explained by its lack of attractiveness for potential inward investors. On the other hand, because of its advantageous location, Uruguay has remained a financial center of Latin America, although it has suffered considerably from the currency and bank crisis that has hit southern cone in recent years. This has been worsened by the bank supervisory authority's inability to effectively contain over-heated speculation and dubious or fraudulent transactions.

### **3.2.3 Currency and price stability**

The government and the central bank, whose formal independence does not leave much room for maneuvering in the current situation, certainly take consistent pains to keep inflation under control and to pursue appropriate exchange rate policies. During periods of sustained economic boom, their efforts have met with considerable success. During the 1990s, for instance, the currency was stabilized for a long period,

and the annual rate of inflation was first limited to about 35 %, then subsequently to between 5 % and 10 %, and even below 5 % in 2000 and 2001.

By the start of 2002, however, a serious liquidity, banking and currency crisis began to take shape because of the massive withdrawal of Argentine accounts and other unfavorable circumstances in the country and the region. By mid-2002 the crisis was contained for the short term with large loans from multilateral organizations, led by the IMF, in the amount of about 30 % of Uruguayan GDP (\$3.8 billion to the end of 2003) and an emergency program for the banking sector.

The recession and the sharp drop in the value of the peso accelerated inflation (14.5 % and rising in 2002) and contributed to a significant rise in the public sector debt ratio (in relation to GDP), despite considerable efforts at austerity and an only slight increase in the budget deficit under the circumstances (based on slightly improved tax revenues). Only about half of the financing required for that debt in 2003 was covered by international loan assurances as of the end of 2002. In July 2002 abandonment of the target range system for foreign exchange rates due to continuous losses of reserves led to an almost 50 % loss of value of the peso against the US dollar. This steep depreciation significantly increased the cost of servicing public foreign debt that was once again accumulating and had reached 47 % of GDP.

#### **3.2.4 Private property**

Sufficient framework conditions for a functional private sector exist in Uruguay and are part of its tradition. Property rights and property acquisition rules are well defined. Private enterprises are the rule. Privatization of government enterprises has progressed somewhat during the period and continues. Intensive continuation of deregulation, a quicker pace and more private willingness to take on risk would be desirable, however.

#### **3.2.5 Welfare system**

Uruguay is an old, highly developed welfare state according to the European model, with traditionally high standards, that has been inefficient for decades and is increasingly impoverished. Equality of opportunity exists in principle, even if it is now at a relatively low level. Social welfare claims are honored in principle but have been devalued. A central task of politics is to reorganize the ponderous mechanisms of the customary welfare state (e.g., protection against job termination or early retirement for the privileged and overstaffed public service) and to modernize the systems. Unemployment insurance and social insurance in particular are in need of reform due to demographic stagnation, an unemployment rate that is again on the

rise, and which now fluctuates around 15 %, and the increase in informal and legally unprotected employment.

These reforms have begun, *inter alia*, with the partial privatization of social insurance but have not yet made convincing progress. The deeply rooted recognition of social claims, rights and obligations, the traditional welfare state consensus, and customary forms of social partnership are all part of Uruguay's high reserves of "social capital," unequalled in Latin America. These have favored both certain corporatist mechanisms as well as the rapid and convincing return to democracy. As in some European countries, these same achievements have also reduced the ability of private and public actors to respond to crises and slow the pace of a neo-liberal turn-around.

### **3.2.6 Strength of the economy**

Uruguay's economic performance has definite limits that are in part, and especially in recent years, based on cyclical conditions such as world market prices, regional contraction, the crisis in Argentina, BSE or storms. The lack of diverse exports, limited attractiveness for investors, dependence on its neighbors, increasing foreign indebtedness and loan dependency are, however, also structural deficits that can only be addressed under improved economic conditions.

The per capita GDP, which after considerable fluctuations grew by an annual average of 2.2 % during the relatively stable 1990s (1990–1999) and was as high as 5 % between 1996 and 1998, has declined by about one-fifth since 1999, according to CEPAL. The trend in other macroeconomic data and unemployment is correspondingly negative.

### **3.2.7 Sustainability**

Environmental concerns are effectively addressed in many sectors that depend upon them, for example, modernized stockbreeding, viniculture and tourism. However, stimulating growth is seen as the main problem that has priority in the event of a crisis. Since growth periodically drops under structural and cyclical pressure, ecological sustainability exists only to a limited extent and there is little orientation toward the future. Up-to-date infrastructure exists in principle but requires more reforms and modernization.

Uruguay has a solid and well-developed system of primary and secondary education and a traditional post-secondary state educational sector that is financially strapped and not internationally competitive. Government education expenditures are about 3.3 % of GDP for 1995–1997 according to UNDP. The impact of the scientific brain

drain precipitated by the military regime is still being felt. Research and development institutions are in even greater need of expansion, especially the post-secondary institutions. Their reform was initiated in recent years and is widely discussed, as is educational reform in general, but suffers from financial bottlenecks in the public sector. In contrast, private universities are registering noticeable initial success.

#### **4. Trend**

(1) *Democracy*: Since the start of the 1990s Uruguay has been a consolidated democracy under the rule of law whose performance has been enhanced by institutional reforms in 1996. All relevant criteria for state identity, the electoral regime, political liberties, effective power to govern, checks and balances, and the rule of law had already been satisfactorily met prior to the reporting period. These achievements have been maintained. In some areas, for example in the efficiency of the courts and administration, performance has improved slightly.

The first president elected under the new electoral law in 1999 has taken advantage of the greater weight that his initiatives in Parliament and the public have earned him. He has used this for greater reform efforts on the one hand (e.g. administrative reform and privatization) and on the other to energetically advance the long-delayed process of coming to terms with the crimes of the military dictatorship. The latter has improved Uruguay's human rights balance sheet. The fact that interactions between the executive and Parliament sometimes end in deadlocks that are only resolved through time-consuming compromises that do not satisfy everyone is part of the normal democratic process. Furthermore, these compromises indicate that, in contrast to most transformation countries outside Europe, Uruguay has not developed any democratic deficiencies in the area of checks and balances, even over the long term.

(2) *Market economy*: The country's fundamental development indicators have changed only insignificantly during the reporting period, while improving slightly in a few areas during the first three years.

Under the pressure of recession, the financial and currency crisis, and the growing debt burden, development has stagnated in the last two years and even declined in some areas. The institutional framework for the market economy, which has been broad and favorable traditionally, has not changed fundamentally. The new multilateral aid programs and loan agreements have inevitably further narrowed the scope for both government and private allocation decisions, however.

Overall economic development in the last four years has clearly declined, in some sectors at a rapidly increasing pace since 2002 due to sharp cyclical downturns. Economic performance has stagnated overall. No significant developmental advances were made. Compared with previous downturns, there are some intensified

institutional or politically created buffers in areas such as deregulation, privatization and joint ventures. On the other hand stability has been slightly enhanced through measures that include budgetary discipline and a current account balance that, while negative, is at least stable. Increased stability is also reflected in other key indicators and in the circumspection shown in cooperative emergency planning.

**Table: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP Index	UN Education Index	Political Representation of Women <sup>a</sup>	GDP per capita (\$, PPP)
1998	0.825	0.821	0.74	0.91	-	8,623
2000	0.831	0.828	0.75	0.92	11.5	9,035

<sup>a</sup> Percentage of female representatives in Parliament after the parliamentary elections of 1999.  
Source: United Nations Development Report (UNDR) 2002 and 2000.

**Table: Development of macroeconomic fundamentals (1998–2002)**

	1998	1999	2000	2001	2002 (2/4)
Growth of GDP in %	4.4	-3.4	-1.9	-3.4	-10.5
Export growth in %	0.3	-7.4	6.4	-8.8	-23
Import growth in %	7.6	-5.8	0.1	-7.7	-25.6
Inflation in % (CPI)	8.6	4.2	5.1	3.6	30.0
Unemployment in %	10.1	11.3	13.6	15.3	17.0
Budget deficit in % of GDP	-1.0	-4.1	-4.0	-4.2	-4.2
Current account balance in million \$	-475	-507	-530	-480	60

Sources: CEPAL (2002): *Balance preliminar de las economías de América Latina y el Caribe*; Banco Central de Uruguay 2002 (<http://www.bcu.gub.uy/autoriza/peieco/ieco02i0302e.pdf> (2.18.2003)); Dresdner Bank (2002): Perspectives in Uruguay, in: Latin America, 12/2002

## 5. Transformation management

### 5.1 Level of difficulty

The factors favoring Uruguay's transformation included the existence of the basic structures of a market economy, the relatively high level of education, secure state identity, the absence of ethnic or religious conflicts, and the country's high level of

social and political development. Additional factors include strong liberal democratic traditions, functioning rule of law, participatory civil society, long practice in the search for social consensus, and the regulated (and thus peaceful) resolution of conflicts. Uruguay has slipped down to a “middle income” country only in regard to its economy. During the reporting period, Uruguay faced two great difficulties. First, it had to manage the social consequences of a particularly repressive military dictatorship, which included polarization vs. reconciliation, brain drain and impoverishment. Second, it had to reorganize the economy to manage the visibly worsening economic situation and adverse regional conditions affecting a traditionally monocultural export economy of a small, dependent country.

## **5.2 Reliable pursuit of goals**

The transformation to democracy has proceeded smoothly and was, from the beginning, goal-oriented. The steps toward reform were decisive and, as a whole, cohesive, and were implemented logically. Priorities were clear in each case. The actors were also, by and large, in agreement over the strategies needed for further reforms to stabilize the economy, improve competitiveness and increase the efficiency of the state apparatus. This was despite differences of opinion about the pace and intensity of certain measures and despite the level of consensus that had to be maintained between the government and Parliament, and between the parties and the various governments.

There was more obvious continuity between the two administrations of the reporting period, Sanguinetti and Batlle, than, for example, between Lacalle and Sanguinetti. Privatization initiatives in the energy and telecommunications industries and administrative, governmental and education reforms have, for example, progressed only in recent years. The steps toward reform have been taken with less decisiveness in the last three years due to the need to respond to the economic crisis. Accordingly, the success of politically attaining the expectations of various economic and social actors is also limited. For the time being, “stability” has become the top goal.

## **5.3 Effective use of resources**

As a whole, efficient use has been made of available economic, cultural and human resources in the transformation process. Management of the process has been appropriate, and judiciousness and an ability to compromise marked necessary reforms. The political and civil society traditions of Uruguayan society, which support democracy, were utilized from the beginning for the transformation process. They have also had great significance for ongoing institutional and economic reform projects during the reporting period, especially as economic resources have dwindled.

Some progress has been made in limiting corruption and combating smuggling, which is particularly urgent, but little headway has been made on the troubling problem of the growing informal sector. Tax revenues also grew slightly. The range of public services, including those in areas to do with development, has traditionally been broad. In the meantime, however, like everything else, it has been reduced by the crisis. This shall not hide that some problems in the effective use of resources existed even before the actual crisis, especially in some cost intensive sectors as is the health system. Above all the public health system has chronic problems with personnel and equipment, the private insurances are without exception highly indebted. All in all, however, Uruguay's current problem is not so much a failure to make efficient usage of its available resources, but above all, the sheer dwindling of those resources.

#### **5.4 Governance capability**

Throughout the transformation process, the government and political leaders have acted with political acumen, including in their timing. They have used tools and strategies appropriately, avoided particularly poor priorities and finally, with authority and in the face of criticism, they brought about the long-overdue institutional reform of 1996, which they implemented during the reporting period. In the process they have shown an ability to learn, correcting an initial, widely criticized return to the inefficient system of the previous democracy. On the whole, the same applies to the ongoing implementation of reforms to the bloated interventionist and welfare state, despite the occasional delays, deadlocks and digressions that result from normal democratic power struggles. However, large portions of the administrative reform process (*Reforma del Estado*) already initiated by law in 1995 and widely discussed by experts and the public (not only in Uruguay), were bogged down in bureaucracy, weakened by compromise, or achieved the opposite of what they had intended.

#### **5.5 Consensus-building**

The Uruguayan political system presumes a high level of consensus among various political forces a consensus that was present in the past, together with a strong tradition of civil society. Although the elements of proportional democracy present in earlier constitutions have largely vanished, Uruguay has, at least, remained a consensus democracy with concordant elements and corporatist mechanisms. A broad social consensus in favor of democracy, which included a market economy as a matter of course, existed even under the dictatorship that did everything to suppress that consensus.

It has guided all significant groups through the entire transformation process and survives unimpaired today. There are no anti-democratic actors with veto powers. Despite having conflicts and strenuous arguments, political groups are guided by moderation and willingness to compromise and form coalitions, which, however, can put a brake on energetic reforms. Presidents are likely to appoint members of the opposition to their cabinets or to other high offices, who then often resign for a brief period shortly before the next electoral campaign. One of the enduring achievements of democratic transformation has been the integration within the political system of the formerly excluded “newer” third party, the leftist coalition Frente Amplio, which was eventually consolidated in the 1999 elections.

All factions of the Uruguayan political elite understand that the large reform package currently on the agenda requires a broad base far beyond the normal parliamentary alliance of Colorados and Blancos, and they are making real efforts to achieve this. This is also apparent in the more recent initiatives by the president to come to terms with the dictatorship’s crimes. This reckoning had been put on the back burner until sufficient consensus existed and the danger of further social fissures receded, and which a president with a narrower legitimacy (under the old electoral system) could hardly have undertaken with any success.

## **5.6 International cooperation**

Uruguay is a small country dependent on the world around it and even during its export-intensive past it relied heavily on international cooperation. Despite this, Uruguayan actors have largely advanced and implemented the transformation to democracy on their own, without external assistance. However, the reforms aimed at modernizing the market economy and the state that continued during the reporting period, required and still require constant international support. Because of the regional crises at the end of the twentieth century and the more recent sharp cyclical downturns, this support has focused primarily on stabilization measures. Uruguay is willing and able to cooperate. It is a reliable member of Mercosur, meeting its obligations as best that it can, and is making efforts to advance the hemispheric common market (or, for the time being, to join NAFTA).

Besides this, the country, which is viewed as a reliable and conscientious debtor, cooperates in a disciplined fashion with the IMF and other multilateral actors in the comprehensive loan and support program that was agreed upon in August 2002. Its international credit ratings, at B3 from Moody’s and B– from S&P, also indicate good will, despite its disastrous situation (2002).

## 6. Overall evaluation

Based on these results, the report makes the following evaluation:

(1) *Originating conditions*: The Uruguayan transformation is a chronologically staggered, two-fold transformation. Since a market economy already existed, the focus of transformation was initially on democracy, which was successfully consolidated in the early 1990s and deepened thereafter through further institutional reforms (1996). The simultaneous transformation and modernization of the economy is still in process.

The originating conditions for the transformation to democracy were good in two respects. First, all criteria could be met quickly because there were no problems with state identity, and the strong traditions of democracy, rule of law, and civil society promoted a broad consensus among relevant stakeholders in the transition. Secondly democracy had already been consolidated at the start of the reporting period, and it has been maintained, deepened and further developed. The originating conditions were, in principle, favorable for the modernization of the economy because a market economy did not have to be created, and economic cycles in the 1990s allowed for considerable stabilization of important indicators, which supplied the basis for the first steps in the direction of reorganization. On the other hand, Uruguay's structural foreign dependence, the contraction of markets, and the rapidly deepening financial and currency crisis in the southern cone that began in 1999 all created unfavorable conditions.

(2) *Current status and evolution*: The ground gained in both areas of transformation was rather limited during the reporting period. In the area of democratic transformation, the electoral reforms of 1999 were implemented for the first time, new and broader initiatives to come to terms with the crimes and human rights violations of the dictatorship were initiated under the *Comisión de la Paz*, and the debates on reorganizing the state and the economy grew more intense. Cooperation between decision-makers and elites improved somewhat. Democracy retained its vitality and continued to develop.

In the area of economic reorganization, the relatively unfavorable structural parameters did not change, and the scope for action was further reduced by the sharp cyclical downturn at the end of the 1990s. All important reform programs—administrative and state reform, education reform, tax reform, reorganization of the welfare system, deregulation, privatization of state enterprises, diversification and development of programs to encourage investment—stagnated or were postponed starting in 2000. Instead, the government undertook more urgent crisis management

to cushion the downturn, contain the financial and currency crisis, and stabilize the economy. Because development suffered this setback, transformation to a market economy was delayed during the reporting period. Whether it can be successfully accomplished with stabilization measures taking hold, will not be apparent before the end of 2003, at the earliest.

(3) *Management*: Management of the democratic transformation was successful prior to the reporting period and has remained so. As far as transformation to a market economy is concerned, serious efforts were made and there was a solid sense of purpose, but success was limited by unfavorable economic conditions. The level of difficulty in the area of democracy lessened, while it increased substantially in the area of the economy. Success in achieving goals remained constant but the effective use of resources declined because the resources themselves and, hence, scope for action shrank. Organizational capability in the matter of democracy increased slightly, while clearly declining in the matter of a market economy, again based on objective difficulties. Consensus was maintained and expanded. International cooperation was intensified and deepened, especially in the wake of the multilateral stabilization agreement. The key decision-makers managed transformation in a relatively accomplished manner, if clearly more restrained in the area of a market economy.

## **7. Outlook**

The transition to democracy has been completed and continues to be deepened in Uruguay. This process must be continued in order to avoid a reversion. Still remaining on the agenda are significant progress in coming to terms with human rights violations under the dictatorship; improving the efficiency of the judicial system; and the larger job of reforming the state and administration, infrastructures, welfare system and educational system.

In the economic area, the main problems will be creating more room for maneuver and moving from short-term crisis management by way of stabilization measures back to gradual structural changes that can be planned and counted on in the medium term. How quickly this can be done does not lie solely within the power of Uruguayan actors. If the economic, financial and debt crisis gripping the countries of the region deepens, necessitating greater debt rescheduling, the process could be set back even further and progress stymied.

In any event, the pace of economic reorganization will be limited by the constellation of the Uruguayan system, which is “moderate” in every respect—including the willingness to take risks and expectations of growth. The system is oriented toward consensus and concerned with social balance. This is not a fundamental disadvantage, however, since the mechanisms of contained capitalism—which can

put the brakes on a significant economic take off—at the same time keep conflict in check (successfully, even during the current period of impoverishment), provide political stability and may even cushion economically induced disappointment, which often undermines citizens' support for democracy in other countries. So, while this Uruguayan constellation need not inevitably block reform, it will slow down the pace of reform, even under more favorable conditions.