The fantasy of "good housekeeping"

The model promoted by the government includes the conception of Uruguay as a "financial market". It strongly promotes the financial sector to the detriment of the production sector in particular, and of society as a whole. Excessive opening of markets, de-regulation, exclusive concern for fiscal balance, contention of public expenditure and preference for the financial system, together with an obstinate policy of arrears in the exchange rate resulted in the progressive destruction of the productive apparatus and loss of jobs.

The government is also essentially concerned with maintaining Uruguay's investment rating and, consequently, with faithfulness to the neo-liberal model insisted on by international financial bodies. Uruguay has no policy designed to encourage production.

As a result of these policies, Uruguayan goods have lost export markets and are at a disadvantage in the domestic market where they face competition from imported products—often subsidised in their countries of origin. The visible consequence is the progressive destruction of the productive apparatus and loss of jobs. The traditionally dominant economic sectors, in particular the agro-export and industrial sectors, have been progressively displaced over the last two decades. Their privileged position has been taken over by the financial sector, transnational companies and a small group of importers, direct beneficiaries of the economic policies that have been applied consistently since the military dictatorship.

According to the official version, all that is needed is "good housekeeping" and continued reduction of the size of the State, which is in the basis of inflationary tension through fiscal deficit, which in turn has made Uruguayan companies non-competitive.

Deterioration of historical social coverage

Total public expenditure in relation to GDP has been maintained at similar levels if we compare 1986 and 1999 expenditures. It underwent cutbacks in the first five years of the 1990s, however. Fifty-one percent of the national budget is allocated to social public expenditure. The structure of public expenditure has remained stable in its components. The allocation for education is low as a percentage of GDP, even in the regional context. Most notable for the decade is the expansion of social security expenditure, which is concentrated in the pensions programme. This programme derives from the will of the citizens as expressed in a public plebiscite.

Although Uruguay has historically enjoyed high levels of social coverage in the regional context and still has an advantage in this respect, these levels are dropping (see Table 1).

There are other important gaps in coverage: two hundred thousand children living in poverty do not receive Family Allowance benefits because of the characteristics of the programme, which is mainly geared to the formal work sector.[1] This situation is relevant in a country where 40% of those under age 18 live in households below the poverty line.

TABLE 1

Exclusion from Social Security

IN THOUSANDS OF PERSONS, FOR URBAN POPULATIONS IN LOCALITIES OVER 5,000 PEOPLE.

YEAR	1993	1994	1995	1996	1997	1998	1999
TYPE OF EMPLOYMENT PROBLEM							
Unemployed without insurance *	75.3	86.3	98.4	119.3	115.5	105.9	114.6
Private precarious salary earners**	136.4	140.1	144.5	143.2	150.8	157.1	151.3
Precarious domestic service **	56.2	57.0	57.7	57.4	58.9	64.9	61.5
Self employed without premises ***	55.8	55.8	58.5	56.6	59.1	65.4	68.3
Self employed with premises**	82.3	88.6	89.2	89.8	91.6	94.4	99.9
TOTAL	**406.1**	**427.7**	**448.3**	**466.3**	**475.9**	**487.6**	**495.6**
% of EAP	37.2	37.7	38.6	40.3	41.1	39.8	40.6

* Unemployed who do not benefit from BPS unemployment insurance;
** Precarioaus only because of non-coverage of social security;
*** Professionals and directors are excluded.

Source: "Informal Work and Social Security" by the Team Representing Workers at the Social Insurance Bank (BPS)

There are social needs presently not covered. Necessary complementary measures would include a re-orientation of expenditure, greater efficiency in management and economic support to poor sectors in the framework of a social, supportive and integrating process.

Generation of employment: a key issue

At present, the capacity to generate employment is a key issue in Uruguayan economy. A "hard core" of unemployed seems to have developed in the second half of the 1990s. This indicates that, even in times of economic growth, the increase in employment has not been able to recover the jobs lost during periods of decline. In 2000, the rate of unemployment averaged 13.6%. When under-employment, precarious and informal employment data are added to unemployment figures, we see that half the economically active population (EAP) experienced problems of labour insertion. In the second quarter of 2001, the rate of unemployment rose to 16%. Additionally, there is considerable concern among Uruguayans over the problem of emigration and this rate may possibly reach values on par with population growth.

The increase in unemployment and drop in remuneration indicate deterioration in the quality of life for many Uruguayans. The poverty index reached 25.2% for the whole country in 2000, 10% higher than in 1999. The prospect was for further increases in 2001 following a drop in mean income.

1 The family allowance benefit covers primary maternal and infant health care and monetary benefits equivalent to 8% of the national minimum wage, granted to families with low resources for each child or minor for whom they are responsible. Presently approximately 50,000 children are covered under this modality.

The 1990s appear to be the second lost decade in the struggle against poverty.

Despite this recent evolution, social coefficients reflect a fairly positive structural situation in terms of human development, particularly in comparison with most of the Latin American countries. Illiteracy is 2.5%, there is wide health coverage, 90% of the urban population has access to drinking water, and 90% of the country's road network is tarmac. It is increasingly clear, however, that society is suffering a process of segmentation and exclusion.

Domestic resources: a regressive structure of duties

The central weight of the tax burden falls through indirect taxes (VAT and IMESI[4]), which represented 78.5% of the total. The lack of income tax on physical persons stands out in the tax structure, as only company salaries and benefits, significantly smaller, are taxed.

The promotion of trade and financial liberalisation

International insertion is based on the export of agriculture and livestock and their manufactured products, amounting to 75% of total exports. In turn, imports of intermediary capital and goods amount to 69% of the total. Given the destination and origin of exports and imports respectively, the main trade area is the MERCOSUR (particularly Argentina and Brazil), followed by the European Union and the North America Free Trade Agreement (NAFTA) countries.

Historical structural and more recent factors affect Uruguay's insertion in international markets. Starting in 1972, a social and economic model was developed based on opening to external markets and internal liberalisation. Full financial liberalisation took place from the 1970s. In the area of foreign trade, the process was slow and gradual up to 1991, when an accelerated and unrestricted process of opening up was developed.

Despite an increase in export flows and in GDP, the opening of the economy had negative results:

- structural unemployment doubled from 75,000 to 150,000 between 1988 and 1998;
- salaries froze despite a strong increase in productivity undergone by the economy;
- the number of employed people with employment problems (informal or precarious jobs, *etc.*) increased to today's number of 600,000, that is to say, over 40% of the EAP.

Opening up to foreign trade in the 1990s—added to arrears in the exchange rates resulting from the stabilisation policy—clearly damaged the majority of Uruguayans, in particular the workers and small and medium-sized enterprises in urban and rural environments. At the same time, these policies tied Uruguay to the regional economy, which implied vulnerability. With the Brazilian devaluation and the Argentine crisis, the economy entered into a recession that fast turned into a crisis, seriously aggravating problems of employment, salary and job security.

The trade policies of the countries of the South should be redesigned on three conceptual bases:

- protectionist policies with higher tariff levels in relation to developed countries;
- policies for regional productive complementarity, which would strengthen the South's economic and social efficiency in their competition with developed countries;
- policies for South-South exchange, including countries such as China and India, to strengthen internal trade and reduce vulnerability to policies of developed countries and their international bodies.

The boom of Foreign Direct Investment (FDI)

Uruguay participated in the accelerated recovery of FDI flows, observed in the regional economy since the end of the 1980s, and which qualified as a "boom" in the 1990s, particularly between 1995 and 1999 (Chudnovsky *et al*, 2001).

The coefficient of FDI flow on the GDP for Uruguay over the period 1991-98, according to estimates by Bittencourt & Domingo (2001), was 1.4%, reaching 2% in the year 1998. According to Central Bank data, FDI corresponded to 1.4% of the GDP for the year 2000.

This "*boom*" in FDI implies a significant advance by transnational companies within the economic structure of the country. Transnationals controlled 38% of the sales of major Uruguayan companies (having increased their participation in nearly all sectors). They increased their presence in foreign trade from 26% to 30% of exports between 1992 and 1998.

The challenge of high and sustainable economic growth

How can international insertion be translated into a high and sustainable growth rate? The most important channel is to improve the competitiveness of productive structures. A part of this improvement is achieved by means of specialisation based on static or conventional comparative advantages, *ie*, the use of relatively abundant and therefore cheap factors, such as workforce and natural resources. This would seem to be a necessary advantage but it is not sufficient to achieve high and sustained growth. Such specialisation would be the result of a policy exclusively centred on opening up the economy.

An industrialisation process is needed that improves productive conditions by way of technological incorporation. In the case of small economies (SE), industrial structures cannot reach a degree of diversification comparable to that of large economies. The 'best' combination of available workforce and productive scale implies that (in an almost "natural" way) industry can only be efficient with a certain degree of specialisation. The main restriction for industrial development in SEs resides in the impossibility of carrying out scale economies in the domestic market. Hence integration and access to larger scale markets becomes a primary necessity in carrying out efficient production.

A main way of advancing economic development in SEs consists of export industrialisation. If there is interest in increasing the industrial content of exports, developing dynamic comparative advantages, improving differentiation and therefore prices, and making intra-industrial specialisation possible, the most appropriate place to achieve these objectives is in the regional market. The main reason is that achieving manufacturing advantages over developed countries requires a process of learning and industrial maturity, in which not much progress was made[6] in the 1990s. Here scale economies have an impact together with a minimum time threshold to stabilise export flows. These limitations would not be important in foreign sales directed towards neighbouring countries, since conditions for launching and developing export potential in small countries are easier to achieve.

In the framework of the design of an industrialisation strategy, the promotion of a change in the export orientation of sales by SEs acquires particular relevance. There may be fora to propose active industrial and trade policies in the context of negotiations between the government and SEs. These would include the possibility of changing the behaviour of branches, in particular those participating in trade exchanges between Uruguay and Argentina. ■

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2 Tax on alcoholic beverages, tobacco, cosmetics, fuel and lubricants, non-alcoholic beverages, automobiles, potable alcohol, electric energy.

3 Until the early 1990s, a group of Uruguayan companies with national capital had made progress in learning export processes, learning to place their production in the region and later progressing to the markets of developed countries (Vaillant, 1990). Most of these processes came to an end after 1992, when the incubation of export companies became much more limited and the major traditional exports were consolidated, many of which reoriented their sales towards Brazil (Bittencourt & Vaillant, 2001).