



European Research Centre for
Anti-Corruption and State-Building

Working Paper No. 21

ERCAS Working Papers

Uruguay: A Case of Success in Latin America

Angélica Pulido Solares

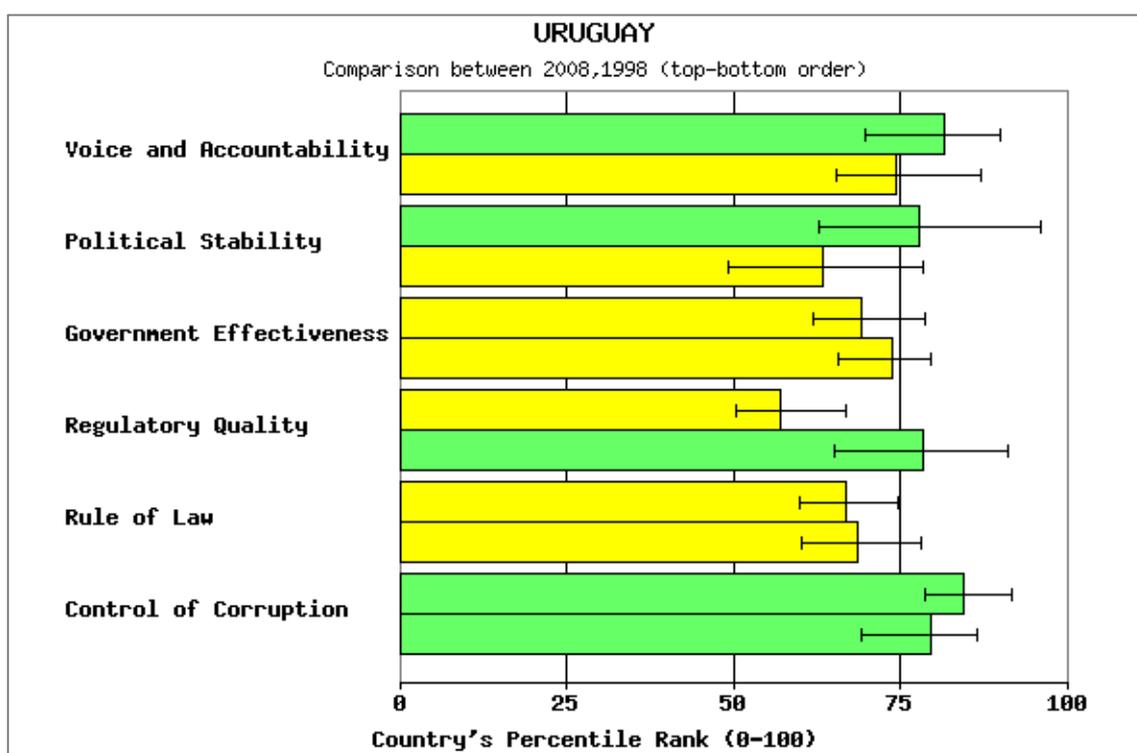
Introduction

Uruguay, one of the smallest countries in the region, is best known as the Switzerland of Latin America due to its welfare state condition and its democratic stability. With only around 3 million inhabitants, an urban population of 92.2% and a GDP per capita of US\$8,942, it is considered a country with high human development according to the Human Development Index (it ranks 52 from 169 countries).

According to the World Governance Indicators, change in the perception of corruption in Uruguay has not been statistically significant, but there has been an improvement in the ten year period examined (1998-2008). The political economy analysis will try to explain why control of corruption has been improving in Uruguay. Corruption is a big problem in almost all Latin American countries. What makes Uruguay different, according to the WGI?

Uruguay has been performing better than most Latin American countries in the past years in the World Governance Indicators. As figure 1 show, there has been an improvement in almost all indicators (only government effectiveness and regulatory quality suffered from a backward movement). For the indicator of Control of Corruption, the change in the percentile rank goes from 79.6 in 1998 to 85.7 in 2008, remaining in the 75th -90th percentile. This rank tells us that corruption as measured by the WGI is not as pervasive in Uruguay as in other Latin American countries. From the region, only Chile is doing better than Uruguay in control of corruption.

Figure 1: World Governance Indicators for Uruguay



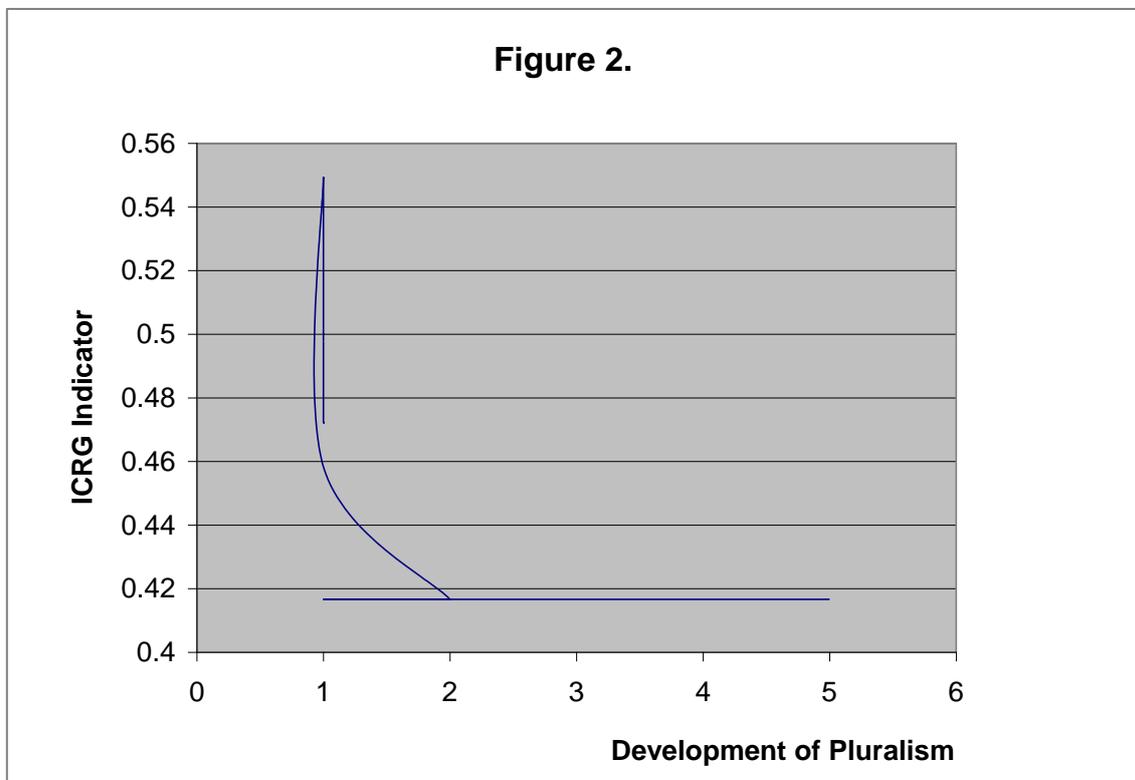
Source: http://info.worldbank.org/governance/wgi/sc_chart.asp

Perception of corruption in Uruguay among citizens has not been high since the country became an independent state. Therefore, we cannot identify a single point in time where Uruguay went from a very corrupt to a less corrupt state. History records show that some levels of corruption and networks of privilege have always existed. Instead of describing a “tipping point” in Uruguay’s history to delimit the period of study, I will go back to the early 1900s. Starting 1915, I have a found documentation of corruption and networks of privilege in Uruguay. For the period of the dictatorship, I have only found a source that explores the level of corruption during the time.

The only discernible setback that Uruguay has experienced was during the dictatorship, as it was a time when corruption was the least documented and for the most part driven by the military. After the dictatorship, Uruguay has been experiencing an improvement in the levels of corruption, leading to become one of the least corrupt countries in the region.

First as a new democracy and then after its authoritarian phase, Uruguay has been able to transition gradually from a patrimonial and traditional country into a competitive particularism regime. Access to power is still not open to all citizens, but in the period examined it has evolved. To examine closer the relationship between corruption and development of pluralism, I chose to use as a proxy for corruption the quality of government indicator from ICRG and as a proxy for the development of pluralism, the indicator for political rights from Freedom House. For the quality of

government indicator, the higher values indicate a higher quality of government (0-1). For the political rights indicator, 1 means that a country is free and 7 that it is not free.



Source: Own elaboration with data from Freedom House and Polity IV, 2010.

Figure 2 details that the relationship between corruption and pluralism is mostly convex. The ICRG indicator for quality of government remained 0.42 for a lot of years, indicating a low level of quality of government. With the change from a dictatorship to a democracy in Uruguay, the indicator for corruption didn't improve. The indicator reaches its highest score 0.55 and from then on the situation in the country has worsened.

In the case of the evolution of power distribution in Uruguay, the indicator used as a proxy to measure it has changed throughout time. It went from a 5 (partly free country) to a 1 (free country) in a matter of years. Freedom House score started to be published in the last year of the Uruguayan dictatorship. By the next measure, Uruguay had transitioned into a democracy, thus obtaining a score of 1 (free country). Meanwhile, the levels of corruption stayed the same throughout the transition.

The indicators for examining power distribution and development of pluralism in Uruguay will be the following:

Towards more political competition

Unlike other Latin American countries, where a transition to democracy had to be fought, Uruguay's transition to democracy was negotiated between the Colorado Party and the military. The first elections after the dictatorship took place in 1984, where the Colorado Party led by Julio Maria Sanguinetti won the presidency. Since then, power has been alternated between the Colorado Party and the National Party. The fact that a negotiation took place show how different the country is.

A clear obstacle to political competition is the hegemony that two parties have maintained since their foundation: the Colorado Party and the National Party. The guerrilla movement of the Tupamaros, active since the 1960s, inserted a new actor into political life. After the authoritarian phase, the guerilla activity ceased and a new party emerged, the Frente Amplio.

Limited access to the State

Power Distribution

Since the 1900s there has been a limited access to the state in Uruguay. At that time power distribution was unequal and only a few actors had access. Raúl Jacob's book, "Las otras dinastías 1915-1945", performs an extensive analysis of the actors with economic power with a link to the Uruguayan State at that time. He observes and describes two groups. The first group were the "titulados"¹ (doctors, engineers, architects, accountants, and others), which provide for them and for their friends and relations a direct link to the state. As in Uruguay capital accumulation in the form of social capital² is key to obtain benefits and favors, the "titulados" in the form of lawyers were hired with the only purpose of being a direct link of communication with the state.

The second group consisted of business directors that held public positions. In a study by Isabel Ezcurra it is shown that up to 23.5% members of the Uruguay Rural Association and 24% of the Rural Federation among others held a public position in the legislative power or in the executive power.

A third link to the state was the mechanisms used by companies to win public tenders and so cover the State's consumable necessities. According to the Parliament, in the books of international companies a heading for "unexpected expenses" or "connection charges" was already considered to describe the payment made for the allocation of public enterprises and favors.

¹ With "titulados" he means the citizens of Uruguay that study a Bachelor and have passed the professional exam, thus having a professional title.

² Creation of a social relationship and ability to operate it to extract (state) dividends" (Jacob: 1991).

Perception of institutions

Another point of analysis of distribution of power is the perception that citizens have about Uruguayan institutions, government and politicians. When power is unequally distributed, citizens perceive that politicians, judges and policemen stand above the law.

According to the Latin American Public Opinion Project³ survey of 2010, Uruguay is a country where people are mostly satisfied with democracy and support it and the support has grown in the last two years. One of the questions of the surveys illustrates the point:

Table 1. In general, would you say that you are very satisfied, satisfied, unsatisfied or very unsatisfied with the way democracy functions in Uruguay?

	Percentage
Very satisfied	17.26
Satisfied	72.17
Unsatisfied	9.21
Very unsatisfied	1.35

Also, the survey gives an indication to what extent citizens in Uruguay trust the institutions of their country. The levels of trust are high or very high for all the institutions surveyed. As seen in the tables below, 35% of the surveyed trust the government and 39% of the surveyed trust the president. Given these results, it would be pertinent to say that people in Uruguay do not perceive public officials to be above the law.

³ <http://www.vanderbilt.edu/lapop/>

Table 2. Up to what point do you trust the judicial system?

		Percentage
Nothing	1	8.53
	2	6.55
	3	11.87
	4	20.8
	5	22.51
	6	16.44
A lot	7	13.3

Source: LAPOP 2010

Table 3. Up to what point do you trust the armed forces?

		Percentage
Nothing	1	10.35
	2	5.21
	3	10.5
	4	17.62
	5	19.53
	6	15.57
A lot	7	21.22

Source: LAPOP 2010

Table 4. Up to what point do you trust the Electoral Court?

		Percentage
Nothing	1	3.78
	2	3.85
	3	6.49
	4	13.12
	5	18.05
	6	22.54
A lot	7	32.17

Source: LAPOP 2010

Table 5. Up to what point do you trust the Parliament?

		Percentage
Nothing	1	4.9
	2	3.89
	3	8
	4	17.15
	5	24.57
	6	20.82
A lot	7	20.68

Source: LAPOP 2010

Table 6. Up to what point do you trust the government?

		Percentage
Nothing	1	4.59
	2	3.02
	3	5
	4	12.61
	5	16.04
	6	23.51
A lot	7	35.23

Table 7. Up to what point do you trust the Police?

		Percentage
Nothing	1	10.64
	2	7.74
	3	11.78
	4	20.34
	5	21.41
	6	12.79
A lot	7	15.29

Table 8. Up to what point do you trust political parties?

		Percentage
Nothing	1	15.22
	2	7.71
	3	11.23
	4	23.62
	5	21.01
	6	10.12
A lot	7	11.09

Table 9. Up to what point do you trust the President?

		Percentage
Nothing	1	7.12
	2	2.56
	3	5.39
	4	11
	5	14.45
	6	20.26
A lot	7	39.21

Source: LAPOP 2010

Table 10. Up to what point do you trust the Supreme Court of Justice?

		Percentage
Nothing	1	6.18
	2	3.88
	3	7.62
	4	18.33
	5	25.31
	6	20.78
A lot	7	17.9

Source: LAPOP 2010

Rents in the allocation of resources

Privatizations

Since the presidency of José Batlle y Ordóñez (1903-1907 and 1910-1915) Uruguay has had a statist tradition. The country had few, but big state companies. The tradition even persisted during the time of the dictatorship. Very few privatizations took place during that time. Four of the big banks were sold during the dictatorship. Such are the cases of the Panamerican Bank, sold to the Madrid Central Bank for US\$11.250.000 in treasury bonds, the Litoral Bank to Banco Santander for US\$ 173.164.000, the Banfed Bank to the Spanish Exterior Bank for US\$ 88 millions and the Banfisud Bank to the NMB Bank for US\$ 94 millions (Carrió: 1987). The profit made from selling the banks went directly to the military.

It was until Lacalle's presidency (1990-1995) that ambitious economic reforms were performed. A lot of question about transparency in the contracts of the State with private enterprises emerged during the time. Also, several privatizations were stopped in 1992. Since that time the direct democracy tools the citizens have as a right, have stopped several times privatization of state enterprises.

Due to this, Uruguay still owns lot of companies, like banks, railways, telecommunications and ports, among others. All directors of those companies are elected by President and later have to be approved by the Senate. Since 2008 they are obligated by law to comply with the Law for access to public information, but the reality is that there is little transparency.

Unofficial tax exemptions

In the history of Uruguay, there have been several examples of favored groups that have gained economic power. An example of this is the case of the rice producers in the eighties, which formed part of the agriculture of intensive type. The producers had been systematically supported by the political economy, in the form of a substantive subsidy via tax returns to compensate the fall in international rice prices at the time. The subsidy was denied to other farmers with difficulties (Stolovich: 1988).

Control and oversight mechanisms

Anti-corruption laws

The earliest law or decree found in Uruguay that regulated the actions of government employees was the decree signed by the President Dr. Baltasar Brum in March of 1919. The decree prohibits senior civil servants to carry out personal proceedings before State offices, in order to avoid the illegitimate use of influence attached to their job. The decree covered the President, his Secretary, Ministers and Sub secretaries (Jacob: 1991).

It was only until 1988 that another law was passed referring to the wrongful use of public power and twenty years later, the first transparency law was approved. The “Cristal Law” is a law that guarantees citizens access to public information.

Anti-corruption Agencies

Uruguay has nowadays several anti-corruption agencies that are part of the government. The main problem is that Uruguay lacks of an autonomous organism or agency that coordinates all anti-corruption endeavors. The units that exist work independently and lack autonomy.

The first of them is the Committee of Transparency and Public Ethics. The main task of the Committee is to carry out the sworn declaration of assets and income of public office employees. It is an entity with only technical independence and it consists of three members designated by the President, with approval of the Senate. It has mainly a consultancy role.

The Unit of Access to Public Information was created under the Cristal Law as a decentralized body of the Agency for the Development of E-government (AGESIC). It is directed by an Executive Board of three members: the Director of AGESIC and other members chosen by President. The main task is to carry out all necessary actions for the compliance of Access to Information Law. A problem

with the Access to Information Law is the lack of an appeal mechanism for the decisions taken by the Unit. Also, the Unit lacks complete autonomy.

Civil society

The study performed didn't reveal any significant presence of the civil society in Uruguay. Even though a chapter of Transparency International exists, it doesn't appear to be very active or at least a whistle blower for corrupt activities. According to LAPOP 2010, most Uruguayans do not report corruption as a big problem in the country and this might be reflected in the lack of civil society organizations for the fight against corruption.

The power of media in Uruguay

The monopoly of the media rests in three different groups, the Romay Salvo Group, the Fontaina-De Feo Group and the Scheck and Associates Group. For each of the three groups ties to political parties have been found. The Romay Salvo Group is associated with the more right wing sectors of the Colorado Party as is the Fontaina-De Feo Group, and the newspaper "El País" from the Scheck Group has been linked to the political interests of the National Party.

As mentioned in the beginning, Uruguay is performing much better than the other Latin American countries in control of corruption. In the quantitative work performed for the continent, the group found that Uruguay is also performing better than the other countries in all the independent variables.

Table 11. Dependent and Independent Variables of Quantitative Analysis for the Latin American Region

	Uruguay	Regional Average	Confirmation of hypothesis
WGI Control of Corruption	84.54	43.84 (22.99)	Yes
GDP per capita, PPP	9087.37	6465.14 (3059.02)	Yes
Political Rights	1	2.47 (1.01)	Yes
Federalism	No	No	Yes
Gini coefficient	47.1	51.98 (3.98)	Yes
Ethnolinguistic fractionalization	.066667	20 (.18)	Yes
Trade openness	57.73	64.95 (23.68)	No
Size of government	7.52	7.38 (1.23)	Yes
Legal Structure and Property Rights	5.57	4.88 (1.02)	Yes

Source: Presentation Latin America Group

For all the independent variables, with the exception of trade openness, the hypotheses proposed in the quantitative model get confirmed. Uruguay might be an exception in Latin America due to its long democratic history and the small size of the country. Even if corruption is not a big problem, since the early 1900s the state has been preoccupied with minimizing corruption to the possible minimum. It has worked so well that Uruguayans do not perceive corruption as a big problem in the country. For them, insecurity is a bigger issue the government has to deal with (LAPOP, 2010).

Even if power is still distributed somewhat unevenly and few actors hold the economic power, the country has been slowly transitioning. The political system has welcomed a new actor in the last years; transition from a bipartisan system to a three party system. New anti-corruption laws have been passed, citizens trust the government and there is feeling that the economic crisis didn't affect Uruguay as hard as other countries (LAPOP 2010).

The credible policy driver in the country is the party in government, the Frente Amplio. A party whose members started as guerrilleros and now accepted to be a part of the democratic system. They have proved to be able to adhere to its promises of sticking to a democratic regime and have led Uruguay to economic growth and stability. The two other parties, Colorado and National parties, have been already mixed with previous corruption scandals. They also have proved ties to diverse

economic groups. Strengthening those parties would only create more rents and the country would be stuck as a competitive particularistic society forever.

References

Carneiro, Fernando, "Patronazgo y estrategias de movilizaciones partidarias", Revista Uruguaya de Ciencia Política. Vol. 18 N° 1 (2009): 139- 161.

Carrió, Miguel. *País vaciado: dictadura y negociados, 1973-1985*. Montevideo: Monte Sexto, 1987.

DD.HH. a la Comunicación. <http://comunicacionypoderuruguay.blogspot.com/2010/07/los-tres-grandes.html>

Freedom House, Freedom in the World 2010, <http://www.freedomhouse.org/template.cfm?page=15>.

Human Development Reports, Human Development Index (HDI)- 2010 Rankings. <http://hdr.undp.org/en/statistics/>

Jacob Raúl. *1915-1945, Las otras dinastías*. Montevideo: Proyección, 1991.

Junta de Transparencia y Ética Pública. <http://www.jutep.gub.uy/>

Latin American Public Opinion Project, 2010. <http://www.vanderbilt.edu/lapop/>

Stolovich, Luis. *Poder económico, Poder Político? : reflexiones polémicas en relación con la clase dominante y el bloque de poder en el Uruguay actual*. Montevideo: Centro Uruguay Independiente, 1988.

Teorell, Jan, Nicholas Charron, Marcus Samanni, Sören Holmberg & Bo Rothstein. 2010. The Quality of Government Dataset, version 27May10. University of Gothenburg: The Quality of Government Institute, <http://www.qog.pol.gu.se>

Unidad de acceso a la información pública uruguay. <http://www.informacionpublica.gub.uy/sitio/>

World Governance Indicators, <http://info.worldbank.org/governance/wgi/index.asp>