Uruguay

Changes in a state-friendly society

Andrés Prieto

Uruguayans are clearly the most statist people in Latin America. A new, self-styled progressive government could be expected to implement policies that expand the quality and coverage of social services in response to citizen demands. But recent hints of a change in the traditional relationship between the state and society raise doubts about the future of public services in the country.

Various studies have found that Uruguayans have a high degree of preference for state-run services (Barrán and Nahum, 1984; Panizza, 1990; Moreira, 1997; Bergara, 2005). According to Latinobarómetro (a series of public opinion polls taken in various Latin American countries), the approval rating for the free market in Uruguay is by far the lowest in Latin America. In the entire region, only Argentineans have a more negative view of privatisation than Uruguayans. What is strange about this is that specific examples of privatisation in Uruguay – specifically the sale of state assets to private companies – have been few and insignificant.

This Uruguayan statism has been seen explicitly at least three times in recent history. The first was in 1992, when a referendum overturned a law which paved the way for the privatisation of the principal state-run companies and services. The second was in 2003, when another grassroots initiative overturned a law that would have made it possible for ANCAP (the national petroleum company) to establish joint ventures with private companies. The third came in 2004, when voters approved a constitutional amendment establishing that providing water and sanitation services is exclusively a state responsibility.

There are several reasons for this preference for public ownership and management. Some of the key elements have to do with the functioning of the political system and its main characteristics throughout the country's history, the size and dynamics of the Uruguayan economy, and the social foundations of processes of nationalisation (or de-nationalisation) throughout history. Nevertheless, certain changes are now apparent in the relationships that citizens have historically maintained with the state as manager of public services, which could indicate shifts that are more or less favourable to the ending of public monopolies and the promotion of public-private partnerships in this area.

Historical clues

State intervention in Uruguayan society and the economy has gone through two major phases with different characteristics and orientations. The first phase, marked by the expansion of the state and direct intervention, occurred between about 1876 and 1955. Until 1903, the expansion of the state's role in the economy and in society had a 'conservative' bent that sought to consolidate the capitalist model in the country through the construction and modernisation of a coactive apparatus. This style of intervention sought to provide guarantees to businesses involved in raising livestock for export. Most public services were in the hands of foreign monopolies. The state limited itself to providing education, with the aim of ensuring universal primary schooling as a free, secular and mandatory service.

The *batllista* period, so called because of the influence of the ideas of President José Batlle y Ordóñez, began in 1903 (Barrán and Nahum, 1984). It marked the beginning of a substantial increase in government intervention in various strategic areas. The government took over management of certain public services that had been in the hands of foreign capital: electricity, ports, railroads, water service and urban public transportation. In 1931, the public oil-processing company ANCAP was established. In all of these cases, the state holds a monopoly on the provision of these services.

The various sectors of private enterprise in the country lacked a policy for opposing the government's takeover of these services. On the contrary, those sectors understood that the services provided by private foreign companies were expensive and inefficient, and that the government could provide them at lower cost with greater quality and quantity. This historical phase also saw the expansion of a series of benefits for workers: the eight-hour work day, state-financed pensions and free secondary education.

The second phase began in the mid-fifties and was characterised by economic stagnation. Amid this crisis, political clientelism led to higher costs associated with the increase in the size of the state, resulting in problems maintaining the national budget. The same sectors that had once supported the government takeover of principal services raised their voices in protest against the growth of the state and its 'inefficiencies.' Thereafter the state began a slow contraction that also affected the provision of public services. The Uruguayan government currently intervenes less in the economy, indicating that the liberal reform has been slow and gradual but persistent since the early seventies.

The principal reforms

The overall economic model has had a clear liberal bent since the late forties, but it was during the nineties that efforts were made to expand liberalising reforms. In particular, the *Partido Nacional* government (1990-1994) proposed to Parliament a law to privatise the principal state-run companies. With support from the other conservative party (*Partido Colorado*), this proposal garnered the votes needed for approval. In response, the country's main grassroots organisations – labour unions, the federation of mutual aid housing co-operatives and university students – along with the centre-left *Frente Amplio* (Broad Front) political coalition, demanded a referendum that overturned the law. The initiative to defend public enterprises was supported by 55 percent of the voters, closing the door on the possibility of selling state assets to the private sector.

Nevertheless, the outcome of the referendum did not eliminate the possibility of moving towards a model of greater private sector intervention in public services. Since 1992, conservative parties have tried to implement forms of privatisation other than the outright sale of state-run companies. The national government first began to promote a covert and relatively invisible process within the main state-run companies. The nature of these companies gradually shifted from one of state-owned providers of services to one of management according to the criteria used by private businesses (see the analysis of the processes of mercantilisation and corporatisation of public management by McDonald and Ruiters in this volume).

One strategic change introduced in the operation of state-run businesses was the identification of 'shortcomings' in public administration. This redefinition of management paved the way for the contracting of private companies. In many cases, the people who took on the new management responsibilities were the same workers who, after receiving incentives to leave their jobs at the state-run company, were then hired as contractors. This management model implied transferring to the private sector responsibilities that had once been the exclusive responsibility of the state. This trend cam be seen not only in the large state electricity, water, telecommunications and fuel companies, but also in services operated by local governments and other state agencies that provide public services, such as the National Public Education Administration, the Ministry of Public Health and the Universidad de la República.

Reforms in the energy sector

Uruguay's energy sector has been characterised by strong state participation in both the business and regulatory spheres. The provision of energy from principal sources

(electricity, gas and fuels derived from petroleum) was in the hands of a single public company in each segment, as a monopoly.

It is particularly important to analyse the case of electricity. The state-run UTE company, established with the nationalisation of a foreign company in 1912, had a monopoly in all segments of the sector – generation, transmission and distribution – until 1980. With the construction and operation of Salto Grande, a large hydroelectric dam on the Uruguay River, a Bi-national Technical Committee was formed that year, under the Ministries of Foreign Affairs of Uruguay and Argentina. After that, the bi-national committee and UTE shared the generation of electricity for Uruguay, while UTE continued to provide the transmission and distribution services.

In June 1997, the Regulatory Framework Act for the electricity sector was approved, separating the various phases of the electricity business and maintaining the state monopoly only in the transmission and distribution phases. The monopoly on generation was eliminated, and that area was declared free and open to private investment, The Regulatory Unit for Energy and Water Services (URSEA) was also established, ensuring free access to state-operated transmission and distribution networks. This law paved the way for major consumers (industry, supermarkets, etc.) to contract directly with the private sector for electricity services.

Grassroots sectors once again expressed their opposition to a law that they interpreted as a form of privatisation, but they were unable to muster enough support to overturn the measure by referendum. That process had important implications which partly explain the subsequent forms public services took in Uruguay and raise questions about the real degree of social consensus about public services. While the law had certain peculiarities (it would have lifted the monopoly on only part of the electricity service), the hypothesis about the fierce statism of Uruguayans, who supposedly look askance at any private sector intervention in public services, was discredited to some degree.

Just as political and social sectors that favoured privatisation understood the message of the popular vote in 1992, in 1997 they interpreted the result of the failed referendum as grassroots ratification of a law that (partly) lifted the monopoly and proposed following the same course in the future.

Education reform

The national education system had always been organised as a free, state-run public subsystem, and a private system that received no state subsidies, but whose regulation by education authorities was minimal.

When the country returned to democracy in 1985 after twelve years of dictatorship, public education, which had once been the national pride (Uruguayan literacy indexes are still comparable to those of industrialised nations), was widely considered to be in a state of crisis. Wages were low, teacher training had deteriorated, infrastructure was inadequate, schools were overcrowded and the curriculum was under fire, with some critics saying it was too far removed from the needs of the market and others saying it was too 'disciplinarian' and did not provide a holistic education.

After the Partido Colorado won the 1996 elections, an ambitious public education reform was launched. Although the essential elements – free, mandatory and secular education – that had historically characterised the service were maintained, some elements of the reform accentuated the lowering of standards and marked a shift toward 'educating for the labour market.'

In primary education, the most noteworthy elements of the reform were:

- The quest for universal enrolment of 5-year-olds and progress toward the same goal for 4-year-olds.
- Establishment of full-time schools in the poorest, most marginalised areas.

In secondary education, there were several noteworthy elements:

- Management guided by the concept of effectiveness, under the direction of technical experts, with the absolute exclusion of the rest of society, even teachers.
- An effort at decentralisation, giving principals greater autonomy, including in the selection of personnel. Teachers' unions complained that this mechanism sought to dodge opposition from teachers and increased the risk of 'clientelism' in personnel assignments.
- Education policy as social policy: schools were seen as places that would keep students away from delinquency, drugs, etc., a view that changed the profile of the school, decreasing the educational content. As one analyst said, "*The issue is not that violence, drug addiction, marginalisation, unemployment and hunger are not problems. The issue is that they are not educational problems, although they cause problems for edu-*

cation" (Zabala, 2001:148).

- Changes in curriculum content, with less emphasis on arts and humanities and more 'practical' content to prepare young people 'for the market.'

The reform also strengthened the private education system, creating the widespread perception that shortcomings in the public system had become even worse.

The education reform obviously did not bring changes in ownership of the service or in the state's responsibility in this sphere. Neither did it turn management of the system over to private operators nor establish a system of 'vouchers' or subsidies to private providers for each student enrolled, as occurred in Chile.

The reform implied a change in management of the state education system based on the increased power of managers and programmes directed by technical experts, a reorientation of the curriculum away from education for citizenship and towards the job market, and an effort to decentralise school administration, increasing the principal's control in each school in a way similar to that of the British model (see Needham's analysis of the reforms implemented in the United Kingdom in this book).

Public health and its delayed reform

In the area of health care, Uruguay has a complex interconnection of public and private agencies that have gradually been deteriorating.

The public subsystem is made up of:

i. The Ministry of Public Health, which besides regulating, evaluating and overseeing health care throughout the country also provides services through its own hospitals;
ii. The Social Security Bank, which acts as an intermediary, receiving and managing workers' and employers' health care contributions through a pre-pay system. It is also a direct provider of certain services (maternity and paediatric care);
iii. The University of the Republic, through its own Hospital of Clinics, which is also a teaching centre for students in various areas of medicine;
iv. The Armed Forces and Police health services, which have their own hospitals and provide comprehensive care to military and police personnel and their families;
v. Municipal governments, which exclusively provide primary level ambulatory care.

The care provided by public hospitals and clinics is funded by general tax revenue, rather than by specific taxes charged to finance this subsystem.

The private subsystem is composed of:

i. Collective Medical Assistance Institutions (*Instituciones de Asistencia Médica Colectivas*, IAMCs), known as mutual benefit societies (*mutualistas*), non-profit organisations that offer comprehensive coverage through pre-paid insurance. These organisations are independent of the government and compete among themselves, but with regulated fees.
ii. Completely private health insurance.

In the early seventies, health care coverage in the country was provided by a dual system: a private system (the so-called mutual benefit societies), which met the needs of the middle and upper classes, and a public system that covered those who could not pay the mutual benefit societies' fees. The government later began to subsidise private health care for its employees, making small deductions from their salaries to cover the mutual benefit society fees and subsidising the mutual sector indirectly. In 1984, coverage became universal when all public and private workers in the formal sector of the job market acquired the right to join the IAMCs. A specific government office was established to regulate the relationship between the worker and the selected mutual benefit society.

The strong redistributive approach underlying this policy was flawed in two ways. First, the mutual benefit societies were unable to ensure comprehensive health coverage for all workers, even though they charged for additional tickets for doctor's visits or medicines, and had to receive increasing state subsidies. Second, the resources allocated to the state sub-system by various government administrations gradually decreased, with a resulting reduction in quality of care for people with fewer economic resources.

The end result is a population stratified into four levels:

1. Those who cannot afford to join a mutual benefit society and must resort to the public sub-system, which suffers from a serious shortage of the resources needed to provide appropriate health care;
2. Those who pay a monthly fee to the mutual benefit societies, which are also deteriorating. In many cases, these people only pay the monthly fee and cannot afford to strictly follow their medical treatments, as they cannot pay for the tickets mentioned above;
3. Those who, although affiliated with the mutual bene-

fit societies, must pay for tickets and other additional private services, such as emergency care, companion services, etc.;

4. A fourth group consisting of high-income social sectors that have private health insurance.

Unlike the education and energy sectors, in health care the country chose an increasingly private system with increasing dependence on state subsidies. The other side of the coin has been a steady decrease in funding for the public sub-sector.

The main beneficiaries have been medical corporations and laboratories, thanks to the increasing health expenses of Uruguayans and increasing state subsidies, while the poorest people have been put at the greatest disadvantage. The country has thus moved toward a polarised health care system, with 'health care for the rich' and 'health care for the poor.' While there have been no consensus-based proposals for reform, the new leftist government has included in the national budget a proposal for health care reform that has already sparked reactions from political stakeholders, especially business groups that benefit from the status quo.

The social security reform

In 1995, Uruguay reformed its social security system in what has been one of the most controversial of all the liberalising reforms of public administration (Filgueira, 2002). Until then, the country had had a pay-as-you-go state system, which implied inter-generational solidarity: in other words, active workers ensured that retirees could draw their pensions.

In the mid-eighties, it became apparent that the system had serious structural problems, although collapse did not seem imminent. These problems were related to:

- An aging population, which created a high liabilities-to-assets ratio with no signs of reversal.
- The use of the social security system by some sectors of the political system as a mechanism for distributing political favours.
- Inadequate systems of information and control over pensions.

In 1989, a plebiscite proposed by various retiree organisations and workers' unions sought to establish a constitutional obligation to adjust pensions to the average wage. The initiative, which was probably a reaction against the tendency of governments to use pensions as an opportunistic adjustment variable, was approved by 72.5 percent of the voters. This initiative resulted in a significant increase in liabilities and therefore in government allocations, with a significant impact on state finances. The government's contribution to the system in 1995 amounted to 17 percent of GDP, one of the highest figures in the world at the time.

The strain on the budget led the legislature to approve a change to a mixed system based on two pillars. The first is an inter-generational distribution supported by contributions from workers and employers, as well as the state; and the other consists of pension or social security savings funds known as *Administradoras de Fondos de Ahorro Previsional* (AFAPs), which manage individual capitalization accounts and which can be administered by private companies or the government. The state has a presence in the individual capitalisation segment through its own AFAP, which includes 38 percent of all affiliates of the system and 56 percent of the accumulated capital in the social security savings funds.

The AFAPs manage their investments within limits. Eighty percent of the capital of each AFAP must be invested in state Treasury bonds in an effort to protect contributors against the risk of losing the return on their investment.

While the constitutional reform of 1989 meant that in less than one decade the real value of pensions doubled, this increase in liabilities applied equally to everyone and did not allow for mechanisms for redistribution within the system. Similarly, while the increase in the amount of the liabilities is noteworthy, the process represented a significant transfer of resources from other sectors of Uruguayan society, as well as a strain on the budget. It also created a perfect 'excuse' for those who wanted to introduce a system based on individual capitalisation rather than solidarity, which could eventually leave the most vulnerable sectors unprotected and lead to a risk of social breakdown.

Provision of water and defence of a human right

Water and sanitation services have always been in the hands of the state. With the second administration of President Julio María Sanguinetti (1995-2000), the possibility of privatisations in the sector arose. The argument was that the government did not have the necessary capital to invest in sanitation services in the city of Maldonado, where the country's main beach resort, Punta del Este, is located.

Private sector participation in water and sanitation services took the form of contract/concession, by which the private enterprise would build the facilities and take responsibility for operation, management and maintenance of the system. The contract also set a time frame after which the facilities would pass into the hands of the state.

In this case, international financial bodies played a decisive role. In 1999, the Uruguayan government obtained a loan from the World Bank in exchange for ensuring the continuity of water and sanitation service concessions in various parts of the country. In mid-2002, the Uruguayan government signed a letter of intent with the International Monetary Fund in which it agreed to reduce controls on the water and sanitation sector to facilitate the entry of private investors, not only for the provision of potable water, but also for the construction and operation of sewage treatment plants (Santos, 2004).

The first such concession was approved in 1998 for Aguas de la Costa, a consortium made up of Aguas de Barcelona (a subsidiary of Suez Lyonnaise des Eaux), as operator, and two Uruguayan companies. It was responsible for water and sanitation services for part of the province (*departamento*) of Maldonado. In 2000, a second concession was granted to the private company Uragua S.A., a subsidiary of the Spanish company Aguas de Bilbao, to provide water and sanitation services in another part of the province. In this case, the contract was for 30 years and the services were to cover 120,000 year-round residents and 600,000 seasonal tourists.

The concrete results of these concessions were excessive rates (several times higher than those charged by the state-run company), levels of contamination of water higher than permissible, failure to comply with investment targets agreed to in the contract, and repeated environmental problems. In the summer of 2001, the resort community of Piriápolis (the second largest in the country) was without water for four days because of a broken pipe.

With regard to water quality, residents of the area publicly complained that they did not drink the water because for a long time it had been leaving brown stains in sinks and toilets. In February 2002, laboratories of the state-run company Obras Sanitarias del Estado (OSE, which is responsible for regulating water service) recommended that people boil the water before drinking it, as it was not considered potable. More water quality problems arose in April. In July 2003, under the weight of all this evidence, the government finally announced that it had decided on the 'orderly withdrawal' of the company and that OSE would take over provision of the service. That did not happen, however, and the company continues to operate.

The situation led neighbourhood, environmental and labour organisations to form the National Commission in Defence of Water and Life (*Comisión Nacional en Defensa del Agua y de la Vida*), which again sought a constitutional reform to ensure better management of and access to water and sanitation service. In October 2003, one year after it was formed, the commission presented Congress with approximately 300,000 signatures on a petition to call a referendum on constitutional reform. The balloting was held on October 31, 2004, and the proposal was backed by 64.7 percent of the voters.

The constitutional reform establishes that: *"Public sanitation service and the public service supplying water for human consumption will be provided exclusively and directly by state-run companies,"* in the understanding that *"access to potable water and access to sanitation services constitute fundamental human rights."*

The approved text also includes a very clear clause that refers to the handling of such situations in the future:

Potable water and sanitation service will be provided in a way that places social issues above economic issues. Any authorisation, concession or permission that violates these principles in any way will be null and void.

A different government and challenges for the future

In March 2005, a centre-left coalition (the FA-EP/NM, *Frente Amplio-Encuentro Progresista/Nueva Mayoría*) took office after three decades of conservative governments (see Chavez, 2005). It is too soon to know in detail the policies that the new government will implement in the area of public services, but some trends can be noted. First, it is clear that the trend towards privatisation that appeared in recent years will not be re-evaluated by the new government, but some 'reforms' will be implemented.

Second, there is a clear decision to make state-run companies and services more efficient and effective. The appointment of qualified technicians to fill management positions in state-run companies, breaking with the tradition of appointing professional politicians, is a step in that direction. The purpose is to keep state-run companies from continuing to be part of the 'political game,' so

that they will no longer be used by the governing party to maintain its power. This dynamic had expanded clientelism and 'politically profitable' investments, exacerbating the inefficiency and inequality that characterised certain areas of public administration.

Third, while concrete policy decisions have not yet been taken, some members of the new administration stated (before the elections) personal opinions in favour of breaking up public monopolies and creating government regulatory agencies. The current Vice Minister of Economy and Finance stated that, in a context of 'competitive markets,' it was necessary to promote *"strong regulation that avoids abuse by monopolies and promotes competition, direct participation by users and explicit subsidies that expand access to basic services for the most excluded sectors of society"* (Bergara, 2001:46).

Fourth, along with concern about increasing the efficiency of state-run services, there is also concern for providing explicit subsidies to the poorest sectors of the population, seeking universal access.

Fifth, there is the will (at least in public statements) to give users greater participation as a way of making management of the companies more transparent. President Tabaré Vázquez stated during the electoral campaign:

> *How do users of public health services, UTE or national highways, or parents of schoolchildren exercise their rights as users of public services? How do they exercise their right to citizen oversight? The progressive government will foster means of citizen participation and oversight* (…)*, promote a Basic Law for Institutional Participation to organise regulations and solidify recognition of the right of community and grassroots organisations to participate.* (…) *My friends: citizenship, participation, decentralisation"* (Vázquez, 2004).

Sixth, while the drafting of a new national education law has not been completed, it should be noted that the new authorities have made it an important part of the new national budget. By the end of the administration, spending on education will amount to 4.5 percent of GDP, up from less than 3 percent at the end of 2004.

Changes in education have begun with the participatory methodology being used to draft the new education law. Instead of having it designed in advance by experts, the government is seeking the consensus of authorities and teachers. The message sent by education authorities to the national Parliament when the new national budget was up for debate established that the management of education will be guided by democratic principles and respect for human rights. Elements of the 1996 education reform that are considered positive, such as universal access to education for 4- and 5-year-olds and an increase in the number of full-time schools, will be maintained.

Health is another priority area. In public statements, the minister of public health has characterised the sector as 'inequitable,' saying there is low user satisfaction. The first move, besides changes in the care model (placing priority on prevention, local health systems, development of national research on medicines and medical technology, etc.), is a change in the way the health care system is funded. The government is studying the implementation of national health insurance – included in the national budget – that would involve funding based on contributions proportional to family income, in an effort to return to the system the equity that had been lost. A fund established for this system will be used to reimburse public and private health service providers.

The challenges for the future are neither few nor minor. Uruguay's grassroots movement has shown resistance to the privatisation of public services, blocking the sale of state-run companies and reversing the concession of some services to private companies. The main tools of resistance have been the direct democracy mechanisms provided under the Constitution. The grassroots movement has always had the support of the centre-left parties currently in power. The building a new type of relationship with the grassroots movement will be an element to take into consideration when changes are proposed in the administration of public services.

If the new government decides to break up public monopolies, the World Bank's concerns about the lack of institutions strong enough to handle reforms of the state could come true. At least in Uruguay (and undoubtedly also in other Latin American countries), considering the weakness of public administration in comparison to the power of transnational companies, this could translate into the colonisation of the public sphere by private interests.

Nor is it certain that regulation by public agencies will be effective, considering that private companies taking over the management of public services would have the advantage of more information and could use their investment in the sector to pressure the government for fewer controls and requirements in the provision of services.

On the other hand, if the break-up of public service monopolies is encouraged, concerns should not be limited to efficiency and effectiveness, but should extend to equality and access as a human right. The constitutional reform of water and sanitation service promoted by the grassroots initiatives, besides modifying the model imposed in Uruguay, set an important precedent at the national and international levels.

The Uruguayan Constitution establishes that from now on, access to basic public services is a human right that cannot be subordinated to the interests of the marketplace.

References

Barrán, J.P. and B. Nahum (1984) *El problema nacional y el Estado: un marco histórico*. Montevideo: CINVE and Ediciones de la Banda Oriental.

Bergara, M. (2001) 'El diseño institucional de los servicios públicos: políticas de estado o polarización ideológica,' in: *Servicios Públicos: aportes hacia una política de Estado*. Montevideo: CEE 1815 and Editorial Trilce.

Bergara, M. (ed.) (2005) 'Political Institutions, Policymaking Processes and Policy Outcomes: The Case of Uruguay.' Washington: Inter-American Development Bank (IADB).

Chavez, D. (2005) 'Del Frente Amplio a la Nueva Mayoría. La izquierda uruguaya ante la perspectiva del gobierno,' in Chavez D., P. Barrett and C.A. Rodríguez Garavito (eds.) *La nueva izquierda en América Latina. Sus orígenes y trayectoria futura*. Bogotá: Grupo Editorial Norma, 2005

Filgueira, F. (2002) 'La reforma del sector social: estatismo, desigualdad y privatización by default,' in *Social Watch 2002*. Montevideo, Instituto del Tercer Mundo.

Moreira, C. (1997) *Democracia y Desarrollo en Uruguay*. Montevideo: Instituto de Ciencia Política, Comisión Sectorial de Investigación Científica and Editorial Trilce.

Needham, C. and A. Murray (2005) 'The future of public services in Europe.' London: Catalyst, Unison and Verdi.

Panizza, F. (1990) *Uruguay: batllismo y después*. Montevideo: Ediciones de la Banda Oriental.

Santos, C. (2004) 'El día que las urnas harán agua,' in R. Grosse, S. Thimmel and J. Taks (eds.) *Las canillas abiertas de América Latina*. Montevideo: Casa Bertolt Brecht.

Vázquez, T. (2004) 'Una transición responsable.' Presentation at the seminar on 'Uruguay Democrático,' Montevideo (September 20).

Zavala, A. (2001) 'El poder y el no poder del Estado en materia educativa,' in *La Reforma Impuesta*. Montevideo: Federación Nacional de Profesores de Enseñanza Secundaria and Editorial Nordan.