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ARTÍCULO

ECONOMIC POLICY AND STRUCTURAL REFORMS IN URUGUAYAN LEFT-WING ADMINISTRATIONS

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The objective of this article is to analyse the experience of 15 years in which the Frente Amplio was in power in Uruguay, drawing lessons about the key factors that explain why it was possible to advance in such a deep process of transformation of public policies. The presentation combines political arguments with considerations related to the particular economic, social, and institutional conditions in which the experience of left-wing administrations took place. The narrative aims to illustrate how policymakers' strategies have reconciled macroeconomic stability with the implementation of structural reforms in multiple fields of the economy and society.

Keywords: Macroeconomic policies; structural reforms; economic growth; income distribution; left-wing; Uruguay.
JEL: O011, O043, O054.

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El artículo analiza la experiencia de quince años, durante los cuales, el Frente Amplio estuvo en el poder en Uruguay, a fin de extraer lecciones sobre los factores claves que explican por qué fue posible avanzar en un profundo proceso de transformación de las políticas públicas. La presentación combina argumentos políticos con consideraciones relativas a las condiciones económicas, sociales e institucionales particulares, en las cuales la experiencia de las administraciones de izquierda se desarrolló. El análisis busca ilustrar la manera como las estrategias de los responsables políticos han conciliado la estabilidad macroeconómica con la aplicación de reformas estructurales, en múltiples ámbitos de la economía y la sociedad.

Palabras clave: políticas macroeconómicas; reformas estructurales; crecimiento económico; distribución del ingreso; izquierda; Uruguay.
JEL: O011, O043, O054.

INTRODUCTION

In march 2005, the Frente Amplio (FA) assumed government in a context of economic and social urgencies, derived from the combination of the deep crisis that affected the country in 2002 and underlying structural vulnerabilities. The weaknesses were expressed in poor long-term GDP growth, low levels of capital accumulation, scarce progress in productivity, high levels of poverty, deficiencies in the coverage of some basic services, with the evident consequences in terms of the worsening of income distribution, persistent emigration, weaknesses in the country's insertion into the global economy and macroeconomic fragilities, all of which had been affecting the normal functioning of the economy for several decades.

The experience of FA administrations introduced a new perspective regarding development in Uruguay, showing that consistent macroeconomic management and the implementation of deep structural reforms could generate a platform where economic growth and distributive justice could occur simultaneously. Prudent fiscal, monetary and financial policies, together with the adoption of a gradual approach in the implementation of reforms, made it possible to achieve significantly higher economic growth rates, compared with those recorded from mid-1950s to 2004, as well as substantial improvements in income distribution. Uruguay's average annual GDP growth rate between 2005 and 2019 was 4.2%. In each of the 15 years of the three FA administrations, the Uruguayan economy registered growth levels above the Latin American average, while poverty and indigence levels were drastically reduced to the lowest registers since the return of democracy in 1985, and there also was a significant improvement in a wide range of social and distributive indicators.

As occurred in the other of the countries in the region, the performance of the Uruguayan economy was affected by the external context. In particular, the boom in international commodity prices generated a particularly favourable scenario for Latin American economies, which benefited from better export prices and an expansion in demand.

For the Uruguayan economy, without any doubt, the international bonanza implied an improvement compared to what occurred in the previous decade. However, the notable increase in the international prices of oil and metallic minerals meant that, unlike what happened in many Latin American countries, Uruguay faced a deterioration in the terms of trade, which operated as a buffer factor for the favourable effects coming from the international context. However, the performance of the Uruguayan economy between 2005 and 2009 can hardly be attributed exclusively to a "tail wind" coming from abroad. Furthermore, the way in which the Uruguayan economy managed to sustain reasonable levels of GDP growth records during the period of the international financial crisis caused by the fall of Lehman Brothers indicates that appealing to the influence of external factors does not provide a complete explanation for understanding the behaviour of the Uruguayan economy in the period analysed.

The economic strategy showed that it is possible to make macroeconomic management compatible with long-term development objectives. The process of change was based on a programmatic basis that was assumed as government commitments by the authorities. The establishment of clear priorities in the allocation of budgetary resources and the vocation to implement substantial changes in the orientation of public policies, in the rules of the game and in the organizational structure of the public sector, implied a break with respect to the political practices of previous administrations (Bergara, 2015). The traditional discretion in the management of multiple public policies, which had predominated in previous administrations, was replaced by new regulations and policy rules that implied the transformation of management and decision-making processes at all hierarchical levels of the administration.

AN UNPRECEDENTED POLITICAL CHANGE

The process of change that took place in public policies, in general, and in economic policy, in particular, with the arrival of the FA to the government cannot be fully understood without taking into account a set of political factors that generated the platform on which the transformations took place.

Firstly, it is important to consider the historical construction process and the particular characteristics of the political organisation that took office in Uruguay in 2005. The FA was founded in 1971 as a result of an agreement between political parties and leftist organisations. Since it was founded, this political party has combined the characteristics of a coalition with those of a movement which has maintained social and electoral support broader than the sum of the original representations of the coalition's parties. The construction of the FA was based on an explicit agreement regarding internal rules, common candidates for executive positions (at national and sub-national levels) and programmatic bases, which defined the Government Plans in all the instances in which it participated in the voting process.

Secondly, during the dictatorship, between 1973 and 1984, the political party that came to government in 2005 had passed through a period of persecution and the exile of many of its main leaders. The electoral support for the FA grew progressively and consistently with the incorporation of new sectors and the support of relevant personalities (intellectuals, scientists, artists, etc.). In fact, the FA created a political organisation that represented a critical diagnosis of the causes of a country's economic and social challenges. Therefore, it should not be surprising that its arrival to the government became a major political event and that the administration was characterised by a strong vocation for transformation.

Thirdly, it is important to highlight the political significance that the existence of a common government programme had for FA administrations. The programmatic elaboration provided a shared vision of the state of the economy and the society, and made explicit guidelines for action and concrete initiatives. Programmatic elaboration has been a privileged area of internal debate and the agreements reached, following intense internal debates, are assumed as mandates by the policymakers. The agreements become fundamental bases for political understandings and are assumed as a reference that guide the government's management, committing the parliamentarians and the Executive Branch leaders.

Fourth, the political change implied by the FA's access to the government and the magnitude of the transformations that took place in public policies could hardly have occurred without considering that, throughout the three administrations, the government had its own parliamentary majorities in both chambers of the Legislative Branch. This fact meant that internal dialogues and negotiations, which sometimes involved intense discussions, were sufficient to ensure the political viability of the different initiatives promoted by the Executive Branch. The downside of the parliamentary majorities was that the negotiation with opposition parties was not a necessary priority for the government's management or for pushing forward the main structural reforms.

RELEVANCE OF INITIAL CONDITIONS

In addition to the structural weaknesses that the Uruguayan economy had been carrying since the mid-20th century, the economic and financial crisis of 2002 had wreaked havoc in production and employment, causing a significant deterioration in household income and a rise in the incidence of poverty, which reached 40% of the population.

After the 2002 crisis, the annual inflation rate returned to double-digit levels and a deep process of financial disintermediation took place, which brought bank deposits and credits to the lowest levels known since the recovery of democracy in 1985. The abrupt depreciation of the national currency, which followed the exit from the fixed exchange rate system that had been present under different regimes throughout the country's economic history, pushed the real exchange rate to levels not seen since the early 1980s debt crisis. Given the high degree of dollarisation of the public debt, the increase in the real exchange rate became one of the main explanatory factors for the increase in the debt/GDP ratio, which climbed close to 90% by the end of 2004.

In April 2003, the government headed by President Jorge Batlle successfully restructured the public debt, corresponding to sovereign bonds issued in the international markets, which in practice implied the postponement of maturities. Under these circumstances, international access to financing was restricted to the funds that could be provided by multilateral financial institutions (IDB and World Bank), within the framework of a programme that had been agreed upon with the IMF during the crisis.

The renegotiation of the Agreement with the IMF, and with the other multilateral financial institutions, played a key role in the design of the macroeconomic and financial programme that the government was drawing up, which included not only extremely demanding quantitative goals in terms of primary fiscal results, public indebtedness and international reserves, but also a commitment by the authorities to the implementation of a series of structural reforms. This ambitious agenda was made according to electoral commitments, which were part of the Government Programme, and included actions to mitigate the main economic, financial and social vulnerabilities that prevented the recovery of the GDP growth in the short term.

PRECISE DEFINITIONS IN THE MACROECONOMIC POLICY

Since March 2005, the beginning of the government period, economic policy has had to address the serious short-term economic and social problems and, at the same time, design structural reforms that would contribute to improving the prospects for economic growth. In this context, the macroeconomic strategy was designed taking into account the restrictions and constraints posed by the delicate framework that prevailed at the beginning of the administration.

The concern to preserve macroeconomic stability and provide predictability was articulated with the priority placed on social emergency, resuming wage negotiation and implementing institutional reforms in diverse areas of the economy, the society and the public sector. The reform agenda covered, among others, health, housing, social security and social development policies, the organisation and functioning of the financial system, the functioning of markets and management in Public Service.

In the short term, the macroeconomic strategy focused on risk mitigation and vulnerability reduction. At the macroeconomic level, it was proposed to achieve a primary fiscal surplus equivalent to 3.5% of the GDP, consistent with a gradual process of reducing the high public debt. The formal adoption of an inflation targeting regime by the authorities of the Central Bank of Uruguay, within the framework of a flexible exchange rate system, marked the course of monetary policy, assuming firm commitments to the rapid return of inflation to single digit levels.

The financial vulnerabilities, which had worsened after the 2002 crisis, implied priority attention from the authorities. The efforts were aimed at strengthening the supervisory framework of financial institutions, fundamentally banking entities, ensuring adequate levels of liquidity and solvency in public commercial banking, and generating conditions for non-financial public enterprises to clean up their balance sheets, contributing to the improvement of the fiscal primary surplus.

Addressing social vulnerabilities involved prioritising the so-called National Social Emergency Assistance Plan (PANES), which was launched shortly after the beginning of the administration, and consists of a set of programmes and actions aimed to cover the basic needs of the most vulnerable population. The budgetary resources applied to PANES were in fact the most important priority of fiscal policy during the first phase of the first government of President Tabaré Vázquez.

FISCAL POLICY AND BUDGET PRIORITIES

With the backdrop of the effects of the economic and financial crisis of 2002, the first priority was to reach an agreement with the IMF, which had become Uruguay's main institutional lender.

In this context, fiscal policy became the anchor of the macroeconomic programme. The generation of primary surpluses was assumed as a prerequisite for the consistency and credibility of economic policy, guaranteeing macroeconomic predictability and the sustainability of public debt.

The financial vulnerabilities that the country faced at the beginning of 2005 strongly limited the use of fiscal policy for counter-cyclical purposes. The responsibility in the management of public finances had therefore become a decisive aspect for the design of the macroeconomic programme and was the only possible way to recover fiscal policy as an instrument of stabilisation.

The relevance of this strategy was validated at the end of 2008, when fiscal policy was used in response to the international economic and financial crisis, unleashed after the fall of Lehman Brothers. Under these circumstances, fiscal expansion, together with the exchange rate flexibility, were fundamental for offsetting the effects of the drastic change in the external scenario, preventing the Uruguayan economy from entering into recession, as occurred in most economies of the region.

Starting from the recognition that fiscal policy is the most "political" of all economic policies, the definition of the guidelines of budget management, in general, and public spending, in particular, played a key role during the FA's administrations. There was a political understanding between the Executive Branch and the parliamentary representatives about the relevance of strategic definitions over fiscal policy. Since the design process of the five-year National Budget for the period 2006-2010 the economic team had worked intensely to achieve political consensus in order to recognise that fiscal policy was fundamental to ensure the sustainability of the economic strategy.

In the initial stages of the first administration, strategic definitions regarding fiscal policy were adopted, justified by the large inherited public debt, the need to improve the conditions of access to financing in international capital markets, and the instability that could arise if it were necessary to implement a fiscal adjustment. The authorities' diagnosis was that uncertainty about the management of public finances could become a destabilising factor and generate disruptive events in economic policy. The strategy focused on fiscal policy sustainability, modernisation of the budget process and transparency in public finances.

The political agreements over fiscal policy were based on precise definitions of priorities. During the initial steps of the first President Vázquez administration, the attention was directed to the social emergency, the strengthening of the health system and the redesign of the social protection system, with an emphasis on programmes for children and adolescents, who were the main recipients of the increase in public expenditure. Public education was defined as the first priority in all the FA's administrations, assuming explicit commitments, expressed in terms of quantitative objectives, which implied a significant increase in public expenditure on education.

Budget priorities were key to ensuring that fiscal policy was aligned with the social goals included in the Government Programme. It is not possible to explain the drastic reduction in poverty and the significant improvement in distribution indicators without taking into account the priorities of public expenditure.

The recovery of public investment was achieved gradually, becoming an important priority for the administration of President José Mujica and during the second government of President Vázquez, involving multiple projects executed by public enterprises and a strong boost to infrastructure, financed with budgetary resources and with public-private partnership instruments.

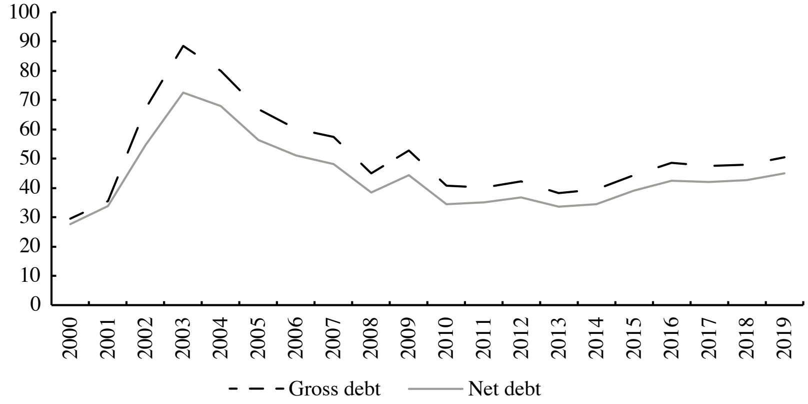
PROFESSIONAL MANAGEMENT OF PUBLIC DEBT

One of the most relevant transformations in public finances took place in the management of public debt. The pillar of the changes was the incorporation of a specialised office within the orbit of the Ministry of Economy and Finance. The Debt Management Unit (UGD) was created with the purpose of independently, professionally and transparently managing the financial liabilities and cash flows of the Central Government and ensuring the financial resources required to cover the financing needs of the public sector. This institutional innovation had to address one of the greatest vulnerabilities that faced the first FA administration, related to high public debt and huge financial costs.

Furthermore, within the framework of new fiscal policy management, the UGD laid the foundations for the recovery of the Investment Grade that the country currently holds by main sovereign risk rating agencies.

The UGD has played an important role in the development of the domestic financial market, has strengthened Uruguay's position as an issuer of sovereign bonds in international financial markets, has guided the relationships with multilateral financial organisations and has contributed to mitigating financial vulnerabilities. Figure 1 shows that, by the end of 2019, public debt had been reduced considerably to 50% of GDP for gross debt and 45% of GDP for net debt.

Figure 1.
Gross and Net Debt to GDP ratios (%)

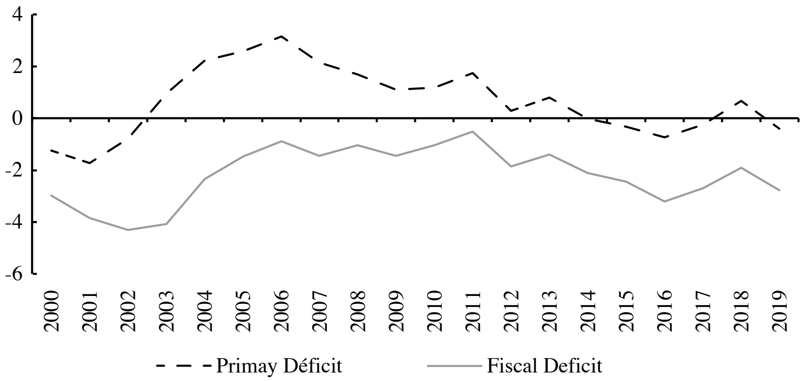


Source: Ministerio de Economía y Finanzas (MEF) and Banco Central del Uruguay (BCU).[1]

The development of technical capabilities for public debt management was important for reducing the cost of public debt, mitigating interest rate and liquidity risk, and drastically decreasing debt dollarisation. The UGD contributed to extending liability maturities. At the end of 2019, the average duration of public debt was more than13 years. The considerable reduction of roll-over risk contributed to avoiding stress derived from the accumulations of maturities. By converting a significant portion of the debt to a fixed rate, it was achieved that, currently, the proportion of public debt contracted at variable rates is virtually zero. The new debt management gradually advanced in the process of the de-dollarisation of public debt. Towards the end of 2004, the proportion of debt contracted in foreign currency exceeded 95% of the total public debt, while currently this proportion is around 50%. From the information presented in Figure 2 on primary and overall public finance performance, it can be seen that the annual interest bill, which in 2004 had amounted to 4.5% of GDP, represented less than half (2.4% of GDP) at the end of 2019.

[1] See https://www.gub.uy/ministerio-economia-finanzas/ and https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Cuentas-Nacionales-e-Internacionales.aspx

Figure 2.
Primary and Fiscal Deficit to GDP ratios (%)



Source: Ministerio de Economía y Finanzas (MEF) and Banco Central del Uruguay (BCU).[2]

The debt management strategy guidelines gave special priority to mitigating liquidity risk. Through agreements with multilateral financial institutions (IDF, World Bank, and CAF), contingent credit lines were available. The UGD used a share of sovereign bond issues to strengthen the cash position of the national treasury. This policy, which implied an increase in financial costs, proved to have a significant positive contribution in the face of the sudden-stop of capital inflows during the Lehman Brothers crisis. The strategy of anticipated financing allowed for the cancellation of the debt with the IMF at the end of 2006, which implied the early termination of the programme agreed upon at the beginning of the previous year. The advance payments of emergency loans that had been granted to address the effects of the 2002 crisis also contributed to reducing borrowing costs and eliminating the conditionality inherent to this type of operations.

REFORMING THE BUDGET PROCESS

During the FA administrations, the National Budget was conceived as a financial expression of the Government Programme. The definition of clear and explicit rules regarding the formulation, execution and control of the budget process constituted one of the main innovations in fiscal policy. The introduced changes contributed to improving the quality of the debate and facilitated a better understanding of fiscal strategy by representatives, economic analysts, journalists and citizens in general.

The budget proposal elaborated by the Executive Branch was accompanied by a narrative report, analysing the economic and financial outlook of the country and

2 See https://www.gub.uy/ministerio-economia-finanzas/ and https://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Cuentas-Nacionales-e-Internacionales.aspx

contained a detailed explanation of the objectives, scope and fiscal cost of each of the articles that involved new expenditures or that affected public sector income.

In this way, when the FA came to power in March 2005, it left aside many rigidities, generated by the decision of previous administrations that have preferred the formulation of a single five-year budget at the beginning of the period, leaving aside the possibility of introducing annual adjustments to initial budget allocations. Through this strategy, the government proceeded to correct spending programming errors and allowed priorities to be updated, which facilitated the implementation of a gradual strategy consistent with medium-term macroeconomic programming.

The leadership in the budget process was fully assumed by the Ministry of Economy and Finance, linking the budgetary strategy with short-term financial programming, and with medium-term macroeconomic projections. This option represented a relevant institutional innovation with respect to the country's experience since the recovery of democracy, in which the Planning and Budget Office was the entity at the head of the budgetary process.

The budgetary strategy ensured the consistency of the fiscal policy with the priorities in the different areas of government. Thus, fiscal responsibility and the preservation of macroeconomic stability were assumed as central points in the design of the budget, within the framework of strict respect for the allocations approved by the Legislative Branch. The certainty in the availability of the resources included the system of intergovernmental transfers, which implied less discretion in financial relationships between the Central Government and the sub-national governments.

On the occasion of the approval of the budget regulations, the Legislative Branch set a public debt ceiling, established for broad institutional coverage of the public sector, which facilitated transparency and control over the debt policy. The maximum authorisation to contract debt, which played the role of an implicit fiscal rule, was referred to as a definition of net public debt, which gave greater flexibility to the Ministry of Economy and Finance to carry out asset and liability management operations.

TRANSFORMING TAX SYSTEM AND TAX ADMINISTRATIONS

Some of the most relevant structural transformations implemented by the FA administrations were focused on a comprehensive reform of the tax structure and production incentive systems, and on the strengthening and modernisation of tax administrations.

The design process and the parliamentary approval of the reform of the tax system took up a good part of the first three years of the first administration of President Tabaré Vázquez. The reform involved the elimination of 15 taxes, most of which were distorting taxes with little contribution in terms of tax collection, the reduction of the rates of the main indirect taxes, the creation of the personal income tax, following a dual scheme for the treatment of labour and capital income, a reduction and standardisation of employer contributions to the social security system and a reduction in tax expenditure.

The tax reform was designed with the purpose of ensuring a reasonable balance between criteria of equity, efficiency, sufficiency and administrative simplicity (Eibe, 2015). From the point of view of fiscal pressure, the reform was designed under the premise of neutrality in terms of total collection, promoting an increase in the relative importance of direct taxes (personal income, business income and assets), taking into account the capacity of contribution of the different agents.

In parallel with the transformations of the tax structure, institutional and organizational reforms were launched in the three main tax administrations: Tax Administration Office (DGI), National Customs Authority (DNA), and Social Security Administration (BPS).

The modernisation of the organisational structure of the DGI, advancing in the professionalisation of its officials and in the strengthening of technological capabilities and risk analysis, played a fundamental role in the implementation of the tax reform and had a positive impact in terms of collection efficiency. As an example, it can be mentioned that evasion of VAT, the main tax collected by the DGI, which in 2004 was at levels close to 40% of its potential, was persistently reduced over time until reaching levels just above 10% in 2019.

The process of change implied adaptation efforts to meet the requirements of the new international fiscal reality, promoted after the international financial crisis of 2008 and 2009, and the global initiatives to combat money laundering and terrorism financing, from the Financial Action Task Force. This process implied for Uruguay the abandonment of an extremist conception about the scope of banking secrecy, supported by arguments that historically had overvalued the benefits derived from a legal framework that favoured financial opacity. In the FA administrations, an approach based on transparency and the willingness to cooperate with other countries in tax and financial matters evolved. In this way, the adoption of new legal regulations was promoted to provide greater transparency in financial flows and Uruguay joined the international cooperation efforts between tax administrations, promoted by the OECD Global Forum on Transparency and Exchange of Information, improving the credibility and international reputation of the country in international forums.

In this period, cooperation was intensified and joint oversight between DGI and BPS was promoted. This made it possible to articulate the fight against tax evasion and labour informality. The advances in this matter were widespread in the labour market, although taking into account their social economic significance, the advances in the labour formalisation of rural workers and domestic service are among the most relevant events that can be attributed to FA administrations in matters of active coverage of the Social Security contributory systems. The links between both institutions were strengthened through the participation of the BPS in the implementation of the personal income tax collection system and with the use of its computer capabilities to manage the PANES programmes and the monetary transfer systems to the lower-income families.

In addition to a substantial organisational change and technological advances that substantially improved the relationship with private agents and logistics operators, the DNA reform implied a new paradigm regarding the role that the customs authority must play. The customs reform led to a harmonisation between the efficient control of foreign trade flows of goods and trade facilitation. The comprehensive change in customs regulations provided for a more transparent and less discretionary process and with greater legal and operational certainties for foreign trade activities.

The transformation process began in 2007 with the implementation of the Modernisation Programme of the National Customs Authority and was consolidated, from a regulatory point of view, with the almost unanimous parliamentary approval of the new Customs Code, inspired by the modern Mercosur Customs Code.

This represented a change in the internal organisation of the DNA and its capabilities, which materialised through the incorporation of technological tools, the adoption of new risk assessment mechanisms, regulatory updates and the training and renewal of human resources. The process of change in the DNA also involved the qualification of foreign trade agents and opted for the establishment of a strategic alliance with the private sector.

The most important milestones of the customs reform were the launch of the Single Customs Document computerised system, the implementation of the goods declaration inspection system, the Port of Montevideo Project for the facilitation and intelligent control of goods, the electronic seal of cargo containers and the incorporation of non-intrusive equipment and technologies in inspection. The change process was completed in 2013 with the creation of the Single Window for Foreign Trade and the figure of the Authorised Economic Operator, which certifies that a company is safe and reliable in the international supply chain and, therefore, customs controls are applied through simplified and more agile processes.

MITIGATING FINANCIAL VULNERABILITIES

The banking financial sector was at the epicenter of the 2002-2003 crisis. At the beginning of 2005, it appeared as a potential vulnerability factor that could threaten the economic recovery process and could destabilise an economic policy strategy that aimed to improve the prospects for long-term growth.

In this context, the authorities option was to introduce structural changes in the regulation of the financial system and promote a profound transformation of all public banking entities: Banco Hipotecario, Banco de la República Oriental del Uruguay and Banco de Seguros del Estado (Bergara, 2015).

The reform of the organic law of the Central Bank of Uruguay (BCU) of 2008 laid the foundations to clarify the relationship between the BCU with the Legislative Branch and with the Executive Branch, outlining the scope of its autonomy, defining a new system of responsibilities in matters of regulation of financial markets and incorporating new mechanisms to address insolvency situations of banking entities.

Within this framework, the central bank authorities adopted both a micro-prudential approach and a macro-prudential perspective, which contributed to identifying, monitoring and mitigating systemic risks. These functions were carried out by the Financial Stability Committee, which became the body for the exchange, coordination and joint evaluation of the situation of the financial system.

Regarding the relationship with the Ministry of Economy and Finance, the most important legal innovation was the creation of the Macroeconomic Coordination Committee, which meets quarterly. This body, which is made up of the Minister and two other Ministry of Economy and Finance officials and three members of the BCU Board of Directors (including its President), is in charge of sharing information related to central bank powers and economic policy. The Macroeconomic Coordination Committee determines the inflation goals and the exchange rate regime, to whose compliance the monetary authority is committed.

The new regulations opted for a centralised regulation and supervision scheme of the financial system, integrating the set of regulation and supervision responsibilities into a single Superintendency of Financial Services (SSF). In addition, a new institutional framework for the resolution of possible insolvency situations in banking entities and a new deposit guarantee fund were created.

The focus on financial stability was not limited to banking activity, but came to include insurance companies, investment and pension fund administrators, the stock market and credit administrators. The new regulatory system sought to correct the notorious weaknesses that had become evident with the 2002 crisis and incorporate the lessons derived from the Lehman Brothers crisis into the design of the regulatory framework.

The SSF began to function as a decentralised entity of the BCU Board of Directors, with broad powers for its technical decisions and to establish planning and accountability mechanisms.

On the occasion of the reform of the organic law of the BCU, the Bank Savings Protection Corporation was created, which is in charge of the administration of deposit insurance, which is integrated into the security network of the financial system and has responsibilities in the resolution processes of financial intermediation institutions that eventually find themselves in crisis. Within this framework, rules of action were established for each of the agents involved in the banking security network, contributing to better outline the responsibilities of each of them and to determine the deadlines for action, and generating a more efficient framework to deal with insolvency situations of banking entities.

REOPENING WAGE NEGOTIATION AND PROMOTING NEW LABOUR RELATIONSHIPS

At the beginning of the first administration of President Tabaré Vázquez, priority was given to the reestablishment of collective bargaining, within the framework of which the government authorities committed to fully and gradually recovered the significant loss of real wages withstood by private and public workers as a consequence of the 2002 crisis and the fiscal adjustment that took place during the second half of the government of President Jorge Batlle (Mazzuchi, 2015). Furthermore, the government promoted a rebalancing of power between workers and employers, after an extensive period in which collective bargaining had practically been reduced to a minimum.

The call for Salary Councils, which are based on a law approved during the 1940s, defined the scope of tripartite wage negotiation (workers, employers and the State). This was the tool the government used to organise labour relations, ensuring their consistency with the general orientation of macroeconomic policy, in particular, with respect to the maintenance of price stability and the recovery of employment levels, which had been severely affected after the 2002 crisis.

The general framework of the new policy aimed to encourage workers and employers to reach bipartite agreements at the sectoral level, and in the event of a lack of agreement, the Executive Branch would settle the differences by tipping the balance, in some cases in favour of the aspirations of the workers, and in other cases of the employers.

The negotiation between workers and employers was conceived as a fundamental tool to match the recovery of economic growth with the improvement in income distribution. Both objectives were assumed as commitments in the Government Programme.

The evolution of real wages and the intense process of job creation can be considered key factors to account for the drastic reduction in poverty and distributive inequality indicators that took place since 2006. To promote an improvement in income distribution, the government explicitly promoted increases in the national minimum wage above the average wage and supported workers in their demands for better wages in the sectors and occupations that received lower wages (commerce, rural, domestic service, among others). The evolution of real wages and the unemployment rate presented in Figure 3 illustrates the results obtained as a consequence of the implementation of the new labour policy strategy.

Figures 3.
Real wages and Unemployment (%)

Source: Instituto Nacional de Estadística (INE).[3]

Labour policies were focused on dialogue and negotiation between workers and employers, assigning new roles to social actors, within the framework of a process of expanding labour and union rights. This operated as a driving factor for the expansion of the number of members of the Single Trade Union Central (PIT-CNT), which quadrupled over the course of the first decade of FA administrations (Araya & Parada, 2023). Among the main legal innovations are union immunity, corporate criminal liability, outsourcing, the eight-hour work day for the rural sector, collective bargaining in the state and the promotion of negotiation for domestic service.

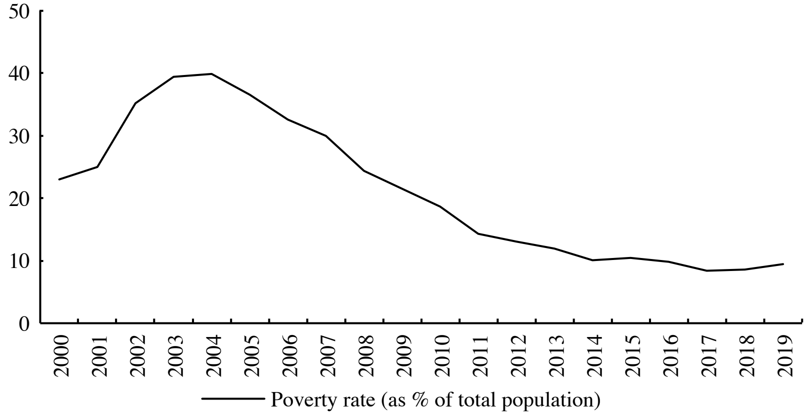
[3] See https://www.gub.uy/instituto-nacional-estadistica/estadisticas

STRENGTHENING THE ARTICULATION BETWEEN ECONOMIC AND SOCIAL POLICIES

The FA adopted an integrative approach to economic and social policies, consistent with a vision that prioritised the importance of coordination between both, in order to meet the objectives established in the Government Programme, which officiated as a guiding light of the long-term development strategy.

The existence of explicit priorities in terms of public spending was combined with the strengthening of social public spending allocations in the macroeconomic programming exercises and in the definition of the fiscal strategy that would provide sustainability to the progress that was being made in the different areas of government action. Figure 4 shows the dynamics of poverty indicator during the three FA' administrations.

Figure 4.
Poverty rates (%)



Source: Instituto Nacional de Estadística (INE).[4]

This articulating approach was expressed, on one hand, in the establishment of certainties regarding the budgetary resources that were applied, among others, in PANES, in the Equity Plan, in the Health Reform, in the notable increase in budget allocations to public education, in the improvement of retirements and minimum pensions, in the Plan Ceibal (one laptop per child) and in the restructuring of the public support system for housing policies.

The implementation of PANES allowed the accumulation of fundamental information to improve the design and implementation of programmes focused on the most vulnerable social sectors. In this way, the impact of social policy actions

[4] See https://www.gub.uy/instituto-nacional-estadistica/estadisticas

aimed at addressing the situation of the population that was below the poverty and indigence lines was strengthened. The improvements in the information systems allowed to define focused actions addressing the most pressing situations regarding Unsatisfied Basic Needs. The priority assigned to children and adolescents served as a fundamental guide to the redesigning of social policies and contributed decisively to some of the main distributive advances that were registered during the FA administrations.

The reasonable balance between focused actions and the implementation of coverage expansions in certain areas of social policies can be considered hallmarks of the articulation between economic and social policies, which together contributed to defining a new matrix of social protection, which, in essence, has been maintained after the three periods in which the FA was at the head of the government in Uruguay (Campanella, 2015; Soto, 2023).

The Plan Ceibal was an emblematic initiative for the educational system that ensured connectivity in the classroom and universal access to information technologies for all students at primary and secondary levels. This programme played a very important role in promoting equal opportunities and closing gaps with regards to access to digital technologies. The contribution of this experience was felt very quickly in educational activities, mainly at the primary level, but it was with the outbreak of the Covid-19 pandemic in March 2020 that the importance of this programme was highlighted to massively sustain educational activity at all levels of education.

The creation by means of legal mandate of the National Integrated Health System in 2007 can be considered an example of the scope of the redesigning of the social protection matrix. The health reform implied a profound change in the organisational structure of health services (Vallcorba, 2015; Zumar, 2023).

On this occasion, the functions of providing public health services, which were responsible for a decentralised and functionally autonomous public entity of the Executive Branch that manages public hospitals, were separated from the responsibilities of steering health policies, which corresponded to the Ministry of Public Health. The powers related to the administration of the system were entrusted to the National Health Board, the entity in charge of managing the resources coming from private contributions (contributions from employees and employers) and budget funds that ensure the intertemporal sustainability of the National Health Fund.

In practice, the reform implied a substantial increase in public resources allocated to health services. The universal nature in terms of coverage and the gradualness in the implementation process can be considered distinctive elements and, at the same time, fundamental explanatory factors for the success of the health reform.

Among social policies, the transformations promoted in housing policies can be considered as an example of the institutional approach with which social policy reforms were carried out (Polgar, 2015).

In the past, the main public actor in housing policies had been the Banco Hipotecario del Uruguay (BHU). In March 2005, this entity was bankrupt and was not able to grant mortgage loans for quite some time, which is why the institution was created. The BHU had played the role of promoter of housing policies, had been involved in direct construction projects, captured public savings, channeled subsidies and granted loans to families. The operation of the BHU deserves to be considered as an eloquent example of the extent to which the culture of non-compliance with financial obligations with public banks had reached in the country: delinquency had reached levels close to 70% of the credit portfolio managed by the institution.

The reform involved a drastic adjustment in the design of housing policies, facilitating access for private commercial banks to the mortgage loan market. The BHU was capitalised, its operational capabilities were strengthened, and its functions were concentrated on collecting savings and granting mortgage loans under market conditions. The reforms promoted legal changes in the mortgage guarantee system and important tax exemptions were implemented for housing construction projects for low and middle socioeconomic sectors of the population. Public subsidies to families began to be channelled transparently from specific budget allocations, administered by the National Housing Agency, which operates within the orbit of the Ministry of Housing, Territorial Planning and Environment. It was also necessary to provide solutions for the serious pre-existing situations, linked to the delinquent portfolio and the need to have stimulus instruments specially designed for the financing of social housing. In addition, the granting of housing at subsidised prices was cancelled. In its place, a transparent system of explicit subsidies for mortgage loan installment payments was implemented and a subsidy mechanism for housing rentals was created, based on a guarantee fund.

LESSONS AND FINAL REMARKS

The analysis of the Uruguayan experience between 2005 and 2019 allows us to draw lessons regarding the main factors that explain a profound process of change that produced multiple benefits in terms of social welfare in Uruguay and that generated a favourable scenario for economic expansion to be compatible with improvements in income distribution.

Undoubtedly, the political, economic and social circumstances in which the FA came to power played a relevant role in understanding the economic strategy implemented. The consequences of the 2002 crisis generated a favourable context for a significant change in the political preferences of the citizenry and for the consolidation of majority support for a political party that unequivocally represented a vocation for change. The clearest expression of this is that for the first time in decades, the political party at the head of the administration had its own parliamentary majorities to promote a broad set of reforms that were part of the Government Programme. The political force that came to government in 2005 had been forged on the basis of intense internal debates and negotiations and had demonstrated its ability to maintain internal cohesion and to ensure a reasonable balance between diverse economic and social interests.

The orientation of the economic policy was guided by a close articulation between politics and technical capabilities. The management of the economy had been placed under the responsibility of a team headed by Danilo Astori, who has been Minister of Economy and Finance on two occasions and Vice-President during Frente Amplio administrations. Astori's leadership was based on an extensive and well-recognised professional and academic career and on the fact that he was the main figure of one of principal Frente Amplio sectors in terms of parliamentary support.

The Uruguayan experience shows the advantages derived from the fact that the orientation of the economic strategy was defined on the basis of coherence between short-term management and long-term development targets. Initiatives to mitigate the economic, social and institutional vulnerabilities that were present at the starting point were addressed simultaneously with the implementation of reforms that implied changes in the rules of the game and in the institutional designs on which public policies were based. Furthermore, the reduction of discretion in decision-making and the creation of new regulatory frameworks played a fundamental role in the change of direction of the economic strategy.

It should be emphasised that, during the three administrations, the role of the private sector in the production of goods and services was emphasised and important efforts were made to improve the functioning of markets. The initiatives combined the preservation of macroeconomic stability, the introduction of regulatory changes, the generation of a new framework of rules and incentives, and the simplification of administrative procedures.

This process in Uruguay clearly indicates that, beyond the role that the external context has undoubtedly played and the importance of external shocks in explaining economic performance during the 15 years of Frente Amplio administrations, coherent macroeconomic policies and the capacity to design and implement major structural reforms have made significant contributions to promote growth and improve the living conditions of the population.

This is, perhaps, one of the most important lessons that can be drawn from the experience of a small open economy that is part of a region where most of economic and social successes and failures have been attributed to the international context.

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