



Capitalism in Uruguay

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Abstract

Capitalism has evolved to be the dominant economic and social system. Following Feudalism, economic decisions have relied mainly on market forces and private ownership of means of production. Although Capitalism may exist even if those means of production are not privately owned, recent experiences have demonstrated that that type of Capitalism (i.e. Soviet Socialism) is not sustainable. This article examines different types of Capitalism as we know it today and focuses on one developing country, Uruguay. We examine recent Uruguayan history to gauge into the evolution of Capitalism in the country and characterize Capitalism in each period according to a well developed model.

Key words: Capitalism, underdeveloped countries, comparative economic systems, comparative politics, Economic History

JEL Classification number: N96, N16, N26, N36, P10, P52

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Introduction: What is Capitalism?

Capitalism is said to have emerged fully by late sixteenth century with the convergence and evolution of the Enclosure in England, urbanization, the increase of international trade and the end of the Middle Ages. Capitalism was present during Mercantilism, where an ascendant bourgeoisie was granted monopoly rights on international trade. The free market economy, a main component of Capitalism, was advocated by the Classical Philosophers: Adam Smith, in his famous “The Wealth of Nations” postulated the superiority of a system of “natural liberty” vis a vis Mercantilism to guarantee the provision of consumer goods to the people. However, other classical economists such as David Ricardo and John Stuart Mill were also worried about the effects of this system on the rate of economic growth and on income distribution and therefore, on its sustainability. Schumpeter characterized Capitalism as a process of “creative destruction” but expressed concerns about its long run sustainability. Marx, along with Engels, not only recognized the problems of such as system but went as far as to postulate its demise.

What are the fundamental characteristics that define an economic system, and, more specifically, what are the main characteristics of Capitalism? Following Gardner (1998), an economic system can be broadly defined by answering the following questions:

a) **Which is dominant system of ownership?** In Feudalism, ownership rights were held by a king or other monarch, while in most capitalist societies today, means of production are owned mostly by private individuals. In Socialism, productive assets are owned “socially”.

b) **Which is the dominant system of coordination?** In traditional economies, economic transactions were coordinated via perpetuation of the status quo: younger generations produced and consumed the way the older generations used to produce and consume. In planned² (e.g. socialist) economies, decisions are coordinated using a central plan in which objectives and strategies are laid out explicitly. Finally, in market economies, production and consumption decisions rely on the movement of freely-determined prices under decentralized conditions.

c) **Which is the dominant system of incentives?** Sometimes, producers and consumers are not free to make their own economic decisions: they are coerced to behave in certain ways (Dictatorships and other authoritarian regimes are examples of regimes where “incentives” take the form of coercion). In other regimes, individuals are rewarded with claims over different types of assets, that is, they behave according to material incentives: these are the type of incentives which are dominant in competitive market economies, although consumers and producers in planned economies also may behave according to material incentives. Some forms of socialism rely on moral incentives: individuals are expected to behave mainly based on emotional reasons or causes, such as pride, sovereignty, nationalism, etc.

d) **Which is the dominant system of objectives?** Countries may choose different objectives as fundamental: Individual freedom (e.g economic and political), high rates of economic growth, low unemployment, high economic and military power, among others. Milton Friedman and others championed the idea that economic freedom was a prerequisite for political freedom, higher economic growth and greater equality. A free-enterprise economy is the best economic

² Planned here is used in very broad terms. The Soviet Union, China and others are examples of “Command Planning” where most decisions are made by a Central Authority. On the other hand, in Japan and other European countries markets and plans interact in making short and long run economic decisions: Industrial Policies are one example of such interactions

system to achieve those goals. On the other hand, the notions of disequilibrium and Welfare State were introduced during the first half of the 20th century by, among others, John Keynes. Keynes thought capitalist societies were endogenously unstable, and Governments should intervene to preserve stability and low unemployment.

Under Capitalism, the dominant system of ownership is private ownership of means of production and property rights, that is, means of production are owned mainly by private individuals. On the other hand, economic activities are coordinated through the (free) movement of market prices, which fluctuate according to supply and demand conditions. One of the (theoretical) central tenets of a market economy is that of consumer sovereignty, which is what ultimately, determines what is produced in a capitalist economy.

The coordination mechanism of Capitalism (i.e. markets) includes a specific system of incentives in order to reward socially desirable behavior: Capitalism rewards claims over material goods. The system operates in such a way that producers and consumers may change their behavior based on fluctuation of prices, i.e. the market value of goods and services. As is well known, this system of incentives is especially vulnerable to agency problems.

Finally, in Capitalism, or a free enterprise economy, protection of individual freedom is postulated as the dominant objective. Economic and Political Freedom go together; as written above, no political freedom may exist without economic freedom (Friedman & Friedman (1979). Other objectives, such as an acceptable rate of economic growth and an equitable distribution of income, are important but endogenous to the existence of individual freedom.

Of course, every single aspect of this classification is present in all economic systems (market socialism relies on prices and material objectives, for example). Moreover, Capitalism itself may be classified in different forms. Free enterprise Capitalism is an unregulated system, where market forces mainly determine economic performance and other economic and social indicators. On the other hand, Regulated Capitalism relies more heavily on Planning (i.e. Indicative Plans).

Gardner (1988) summarizes his conclusions in the following table:

Type of Capitalism	Dominant System of Production	Dominant System of Coordination	Dominant System of Incentives	Dominant System of Objectives
Free Enterprise	Private	Market	Material	Individual Freedom
Regulated	Private	Market, Indicative Plan	Material	Various

Our Baseline

The distinction between Free Enterprise Capitalism and Regulated Capitalism resembles in many ways the Varieties of Capitalism-classification developed by Hall and Soskice (2001) where they distinguish among Liberal Market Economies and Coordinated Market Economies³.

Their approach is an actor-centered approach, where the (relational) firm is the main actor. Firms are the principal agent of adjustment and change. As a relational entity, firms encounter many coordination problems internal and external to it: moral hazard, adverse selection and shirking.

Hall and Soskice (2001) postulate five spheres of firm relations:

- a) Industrial relations, where bargaining over wages and working conditions takes place,
- b) Vocational training and education relations. Firms need to secure workforce with suitable skills while workers face the problem of how much to invest in what skills.
- c) Corporate Governance relations, where finance problems arise when firms look for resources to fund their investments projects.
- d) Inter-firm relations: relations with other firms (e.g. suppliers) and clients (firms or individuals). Firms create ties with other firms to secure a stable flow of demand for their products, a stable flow of inputs for their production and access to technology.
- e) Coordination with own employees. In house training is a necessary condition to remain competitive. Firms train their own employees in order to secure a stable and competent staff.

Hall and Soskice divide Capitalist economies in two broad types:

Liberal Market Economies (LME) coordinate their relations within the above spheres via hierarchies and competitive market arrangements. Actors behave according to price signals given by markets and formal contracts are the main institutional form used to coordinate competition among firms. Under these conditions, LMEs are characterized as having:

- short term oriented company finance,
- unregulated labor markets, relatively weak unions and collective bargaining
- unregulated product markets: prices determine access to inputs and outputs
- a standard educational system: workers usually have general skills and
- Strong competition between firms.

According to Hall and Soskice (2001), examples of LMEs are the United States of America and the United Kingdom. LMEs are characterized by being dynamic and flexible economies, where short term profits constitute a firm's main goal. The role of the State is limited, tax revenues are relatively low and funds for social services are restricted. Anderson (1990) argues that social protection systems in LMEs are residual and are characterized by the (relative) absence of recognition of social rights, especially of minorities, a minimization of the importance of so

³ This paper will be based on the work of Hall and Soskice (2001). For interested readers on different forms of Capitalism, the work of Jackson & Deeg (2006) and Amable (2003) constitute excellent references. We think, however, that most classifications of Capitalism can be easily fit within the framework developed by Hall and Soskice (2001). We nevertheless show a summary of different classifications in the Appendix.

called “social risks” (e.g social security), and a view that most social risks are best served by market forces.

Coordinated Market Economies (CMEs) rely more on non-market relations: relational or incomplete contracting, network monitoring, and collaborative as opposed to competitive relations. The existence of Deliberative Institutions of monitoring and information exchange is fundamental in this type of economies. Equilibrium (once prices are determined in the market) is achieved via the strategic interaction of firms, social institutions (unions) and the Government. CMEs are characterized by showing:

- long term industrial finance,
- cooperative industrial relations,
- High level of vocational training and cooperation between firms. .
- Strong Unions and Collective Bargaining over working conditions

Examples of CMEs are Germany, Japan, and possibly France⁴. CMEs are characterized then by collaborative and stable agreements between firms, workers and the State, are focused on long term profits and stable employment. Tax burden is usually higher than in LMEs and the Welfare State is strong.

The role of formal institutions is of fundamental importance for H&S: in both types of economies, the aim of these institutions is to provide capacities for the exchange of info, monitoring and sanctioning. In LMEs the fundamental institutions are markets and hierarchies, while in CMEs, aside market and hierarchies, there is need for institutions (i.e. deliberative) to achieve different equilibria. Nevertheless, informal institutions, such as rules, history and culture are also important elements within their approach.

The following section will describe Uruguayan economic history since 1870 up to the present. Based on the model described above, we will characterize each of the periods in which Uruguayan history is divided. Next, each of the periods will be characterized according to Since Hall and Soskice’s model. Since this model was build for developed nations, we will carefully distinguish the structural characteristics of the Uruguayan economy (e.g. its duality) when applying comparing our results to our baseline model. Finally, Appendix 1 summarizes our main findings with respect to the Uruguayan Economy and Appendix 2 summarizes views of alternatives to Capitalism and

⁴ The importance of each actor varies with respect to coordination. For example, in Japan and other Asian economies, bureaucracies and family ties are important, unions are important only at firm level, and employment is stable. France and other Mediterranean economies show less unionization and workers are trained to gain general skills. Finally, in Social democracies collective bargaining is important, financial funds are allocated via market mechanisms and the Welfare State is strong.

Historical Evolution of Uruguayan economy⁵

In this section, we briefly describe different time periods which are relevant to understand Uruguayan capitalism. Following, Oddone (2010) we separate recent Uruguayan economic history as follows⁶:

- Modernization Period (1870-1913).
- Welfare State I: International (1914-1930.)
- Welfare State II: Import Substitution (1931-1954.)
- Welfare State III: Limits of Import Substitution and Political Chaos (1955-1973.)
- Economic Liberalism I: Dictatorship and Liberalization: (1974-1984).
- Economic Liberalism II: Democracy, Debt and Adjustment 1985-2002.
- Back to Welfare State: 2003-2014

Next, we characterize each period as a Liberal Market Economy or as a Coordinated Market Economy, based on our baseline model⁷ economies.

Modernization (1870-1913)

In this period, Uruguay consolidated as a Nation State and its economy performed really well sustained mainly by the increase of exports. During this period, Uruguay found a position in international economy as a commodity exporter. In addition to this, the ending of armed conflicts in the country, the development of the rural code, the establishment of limitations to (rural) property, technical changes in the agricultural sector and the reaffirmation of the gold standard⁸, helped to give dynamism to the economy.

The rural economic elite was dominated by immigrants. They established the “Asociación Rural del Uruguay” to advance their interests and to act as a corporate pressure to public officials, although they did not fully consolidate during this period. . In addition, urban elites were also dominated by immigrants and also not fully consolidated. According to Finch (2005), public officials were more concerned with the stability of the “infant” Uruguayan State than with the specific mechanisms of control of the private agenda of rural and urban elites. Moreover, these elites were themselves developing as strong social agents with capacity to strategically interact with the Government. This scenario allowed the political system to operate with independency of economic sectors. In other words, although the economy was developing and the state was beginning to grow, there was not a pass through of the mechanism of the political elite to

⁵ This section and the subsequent historical periods descriptions are primarily base on:

- Oddone (2010), *El Declive: Una mirada a la economía Uruguaya del siglo XX*.
- Finch (2005), *La Economía política del Uruguay Contemporáneo*.
- Reyes Abadie & Vázquez Romero (1999), *Crónica General del Uruguay*. Volume six
- Reyes Abadie & Vázquez Romero (1999), *Crónica General del Uruguay*. Volume seven

In addition, data come from “Instituto Nacional de Estadística” (INE) of Uruguay and “Facultad de Ciencias Sociales”.

⁶ We named each period to approximate the classification of Hall and Soskice (2001).

⁷ It is important to note that our baseline model was elaborated to understand developed economies which do not show the dual characteristics of underdeveloped countries, such as Uruguay. Underdeveloped countries typically show a dichotomy between two sectors: a traditional, non-urbanized rural sector and an urban, industrial sector similar to those in developed economies.

⁸ It would be interesting to discuss if the gold standard itself approximates to a certain type of system within the Hall & Soskice classification. A macroeconomic policy that fixes an exchange rate to a certain quantity of gold in a simple analysis suggests more regulated-oriented policy. Nevertheless, applying a rule like this eliminates the possibility that the state uses the exchange rate in a discretionary way which would represent less state interventionism and in consequence among the LME system. In fact, this is a characteristic of the periods of more liberal systems in Uruguay.

economic sectors. Accordingly, this is a period characterized by a lack of coordination in *the relationship between enterprises* and the government.

In spite of this relative absence of strategic interactions between public and private agents in the production and sale of commodities, the State did intervene in market transactions related to the provision of so-called “public goods”. In 1901 the “Administración General de Puertos” was created to give the government control of harbor operations, a key component of the Uruguayan economy of the time. In 1896 the public bank “Banco de la República” took the role of a development bank, the “Banco Hipotecario” became the leader of the mortgage market and started a massive program which allowed thousands of Uruguayans affordable access to housing. Moreover, the Government took monopoly control of the Insurance market through the creation of the “Banco de Seguros”. Last but not least, Communications and Energy supply were also monopolized. These type of interventions in the *relationship between enterprises* and between enterprises and the consumers, is a characteristic of a CME system.

During this period, rural workers had few opportunities to engage in labor negotiations, either over salaries or labor conditions. In part, this situation occurs due to the structural characteristics of the rural sector, where workers were distributed in large areas, which constituted a negative incentive to engage in corporate organizations, such as Unions. . On the other side, urban workers had managed to create a Union, the “Federación Obrera Regional Uruguayana” (FORU). This period then, is characterized by a relative low rate of union affiliation, where union activity was concentrated within the industrial sector. To sum up, Unions were almost non-existent in the rural areas, approximating an LME country, and growing in urban, pre-industrialized areas, showing some characteristics of a CME country. The Welfare State was developing in terms according to a CME. Although in its infancy, the social policies were beginning to gain importance in the public agenda. The so-called “Batllismo” (after José Batte y Ordoñez) was a political and social movement with deep social-democratic roots. However, it was not until 1914 that changes in working hours and pensions were introduced. Nevertheless, since 1830 there was a policy of pensions to retired persons (essentially teachers, military personal and public employees). This role of the State as a benefactor of the working class, is a typical characteristic of CMEs.

Turning to the educational *sphere*, college students could attend one of 3 universities where they could choose among 10 degrees. In addition in 1879 a school of arts & crafts was created to allow for some sort of tertiary education to those not interested in traditional fields of study. Although this last institution disappeared before the end of the XIX century, the importance of technical education persisted and 3 law projects were passed by the house of representatives in 1899 to allow for more schools of this kind. Rural and Urban areas were differentiated in terms of course content. Students in rural areas were taught agriculture courses in a practical-theoretical approach so they could get skills in this subject. Finally, as a general observation, investment in human capital significantly increased during the Modernization period: between 1900 and 1913 school attendance increased 52%, 770% and 82% in primary, secondary and university respectively. Additionally, between 1909 and 1913 there was an increase of 22% of university graduates. Universal education was more predominant in urban than in rural areas, which approximates for an LME-type of economy. On the other hand, more specific forms of education were present in rural areas, which is a characteristic of CMEs. The so-called dual

characteristic of less developed countries shows itself within the Uruguayan economy of the Modernization period. .

The corporate governance sphere of analysis, mainly dealing with the strategic interaction among actors (private and public) within the financial sector shows characteristics that put it close to CMEs. During this period, public and private banks were the main type of financial institutions and sources of funding, while the capital market was in its infancy. Following Damonte & Sarachaga (1971), between 1912 and 1915, public banks supplied 48% of the demand for funds. Financial sectors in CMEs are characterized by an important public supply of funding, concentrated in one or two major banks. Companies use bank credit as their main source of financial aid, which is also a characteristic of coordinated market economies.

In sum, during the modernization period, we have identified patterns which approximate the Uruguayan economy to both types of Capitalisms: Liberal and Coordinated market economies. We tend to think, however, as the primary evidence shows, that Uruguay was heading its way to become a more CME during this period. This is because the intervention of the state in the economy and in social life (i.e.: in corporate finance, in enterprise relations and welfare policy) is more strongly developed than the other LME characteristics.

Welfare State I: International (1914-1930)

The interruption of the gold standard and the setting of commercial barriers after the First World War meant hard times for the Uruguayan economy. In spite of this, and of the change in the world order from a relatively open economy such as Great Britain towards a relatively closed economy such as the United States, which reduced the demand for Uruguayan products, the economy exhibited a positive path in industrial production and employment.

Labor relations sustained its CME tendency in urban areas where Union activity continued to gain importance. The Russian revolution played a central role on this evolution. Following the Marxist approach to economic relations, workers gathered in newly created Unions, the most important of which was the Maritime Worker's Federation (1918) and the Uruguayan Union (1923). Up to this point, Union activity was not unified under a single Organization. Each (urban) industrial sector has its own Union and coordination among them was limited. On the other hand, the rural sector continued to have weak Union activity, as during the Modernization period.

During this period, the state increased its influence in the intermediation of markets and of *enterprises relations* (mainly in the urban society). A public, testimonial slaughter house (Frigorífico Nacional) was created in an attempt to regulate the cattle market, in addition to the elimination of beef export rights and subsidies to citrus exports. All these measures show a growing CME tendency in enterprises relationships. In rural areas, the state continued to play a secondary role, and economic markets and enterprise relations were controlled by the economically dominant classes, as in the previous period. Nevertheless, coordination occurred between firms using the associations mentioned in the previous subsection. In this sense, CME behavior was also present in rural areas.

Welfare state continued to grow in the 1920s: a law which set an eight-hour working day was passed, together with a mandatory one free day for every six working days. Moreover, in 1920,

employers were required to pay for every working day lost by an injured worker (during work). In addition, a general pension (social security) system for retired workers was established; although it applied mainly to urban workers (rural workers would have to wait till the end of the 20th century to be eligible for such important benefit). These institutional developments in the welfare state showed a continued CME tendency in urban areas which was observed in the previous era also. On the other hand, rural sectors continued showing LME labor relations.

In the *Educational* sphere, the tendency observed continued, as enrollment in primary and secondary education, and University increased significantly. In addition, college education expanded the scope of opportunities for individuals interested in tertiary education, an example of which is the creation of a College of Mathematics. Technical education continued to rank high in importance for public authorities, and in 1916, Congress passed a law to regularize what was called “Industrial Teaching”, and created the “Escuela Industrial” (Industrial School). We can see here a tendency of tailoring university education towards more specific areas. While a more universalized system is a characteristic of LMEs, adapting the university to fit more specific kinds of tasks is more related to CMEs.

In this period, in terms of *corporate governance*, transactions in the (less developed) capital markets were mainly privately held. On the other hand, nationalization of the “Banco Hipotecario” in 1912 was accompanied by a significant increase of mortgage credits, both to rural producers and to urban investors in the construction industry, mainly in the capital city of Montevideo. The commercial banking industry continued to grow during this period with the publicly-owned “Banco República” (BROU) playing the role of the leading institution. We note that, in spite of a more LME activity such as the use of private capital markets, the steady increase and relevance of commercial bank credits (BROU credits in particular) characterized this period more as having a continuity of CME behavior.

To summarize, the evolution of education, welfare state and of state intervention during this period shows a more rapid convergence towards a CME. In that sense, the growth of market regulation, the state role in markets, the shift towards a more specific-skill oriented education and the creation of a social security system led the country to become more of a CME.

Welfare State II: Import Substitution (1931-1954)

The Great Depression triggered a host of institutional changes in the Uruguayan economy. The loss of export revenues created a Balance of Payments deficit which was tackled with unorthodox policies, which in turn ended in a particular growth path in subsequent years.

The scope of measures was wide. The first set attempted to control the scarcity of dollars, e.g controls over the exchange market and prohibition of sending dollars abroad.

The second set of measures was oriented to revert the commercial deficit: devaluation (to boost exports), and import restrictions.

The third pillar was oriented to balancing the public budget: an increase in tributes and the levy of new taxes. The fourth set of measures involved production of goods and services by the public sector. In 1933, the publicly owned company, ANCAP⁹ was created to participate in the oil market and monopolized the importation, refinery and distribution of fuels. Moreover, the

⁹ Administración Nacional de Combustibles, Alcohol y Portland

production and distribution of energy was assigned to UTE, also publicly owned. The State also took monopoly or dominant positions on the supply of water, urban transportation, airlines, and rail transportation¹⁰.

As a direct consequence of the creation of public companies, there was an important increase in the number of public employees. Moreover, regulations limiting the ending of their contracts were passed during this period. Last but not least, in 1943 the so-called “Wage Councils” were created to deal not only with private wage bargaining but also to negotiate over working conditions. The State, Workers and Employers participated in these negotiations, but the State kept for itself the right to decide on most issues. These Councils were used by the government to redistribute income and to sustain its growth model. All these measures increased the role of the state in the market as a regulator, as a producer and as an intermediate. In this way, the importance of the state within the private sector *enterprises relations* grew, which clearly constitute a characteristic of a CME.

It is not worthless to explain a little bit more of the ISI model. This model consisted basically in creating incentives and measures that secure that the national production starts full filling the domestic demand previously satisfied by imports. This way, not every national production increase to satisfy domestic demand is related to import substitution, just the one that is compassed with a reduction in imports. The policy measures of the previous 4 paragraphs are clearly identified as typical measures of a regime of this kind. What is curious is that as the measures derived from a negative shock to the economy, it can be concluded that this model was not planned, it was spontaneously implemented. The ISI did not succeed in Uruguay. In fact, as data of Oddone (2010) shows the per capita GDP grew 0,5% between 1931-1973 (ISI period).

In terms of welfare state, this period shows an important increase in the coverage of social security. By the mid 1940’s, almost all social groups were included in the system. Moreover, women of 40 and more were allowed to receive a pension even if they had not been included in the system. Although public employment is not a welfare measure per se, the fact that there was an increase in that kind of employment (and that it was more difficult to lose your job if you were a public employee) is evidence of a State that is heavily involved in the economic activity of the country. To make explicit what is obvious, we see a growing tendency towards a CME during this period. Moreover: rural labor markets were also converging to this CME behavior as a consequence of workers’ inclusion in the social security system.

The economic recovery after the recession of 1930-1933 had consequences for *labor relations*. Union membership increased significantly due to the recovery of industries under the umbrella of the import substitution strategy and the influence of the Worker’s Councils¹¹. Nevertheless, there were still conflicts between unions that prevented the constitution of a unique institution representing all workers. Nevertheless, these events show an increase in the relevance of CME behavior.

Enrollment in every educational level continued to increase during this period. Moreover, there was an increase in the number of graduates and in the number of students enrolled in the

¹⁰ These were OSE, AMDET, PLUNA and AFE, respectively

¹¹ In this new scenario, Unions began to use strikes as a negotiation weapon.

Industrial School. We see here then, that there were advances in both ways in terms of Hall & Soskice classification.

With respect to *corporate governance*, this period shows a peak of private participation in capital markets, although low with respect to international standards: between 1943 and 1950 some private commercial and industrial firms entered the market. On the other hand, participation of the banking sector continued its upward trend with the public BROU keeping the leading role. There was a change in the structure of credit, though: “development credit” (Damonte y Saráchaga 1971) increased relative to commercial credit. Although this period shows an increase of LME type of finance, the increase in development credits from BROU, also shows an increase in CME characteristics.

As a clear consequence of the crisis that occurred at the beginning of this period, two of the spheres of analysis showed a significant increase in their CME-type behavior. For instance regulation and intervention of the state in the enterprises sphere showed an increase via creation of public companies. Additionally, Union membership and influence also increased. Moreover, the permanence of other old CME behaviors defined a bias towards a CME system. Probably, this was the moment in history in which the Uruguayan economy showed the highest levels of coordination.

Welfare State III: The Demise of Import Substitution Industrialization and Political Turmoil (1955-1973)

This period shows the end of a strategy of achieving economic development based on domestic market growth. The small domestic market became a low ceiling to the goals of achieving efficient industrialization. Moreover, GDP contracted 0, 3% annually on average between 1955 and 1973. In addition, Uruguay faced important macroeconomic imbalances. First, a significant increase of inflation, which had two main determinants: first, fiscal deficits were tackled via monetary expansion, and the rise of nominal wages and industrial concentration generated cost-push inflation. Certain heterodox measures (such as price controls) were useful to control the increase in prices. Nevertheless, the final result was social and political turmoil, which, combined with bad economic performance derived in a military coup in 1973 (see below).

In terms of what is related to the *enterprises relations*, a move towards CME behavior was clear: the government intervened in the exchange rate market, using the national bank (BROU) to manipulate the value of the Uruguayan peso. Moreover, prices and wages were frozen and market controls reinforced. On the other hand, export taxes and multiple exchange rates were eliminated which shows an intention towards a more decentralized market system, to reopen the economy and to let it be more LME. Nevertheless, regulation measures tend to dominate during the period.

Turning to *labor relations*, it is central to understand the political chaos that of the period. First, the economic crisis and the implementation of IMF-led macroeconomic policies were powerful incentives for workers to create a unique centralized Union. In 1964, the “Convención Nacional de Trabajadores” (CNT for its initials in Spanish) was created. . The general dissatisfaction with the economic situation led to a general strike of 15 days. The Government proscribed CNT and all Union activity in 1973.

Corporate governance shows a tendency towards LME at the beginning of the period because, private commercial banking had a significant increase. Due to economic instability, however, commercial credit was used for short run speculation. In addition to this, public bank participation lost relevance because of the development of banking houses particularly outside the capital city¹². Nevertheless, this LME tendency was short-lived. Financial speculation and corruption led to a crisis in 1964 with the fall of the “Banco Regional” and of “Banco Transatlantico”, two of the most important private banks. This derived in a reduction in the number of private banks of 16% between 1955 and 1968. Despite of the LME movements at the beginning of the period, public BROU remained the leading player of the financial sector. During this period, approximately 45% of credits were made by national banks. In that sense, a CME tendency continued to predominate.

Education continued to show a hybrid path. During this period, general educational coverage expanded to towns and rural areas, clearly a characteristic of LME economies. On the other hand, however, the public University lost its role as an institution of generation of (general) skills to reinvent itself as an institution the object of which was produce professional individuals. This as we already mentioned early, it is a CME tendency.

In sum, during this period, in spite of the permanent attack to the institutional structure, the Uruguayan economy ended up intensifying his already defined capitalistic characteristics. Following this path we see that market interventionism, professionalization of education and the increase of union activity continued paths which are characteristic of CMEs. In addition to this, although there was a tendency towards a more LME-type banking system, probably the crisis that occurred ended up leading back to a CME pattern.

Economic Liberalism I?. Dictatorship and Liberalization (1974-1984)

The military regime was characterized by a liberalization of the institutional economic structure. First, the demise of the Import Substitution Industrialization strategy of growth led to a change towards export promotion and a more market oriented economy. This more liberal tendency was reinforced in 1978 by the intellectual influence of monetary approach of the balance of payments. Inspired by the ideas of the Chicago School, the government relied on market price signals as an efficient way to discipline economic behavior, although it kept certain key areas in which it indeed intervened in market transactions.

In this sense, three set of policies were instrumented. First, the government set prices of certain inputs to achieve effective cost reductions on the production of certain goods. Second, fiscal stimulus towards certain activities (such as industrial promotion) was put in place. Finally, the government attempted to boost investment via tax exemptions. These measures clearly implied interventions on the sphere of *enterprises relations*. These policies, which intended to create incentives for private investors to boost production and investment within a more liberal context, paradoxically ended up increasing the interactions between government, corporations and workers, augmenting the need for coordination. Nevertheless, there was an important advance in liberalization “per se”. The principal LME measures were innovation in public administration in order to make markets more competitive, and principally, financial liberalization: total liberalization of the exchange market, the end of money conversion, the

¹² Between 1955 and 1968 national banks outside the capital city expanded 33% while this banks in the capital city contracted 10% according to data from “Facultad de Ciencias Sociales”.

elimination of interest rates caps (between 1976-1977), elimination of obligatory banking reserve requirements and a reform in 1979 that allowed non-residents to make deposits in the banking system. As in most authoritarian regimes, while the government allowed itself to intervene in economic life, enterprises and social groups could not demand and relate with the state, but only accept government conditions. In this sphere we see a hybrid of CME and LME characteristics.

The elimination of “Wage councils”, the prohibition of union activity and the development of a policy that gave to the Executive Power the ability to fix wages discretionally¹³ derived in a significant reduction on real wages (that were also eroded by inflation) and in a reduction of labor costs. As stated by Oddone (2010), between 1974 and 1979 private sector real wages decreased by 34%. This was a clear consequence of the loss of bargaining power by workers. This shows a mixed scenario where *labor relations* showed some LME characteristics, such as the reduction of unionization and of labor negotiation. Nevertheless, the fact that the government set wages discretionally is more a CME characteristic. In spite of the dominance of this duality, the LME tendencies clearly dominated this period because even the CME wage discretion was oriented towards an impulse in entrepreneur’s activity and thereby in a more market oriented economy.

On the other hand, the government promoted a reform of the tax code to reduce alleged price distortions. Marginal rates on corporate profits were reduced and Value Added Tax was generalized to most goods. In other words, a move towards the reduction of direct income taxes and towards more indirect taxes (basically on sale of goods and services) took place. Consumption taxes were eliminated. These types of measures are typical of LMEs.

In terms of welfare state, corporate contributions to social security were reduced in order to make labor less costly to corporations, again, a movement towards a more liberal economic framework, an LME pattern.

The financial sector was deregulated, more specifically, banking activity, and capital controls to the international movement of financial capital were reduced. The measures previously mentioned (total liberalization of the exchange market, the end of money conversion, the end of maximum for interest rates, elimination of obligatory banking laces and a reform in 1979 that permitted non-residents to deposit in the banking system) combined with an increase in the leverage capacity of banks clearly show a tendency to deregulation.

The *educational sphere* during the military government shows peculiar characteristics. Many innovations put particular emphasis on instrumental areas over cultural areas. In this sense, it was a model oriented to train students to increase their professional skills according to market demand¹⁴. This kind of change towards a more skill-specific education constitutes a characteristic of CMEs.

To sum up, during the military government, the economic environment shifted between LME and CME characteristics. We can characterize this time period as a transition between the old

¹³ This policy was implemented before the military period. This law existed until 2009 when it was eliminated in the discussion of some innovations within the “Wage Councils”. See Babace & Becerra (2014): Also see Notaro (2010).

¹⁴ For more about educational system of the Military government and other periods see Breve análisis Histórico de la Educación del Uruguay (2007), ANEP.

welfare and “batllista” state and a liberal one. We can observe a tendency towards liberalization (e.g, in labor relations and finance), keeping some characteristics of explicit coordination.

Back to Democracy and (more) liberalization y (1985-2002)

With the return to democracy, the orientation towards a more liberalized economy persisted: actions towards the development of a more open economy, the deregulation of capital markets and attempts to improve productive competitiveness followed the prescriptions of the then dominant Washington Consensus tempered by worries of political instability, a tenet of the liberal ideology of the 1980s. The importance of the Washington Consensus reached its peak in the 1990s¹⁵ during which a set of measures were implemented to change the (inefficient) public financial sector. This set of measures were intended to reduce inflation based on monetarist conceptions. Other measures included an increase in VAT rate, an increase in labor taxes, a change in commercial tariffs, the end of indirect export tax refunds, and the revival of the tax on personal retributions (IRP for its initials in Spanish). Last but not least, some policies related to the privatization of public entities were proposed (see below).

With respect to *corporate* relations, many banks that were rescued and transferred to the public sector after the financial crisis of the early 1980s returned to private hands. On the other hand, the government elected in 1990 attempted to eliminate public monopolies in industries such as Insurance, Port, Communications and Electricity, but a referendum in 1992 blocked these projects. This period, then, can be described as a period where liberalization of economic activities was the recipe to follow, a typical characteristic of LMEs. The state attempted to diminish its importance in the interaction between corporations and consumers.

On the other hand, a rebirth of Union activity took place and conflicts were frequent, mainly due to the fact that Worker Councils were disregarded as a bargaining institution by the government after 1990. In that sense, although we were not as in the years previous to the military government, we can see a continuity of LME behavior in *labor relations*.

Additionally, extensive use of indirect taxes such as VAT, the rejection of direct taxes on personal income and profits and a tendency to eliminate all price restrictions on international trade continue the tendency towards the establishment of a more liberalized economy, along the line of LMEs. .

In terms of welfare state the social security system was reformed. This was a necessary reform because the previous system faced serious sustainability problems mainly as a consequence of the constitutional reform of 1989¹⁶. This new reform changed the system which was centered in intergenerational solidarity into a mixed system. Workers had to contribute both to the public, solidary system and to the new, private system. The reform implied a reduction of future payments (pensions) and an increase of the retirement age. The reductions in pensions are consistent with a small public social security system, a characteristic of LMEs. In addition, entry to the public sector was restricted as an attempt to reduce the scope of the State within the

¹⁵ The first democratic government after the dictatorship focused more on political stability than in specific economic problems, such as growth and development. . For example, Wage Councils were reinstalled.

¹⁶ This reform allowed for adjustment of payments to retirees well above past inflation, which increased real pensions but also caused serious financial and economic problems. To read more about this social security system read Finch (2005), *La economía política del Uruguay contemporáneo*.

economy, another typical feature of LMEs. Moreover, elimination or reduction of public employee's benefits was proposed and passed, reducing the importance of the welfare state.

The 1990s witnessed a significant expansion of banking. The stabilization of the inflation rate generated an optimal scenario for an increase in financial activity. In particular, there was an increase in the share of private short run credits, especially for households, who increased their consumption of imported goods and services due to overvaluation of the peso¹⁷. With respect to focusing on corporate *governance*, there was not a significant shift of the way enterprises funded their projects, which remained basically under the umbrella of the public bank BROU, a characteristic of CMEs. In addition, despite the increase in activity of the capital markets, it hardly achieved to represent 9,8% of total banking deposits¹⁸.

Within the *Educational sphere* a reform drove the economy in the direction of a CME, mainly because of the flow levels of achievement in language and math combined with the need to produce professionals to meet demand for specific activities in the labor market. On the one hand, education for children less than 3 years of age was implemented, although not mandatory. At the tertiary level, three private universities widened the supply of professional opportunities and competed with the leading public University. The critics of the reform argued against this tendency to professionalize the education as part of an intention to privatized education under “neoliberal” and “economistic” values. In spite of the moral judgment, one can argue that what is cataloged as a “neoliberal” measure is actually a more CME measure because the College education in particular, began to teach on particular skills rather than a general set of wisdoms. Here we are intensifying the dualistic educational system of CMEs.

To sum up, the return to democracy implied a continuation of the process of economic liberalization which had started during the military process. Although education and labor relations show some characteristics typical of CMEs, the rest of the spheres of analysis showed actions and intentions that move the country in the direction of a less coordinated economy. In that sense, we can conclude that Uruguay for the first time was LME capitalism.

Back to Welfare State (2003-2014)¹⁹

The financial crisis of 2002 triggered a change in the political and economic preferences which is summarized in a desire to the return to the “Batllismo” of the beginning of the 20th century, now represented by the left coalition Frente Amplio. Frente Amplio won the 2004 elections, proposed and passed a series of domestic reforms (see below), and helped by excellent economic conditions of the international economy, managed to achieve high rates of economic growth and other social improvements, the duration and magnitude of which had not been seen since the 1940s. Between 2003 and 2014 the average annual GDP growth rate was 5.9%.

¹⁷ El Sector Bancario en Uruguay (2006), Instituto Cuesta Duarte – PIT-CNT.

¹⁸ For more about the financial markets of the 90's and for more data see Arim & Valcorba (1999), El Mercado Bancario en el Uruguay de los Noventa.

¹⁹ This last section is based in different Works than the previous ones. This is because of the closeness to present time. The Works used here are:

- Oddone & Marandino (2016), The Fiscal and Monetary History of Uruguay.
- Notaro et al (2011), Las políticas públicas en la reestructura del mundo del trabajo: Uruguay 2005-2009.
- CADAL (2014), Índice de Transformación 2014: Uruguay.
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Growth was based, primarily, in the “boom” of commodity prices and in the superlative foreign (regional and extra-regional) demand, and it was accompanied by structural policies that helped to install a favorable business climate. Economic policy of the period was used to reduce fragilities of the economy. In this period macroeconomic-policy scheme adopted was based on inflation targets, the consolidation of a primary fiscal surplus until 2011 and the strengthening of the management of assets and liabilities of the public sector. Additionally, there was an increase in the banking regulation aimed at managing the risks of currency mismatch and liquidity, improving capital requirements and reducing exposure to non-resident operations. An important characteristic of the period was the use of the public enterprises to control certain macroeconomic disequilibria. In this sense, the role of using public enterprises to regulate the market increased. This new era, was cataloged by Notaro (2011) as a Stage of “resistance to the neoliberal deregulation.”

There were some important advances in the *enterprises relations* towards CME characteristics. For example, there was a creation of a ministerial cabinet oriented to Innovation which ended with the creation of the National Agency of Innovation. These institutions were oriented to operate in innovation and investment markets (primarily offering subsidies) in order to incentive individuals to produce more of these two things. Another important innovation that shows a coordinated aspect between government and enterprises was the approval of a new investment promotion law tailored to projects of any kind which could improve the industrial capacity of the country and which exhibit positive externalities. Selected projects would receive fiscal benefits. Projects are selected based on the proposed accomplishment of general objectives (such as development of capital markets, innovation, and employment of vulnerable groups) and of some specific objectives. Data from the Unity of support of the private sector (Unasep for its initials in Spanish) show that in 2006 (the year before the law was passed) total investment was 0,9% of GDP while in 2012, it rose to 4,7% of GDP. Foreign direct investment increased, from 1,493 billion US dollars in 2006 to 2,710 in 2012.

On the other hand, corporate interests were not represented by a single organization, although there are certain influential corporate unions in banking, manufactures, export sector and agriculture. Another important market intervention is the one related to monopolies. The intention of the state to limit the generation of private monopolies (and imperfect market situations) led to the creation of a “Competition Commission”. This entity overlooks market operations to ensure that no collusive behavior harms a “correct” competitive environment. Additionally, after the banking crisis of 2002 there was an increase in regulations, controls and requirements (in line with Basilea I to III) to control for financial operations, which meant a reversion of the liberalization that occurred in previous eras and that can be clearly related to a CMEs. Also, incentives for private education increased, mainly via certain tax benefits. The role of intervention in this market also shows an increase in the state role in social and economic coordination. To end with CME trends, we note an increase in the use of public-private enterprise associations as a tool to generate economic and social development. This kind of intervention demonstrates a clear intention on the part of the Government to establish an explicit coordinated behavior among private and public entities to promote economic activities. At the same time, left governments did not eliminate pro market measures (related to insurances market, state enterprises) that were implemented in previous periods. In that sense, they did not disengage the LME-type measures taken in the enterprise relations in the 90’s. This let us see a

complex situation of a mixture of LME and CME behaviors, although an increase in CME characteristics.

With respect to *labor relations*, the period witnessed a return to previous mechanisms, a return to the old Wage Councils and a more regulated and coordinated labor market. At the same time, Unions reorganized themselves to increased their membership and influence within the Government²⁰. Moreover, for the first time, rural workers had the opportunity to organize their own Union increasing their bargaining power with respect to rural employers. This shows a clear return to old CME behavior of previous periods.

On the fiscal front, the tax code was significantly reformed to switch the Uruguay tax system from one based on consumption taxes (essentially VAT) to one based on progressive taxation of personal and corporate income. As a consequence, fiscal revenues increased significantly during the following 10 years. The new system was more characteristic of CMEs than the previous one.

Social policies were also implemented in line with the view of a strong Welfare State. One of them was oriented to gender equality. Additionally, access of infants and children to the Internet as an educational tool was promoted through a proposal called CEIBAL (for its initials in Spanish) and operated as an important inclusion policy that aimed to integrate people to the new ICTs. Moreover, the creation of a ministry in charge of social development (MIDES for its initials in Spanish) and the implementation (by this ministry) of certain social assistance plans to improve the life of people in vulnerable situations (“PANES” and “Plan de equidad”) constitute other innovations in terms of welfare policy. Additionally, the “Banco Hipotecario” was reformed and capitalized in order to promote affordable housing (“Plan Nacional de Vivienda”). Last but not least, the health system was reformed, creating incentives for workers to affiliate to private nonprofit institutions which would provide better health services than the weakened public health service, .

With respect the financial sector, it suffered the consequences of the 2002 crises which meant a reduction in scope and services. However, between 2002 and 2014 there has been an increase of 42% in credits to enterprises, of which, 54% where of more than 30 days and less than 367 days. On the other hand (consistent with the absence of a capital market), domestic enterprises use “long run” credits to finance their investments. Here once again we observe the CME characteristics of the *corporate governance* sphere.

In the *educational sphere*, the government proposed to expand coverage of preschooler education, reach 100% in primary completion, reduce the drop-out rate in secondary education, increase quality of teaching in all levels and reincorporate non formal education to the formal educational system. Nevertheless, many of these reforms were hard to put in practice²¹. In that sense, the CME reforms of the previous period remained and progressed. Moreover, the creation of a “Technical university” in 2013 increased the CME tendency of the educational sphere. As a

²⁰ The “consejos” in Midaglia & Antía(2007) words also create incentives to more gremial activity of firms. Nevertheless, Lanzaro (2010) sustains that gremial activity has always been weak in Uruguay, with low productivity and low institutionalization in spite of “Consejos”.

²¹ The reforms could not advance. They ended up in a Debate with high participation of gremial unions of the education. It is an interesting thing to find out if the gremial characteristic of the educational sector (gremial activity is clearly CME) is behind the impossibility of a educational reform (which ends in a more CME specialized education system and not in a more universalize and general such as in LME systems).

consequence of these actions, total expenditure in education increased from less than 2% of GDP to more than 4% of GDP in five years. .

The economic crisis of 2002 meant (practical) return of the Uruguayan society to the values it had always believed. These values were based in the “Battlismo” ideology. In this instance this kind of values were represented by the Left Coalition Frente Amplio. Even though they did not disarm certain liberal policies, Frente Amplio reoriented Uruguay towards a coordinated capitalism. This return to a CME system is observed in the increased in social protection (via changes in health care, the creation of a social ministry and other measures), the increase in regulation and state intervention (via the innovation, investigation, investment promotions and antimonopoly policies), the increase in Union activity (in line with the return of “Wage Councils”) and the maintenance of certain policies of previous eras (i.e. educational policy).

Where is Capitalism heading?

In Appendix 2 we summarize what many philosophers and economist think about the expected trajectory of Capitalism and, eventually, its replacement by some other, “superior”, form of economic and social organization. This issue is beyond the scope of this paper. However, we think it would be useful to briefly comment on it.

Capitalism has been pronounced dead many times, but it is alive. After the demise of real Socialism, forces on the left have adopted many of the prescriptions of free market economies and adapted them in order to accomplish desired social objectives. One of the main transformations of alternatives views to Capitalism was their acceptance of the role of markets as the best know form of resource allocation. European socialism has become a pale reflection of its own past, to adopt neoliberal prescriptions as its main road map.

In Latin America, a move towards alternative regimes took place at the beginning of this century. Theses regimes, although declaring themselves socialists and enouncing many of the old-style socialist goals, abruptly changed their economic strategies to adopt market friendly policies, their old time enemies.

The Uruguayan experience is one of a mixture of of socialist goals and market friendly policies. The left coalition party in office since 2005 is a pale version of radical left party born in response to the political chaos of the 60’s and 70’s. Its economic and financial policies have recognized the validity of markets and market oriented economies, allowing for some heterodox intervention such as price controls and for coordination among the various corporate interests.

Conclusions

In this article we have described the evolution of Capitalism in a less developed economy of Latin America, Uruguay. We have followed Hall and Solskice (2001) in describing the characteristics of modern Uruguayan Capitalism. Hall and Solkice classify market capitalist economies as “Liberal” versus “Coordinated”. Examples of the former are the United States of America and England, while Japan, Germany and France are examples of the latter.

We divided Uruguayan economic history in five periods and found that its economy has been characterized as being more coordinated than liberal, although with features of both models of market economies. The Uruguayan economy has been characterized with an almost constant

presence of the welfare state in all its stages. Nevertheless, economic and political conflict in late 60s derived in the interruption of democracy and of the welfare state for some decades.

Although the military government adopted policies in line with a less coordinated economy, it was not until the 1990's that true movements towards a more liberal era of Uruguayan capitalism were proposed. These movements, which lasted 14 years (1990-2004), were based on the ideological foundations of the Washington Consensus.

This swing towards a more LME came to an end with the banking crisis of 2002, which reshaped voters' preferences towards the welfare state once. In spite of the return to traditional postulates of the welfare state, there was not a complete way back towards the welfare state of beginning of the 20th century. Today, coordinated and liberal mechanisms coexist.

In sum, as it happens in the rest of the world, Uruguayan capitalism has moved towards a more coordinated system. Additionally, the governing left has adopted many pro-market policies that were rejected by old socialists of the past. For the time being, no feasible alternative to Market Capitalism has real chances to succeed. Capitalism is alive (and well?).

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Appendix 1: The Map of Capitalism in Uruguay

Uruguayan Capitalism Map						
Defining capitalism in Uruguay						
Influential thinkers and institutions						
Adam Smith, Karl Marx, John Keynes, Georges Sorel, José Batlle y ordoñez, José Pedro Varela, Liber Seregni, Wilson Ferreira, Max Weber, Werner Sombart, ECLAC, IMF						
Common definitions of Capitalism						
1. S. Gardner: Economic system in which: a) the dominant system of ownership is private individual. b) The dominant system of coordination are markets or indicatives plans. c) The dominant system of incentives are material. d) The dominant system of objectives can be individual freedom or various at a time.						
2. Marx definition: as a system where the labor forces had become a commodity and was bought and sell in the market						
3. Max Weber (i) definition: system where there are calculated evaluations of anticipated periodic returns in the form of dividends or interest payments for the satisfaction of the needs of a human group.						
4. Max Weber (ii) definition: system where a) private appropriation of all the means of production and their concentration must be under the control of entrepreneurs. b) Enterprises capital accountings are optimized by a technology that has a mayor mechanical component. c) Labor force must be free to move in response to conditions of the demand. In this sense, workers have to be legally free to sell their work. d) Trading in the market must not be limited by irrational restrictions. e) Laws have to be applicable to all persons and have to be administered in such a way as to make the enforcement of economic contracts highly predictable.						
5. Werner Sombart: the combination of the spirit of entrepreneurship and the spirit of calculus and rationality						
6. Maurice Dobb: the organization of production for a distant market						
7. Lujo Brentano and Adam Smith: is the organization of productive or distributive agencies so as to create not only income but also an increment in the original investment.						
<i>for more definitions see (above) appendix 1 part b</i>						
Our approach to Uruguayan capitalism						
Types of Capitalism						
Coordinated Market Economy			Liberal Market Economy			
Spheres of analysis						
	Industrial Relations	Vocational training	Corporate Governance	Inter-firm relations	Coordination with own employees	
Evolution of Capitalism in Uruguay						
First Stage 1870-1913 Modernization Period	Second Stage 1914-1930 Welfare State I: International	Third Stage 1931-1954 Welfare State II: Import Substitution	Fourth Stage 1955-1973 Welfare State III: Limits of Import Substitution and Political Chaos	Fifth Stage 1974-1984 Economic Liberalism I: Dictatorship and Liberalization	Sixth Stage 1985-2002 Economic Liberalism II: Democracy, Debt and Adjustment	Seventh Stage 2003-2014 Back to Welfare State
Type of classification by stage						
Coordinated Market Economy	Coordinated Market Economy	Coordinated Market Economy	Coordinated Market Economy	Transition/ Liberal Market Economy	Liberal Market Economy	Coordinated Market Economy
Main actors and institutions in each period						
Political Parties in Capital City and Rural Areas	State, Political Parties	State, Political Parties	State, Armed Forces, Radical movements, Unions	State	Markets, Washington Consensus, MERCOSUR and IMF	State, Political Parties, Markets, Unions
Brief description of the Uruguayan Capitalism						
Uruguayan capitalism is characterized as showing an important influence of the State, Political Parties and Corporations (such as Unions) on the economic and political choices of consumers, producers, voters and governors. Additionally, structural duality is pervasive.						
Recommended readings						
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Appendix 2: Further discussion on Capitalism

a) Other classifications of capitalism besides Hall & Soskice (2001)

Jackson & Deeg (2006) describe a set of definitions that can be founded in what is called the comparative Capitalism (CC) framework.

The Governance approach to Capitalism is based in a set of works of Hollingsworth et al (1994), Hollingsworth & Boyer (1997) and Crouch & Streeck (1997). The approach stresses the diversity of coordination mechanisms used in the governance of economic activity. They track the six basic governance mechanisms. These are the market, hierarchies, communities, the state, networks and associations. In addition to studying the relative importance of each of these 6 governance mechanisms, they consider two other dimensions: a) the degree of self- interest or obligation for the actors, and b) the degree to which power is distributed horizontally or exercised vertically. An important advantage of this approach is that it can be applied not only at a national level but also in a certain industry of a country. Using this kind of approach, Crouch & Streeck (1997) defined market Capitalism (a Capitalism governed by the market and the hierarchies) and an institutional Capitalism (a Capitalism using other type of coordination mechanisms).

Another approach to Capitalism reviewed in Jackson & Deeg is the one called National Business system approach. This approach was developed by Whitley (1999) in which he compares different business systems, defined as “distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and interconnections between, owners, managers, experts, and other employees”. Economic activities are coordinated through private property rights or through other sorts of association that do not involve unified ownership. Different forms of Capitalism are classified according to eight criteria: a) means of owner control, b) the extent of integration of production chains by ownership, c) the extent of integration of industrial sectors through ownership, d) the extent of alliance coordination of production chains, e) the extent of collaboration between competitors, f) the extent of alliance coordination of sectors, g) the extent of employer-employee interdependence, and h) the extent of delegation to and trust of employees. Four types of basics Capitalism are then derived: 1) fragmented, where overall coordination is low and economic activity is undertaken by small firms in highly competitive markets. 2) Industrial districts, which have a greater degree of coordination among competitors. 3) Compartmentalized, where there are large integrated and autocratic firms that compete against each other in competitive markets. 4) Collaborative, where there is a corporatist or associational organization of competitors within a sector.

Another interesting classification of Capitalism is one defined by Amable (2003). He defines 5 types of Capitalism based on 4 institutional areas. These areas are: Product market competition, wage-labor nexus, financial sector, social protection and education. Based on these 4 institutional areas he defines a) market-based Capitalism, b) social-democratic Capitalism, Asian Capitalism, continental European Capitalism and south European Capitalism²².

²² The last 3 types of Capitalism are named base on certain geographical areas but that does not mean neither that that type of Capitalism exist in that geographical region neither that I only exists in that area.

Finally Baumol et al (2012) define four types of Capitalism. The first one is the Oligarchic Capitalism where the owners of capital are a few prosperous families who retain effective control of the bulk of economic activities. These economies are characterized by a large and poor population, a small oligarchy, few opportunities of social ascension, and modest rate of economic growth.

The second type is the State-Guided Capitalism which is a system where the capital is in private hands, but the State plays a key role in guiding the economy.

The third type is the Big-Firm Capitalism: a substantial part of economic activity is carried out by oligopolistic industries in which a small number of very large firms have a dominant share of production. Government policy is characterized by having a restraint.

Finally, there is the Entrepreneurial Capitalism which is characterized by highly innovative, small firms. Normally, these small firms enter the market introducing a new invention to the economy.

b) Additional Visions of what is Capitalism

Following Dobb (1976) Marx definition core wasn't neither in the entrepreneur spirit neither in the use of money to finance transactions in order to obtain a surplus. Marx definition core was in a particular mode of production. His concept of mode of production is not just a technical definition of production. He was referring to the way that the production was appropriated and the social relations between people in consequence of their connections with the production process. This way, Marx defines Capitalism as a system where the labor forces had become a commodity and was bought and sell in the market. In this sense, "Capitalism" is not a production system. The difference between Marx definition and others is that it is not enough that there is commerce and credit or a specialized class with high acquisitive power to define a society as capitalistic. The existence of capital is not enough to define a capitalistic society. This capital must be use to extract plus value form the labor force.

Max Weber has a different view: Capitalism exists where there are calculated evaluation of anticipated periodic returns in the form of dividends or interest payments for the satisfaction of the needs of a human group. Weber thesis affirms that Capitalism is based on the Protestant Reformation. Weber affirmed that Protestants in order to gain acceptance, transformed their religious ideals in a form of socio-economic theocracy. This way, "stewardship", "the elect", "immortality", "the calling" and other concepts took a more practical and down to earth interpretation. Following this line of thought for example, the concept of spiritual immortality transformed in investment security. We can say then, that for Weber Capitalism is the transformation of protestant values in a set of socio-economic palpable concepts.

Max Weber in a more mature age reformulated his theory. In this new version, Weber talks about a "rationalized" Capitalism²³. In order to define an economic system as a form of Capitalism, there must be 1) private appropriation of all the means of production and their concentration must be under the control of entrepreneurs. All factors have to be subject to sale in the open market. 2) Enterprises capital accountings are optimized by a technology that has a

²³ It is not in the scope of this paper to discuss the concept of "rationalized". For a discussion of the concept see Collins (1980) Weber's last theory of Capitalism: A Systematization. For the purpose of this paper let's assume that this form of Capitalism is just Capitalism.

mayor mechanical component. 3) Labor force must be free to move in response to conditions of the demand. In this sense, workers have to be legally free to sell their work. 4) Trading in the market must not be limited by irrational restrictions. Weber considers irrational restrictions: class monopolies, transportation difficulties, warfare and robbery. 5) Laws have to be applicable to all persons and have to be administered in such a way as to make the enforcement of economic contracts highly predictable. According to Collins (1980), this Capitalism described by Weber is a model of the laissez-faire capitalist economy. This is an unrealistic view of any economy. Weber sees this as an ideal type that has only been partially realized even in the more laissez-faire periods of human history²⁴.

Yet another interesting definition of Capitalism can be founded in the writings of Werner Sombart. Sombart has looked for the essence of Capitalism not in the economics aspects of this one but in the spirit of a time or in the collective unconscious of humans²⁵. In this definition Capitalism is the combination of the spirit of entrepreneurship and the spirit of calculus and rationality. This combination derived in a kind of man that thinks that having capital is the dominant motive of economic activity. This man with a rational attitude and using the methods of calculus subordinates every other aspect to human life to having capital. This “new” man shapes the economic organization transforming them in what we considered Capitalism. This way, Capitalism is a system where humans subordinate every other aspect to human life to having capital.

In Maurice Dobb work appears a definition of Capitalism founded in an implicit way in the study of history. This definition says that Capitalism is the organization of production for a distant market. In this kind of definition Capitalism existed when the act of production and the act of selling begin to separate in time and space with the intervention of wholesalers that gives cash in advance to buy goods in order to sell them in the future.

Another pragmatic definition of Capitalism such as the previous one is the one promoted by Lujo Brentano that was anticipated by Adam Smith. This definition says that Capitalism is the organization of productive or distributive agencies so as to create not only income but also an increment in the original investment. So a capitalist society would be one that complies with this process.

There are also some less precise definitions as the ones documented by Hilton (1952). In this work one definition of Capitalism is the tendency of steady accumulation of wealth.

It is important also to bring to this section the characteristics of Capitalism that the Russian philosopher Ayn Rand described. This characteristics let us identified an implicit definition of Capitalism in her writings. This philosopher says that Capitalism is a social system²⁶ based in the recognition of the individual rights. A capitalist society is one where all the human relations are at will. She considers Capitalism the only social system based in an objective theory of values. An Objective theory of values is one where good things are not good juts because some “divine rule” says it. Things are good if the valuation of the facts by human conscience in line with a rational pattern of values says it.

²⁴ To understand more about this concept of Capitalism, and to know the social preconditions that Weber thinks that are needed for the existence of Capitalism, see Collins (1980) Weber’s last theory of Capitalism: A Systematization.

²⁵ In German this concept is usually defined as *Zeitgeist*

²⁶ She defines social system as a set of moral, political and economic values incorporated in the law, the institutions and the government of a society that condition the interaction of the persons living in it.

Another philosopher and also economist J. Schumpeter wrote about Capitalism. He says that Capitalism is a method of constant economic change that cannot be stationary.

Arrighi (1994) says that Capitalism is a succession of “long centuries”, each of which produced a new world power that secured control over an expanding world-economic space.

It is curious to bring to this discussion what the University of Bologna understands as Capitalism. They define it as a combination of economic practices that was institutionalized in Europe, between the seventeenth and nineteenth centuries, involving in particular the right of individuals and groups of individuals to buy and sell capital goods in a free market.

The Oxford handbook of Capitalism is also an important reference to bring to this section. In the introduction, Mueller (2012) recognize that usually people talk of Capitalism as if it was a well defined set of institutions that either exist or not. When actually, capitalistic institutions come in many varieties and are different between countries. Although this situation, Mueller adventures to define Capitalism as a set of institutions where there is private ownership of the means of production, competitive product and factor markets, large banks and financial markets, contracts, property rights and judicial institutions to enforce them, and large corporations. Mueller denotes that, the existence of a market economy is a needed condition for Capitalism to arise. A planned socialist economy could engage in capital intensive production and we would not think of it as a capitalist system. It would not be a true capitalist system if the state intervened to set prices, restrict the flow of finance, and so on.

To close with this section we will bring the definition that can be found in the works of Streeck (2010). He elaborates a concept of Capitalism as a set of interrelated social institutions, and as a historically specific system of structured as well as structuring social interaction within and in relation to an institutionalized social order. He defines what he considers a set of empirical characteristics of Capitalism beginning at a micro level of social action and ending with macro level of social action that can help him define Capitalism. As is not the scope of this paper to discuss what is Capitalism we will only present the first 6 characteristics of Capitalism by Streeck²⁷. The first 6 characteristics are: 1) Legitimate greed. Members of societies are entitled to, and stylized as enthusiastically engaged in, the pursuit of unlimited material wealth. 2) Institutionalized cynicism. In capitalist institutions the author says that governors in order to feel safe assume that those supposed to be governed by them are nothing but self-seeking opportunists. 3) A moral deficit. Adherence to principles of reciprocity, solidarity, fairness, good will, kindness to strangers and mutual trust cannot occur because they may detract individual's utility in consequence of the uncertainty and diffuseness of its rewards²⁸. 4) Non traditionalist super-norm. Actors think that everything that is not explicitly forbidden is allowed. 5) The social order is biased by a differential endowment of classes. This difference in resources translates in differences in possibilities of using the institutions to their advantage. 6) Unlimited rewards. The core capitalist institutions do not put a ceiling on the material rewards individuals can legitimately hope for, in this sense, they entail a promise of unlimited wealth.

²⁷ If the reader is interested in analyzing the 17 characteristics of Capitalism defined by Streeck he or she should read Streeck, Wolfgang(2010) Taking Capitalism seriously: Toward an institutionalist approach to contemporary political economy

²⁸ Implicitly the author in this characteristic assumes a rational non cooperative behavior of individuals.