

New challenges for *equity in Uruguay*

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From the early decades of the twentieth century onward, the level of equity achieved in Uruguay, and the sophistication of its social welfare institutions, set the country apart from the rest of Latin America. In the second half of the century, this heritage of democracy and equity survived the severe tests to which it was subjected without fracturing too badly. The strength of the country's sociocultural foundations was convincingly demonstrated after the restoration of democracy in 1985, when Uruguay succeeded in maintaining the position it had traditionally held as the regional leader in social development, this leadership being manifested at this time in the country's indices of poverty and inequality as measured by income distribution, which were low by the standards of other Latin American nations. The authors contend that in the last fifteen years of the twentieth century, Uruguay succeeded in coping with these challenges by maintaining a good balance between the political, social and economic aspects of development. They analyse the subject by placing the position of Uruguay in a Latin American context. Using the same type of indicators, they then describe how the country evolved in the closing fifteen years of the twentieth century, after which they discuss some of the most important processes underlying these trends in the market, in households and in the State. Lastly, they offer some reflections on the main challenges that the country will have to address if it is to retain or improve the level of national integration already achieved, on a basis of equity.

I

Introduction

Although it is a widespread phenomenon, the economic restructuring that globalization entails does not occur in a social and political vacuum. On the contrary, it takes place in societies that differ widely in terms of their regulatory systems, institutional structures, legal frameworks and welfare systems, which encapsulate the most important features of their sociocultural characteristics. Thus, while the processes that stem from current development models are to be found in most countries, the pace, sequence and substance of reforms, and thus their social consequences, are different.

From the early decades of the twentieth century onward, the level of equity achieved in Uruguay, and the sophistication of its social welfare institutions, set the country apart from the rest of Latin America. The absence of significant ethnic and cultural divisions, substantial primary product surpluses and early democratic consolidation were some of the factors that helped establish the sociocultural foundations which were to give rise to this special position.

In the second half of the century, this heritage of democracy and equity survived the severe tests to which it was subjected without fracturing too badly. These tests included prolonged economic stagnation, conflicts between radically differing approaches to the organization of society and the economy –which imperilled political stability for a time– and a coup d'état which put a military Government into power. The strength of the country's sociocultural foundations was convincingly demonstrated after the restoration of democracy in 1985, when Uruguay succeeded in maintaining the position it had traditionally held as the regional leader in social development, this leadership

being manifested at this time in the country's indices of poverty and inequality as measured by income distribution, which were low by the standards of other Latin American nations.

The conditions brought about by the return to democracy undoubtedly made it easier to preserve this heritage of equity, and to cope with the new challenges that threatened its survival. The country had to find its place in a globalized world, extend the boundaries of competitiveness and adapt the workings of welfare institutions to the demands of sustained growth within these new parameters, and the main threats stemmed from the consequences of these changes, which affected different segments of society in different ways.

In this section it is contended that, in the last fifteen years of the twentieth century, the country managed to cope with these challenges by maintaining an appropriate balance between the political, social and economic aspects of development, which has led some specialists in these subjects to regard it as an example of successful gradualism.¹ In describing this process as “successful” –in a regional context, of course– we should not overlook the fact that, like all Latin American countries, Uruguay is now being profoundly affected by the serious problems that come with economic restructuring, weak job creation and pressure to deregulate the labour market. In truth, the consequences of these problems are already manifesting themselves as rents in the traditionally integrated social fabric of the country, and in the warnings that are being sounded about the difficulties involved in sustaining its style of balanced growth.

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¹ See the in-depth, comparative analysis of the Uruguayan case in Filgueira and Morães (1999).

II

Uruguay in the Latin American context

Most of those studying equity-related problems agree that Latin America has the most regressive distribution of wealth of any region in the world. The figures for Uruguay, however, set it clearly apart from its regional context (table 1).

The values of the inequality and poverty indices for 1990 and 1997 are lower in Uruguay than in the other countries appearing in the table. Similarly, the indicators showing how the social situation changed in that period reveal that poverty and inequality were reduced to a greater extent there even than in Argentina and Chile, which had higher rates of per capita gross domestic product growth in those years than Uruguay (33.2%, 53.3% and 27.2%, respectively).

In short, Uruguay showed a greater capacity to mitigate the adverse social effects of the liberalization and macroeconomic adjustment processes than other countries in the region.

The good relative performance of Uruguay in the sphere of social justice has its counterpart in the legitimacy that the country's citizens attribute to its democracy and institutions, as table 2 shows. The commitment of the population to the democratic system means that Uruguayan public opinion credits this system with greater legitimacy, response capabilities, utility and responsibility than is the case in most of the other countries in the region. For every one of the statements included in this table that bespeak confidence in and satisfaction with the workings of democracy, and in the weighted sum of percentages of positive responses to each question, Uruguayans show themselves to be more

TABLE 1
Latin America (nine countries): Indices of inequality and poverty

| | | Inequality ^a | Poverty ^b |
|-----------|---------------|-------------------------|----------------------|
| Argentina | 1990 | 9.3 | 16 |
| | 1997 | 9.6 | 13 |
| | <i>Change</i> | 3.2% | -18.8% |
| Bolivia | 1989 | 12.6 | 49 |
| | 1997 | 10.8 | 47 |
| | <i>Change</i> | -14.3% | -4.1% |
| Brazil | 1990 | 16.3 | 36 |
| | 1996 | 16.8 | 25 |
| | <i>Change</i> | 3.1% | -30.6% |
| Chile | 1990 | 11.7 | 33 |
| | 1996 | 11.8 | 19 |
| | <i>Change</i> | 0.9% | -42.4% |
| Colombia | 1990 | 10.2 | 35 |
| | 1997 | 12.2 | 39 |
| | <i>Change</i> | 19.6% | 11.4% |
| Ecuador | 1990 | 7.1 | 56 |
| | 1997 | 7.4 | 50 |
| | <i>Change</i> | 4.2% | -10.7% |
| Mexico | 1989 | 9.1 | 34 |
| | 1996 | 7.7 | 38 |
| | <i>Change</i> | -15.4% | 11.8% |
| Paraguay | 1990 | 6.2 | 37 |
| | 1996 | 7.6 | 34 |
| | <i>Change</i> | 22.6% | -8.1% |
| Uruguay | 1990 | 6.2 | 12 |
| | 1997 | 4.7 | 6 |
| | <i>Change</i> | -24.2% | -50.0% |

Source: ECLAC (1999).

^a Quotient between the average incomes of the richest 10% and the poorest 40%.

^b Percentage of households below the poverty line.

TABLE 2

Latin America (eight countries): Views about democracy, 1995
(Percentage replying affirmatively)

| | Argentina | Brazil | Chile | Mexico | Paraguay | Peru | Uruguay | Venezuela |
|--|-----------|--------|-------|--------|----------|------|---------|-----------|
| Democracy is preferable to any other form of government | 82 | 48 | 54 | 57 | 58 | 58 | 86 | 64 |
| Are you satisfied with the way democracy works in the country? | 53 | 31 | 34 | 24 | 31 | 47 | 59 | 38 |
| Democracy enables national problems to be solved | 59 | 51 | 51 | 52 | 39 | 71 | 63 | 53 |
| Elections in the country are clean | 78 | 26 | 82 | 52 | 39 | 64 | 83 | 19 |
| Senators and deputies are concerned about what people like you think | 19 | 16 | 24 | 24 | 28 | 29 | 38 | 16 |
| The way you vote can make things different in future | 75 | 53 | 56 | 53 | 62 | 75 | 77 | 52 |
| Unweighted total | 366 | 225 | 301 | 223 | 228 | 344 | 406 | 242 |

Source: Kaztman (1997), on the basis of data from Basañez, Lagos and Beltrán (1996).

in agreement with and committed to the institutions of democracy than the inhabitants of other countries in the region.²

Social justice and adherence to democracy are closely connected. The perception of social injustice or of inequality of opportunities relative to other groups in society tends to weaken the commitment of those affected to the institutions that make these inequities possible. In turn, the lack of trust in institutions makes “the processes of aggregating the preferences of individuals more complex and uncertain and exacerbates conflicts over the distribution of public resources. The economic and social integration of the different groups is more difficult as well, and the State machinery is more likely to become subject to the influence of pressure groups, corruption and inefficiency, all of which helps to perpetuate inequality” (IDB, 1998). Figure 1 shows the correlation between the two phenomena.

III

Trends in poverty and inequality since the restoration of democracy

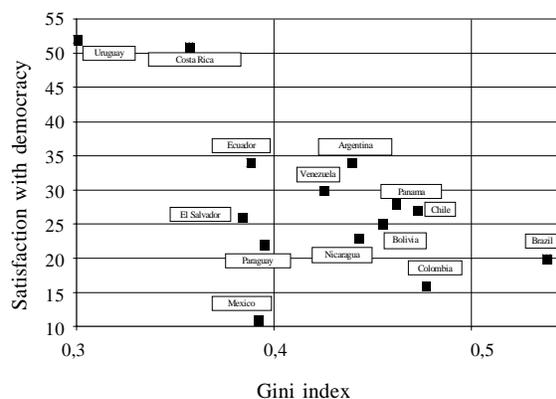
1. Poverty

The general progress of the Uruguayan economy meant that between 1986 and 1997 real average household income increased by over 50%. This growth was accompanied by a significant reduction in poverty³ in urban areas of the country (figure 2). From 1986 to 1998 the percentage of poor households fell from 37% to 15.5%, while the percentage of indigent households (those whose per capita incomes are insufficient to cover

² The kind of democratic mindset that these responses reveal is the result of cultural patterns that do not crystallize overnight. On the contrary, it has to be nurtured over a long period, becoming entrenched as a result of processes that usually extend over a number of generations and that have profound inertial effects on the political attitudes of citizens.

³ The index of poverty used here is based on estimates of the cost of the basic food basket produced by the Uruguayan National Institute of Statistics, these being based on the results of the Household Expenditure and Income Survey carried out in 1994-1995. Although the tendency is generally the same, this index differs in magnitude from the one used for comparative purposes in the *Social Panorama of Latin America* (ECLAC, 1999), which was the source for table 1.

FIGURE 1
Inequality and satisfaction with democracy.
Fourteen Latin American countries, 1996-1997

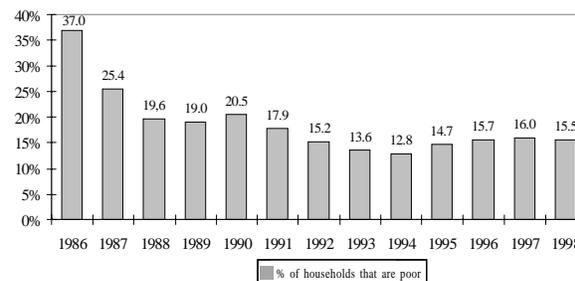


Source: Produced by the author on the basis of ECLAC (1999) and Basañez, Lagos and Beltrán.

the cost of a basic food basket) initially declined in the early years of the period under consideration, before stabilizing at around 1%.

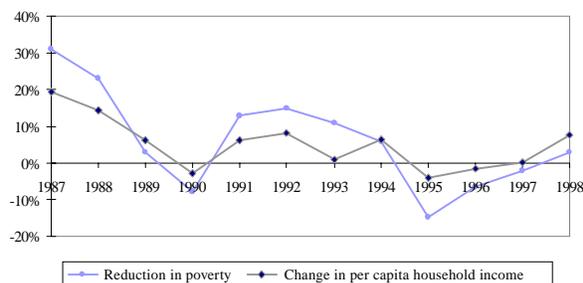
Figure 3 shows the inverse relationship between changes in national per capita income and poverty. In a country where income distribution is not subject to sudden changes, and where the level of concentration is relatively low, it is not surprising that the fruits of

FIGURE 2
Changes in the poverty level. Urban total, 1986-1998
(Percentages)



Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

FIGURE 3
Relationship between growth and poverty. Urban total, 1986-1998
 (Percentages)



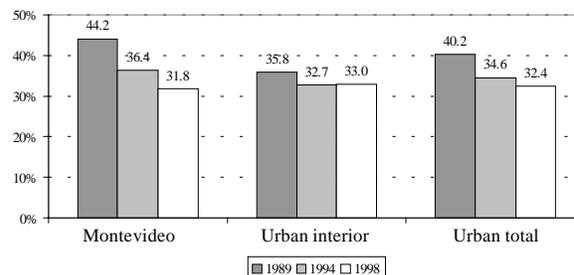
Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

growth are quickly reflected in falling poverty levels. The curves of the graph also clearly reflect the “Tequila effect” of late 1994 and its inertial consequences, which were subsequently compounded by those of the crises affecting Russia and South-East Asia.

Apart from the ups and downs of the economy, perhaps the most important single factor behind the fall in poverty was the constitutional amendment passed by the 1989 plebiscite. This amendment provided for the benefits of old-age and other pensioners to be indexed automatically to the average wage index. Since around half of all urban households in Uruguay (49.6% in 1998) have some income from pensions, the change meant that a substantial proportion of poor households containing old-age or other pensioners ceased to be poor. Between 1989 and 1998, in fact, the percentage of poor households containing one or more old-age or other pensioners fell from 40.2% to 32.4% of all poor households. To look at it from a different angle, between 1989 (the year of the plebiscite) and 1998, poverty in urban households declined by 18.4%, while in households containing an old-age pensioner the decline was 32.6% (figure 4).

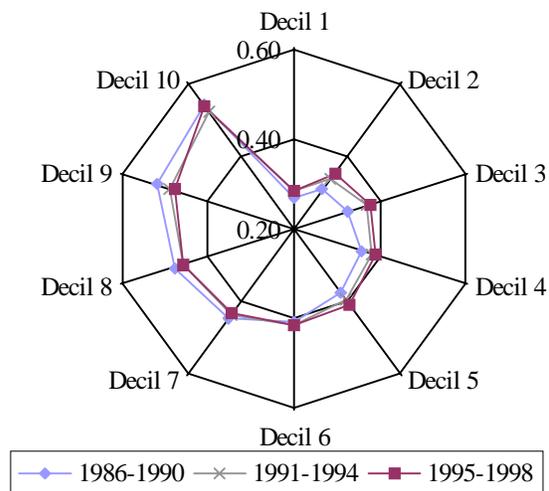
Family strategies also contributed to the reduction of poverty, mainly through increasing participation by married women in paid work. This mobilization of the family labour force led to an increase in the proportion of family members in the labour market (occupational density) in households in the first five deciles (figure 5). The opposite happened with higher-income households, partly because the rise in pensions enabled households containing pensioners to move up into the higher deciles. Although higher occupational density mitigates the effects of economic crises, it also has negative effects, particularly in poorer households. Given that these

FIGURE 4
Percentage of all poor households containing poor old-age pensioners, 1989, 1994 and 1998
 (Percentages)



Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

FIGURE 5
Changes in occupational density. Urban total, 1986-1998



Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

account for a disproportionate share of the population’s biological and social reproduction efforts, when married women carry out paid work their ability to care for and watch over their children is diminished. Furthermore, when children from such households join the labour market at an early age their opportunities for accumulating educational attainments are significantly reduced (Filgueira, 1999).

Other households distanced themselves from the threat of poverty by deciding to limit the size of their families. Between 1985 and 1996, in fact, total fertility

in urban areas fell from 2.89 to 2.60 per woman. Trends of this nature generally reflect an increase in the amount of human capital vested in women and their willingness to make use of it by improving their opportunities in the labour market. In this case, though, the decline in fertility was also seen among categories of women that were more likely to fall into poverty. Fertility rates for those without schooling fell from 3.92 to 2.88, while for those with incomplete primary education they fell from 4.33 to 4.24.⁴ To sum up, greater participation by married women in the workforce and a decline in the number of children helped to reduce poverty as measured by per capita household incomes.

In the last fifteen years of the twentieth century, changes in the proportion of households that were poor were accompanied by significant progress in satisfying certain basic needs. Although they do not cover the whole period, the data given in figure 6 show that between 1991 and 1998 major advances were made in respect of access to electricity, piped drinking water in homes, medical cover and better housing conditions.

2. Inequality⁵

As was mentioned at the beginning of this section, the decline in poverty and the improvement in living conditions that occurred over the last fifteen years of the twentieth century could have arisen under different income distribution scenarios. In Uruguay, this distribution remained virtually unchanged throughout the period (figure 7). In fact, the Gini index of per capita income distribution (with rental value) between households⁶ fluctuated around 0.41, with a slight tendency to rise, particularly towards the end of the period.⁷

⁴ See National Institute for Women and the Family (in the press).

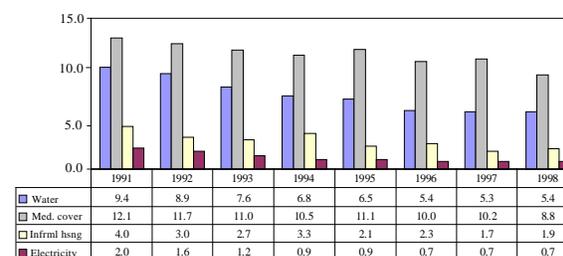
⁵ The coefficient of inequality used (Gini) produces different values and trends from the one employed in the *Social Panorama of Latin America* (ECLAC, 1999). The latter was constructed using a methodology that sought to maximize the reliability of the results in order to establish the relative positions of the countries in the aspect under consideration, which meant that the criteria followed had to take account of the limitations of national information sources. The results set forth in this section agree with those of other studies carried out for Uruguay (see Vigorito, 1999, p. 259, table 2B).

⁶ Per capita household income was calculated by adding together the different types of income received by households in the form of remuneration from work and capital, pensions, benefits and transfers and an imputed rental value for owner-occupied housing. Domestic servants living in households were not deemed to be members of them for the purposes of these calculations.

⁷ The index values for the 1990s are not statistically different from those of the 1980s, except in 1998. In that year, the statistical confidence interval of the estimate, at 95%, does not overlap with those for the 1980s.

FIGURE 6

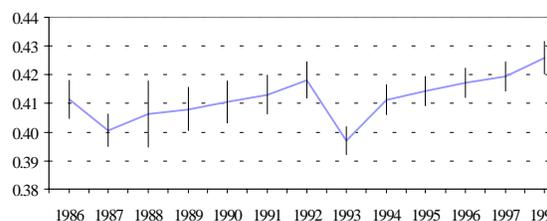
Changes in some critical deficiency levels. Urban areas of Uruguay, 1991-1998



Source: Produced by the Uruguayan Human Development Report (UNDP, in the press) on the basis of data from National Institute of Statistics (INE) standing household surveys.

FIGURE 7

Inequality in Uruguay, 1986-1998 (Gini coefficient)



Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

TABLE 3

Urban areas of Uruguay: Income share of household quintiles ranked by per capita 1998 (Percentages)

| | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 |
|------|------------|------------|------------|------------|------------|
| 1986 | 5.6 | 10.4 | 15.0 | 21.8 | 47.3 |
| 1987 | 5.9 | 10.6 | 15.2 | 21.9 | 46.4 |
| 1988 | 6.0 | 10.5 | 14.9 | 21.4 | 47.2 |
| 1989 | 5.8 | 10.5 | 14.9 | 21.5 | 47.3 |
| 1990 | 5.8 | 10.4 | 14.9 | 21.5 | 47.5 |
| 1991 | 5.7 | 10.3 | 14.8 | 21.4 | 47.7 |
| 1992 | 5.5 | 10.2 | 14.8 | 21.4 | 48.1 |
| 1993 | 5.8 | 10.7 | 15.3 | 22.0 | 46.1 |
| 1994 | 5.6 | 10.3 | 14.9 | 21.8 | 47.4 |
| 1995 | 5.4 | 10.2 | 14.9 | 22.0 | 47.5 |
| 1996 | 5.4 | 10.2 | 14.8 | 21.9 | 47.7 |
| 1997 | 5.4 | 10.1 | 14.8 | 21.7 | 48.0 |
| 1998 | 5.2 | 9.9 | 14.7 | 21.9 | 48.4 |

Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

A similar pattern is seen when, instead of a synthetic measure like the Gini index being used, changes in the income shares received by households in each of the five per capita income quintiles are tracked over the period. Thus, while

the movements seen over the entirety of the period 1986-1998 are small, it transpires that the share of the 40% of urban households with the lowest incomes declined, while that of the richest 20% of households rose (table 3).

IV

Factors determining trends in income distribution

1. Initial considerations

The modest extent of the changes in the income distribution indices may be misleading, as it might suggest that inequality levels are relatively unaffected both by the type of growth and by the major economic and social processes affecting societies.⁸ The correct interpretation is quite different. Societies are constantly exposed to forces that shape their structures in more or less equitable ways, and that consequently affect different social categories in different directions and to differing degrees. The categories that are affected adversely seek to counteract these effects using whatever individual and collective resources they can mobilize.

When this view is taken, indicators of income distribution (and of wealth, when adequate information is available) are interpreted rather as the outcome of a complex web of forces set in train by the market on the one hand and by individuals, households and collective actors on the other. As we shall see later on, changes in the market lead to shifts in the profitability of the different factors of production, and thus affect both average incomes and the distribution of income between the different sources from which it derives.

Individuals react to changes in the market by opting, insofar as the opportunities available to them allow, for different courses of action. Within their households, they are involved in decisions about the number of children to have, whether or not to keep them in the educational system when to do so begins to become incompatible with income needs, whether people should enter or leave the household, and with

what frequency and level of commitment each member of working age should participate in the labour market. On the institutional level, meanwhile, collective actors struggle among themselves to have a greater say in the way policy instruments are designed and implemented, using their social, political and economic resources to increase or preserve their share in the fruits of growth, or to minimize the portion of costs they bear at times of crisis. All these forces act beneath the surface, shaping the distribution of income and wealth in society.

We shall now take a more synthetic approach to exploring some of the factors that might have affected the distribution of income in Uruguay over the last fifteen years of the second millennium.

2. Determining factors

a) *Liberalization, fiscal adjustment and external upheavals*

Although it is still very early to claim that the new development styles have affected income distribution, some authors have identified an empirical association between the structural reform processes that these styles entail and an increase in inequality (Altimir, 1997).⁹ Any attempt to apply this hypothesis to Uruguay would have to take into account the particular characteristics of its structural reform process, including among other things the absence of any significant privatizations and the financial liberalization that was carried out as early as the 1970s.

In any event, between 1985 and 1998 Uruguay pushed ahead vigorously with the external liberalization process and with measures to control the budget deficit. Tariff barriers were lowered, so that the average tariff

⁸ Li, Squire and Zou (1998) examined income distribution trends in 45 countries for which there was good quality information covering long periods. They found that most of them (29) did not show discernible tendencies in either direction, while the rest divided equally between rising inequality and falling inequality.

⁹ Altimir reached this finding after analysing five countries: Argentina, Brazil, Chile, Colombia and Mexico.

fell from 40.7% to 12.8%¹⁰ (UNCTAD/ECLAC, 1998). In that same period, the overall budget deficit fell from 6.3% to 1.0% of gross domestic product (President of the Eastern Republic of Uruguay, Planning and Budget Office, 1999) and inflation fell from around 70% to some 10%.

Both external liberalization and State reform policies altered the composition of employment. In many of the region's countries, globalization of the economy led to a decline in the relative weight of industry as an employer and as a contributor to national output. In Uruguay, where these processes took place in the period under consideration, the proportion of the total workforce accounted for by industrial workers fell from 20.5% in 1986 to 16.3% in 1998. In other words, almost a fifth of all workers in industry switched to services or went to swell the unemployment rate.

¹⁰ From January 1998 the tariff was raised by three points following an agreement among the Mercosur countries prior to the devaluation carried out by Brazil, the country which requested this increase.

The fiscal adjustment was accompanied by a shrinking of the State machinery. Of thirteen countries for which comparative information is available for the period running from the beginning of the 1980s to the end of the 1990s, twelve, including Uruguay, saw a decline in the percentage of workers in public-sector jobs (ECLAC, 1999). In this period, the proportion of workers employed by the public sector fell from around a quarter of the urban labour force to around a sixth, thus declining by around 30% in terms of relative weight.

These changes could not but affect the distribution of income among households. In point of fact, until the effects of the Mexican crisis began to be felt, average household income had grown continuously over the period (box 1).

If the consequences for social equity of the trade liberalization and fiscal adjustment processes are to be interpreted correctly, they need to be tracked by analysing changes in the structures through which these two phenomena operate, such as the recomposition of different income sources, shifts in the labour market and State policy instruments that are activated to counteract any regressive effects these processes might have.

Box 1

Greater economic openness magnified the effects of the Mexican crisis of late 1994, which resulted in increased unemployment and poverty. Having stood at around 9% from 1986 to 1994, unemployment rates in Uruguay rose to levels of between 11% and 13% as a result of the "Tequila effect". The consequences of such economic crises have a tendency to linger on, in part because businesses become more cautious about entering into contractual arrangements with new workers – an attitude that persists even into periods of economic recovery – and more willing to replace labour with machinery. They can also result in higher school drop-out rates, as family members turn to the labour market to make good the income lost by some adult members, or in early retirement by people who are put out of work at an age when their prospects of re-entering the market are very poor. Generally speaking, situations of crisis force the poor to take decisions that have medium- and long-term implications for the ability of household members to accumulate the assets they need for their well-being.

In evaluating the impact of the Mexican crisis, it has to be appreciated that the differences between the size of the Uruguayan economy and those of its two main partners in Mercosur meant that the indirect repercussions of the "Tequila effect" on Argentina and Brazil were at least as important as its direct effects on Uruguay. This is why that crisis upset the stability of the relatively low indices of inequality and poverty that characterized the Uruguayan situation in the last fifteen years of the twentieth century. As was often pointed out in the analyses carried out during the recessionary decade of the 1980s, poorer households are the first to be affected in periods of recession and the last to benefit from economic upturns, and this leads to asynchrony between the rates at which poverty rises and falls as the vicissitudes of growth dictate. Any reading of the poverty and inequality data for the closing years of the twentieth century also has to take account of the cumulative effects of crises subsequent to the Mexican one (Russia, South-East Asia and Brazil).

TABLE 4

**Urban areas of Uruguay: Average income and distribution among recipients.
by income source. 1986-1998**

| | Average income of recipients ^a | | | | Gini index of recipients | | | |
|------|---|----------|----------------------|-------|--------------------------|----------|---------|-------|
| | Work ^b | Pensions | Capital ^c | Total | Work | Pensions | Capital | Total |
| 1986 | 28.4 | 12.9 | 47.4 | 27.9 | 0.426 | 0.409 | 0.601 | 0.475 |
| 1987 | 31.8 | 14.7 | 56.6 | 31.5 | 0.413 | 0.408 | 0.608 | 0.468 |
| 1988 | 34.3 | 17.3 | 65.8 | 34.9 | 0.413 | 0.445 | 0.581 | 0.476 |
| 1989 | 36.0 | 16.2 | 63.8 | 35.2 | 0.416 | 0.430 | 0.581 | 0.475 |
| 1990 | 34.3 | 16.7 | 64.7 | 34.0 | 0.415 | 0.450 | 0.600 | 0.479 |
| 1991 | 36.5 | 18.0 | 68.9 | 36.5 | 0.426 | 0.427 | 0.604 | 0.480 |
| 1992 | 38.4 | 20.5 | 75.6 | 38.6 | 0.441 | 0.426 | 0.598 | 0.483 |
| 1993 | 39.2 | 22.0 | 68.3 | 38.6 | 0.435 | 0.425 | 0.544 | 0.466 |
| 1994 | 41.1 | 22.9 | 74.9 | 40.8 | 0.449 | 0.432 | 0.563 | 0.480 |
| 1995 | 39.3 | 22.3 | 66.3 | 38.6 | 0.455 | 0.434 | 0.548 | 0.479 |
| 1996 | 39.1 | 23.1 | 65.8 | 38.1 | 0.457 | 0.433 | 0.543 | 0.476 |
| 1997 | 38.1 | 23.9 | 68.2 | 38.0 | 0.458 | 0.434 | 0.541 | 0.476 |
| 1998 | 40.8 | 25.7 | 82.0 | 41.8 | 0.453 | 0.448 | 0.552 | 0.479 |

Source: Produced by the author on the basis of National Institute of Statistics (INE) standing household surveys.

^a Average incomes per recipient are expressed in December 1995 prices.

^b Earnings include private-sector and public-sector wages and the earnings of own-account workers with or without premises.

^c Income from capital includes rents, interest and employers' income (profits and remuneration).

^d In 1998 there were changes to the way the sample for the standing household survey was taken (updating of the sample framework, changes to the replacement criteria and removal of towns with less than 5,000 inhabitants) and these may have led to jumps in the levels of some variables which have not yet been analysed.

b) *Changes in income sources*

Between 1986 and 1997, the country experienced changes in the relative weight of the different sources from which people received income. The average income from old-age and other pensions grew throughout the period. Average income from capital rose up until 1992 and then fell from that year to 1997 (table 4). Lastly, average earnings rose until 1994, but did so more slowly than the other two sources, after which they fell, but again to a lesser extent than income from capital.

Meanwhile, changes in income distribution differed depending on the sources that people obtained their income from. The data show a tendency for the distribution of income to shift in favour of workers and, in the 1990s, of pension holders as well, while the income deriving from possession of capital decreased in relative terms (table 4).

Stability in the distribution of total income among recipients does not necessarily entail a corresponding stability in inequality trends among households, since these ultimately depend on the way individuals are combined in those households.

Some studies have looked at the effect of changes in income sources on total inequality. Thus, Vigorito

(1999) analysed the contribution of each source to the change in inequality between 1986 and 1997 by breaking down Theil's entropy index 1,¹¹ which remained virtually unchanged (it rose to 32.85 in 1986 and 33.05 in 1997). The author referred to found that the influence of wages, old-age and other pensions and the incomes of own-account workers was in the direction of greater inequality over that period, while employers' incomes moved in a direction that reduced concentration, virtually cancelling out the changes in the other sources (table 5).

These results make it clear that the relative weight of the different income sources in Uruguay did not remain unchanged, and that the overall impact on inequality of these sources over time masks changes that cancel one another out.

It would be useful to know what influence the different sources have on overall inequality. Setting out from a breakdown of entropy index 0, Bucheli and Furtado (in the press) quantify the extent to which these

¹¹ To do this she used Shorrocks' breakdown rule (1982 and 1983) as adopted by Jenkins (1995) and Foster and Sen (1997) and applied it to the distribution of total household income (excluding rental value) between households.

TABLE 5

Urban areas of Uruguay: Contribution of the different income sources to changes in income concentration, 1986-1997

| Income sources (without rental value) | Theil index |
|---------------------------------------|-------------|
| Waged work | 2.79 |
| Own-account work | 1.38 |
| Employers' income | -4.43 |
| Pensions | 1.22 |
| Other income | -0.76 |
| <i>Total</i> | <i>0.20</i> |

Source: Vigorito (1999).

sources account for developments in income distribution.¹² It was found that the inequality component attributable to differences between groups of recipients rose from 9.4% in 1986 to 11.7% in 1992, which means that the slight increase in inequality between 1986 and 1992 was due essentially to increasing income disparities between people whose income came from different sources. In fact, while all incomes increased in this subperiod, the rise in incomes deriving from the possession of capital was so great that the top end of the distribution shot up.

Subsequently, from 1992 to 1997, the differences between people receiving incomes from different sources tended to narrow (table 4). The average income of old-age and other pensioners –which stood at the lowest levels– rose in those years by 16.6%, while at the other extreme the income generated by capital fell by 9.8%. Average earnings stayed at intermediate levels. Consequently, the small increase in overall inequality from 1992 onward can be explained by factors unconnected with changes in income sources, since the component of inequality between groups fell (in 1997 it accounted for just 6.6% of inequality) and dispersion within groups increased.

¹² The two usual components are distinguished: the component of inequality attributable to the differences between groups and the component of inequality attributable to the differences within groups. This breakdown makes it possible to measure the explanatory power of a classification: the greater the percentage contribution of the differences between groups, the more powerful will be the classification arrived at to explain total inequality. The classification had ten groups made up of people in households where more than 65% of household income came from a clearly identified source –possession of capital, old-age and other pensions and four occupational categories– and, in the remaining cases, from a combination of different sources.

c) *Changes in the profitability of education*

The analysis of changes in sources showed that the greatest contribution to income concentration was made by wages, and that from 1992 onward the dispersion between recipients of work income increased.

This led on to an examination of changes in the labour market. It was found that the income of households whose heads had tertiary education grew by more than that of households whose heads had only primary education. This development, affecting groups at the top and bottom of the distribution scale, was a force for concentration, and would account for the slight increase in inequality towards the end of the period studied (Bucheli and Furtado, in the press).

In fact, a number of studies on Uruguay show not only that education is the factor that has the greatest influence on income inequality among households,¹³ but also that this influence increased in the 1990s. The findings of these studies, which give different values depending on the index and classification used, are set out in table 6.

These results are supported by wage equations calculated for private-sector workers in Uruguay, according to which the marginal profitability of the higher levels of education rose in the late 1990s, increasing the wage differences between workers with different levels of education (Bucheli and Furtado, 2000).

d) *Transfers*

As was noted in point b), changes in the amount of old-age and other pensions have also contributed to the concentration of income. A number of studies show that indexation of these basically resulted in income recipients moving up from “middle sectors to higher ones, and in changes to the demographic composition of the lower deciles” (Vigorito, 1997, p. 17; Bucheli and Rossi, 1994). In this respect, it should be noted that average incomes from old-age and other pensions grew by more than those from any other source of income in the period, and that the Gini index for the internal distribution of income of this type also rose in the 1990s (table 4).

The concentration of old-age and other pensions tended to increase, by contrast with what happened in

¹³ Several works show that the influence of other variables is considerably less: the age of heads of household, and whether or not they are working, each account for less than 5% of total inequality, while region and household structure account for around 10% (Machado and Reggio, 1999 and Vigorito, 1999).

TABLE 6
Urban areas of Uruguay: Changes in the component of inequality between groups according to different classifications by educational level
(Percentages)

| | 1986 | 1991 | 1997 |
|----------------------------------|------|------|------|
| Bucheli and Furtado ^a | | | |
| Index of entropy 0 | 18.2 | 20.5 | 21.3 |
| Vigorito ^b | | | |
| Index of entropy 0 | 19.2 | 18.5 | 24.4 |
| Index of entropy 1 | 21.5 | 19.1 | 26.6 |
| Machado and Reggio ^c | | | |
| Index of entropy 0 | 24.1 | | 26.4 |
| Index of entropy 1 | 25.5 | | 27.6 |

Source: Bucheli and Furtado (in the press), Vigorito (1999) and Machado and Reggio (1999).

- ^a The classification goes by the educational level of heads of household (0 to 6, 7 to 12, 13 or more years of education) for people in households where more than 65% of income is from work; for those dependent on capital or a combination of sources, openings by educational level were not carried out. The degree of inequality was measured by the distribution of per capita income (without rental value) between individuals.
- ^b The classification distinguished between households according to the educational level of their heads: first stage of secondary, second stage of secondary, UTU (Universidad del Trabajo del Uruguay), university, others.
- ^c The classification distinguished between incomplete primary education, complete primary, incomplete secondary, complete secondary, UTU, tertiary, others. Inequality was measured by equivalent income distribution between households (with rental value).

the case of other State transfers, such as social allowances and benefits (table 7). Since their share of total government transfers to urban households rose from 74.8% to 92.4% in the period 1988-1998, the net result of these transfers was regressive. This was the case despite major changes in some of the instruments involved, such as family allowances which, while they had a clear equalizing effect, did not suffice to offset the additional concentration produced by pensions, so that the effort made to target social allowances and

benefits was not enough to prevent a decline in the portion of transfers reaching the poorest (ECLAC, 1998).¹⁴

e) *Household strategies*

As was mentioned earlier, if we are to move from looking at the way income is distributed among individual recipients to the way it is distributed among households, we need to consider how individuals are combined in those households. Although in practice income tends to be distributed among households in much the same way as it is among individuals, this is not always so.

Households have considerable room for manoeuvre in mitigating the effects of cuts in the incomes of their main providers: they can raise their incomes by mobilizing the labour force at their disposal and combining different sources of income, they can make decisions about family size by changing their plans about the number of children to have or delaying pregnancies, and they can join forces with other family members in order to raise their average income.

In accordance with a general tendency in Latin America, the main strategy used by lower-income Uruguayan households was to increase their occupational density (figure 4) by bringing married women into the labour market (ECLAC, 1998 and 1999). Vigorito (1999) has demonstrated that increased participation by women in the labour market led to a rise in their contribution to household income (from 12% in 1986 to 15.9% in 1997), while their contribution to inequality was greater, as their incomes from all sources showed a higher degree of dispersion than was the case with men.

¹⁴ Although the rise in the value of retirement and other pensions had a regressive effect, any assessment of the overall effect of the changes on the well-being of the population needs to take account of the contribution these made, against the background of an increasingly uncertain labour market, to the stability of household incomes. This increased stability does not just benefit pensioners and those who are not pensioners but live with one or more of them, but can also have a significant effect in relieving people's concerns about their parents' subsistence, even when they do not live in the same household as them.

TABLE 7

**Urban areas of Uruguay: Composition and distribution of government transfers
by per capita income quintiles, 1988, 1991 and 1998**
(Percentages)

| | Pensions | Social allowances | Benefits | Total transfers |
|--------------|----------|-------------------|----------|-----------------|
| 1988 | | | | |
| Composition | 74.8 | 4.4 | 20.8 | 100.0 |
| Distribution | | | | |
| Quintile 1 | 8.6 | 29.5 | 16.7 | 11.2 |
| Quintile 2 | 15.1 | 25.3 | 17.4 | 16.0 |
| Quintile 3 | 18.2 | 19.5 | 18.2 | 18.3 |
| Quintile 4 | 21.6 | 14.5 | 20.1 | 21.0 |
| Quintile 5 | 36.4 | 11.2 | 27.6 | 33.5 |
| Quintile 6 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1991 | | | | |
| Composition | 89.1 | 3.5 | 7.4 | 100.0 |
| Distribution | | | | |
| Quintile 1 | 8.9 | 29.2 | 19.3 | 10.4 |
| Quintile 2 | 14.9 | 21.5 | 16.3 | 15.2 |
| Quintile 3 | 19.1 | 20.7 | 16.0 | 18.9 |
| Quintile 4 | 22.7 | 14.5 | 13.0 | 21.7 |
| Quintile 5 | 34.4 | 14.0 | 35.4 | 33.7 |
| Quintile 6 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1998 | | | | |
| Composition | 92.4 | 0.9 | 6.8 | 100.0 |
| Distribution | | | | |
| Quintile 1 | 6.2 | 37.7 | 23.2 | 7.7 |
| Quintile 2 | 12.5 | 26.6 | 23.4 | 13.3 |
| Quintile 3 | 17.0 | 17.2 | 22.4 | 17.4 |
| Quintile 4 | 23.1 | 13.1 | 16.1 | 22.6 |
| Quintile 5 | 41.1 | 5.4 | 15.0 | 39.1 |
| Quintile 6 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Produced by the author on the basis of data from National Institute of Statistics (INE) standing household surveys.

V

The political and institutional framework and public policies

1. How reform is implemented: gradualism and sequences of reform that do not result in concentration

One of the most important aspects of the political and social changes introduced in Uruguay has been their incremental and eclectic nature.¹⁵ If the position of Uruguay is considered in its regional context, this pattern of development, viewed over the long term,

seems to have had more virtues than defects. We say “seems to have had” because the arguments that follow cannot easily be subjected to rigorous empirical tests, and contain a high degree of speculation.

¹⁵ Eclectic in that on many occasions they have departed from the orthodox adjustment model, or what has come to be known as the Washington Consensus.

Like the other countries in the region, Uruguay had to cope with the obsolescence of an old inward-looking, State-led development model. At the same time, the country faced the difficult task of converting to an export-oriented model in which the market plays a central role in the allocation of resources, entailing reforms in at least five key areas: financial liberalization, trade liberalization, fiscal reform, privatization and reform of the State machinery, and labour market deregulation.

The Inter-American Development Bank (IDB) has devised an index to measure progress with these five areas of reform in Latin America, the values it produces being used to estimate the relative speed with which they are being applied in each country (IDB, 1997). In the case of Uruguay, the data from this index (figure 8) record a difference of 18% between the beginning and end of the period 1985-1995 in the country's scores for progress in structural policies. This small difference –the lowest of any of the countries for which information is available, including those such as Chile and Colombia which started off in 1985 with scores similar to Uruguay's– make the country an example of gradualism in the region (IDB, 1997, appendix 5).

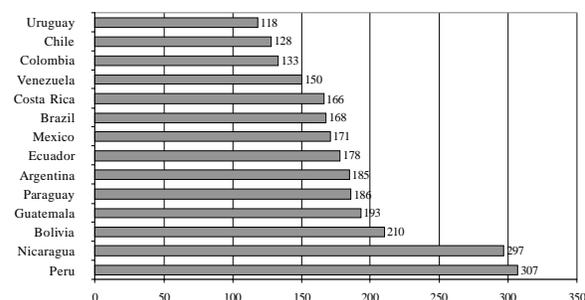
In addition to the reform areas taken by IDB, social reform also needs to be considered. The approach taken by Uruguay in this area has also been gradualist and, as will be seen later on, particularly eclectic.

The gradualism characterizing Uruguay has at least two essential merits: it helps protect the interests of subordinate groups, and it bolsters democracy. In the first case, this is because the basic resources of the least powerful sectors –mass mobilization and organization– are more effective in democratic negotiations and are weakened when shock policies or sudden reforms are applied.

The second merit of gradualism is that it strengthens and reaffirms the power of democratic mechanisms to take difficult decisions about development models and problems that are ultimately to do with distribution. Or to look at it from the negative side: shock policies tend to inhibit the development or creation of a democratic culture in which the legitimacy of decisions derives from the way they are taken, and not from their results.

The sequence of reforms in the country also has its virtues. To put it in a highly condensed form, it may be said that the essential role of the reforms is to “expose to the blast of competition” actors who previously operated in a “protected and regulated environment”. Depending on the reform that is applied, certain actors

FIGURE 8
Change in the index of structural policies between 1985 and 1995
(1985=100)



Source: Produced by the author on the basis of IDB (1997).

will be more exposed to this “blast” than others. By way of example: whereas lower tariffs force protected companies (i.e., capital) to confront international competition, labour market deregulation increases competition for labour rather than capital. Consequently, the sequence of reform determines the scope those affected have for transferring costs to other actors. Another example: if tariff reforms and labour market deregulation take place at the same time, companies can transfer a large part of their costs to wage earners by reducing wages and benefits and reducing staff levels at little cost to themselves.

The sequence of reforms in Uruguay was ideal in terms of distribution. Financial, fiscal and foreign trade reforms were the first to be carried out. With the exception of fiscal reform, whose effect on companies and workers is unclear, the other two primarily affect capital, forcing it to absorb part of the restructuring costs of the development model. If it is considered that the labour market and social reforms were the last to be applied, and that privatization was a failure, the reform sequence looks like a particularly progressive one. It was wage earners and sectors depending on the State that were the last to be deprived of protection of various kinds, and this reduced the scope of those controlling capital to transfer costs to them. The information provided over the course of this section seems to be consistent with these ideas. As was pointed out earlier, it was in respect of income from capital that concentration declined most over the period, since capital now has to operate in a common competitive environment, whereas previously it extracted its advantages and profit from stratified protection regimes.

2. The substance of reform: eclectic and limits on the market

Although this is another area where argument does not easily lend itself to empirical proof, it seems reasonable to say that the preservation of equity in Uruguay was contributed to by political decisions relating not just to the pace and sequence of the reforms, but to their substance as well.

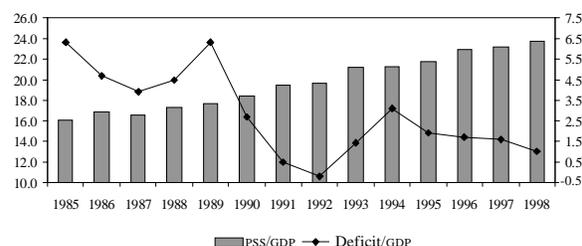
In a series of studies aiming to achieve a better understanding of the roles that have been played by democracy, as a system that enables the population to have a voice and a vote in struggles over distribution, and by the State, acting as the guarantor and shield of the weakest to improve the distribution of prosperity, Fernando Filgueira has carried out an exhaustive analysis of the social and political mechanisms mobilized, and the specific characteristics of the sectors and the strategies of the groups involved, at different stages of reform and of efforts to privatize public-sector companies in Uruguay.¹⁶

These analyses show that the socio-political structure of Uruguay has proved reluctant to adopt the kind of adjustment that has been applied in the region. The following observations may be made:

- i) In the period under consideration, most public-sector enterprises and services stayed in the public sphere, except in the area affected by social security reform. Even where this reform is concerned, while it resulted in a system that was clearly different from the old one, it is quite dissimilar to other social security models such as that of Chile, in that it has remained under State control and committed to distributive ends that do not feature so prominently in other instances of reform.
- ii) The country achieved a large reduction in the budget deficit, along with rising figures for public social spending (figure 9). A different course of action, involving a structural adjustment process that tends to reduce such spending, appears to have come up against numerous difficulties in the last fifteen years of the twentieth century. The particular path taken by Uruguay has been strongly upheld by a political process whose negotiating and consensus-seeking systems tend to signal that a great many balances need to be struck if governments are to carry through the set of reforms

¹⁶ See Filgueira and Morães (1999), Filgueira and Papadópulos (1997) and Filgueira and Filgueira (1998).

FIGURE 9
Public social spending (PSS) and the budget deficit in Uruguay as a proportion of GDP, 1985-1998



on their agenda. Above all, there is a need to maintain high levels of spending on those public policies that have been crucial to the shaping and development of society and that have been largely responsible for the progress made by the country in terms of social equity.

- iii) No formal changes were made to the way the labour market operated, but there were substantial de facto changes which made employment less secure. More important still were changes to collective bargaining methods, which underwent substantial decentralization.
- iv) There was strong resistance to the dismantling of the education system. The reform carried out in this system differed greatly from market-oriented models, being decidedly statist, universalist and strongly redistributive.

The continued existence of public goods that follows from what has been said in the four paragraphs above preserved the conditions that have traditionally contributed to the ability of Uruguayan citizens to make their “voice” heard clearly and often. This acts as a corrective mechanism, inhibiting the use of market options as a “way out”.¹⁷

3. The socio-political keys to an incremental and eclectic approach to reform

As was noted earlier on, the peculiar characteristics of Uruguay in the context of Latin America manifested themselves during the reform process as a greater ability to mitigate the negative consequences of the new growth style, mainly by applying reforms selectively and controlling the pace and thoroughness with which they

¹⁷ The ideas of “voice”, “way out” and “loyalty” were developed by Hirschman (1970).

were introduced. We shall now briefly consider what are the central characteristics of Uruguayan social and political organization that enable us to understand both the pace and the substance of the country's structural reforms.

Despite the major economic and social changes that the country underwent between 1970 and 1985, at the end of this period the key actors that had helped shape the old model, and that to a large extent had benefited from it, still had their place in the social structure of Uruguay. In 1985, the unions whose members were urban workers in domestic industries, the protected industries themselves, old-age and other pensioners covered by the social welfare system and the large group constituted by civil servants were still the main actors in the country's distributive struggles. To implement any major change, it was necessary to negotiate, synthesize and incorporate the interests of these actors in the context of a restored democracy. This is perhaps one of the most crucial aspects differentiating Uruguay from, for example, Chile. In the latter country, the bulk of the structural changes were implemented under a dictatorial regime, and the socio-political system with which the restored democracy had to deal retained few of the actors and characteristics of the old development model. In Uruguay, by contrast, the survival of the old system, and its transition to democratic conditions, meant that any losers from the structural transformation could negotiate the costs they would have to pay and the time they would have to do it in.

To this old social structure, which had to be reckoned with when the costs and benefits of transforming the development model came to be negotiated, had to be added the political structure needed for the demands of actors to be translated into concrete policies.

Politically, Uruguay had and has the most highly institutionalized democratic process of any country in Latin America, owing to two prominent features of its political dynamic: a long-established and highly institutionalized party system, and a deep-rooted political culture of consensus-building. These two factors have had a range of effects on the political process, in which negotiations between parties and the numerous ties that these have with different agents in civil society have given a pluralistic form to dealings between decision-making agents.

On the one hand, these two factors have shaped a particular kind of relationship between those involved with the technical side of policy-making and the party elites, as a result of which, and by contrast with other countries in Latin America, the links between technical

and political actors have always been channelled completely through the intermediary of solid political parties. On the other hand, the Uruguayan party system has always been able to deal with demands expressed as general interests in the provision of public goods, or as private interests, chiefly in the way it responds to corporate pressure from the unionized workforce and from industrialists.

In the long term, the strong political intermediation to which technical and specialist disciplines are subject, and the arbitration capabilities evinced by the parties in their system of responses to private and general demands, have shaped a democratic system characterized by permanent negotiation between political and social actors.¹⁸ Consequently, what is surprising about the Uruguayan process in the long term is its ability to bring about major transformations in a context of democracy and pluralism (O'Donnell, 1993). In addition, a range of characteristics in the institutional framework and the political system have combined with this tradition of gradualism to give the substance of the reforms a stamp that, in economic terms, is markedly anti-liberal, so that while the role of the State as an allocator of resources has been moderated, in no case has it been replaced by a pure market system. It should be emphasized that this situation has arisen in an international and domestic context which is strongly conducive to the adoption of a purely orthodox model, but that the social and political structures have played an effective intermediary role in guiding these pressures.

The Uruguayan experience with structural reform shows that the degree to which these reforms are introduced, and the models used to do so, rather than international pressure and changes to production systems, are what determine the tendency of countries to implement neoliberal reform processes and withdraw the protection of the State. In other words, the likelihood of these adjustment and transformation models being applied is directly proportional to the degree of socio-political exclusion traditionally affecting the poorer sections of society. In Uruguay, we have a State penetrated throughout by party structures, a party

¹⁸ Of course, the long-term characteristics described here have been distorted by temporary situations of great impact. Thus, the years of authoritarian rule (1973-1984) were a time when citizens experienced very marked political and social exclusion. This, however, did not sharply reverse the prevailing relationship between technicians and policy, which shows that the structure was stronger than the circumstances. Nor could authoritarian rule reverse the gradualist tradition, despite its discretionary power to implement reforms.

system that is accessible to the poorer sections of the population, and a society that has received protection and benefits from the State on a generous scale. Although, as this article has stressed, Uruguay has made major changes to its development model and to the role the State plays in this model, the costs and benefits of these changes have been distributed far less inequitably than in the case of other Latin American countries.

Among the social and political characteristics that the country displays, there is a political and social cul-

ture rooted in a past that has produced a country without major social, political, ethnic or even economic distances: a country of proximities, as Real de Azúa would put it. Its heritage includes reserves of altruism and low tolerance to extreme inequalities, attributes without which the social and political structure of Uruguay would not have been in a position to maintain, in an international context of increasing concentration and inequality, the essential identities of a society whose ideal for itself is equality and integration.

VI

Final reflections. The challenges to Uruguayan equity in the third millennium

Given the need for continuous readjustment in the face of the upheavals unleashed by globalization, everything seems to indicate that a great deal of time will be needed for national economies to settle down to a viable, stable state. As was mentioned in the introduction, experts on the subject agree that under the new conditions the main problems will revolve around the weakness of job creation and the pressure exerted by the forces that are acting to roll back the gains made in the labour market. Uruguay is not proof against the socially destabilizing tendencies that are being unleashed in this way, and this undoubtedly raises major new challenges for the maintenance of equity.¹⁹ Indeed, given that the measures that will have to be designed and implemented will be at the core of the struggle over distribution, efforts to address the new problems of employment will involve entering the “hardest” areas of social policy (Katzman and Gerstenfeld, 1990). The resultant need to couple together very divergent interests will test the reserves of solidarity of Uruguayan society, as well as

the capacity of its institutions to generate around these issues the wide base of political support that will undoubtedly be needed.

Uruguay’s preparedness for coping with these challenges and for retaining its position of leadership in the region where social development is concerned will depend on the capacities of the country’s people and the efficiency and effectiveness of its institutions, the threshold beyond which its citizens will not tolerate inequality and their willingness to support the needful corrections when inequality exceeds the thresholds of tolerance. It may be said that the historical legacy of social justice and democracy in Uruguay, crystallized in the country’s basic structures (market, property, State, etc.), has shaped the living conditions and attitudes of its people, making them intolerant of inequality and endowing them with considerable reserves of altruism and solidarity.²⁰ The results of these values in practice are seen in the support given to the political and institutional mechanisms that come to the defence of the weakest.²¹

Attitudes of solidarity are also sustained, at the least, by an ability to empathize which enables people

¹⁹ Among the greatest of the influences for concentration associated with globalization is the improved profitability of factors that can cross national boundaries, such as capital and highly qualified human resources. Big companies, and transnationals in particular, which make more intensive use of these factors, will show a growing ability to take advantages of the economies of scale generated by globalization both in trade and in the financing of production activities. In turn, greater scope for relocating production will undermine workers’ negotiating positions and make their incomes more unstable by increasing the vulnerability of these to fluctuations in demand.

²⁰ The idea of a reserve of altruism is discussed in Paci (1998).

²¹ Another set of motivations that may give rise to this support springs not from the aversion to inequality, but from fear of the externalities of social inequity: political instability, weakening of the legitimacy of institutions and the consequent difficulty of mobilizing public opinion in support of plans for change, in the face of public insecurity, etc.

to place themselves in the situation of others and understand how serious or otherwise their problems are, and by a feeling of moral obligation which makes those who possess it act for the benefit of others.

These feelings, abilities and attitudes are refreshed and restored daily through informal, face-to-face contact between people of different social origins in situations that are not constrained by the hierarchies inherent in market relationships. The more frequent and intense the contacts, the stronger the feelings will be. By contrast, all processes that tend to reduce the opportunities for informal contacts between the social classes tend to weaken feelings of solidarity and raise the threshold of tolerance for inequality.

The literature dealing with these issues has identified a number of processes that reduce the likelihood of such informal contacts taking place between classes. The most important take place in the spheres of housing, basic services and travel, shopping and recreation.

In the first of these spheres, residential segregation leads to people with similar socio-economic levels being concentrated in the same neighbourhoods. The extreme manifestations of this segregation are rich ghettos and poor ghettos. Large Latin American cities now contain neighbourhoods inhabited by middle-income sectors with homogeneous characteristics. The spatial polarization of social classes in cities is being compounded by the appearance of what are known as "fortified enclaves", housing estates that are insulated from their immediate geographical environment by physical barriers and sophisticated security technologies; at the same time, some poor ghettos also erect barriers against representatives of the society that operates outside their borders. Although these processes are at an embryonic stage in Uruguay, a recent study shows that between 1985 and 1995 the social composition of individual neighbourhoods became more homogeneous, which meant that heterogeneity between neighbourhoods also increased.

In the second, the segmentation of basic services is another of the factors that undermine a country's reserve of solidarity. Because of its crucial importance in enabling people to take advantage of opportunities for social mobility, educational segmentation has received particular attention. When middle-income sectors abandon State schooling, this is deprived of a "voice" in the struggle to maintain its quality, while at the same time these sectors lose the incentive to pay high taxes for this purpose.²² In addition, though, this deprives poorer children of contacts that help inculcate middle-class attitudes and aspirations (for example, the

belief that efforts to learn are rewarded by achievement and that it is therefore worthwhile to defer immediate gratifications and invest in the long-term accumulation of human resources). In recent years, there has been an incipient movement towards educational segmentation in Montevideo (but not in the urban interior of the country), with a growing proportion of children and young people from the highest income deciles now attending private establishments, while the great majority go to free State establishments (Kaztman, 1997); fortunately, these tendencies are being counteracted by an ambitious educational reform designed to improve the coverage and quality of public-sector schooling. Similar considerations could be adduced in respect of the segmentation of other basic services, such as health care and, more recently, public security.²³

Places of transit, shopping and recreation and leisure are the third area of informal contacts between the classes which could be affected by middle-class abandonment. These include places as diverse as bars, small neighbourhood shops, beaches and popular entertainments such as football and carnivals.

By distinguishing between these three spheres, the aim is to highlight the variety of paths whereby multi-class sociability can be promoted and the powerful tendencies towards privatization and the isolation of the classes can be counteracted.

When the processes of segregation and segmentation come together in the three areas referred to, there are sections of society that begin to be pushed, without their wishing it, to the margins of the sectors that represent the mainstream of society. This isolation encourages the consolidation of marginal subcultures, social exclusion and mechanisms that perpetuate poverty between the generations.

Because the urban spaces where the different classes meet together in an informal way are declining so slowly, the consequences of this for social integration generally pass unnoticed by most citizens. As a result, these spaces are usually undervalued as factors of integration and as sources of renewal for a country's

²² As Barry argues, approval of high taxes makes it possible to improve the quality of collective services while reducing the resources available for higher-income groups to invest in private services, all of which discourages abandonment of public services (Barry, 1998, p. 23).

²³ The motor car, perhaps the paramount symbol of social mobility, is increasingly distancing the middle classes from the hazards and adversities of public transport and the informal sociability that its use tends to encourage.

reserves of altruism, solidarity and aversion to inequality. The effects of this decline, however, will come out sooner or later, sometime in a violent, anomic and unexpected way, through the socially disruptive correlates of a poverty that is marginalized by the concentration of want and by progressive isolation from the mainstream of society. The response of the middle classes is to distance themselves from the public places and services used by the “dangerous classes”, whose modes of behaviour, developed in isolation amid general want, are viewed by the other classes as exotic and alien. The desertion of the middle classes merely highlights the decline of public spaces, which narrows the field of experiences capable of stimulating the capacity to empathize with less well-off sectors and the feeling of having a moral obligation towards them, thus raising the threshold of tolerance for inequality.

The objective of strengthening social integration in the cities by promoting public spaces where the different classes can come together may appear to lie outside the capabilities of State policies, partly because the resources that would have to be employed might be required for other priorities on the social agenda linked to poverty relief. Certainly, this perception would be correct in many of the region’s major cities, where

residential segregation, segmentation of services and the abandonment by the middle classes of public spaces in which informal contact can take place between the classes have reached such an advanced stage that the idea of halting or reversing them in the short or medium term seems to be completely unrealistic. This is not the case, however, in Uruguay, where these processes are incipient and the great bulk of society does not seem willing to allow public goods to deteriorate, especially if people come to realize that such a deterioration also entails the weakening of a heritage of social justice and democracy which is taken for granted as a major feature of national identity.

Besides, many social integration initiatives have been undertaken in the cities of North America and Europe –either specifically for this purpose or as part of sectoral policies– entailing urban management measures, the selection of beneficiaries for subsidized housing projects, measures to preserve the quality of public services and the promotion of urban spaces which encourage informal contacts between the classes. Out of the wide range of urban social integration initiatives which have proved to be successful, advantage can be taken of those which are best suited to the resources and the special characteristics of Uruguayan society.

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