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**Politics and Ideas in Policymaking  
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## ABSTRACT

This paper shows the effect of specialized social knowledge on pension system reform. Economic and political structural variables largely determine policy changes, but specialized social knowledge determine the *direction* and *depth* of a given policy change. Policy advisors and interest groups with specialized social knowledge fight for ideas that provide meaning to policies and policy actions making them viable (or not) independent of the economic system or the political regime.

Most of the analyses on the politics of pension reform are based upon theories that stress the importance of political regime, economic crisis, international pressures and pension system structural problems. While these theories have provided us with useful insights for the understanding of a set of independent variables that determine policy change, they are insufficient for the understanding of policy choices.

This paper shows that two countries, Chile and Uruguay, both facing similar pension system problems and with similar authoritarian neoliberal regimes adopted different policies almost at the same time. Uruguay followed a statist reform informed by ideas coming from traditional international pension institutions, while Chile, in the midst of a "market revolution" created a private system with individual accounts.

The answer to the puzzle of similar problems, different solutions is that policy and political ideas are learned and that structural variables only set the conditions for a change but the direction of policy change depends upon the availability of specialized social knowledge and the existence of conditions for policy and political learning.

## 1. Setting the Problem

When pension systems are highly developed, the politics of pension reform constitutes an excellent focal point for the analysis of the political relations among political parties, interest groups and techno-bureaucracies. Highly developed pension systems affect the life of most of the population, both as contributors and beneficiaries. In these systems the theory expects incremental rather than structural reforms. Besides, the older the institution the higher the resistance for change.

This paper compares the pension system policy options adopted in Chile and Uruguay under the aegis of the authoritarian regimes installed in both countries in 1973. Both regimes shared similar political features, a common economic rhetoric and similarities at the level of their economic and pension system problems. In spite of these similarities they adopted opposed pension policy reforms.

In Chile the pension system was reformed following a market oriented reform. On the other hand, almost at the same time, the Uruguayan pension system introduced only parametric reform. This paper will show that different policy options are the consequence of the role played by techno-bureaucrats the policy ideas they have and the political regime's structure of policy decision making. This paper compares the changing role played by lawyers and economists as policy adviser and policy makers along the recent history of Chile and Uruguay. This comparison highlights how ideas are shaped by institutions and how changing political environments open a window of opportunities for the empowerment of new policy ideas.

This document shows the effect of specialized social knowledge on pension systems reform. Economical and political structural variables determine policy changes, but between structural variables and policy choice, specialized social knowledge do determine the direction and deepness of a given policy change. Specialized social knowledge articulated by a wide range of social and political networks fight for ideas providing meaning to policies and policy actions making them viable (or not) independently of the economic system or the political regime.

In this paper I will describe the major features of the social security reform in Uruguay and Chile respectively. First, I will describe briefly the main points of both reforms. Then, in order to understand the particularities of pension reform in each case I will consider the political, social

and cultural background of both countries under three different levels of analysis: a) the institutional structure; b) their economic policies; c) the role of technocrats and social security ideas.

## **2. The Social Security Crisis in the Chilean and Uruguayan Bureaucratic-Authoritarian Regimes**

The Chilean and the Uruguayan social security systems are the oldest and more developed of Latin America<sup>1</sup>. By 1980 Uruguay and Chile ranked third and sixth respectively in the coverage their systems provided to their Economic Active Population (EAP). Both systems were among the few that covered all the social security risks (professional risks; sickness and maternity; old age, disability and survival; family allowances; and unemployment).

However, the apparent success of these models could not hide their economic problems. Between 1965 and 1977 the cost of social security represented 10.3% of the GDP in Uruguay and 10.1% in Chile, ranking first and second in the region respectively. The pension program was the most expensive program in both countries. It represented 81.8% and 70.8% from the social security expenditures of the system (Uruguay and Chile respectively). The population older than 65 was 10.4% in Uruguay and 5.5% in Chile while the pensioners/workers' ratio was 0.65 and 0.46 respectively. Life expectancy was 70 and 68 in Uruguay and Chile respectively.

The administrative structures of both systems were chaotic. In Chile, there was no single legislative body that regulated the system and the bureaucratic and administrative structure was composed by more than 160 funds in charge of pensions and disability, family allowances, health and maternity, unemployment compensation and social welfare programs. Different social groups were affiliated also with different administrative structures. Although after 1967 social security system in Uruguay initiated a process of unification (creation of the Banco the Prevision Social) by the end of the 70s' the level of institutional and administrative fragmentation was still high. As well as its Chilean counterpart, professionals, the military, policemen, and banking employees had (and still have) independent funds. No single code or legal body regulated the system. Besides,

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<sup>1</sup> Most of this section rests on Mesa-Lago (1978 and 1985).

because of their historical inception and development, both systems mirrored the structure of inequalities of the society as a whole or they even worsened it.

Thus, the Chilean and the Uruguayan pension system faced similar challenges, although in terms of the administrative format the Chilean system was in worse shape than the Uruguayan. Long term trend variables such as the demographic structure created higher structural challenges to the Uruguayan system than to its Chilean counterpart. This is visible in the ratio active/passive population as well as in the percentage of GDP the pension scheme represented on the total expenditures of the social security system.

The Chilean answer to this challenge was a new challenge. The social security reform implied a reduction of the cost of labor and an eventual "development of a long term capital market" (Costabal quoted by Bortzuský 1983). On the other hand the transition from a pay-as-you-go to a capitalization system meant a long term increase of fiscal expenditures. The Uruguayan choice was to reconstruct the old fragmented social security structure and to create a unitary and single social security system from the scratch where pensions was one of the programs. Regarding the pension system the main goal was to rationalize the pay-as-you-go system adjusting the expenditure levels through changes in the replacement rate, retirement age, structure of benefits, elimination of privileged pensions, and the employment of a discretionary indexation system.

### **3. The Social Security Reform In Uruguay and Chile**

#### **3.1 The Case of Uruguay. The 1979 Reform: an Administrative and Financial Restructure**

In 1979 the authoritarian regime launched a major reform of the social security system. The reform addressed three aspects of the old Uruguayan social security structure. First, the fragmentation and lack of coherence of the administrative structure of the system; second, the multiplicity of benefits and entitlement conditions and, third, the financial structure of the system. The reform main outcomes were (a) centralizing and rationalizing the fragmented administrative structure; (b) raising the retirement age, modifying some privileged pensions' statuses, standardizing some entitlement conditions and (c) changing the financial basis of the system.

In terms of the administrative reform, the BPS was substituted by The General Bureau of the Social Security (Dirección General de la Seguridad Social - DGSS) which became organically dependent on the Executive Branch through the Ministry of Labor and Social Security (MTSS). The subordination to the Ministry of Labor and Social Security was total. The objective of the DGSS was to provide the benefits of the system, to manage and collect its financial resources and to coordinate (“when possible”) the activities of the independent social insurance funds<sup>2</sup>, professional risks, and the health system. The reform included those institutions whose budget represented more than 80% of the expenditures of the whole system. This is why Mesa-Lago stated that the Uruguayan system was the most statist in Latin America after Cuba. (Mesa-Lago 1985).

The reform unified and raised the retirement age to 60 years for men and 55 for female who had worked for at least 30 years<sup>3</sup>. “Bonus years” due to hazardous or dangerous occupations were eliminated (until a “scientific method of prove” was enacted). The replacement ratio, was set as a percentage of the actualized average personal monthly income of the last three years of work and oscilated between a minimum of 60 and a maximum of 80 percent of the last salary.

Most pensions could not be higher than seven times the minimum national salary. If the pensioner had more than one occupation, the imposed ceiling was fifteen times the minimum national salary.

Also, a relatively discretionary indexation system for pensions was created. Pensions would be adjusted annually on the bases of the average salary index variation but the Executive was allowed to set “different and differential (for different groups of workers) adjustments in a rational and proportional way, according to the economic possibilities of the Republic.” Then in

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<sup>2</sup> The centralization and unification of the system did not include the other independent pension funds: Professionals, Notaries-Public, Banking, Jockey Club (part-time employees), Jockey Club (full-time employees) nor the state managed funds for the Military and the Police. Professional risks were administered by the State Insurance Bank (Banco de Seguros del Estado) and the health system was under the supervision of the Ministry of Health that administered more than 200 health institutions.

<sup>3</sup> As it was mentioned before, before 1979 there was not a single criterium for estimating retirement age and years of work.

an inflationary context where fiscal deficit reduction was sought, pensions' real value became instrumental to the adjustment of the fiscal deficit (Saldain 1987).

The financial base of the social security system was also reformed aiming to the reduction of the fiscal burden, the cost of labor and, consequently, the increase of the competitiveness of the external sector. Employer's payroll contributions was reduced and in 1979 the social security reform eliminated almost all direct tax which supplemented the payroll contributions (inheritance tax, high income tax, and others). The dispersion of the employers and workers' contributions was also reduced from 28-29% to 14% (employers) and from 15-16% to 13% (workers) from the payroll (The World Bank 1986).

The social security reform of 1979 was the most serious reform since its inception. Contrarily to what could be expected from a regime labeled as neo-liberal, the reform was closer to the ILO recommendations than to a neo-liberal formula. The structure of the system was simplified, a process of unification was initiated and the administrative fragmentation was severely reduced. Moreover, whether in the past social security was a disarrayed set of programs, laws, decrees and institutions, the reform implied the enactment of a real system of social security.

### 3.2. The Case of Chile<sup>4</sup>. From a Gradual to a Structural Reform

The Chilean social security system had an almost universal coverage (70% in seventies), as well as very liberal mechanisms for the acquisition of benefits, high levels of remuneration for pensioners and very good health services provided to the population. As the Uruguayan social security system it had a fragmented administration and a stratified structure of benefits. After a process of unification started in 1974, in 1981 there were still more than two thousand general laws, three thousand complementary laws, 30 provident funds and 70 welfare services.

In 1952 the system suffered several transformations. The capitalization scheme was replaced by the pay-as-you-go system and readjusting mechanisms of the pensions' value were introduced.

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<sup>4</sup> This section is based on José Pablo Arellano, 1985; Silvia Bortutzky, 1983, 1999; Carmelo Mesa-Lago, 1985.



In 1973 a process of social security reform was launched by the military regime. The reforms were not structural but created the conditions for the major reform that would be undertaken in 1980. In 1974 minimum pensions were equalized. In 1975 all indigent persons older than 65 or indigent persons with disabilities older than 18 became qualified for a pension. In 1975 a gradual reduction on workers and employers contributions was launched. In 1979 the retirement age was raised to 65 for men and 60 for women and a minimum of ten years of contributions was established in order to get the right to retire. At the same time pensions exclusively granted on the bases of years of services were eliminated. "Perseguidoras" or pensions' values raised according to increases in the salaries of the same professional category were eliminated too. Pensions were indexed according to variations on the price index.

The elimination of "perseguidoras", and pensions based on years of service as well as the increase in the age of retirement lead to a 26 percent reduction in the purchasing power of pensions between 1973 and 1982. Population coverage fell from 79 to 62 percent between 1974 and 1980. Although by the seventies the percentage of the GDP devoted to the system reached 17%, financial equilibrium was kept due to the moderation introduced by the reforms. This financial equilibrium achieved at the first stage of the social security reform made it possible to undertake a structural reform by the end of the decade.

Thus, non structural reforms were followed by a major structural reform passed on November 1980 by the Decrees 3.500 and 3.501. The new system (still in place with minor changes) is mandatory for salaried workers and optional for independent workers. It is valid for old age, disability and survival pensions. Military and policemen are not included. The reform affected the pension system in its financial and administrative structure.

Regarding the administrative structure, the main change of the system consists in the creation of Private Pension Fund Managers (Administradoras Privadas de Fondos de Pensión - AFPs). They are profit institutions that charge a commission for their work and compete for attracting workers through competition in the offer of higher interests shields and lower commissions for their potential clientele" (Borzutsky 1999).

The reform eliminated employers' contributions and mandated employees to contribute with 10% of their salary to the individual fund and they have to pay a commission to the chosen

AFP. In order to obtain death or disability compensation workers have to buy a mandatory insurance which costs between 2,7 and 3,5 percent of the worker's salary.

The Chilean pension system reform implied a shift from a defined benefits to a defined contributions scheme. Workers acquire old age pensions rights when they are 65 and 60 years' old (men and women respectively) after a minimum of twenty years of work and contributions. The individual pension fund consists in the cumulated worker's contributions, a state recognition bond<sup>5</sup>, any other transfer from individual savings accounts plus the yields resulting from the AFP's investment policy.

#### **4. How do Policies Change? The Bureaucratic-Authoritarian Regime in Uruguay and Chile: Institutional Features, Economic Policy and the Role of Technocracy**

During the first years of the 1970s the Southern Cone was hit by a series of military coups. In 1973 a coalition of military and civilians in Uruguay and Chile interrupted two of the most longstanding Latin American democracies. Three years later democracy was broken down in Argentina too. The three regimes were a coalition of the military and civilians that perceived the high levels of mobilization of popular sector as a threat to the integrity of the capitalist state. O'Donnell's *Bureaucratic-Authoritarian regimes*' model (applied to the authoritarian government that took power in Argentina and Brazil in the sixties) became popular also for explaining the regimes installed in the seventies in the Southern Cone.

To understand the particularities of pension reforms in Uruguay and Chile, particular features must be analyzed considering three different levels of national characteristics. These national features are: the institutional structure of each regime, their economic policies and the role of technocrats and social security ideas in each country

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<sup>5</sup> The Recognition Bond is an instrument which partially transfers lifelong's worker's contributions from the public system to the individual capital account. This amount yields a 4% yearly fixed return but the total sum is not actually deposited in the individual account.

## 5. Institutional Features and Decision Making Process: Testing the Bureaucrat-Authoritarian Regime Type of Policy Change

### 5.1 The Uruguayan Case. The Regimen "Cívico Militar": A Diffused Structure of Decision Making

Analysts of the Uruguayan dictatorship sustain that the regime had three different moments. The first period, between 1973 and 1976 was called "purely reactionary" (Gillespie 1995)<sup>6</sup>, or "*commissarial dictatorship*" (Gonzalez, L. E. 1991). The second period started in 1976 and ended in 1980 and was called "*foundational essay*" (Gonzalez, L. E. 1991). The third period runs from 1980 until 1985 (inauguration of the newly elected democratic president) and was the *democratic transition* period.

The commissarial dictatorship was a reaction against which was perceived as political instability and the corruption of the political party system. Its orientation responded more to anticommunist features than to a clear foundational project. This period was headed by the democratically elected president Juan María Bordaberry<sup>7</sup>.

The dissolution of the Congress was the first institutional measure launched by President Bordaberry on June 27<sup>th</sup>. A State Council (Consejo de Estado) which was intended as a functional substitute of the Congress was also created but it did not meet until December 1973. The members of the State Council were nominated by the President and the Joint of Commanders in Chief (Junta de Comandantes en Jefe). The Consejo de Estado was composed by 25 members ideologically identified with the regime.

A few weeks later political parties were suspended or interdicted, labor unions were banned, the University of the Republic<sup>8</sup> was intervened, and repressive measures against the opposition such as jail, exile and death were deepened in relation to earlier years.

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<sup>6</sup> There is an English version of this text (Gilliespie 1991).

<sup>7</sup> Neither for the Uruguayan case nor for the Chilean I will refer to the determinants of the coups because this is not the subject matter of this dissertation.

<sup>8</sup> Until 1985 the Universidad de la Republica, a public University, was the only one allowed to offer tertiary education.

By mid 1974 the Cabinet was reorganized and Alejandro Vegh Villegas assumed as Minister of Economics and Finances. This nomination is important because Vegh Villegas was the first neoliberal minister of the regime. In the same period high rank military officers were designated as directors of the Central Bank and the state owned enterprises. While the nomination of a neoliberal as key minister was a signal of a reorientation of the regime's economic policy, the preeminent position of military officers in economic posts constituted a contradiction that would tension economic policy making along the authoritarian regime.

The period ended in June 1976 when Bordaberry was fired by the Junta de Comandantes en Jefe. His separation from the presidency was the result of a debate inside the regime through which "foundational" positions and restorationist positions were confronted.

Foundational positions were expressed by Bordaberry who wanted the instauration of a corporatist regime and, consequently, the abolition of political parties and the creation of a legislative body integrated by the direct representatives of different social interests. The military rejected such a position and on June 12, 1976 they fired Bordaberry. They did not want to assume the historic responsibility of abolishing political parties since they had justified their intervention in politics claiming they wanted to restore "real democracy" (Caetano and Rilla 1996).

It was clear that real power was in the military's hands. Particularly the power was located in the Junta de Comandantes en Jefe integrated by the Commanders of each of the three Arms. Since 1976 the Junta de Comandantes en Jefe was under the control of the Joint of General Officers (Junta de Oficiales Generales), a collegiate body composed by 21 Generals from the three arms (Gilliespie 1995).

Alberto Demichelli was appointed President by the Junta de Comandantes en Jefe the same day the Junta fired Bordaberry. Demichelli started the "foundational essay" by signing two of the first Institutional Acts<sup>9</sup> (Actos Institucionales) the day of his inauguration. The Institutional Acts N° 1 and N° 2 suspended the elections *sine die* and created the Nation's Council (*Consejo de la Nación*) which was integrated by the State Council plus the Junta de Generales en Jefe. Demichelli's presidency did not last: he was fired by the Junta de Generales en Jefe on September

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<sup>9</sup> The Institutional Acts (Actas Institucionales) were decrees with constitutional status that amended the Constitution in everything it was opposed to them.

1, only two months and eighteen days after his inauguration. The reason of Demichelli's dismissal was his opposition to the proscription of most of the Uruguayan politicians for a period of fifteen years. Nevertheless, this measure was accomplished by his successor, Dr. Aparicio Mendez (a lawyer too), who signed the Institutional Acts 3 and 4 consecrating the proscriptions the day he took presidency.

The State Council would be in charge of the "regular legislation" and the Constitutional Assembly (integrated by the Nation's Council and the Executive Power -the president, the Council of Ministers and the Council of National Security<sup>10</sup>) was in charge of enacting constitutional norms.

Long term policy making decisions or strategies were taken in reunions where most of the government officials met for two or three days (in isolated vacation's resorts) in conferences called *Conclaves* by the regime. The military concentrated most of the power but their decision making structure was collegiate rather than individual. Besides each individual member lasted no more than two or three years at the Junta de Comandantes en Jefe and the Junta de Oficiales Generales (Gillespie 1995). Precisely because of the collegiate nature of their decision making structure, the short term of each individual member tenure and jealousies among the three branches of the Army and among individual officials, the military had real difficulties for reaching consensus on several policy areas as well as on the presidential nomination of one of their colleagues<sup>11</sup>.

Since reaching a consensus was a difficult task, there were formal and informal ways of decision making, especially for long term strategies. As it will be illustrated with the case of social security, decision making processes for sectorial policies, followed the "informal", rather the "formal" structure of decision making mirroring the real structure of decision making adopted by the regime. Thus, some key sectorial guidelines were adopted in Conclaves, and analysis and

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<sup>10</sup> The Council of National Security was integrated by representatives of the different repressive bodies of the state like the policy the three military branch and the intelligence corps of these institutions. They represented the institutionalization of the National Security Doctrine.

<sup>11</sup> An example of this assert is that all the Uruguayan authoritarian regime's presidents but the last one were civilians.

specific proposals were taken by collegiate bodies with the participation of civilians and military officers. Final decisions were taken by the State Council or the Nation's Council according to the convenience and the interest of those involved in the phase of analysis and policy proposals's design. In any event decision making processes followed a complex set of steps that involved collegiate bodies of both, military and civilian officers.

The third phase of the dictatorship was the transitional one which began with the rejection through popular referenda of the Constitution proposed by the regime in 1980. Since we are concerned with the social security reform which was approved in 1979 the reasons as well as the consequences and the democratic transition process will not be analyzed here. It is important to note, however, that the submission for popular approval of a new Constitution with strong authoritarian features shows the perception and the self confidence that the regime had about its performance and the degree of popular support. It was in this mood that the social security reform was passed by the regime.

## 5.2 The Chilean Case: Pinochet and the Concentration of Decision Making Power in a Single Man

The Chilean social security reform was approved in a different political context. While in Uruguay a democratically elected president made an alliance with the military for the overthrow of democracy, in Chile a socialist president was killed by the military headed by General Augusto Pinochet who occupied the highest executive position since then.

The structure of the decision-making process was also different in both countries. The government adopted a pattern of policy decision making based upon a division of work inside the Chilean Junta (Barros 1997) integrated by the Commanders of the Army, the Navy, the Air Force and the Police (Carabineros). By Decree Law 527 (June 1974), separation of executive and legislative functions was instituted inside the Junta. Decree-Laws could be enacted only through the unanimity of the Junta members. Legislative functions were carried on by Commissions modeled after the Senate committee system from the 1925 Constitution. Three Legislative Commissions were created. Commission I was handled by the Navy and had legislative attributions on Finance, Economics, Development and Reconstruction, Mining and Foreign Relations. Commission II was under the supervision of the Air Force and had legislative functions

on Education, Labor, and Social Welfare, Education, Public health and Justice. Commission III was directed by the Carabineros and had legislative attributions on Agriculture, Land and Settlement, Public Works, Housing and urbanization and Transportation.

Each Junta member (with the exception of Pinochet) was responsible for a set of legislative areas and had under his command a staff of civilian and military advisers. While the responsibility of each draft was in the hands of a particular Commander, all the Junta Commanders had the right of revising bills from any specific Commission. In addition, "Decree-Laws could be enacted only with the full unanimity of the Junta" (Barros 1997, 3).

Despite this formal structure of decision-making, Pinochet gained total control of the regime's structure of decision making in a sequence of steps. In 1974 a Decree established the Statute of the Government Junta which elevated Pinochet to the role of "primus inter pares" and eliminated the initial rotating structure of power. By the Decree Law 527 Pinochet became president of the Junta and Chief of the nation. Later, the same year, Pinochet was designated president of the Republic. In 1978, when the regime was facing an external crisis of legitimacy, a Plebiscite legitimated the role of Pinochet based on the will of the people<sup>12</sup>, a maneuver that consolidated his personal rule.

#### The 1974 Statute

set aside previous conceptions of a rotating presidency and relative parity among the three major services. [...] Pinochet soon began to ignore other junta members in appointing ministers, ambassadors and other top officials. The junta also began to meet only once or twice a month rather than on a weekly basis; outsiders were brought into the meetings, diluting their significance; and the ministerial councils, through which the navy and the air force had controlled economic and social policy, were dissolved. Taken together these steps established the basis for a more hierarchical and less collegiate decision-making process (Remmer 1989, 157).

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<sup>12</sup> The approved text said: "In the face of the international aggression unleashed against our country, I support President Pinochet in his defense of the dignity of Chile, and I reaffirm the legitimacy of the government of the Republic as a sovereign head of the process of institutionalization of the country". Quoted from Borzutzky (1983).

Later, the creation of the Dirección Nacional de Inteligencia (Intelligence National Bureau - DINA) whose director reported directly to Pinochet provided him with huge capabilities for controlling the citizenry and the Armed Forces.

Increasing control on the Cabinet's personnel was also strategically used by Pinochet who reduced the military participation from 87% in 1973 to less than 30% in 1987. Pinochet isolated the Armed Forces from political responsibilities at the same time that he increased his own personal control on policy making. Pinochet also augmented the number of army generals and his own appointees in other government's areas like public universities, regions and municipalities. Pinochet's personal management of promotions and retirements as well as his ability to distance himself from the military institution and his capability to resist pressures coming from the officer corps increased his personal power (Remmer 1989). Top officials rotation as well as the confrontation that he promoted among different government institutions were also strategies employed by Pinochet to enhance his personal power.

As pointed out by Remmer (1989, 164)

Subsecretaries have served as an additional check on top government officials (...) Active duty army officers, whose careers depend upon Pinochet rather than their supervising ministers, have predominated in the most sensitive and important subsecretarial posts and have provided public administration with an element of continuity not found at the ministerial level.

All of the above mentioned strategies plus the consolidation of the Army over the other forces facilitated Pinochet's control of power.

### 5.3 Testing the Bureaucratic-Authoritarian Regime Type Model of Policy Change

In sum, according to Remmer (1989) the Chilean regime does not fit with the Bureaucratic-Authoritarian regime's "basic operation procedures, patterns of appointment and decision making processes." Based on the preeminence of Pinochet, the regime would be "neopatrimonial" rather than bureaucratic-authoritarian. Remmer perceives correctly that while other BAs regimes like the Uruguayan and the Argentinian were not dominated by a single person, the Chilean was dominated by General Pinochet.



Another difference between the BA and the Chilean authoritarian regimes was that, contrarily to what O'Donnell predicted, this regime did not deepen the industrialization process. Instead, the new regime constituted a new way of capital accumulation based upon the opening of the economy, the deregulation of the markets (goods and services, capital, finance and trade) and the privatization of public enterprises and social services.

An important feature of O'Donnell's theorizing keeps strong. The main difference with former authoritarian governments was the role technocrats played inside the new regime's structures: "As modernization proceeds, more technocratic roles are to be found in more and more activities" (O'Donnell 1979). Increasingly, "técnicos" trained in American Universities are frustrated because in the US they are exposed to a technocratic role model which is difficult to fulfil in Latin America. The gap between role expectations and reality frustrates technocrats who channel this frustration into political action.

## **6. The Economic Policies: Uruguay And Chile: Two Neoliberal Reforms?**

### **6.1 The Uruguayan Case: Export Promotion and Stabilization Strategies**

The main difference between the Uruguayan dictatorship's economic policy and the Chilean one was that the former lacked a clear and defined economic orientation during the whole period. The reasons for what turned out to be an erratic economic policy are several. In the following section I will emphasize the importance of the lack of a technocracy with enough density and power to set clear goals and plans in terms of economic policies. In this section, I will describe the main features of these policies and I will argue that Uruguayan dictatorship's economic policies (and Uruguayan social security authoritarian reform) cannot be labeled strictly as neoliberal, but mostly as a hybrid experiment where neoliberal impulses go back-and-forth and struggle when they meet with a long tradition of statist political culture rooted even in the military force.

The Uruguayan dictatorship's economic policy had three phases. The first one (1973-1974) was extremely erratic although it was thought as a continuation of the controlled economic aperture of the last two years of democratic government. Four Ministers of Economic and Finances and two directors of the Office of Planning and budget were appointed successively

between 1972 and 1974 (Notaro 1991). The only economic team position occupied by the same person during the period was the presidency of the Central Bank, exercised by Gil Díaz, an economist who never graduated from the Universidad de la República.

The second and longest phase (1974-1981) started when Alejandro Vegh Villegas was appointed Minister of Economics and Finances. Vegh Villegas was an engineer who got a PhD of Economics at Harvard University. He worked two years for the Committee for Investments and Economic Development (Comision de Inversiones y Desarrollo Economico - CIDE<sup>13</sup>) and had been an advisor for the Ministry of Finances of the Brazilian Military regime in the late sixties.

Vegh Villegas considered himself to be more liberal than the average CIDE members although he believes CIDE's proposals made public officials sensitive to the need to open the economy to international competence. Vegh<sup>14</sup> identified himself with the economic orientation of Chileans like Sergio de Castro, Fontaine Aldunate and other liberals from the economics school of Chicago but he negotiated his entrance to government on the bases of the policy agreement reached by the CIDE and by the National Plan of Development 1972-1977.

The Plan CIDE and the National Plan of Development had been elaborated under two different democratic regimes and did not contain radical economic measures as the Chilean liberal policies. According to the former Minister, he did not want to process economic measures that could go further than those accorded by the democratic mandate of previous administrations because they would lack legitimacy since the government was a "de facto regime". He supported the need of a gradual process of economic reform rather than a policy of economic shock because

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<sup>13</sup> CIDE was born in 1960 out of the effervescence of the Alliance for Progress sharing its development enthusiasm. The Plan CIDE was also, strongly influenced by the structuralist thought of the Economic Commission for Latin America and the Caribbean (ECLAC). The CIDE was an ad hoc institution dependent on the Executive branch. Its body of researchers was composed by more than 300 professionals from different sectors of the government (including the University of the Republic) temporarily assigned to the CIDE, It was also benefitted by the participation of almost ninety consultants from abroad. The CIDE represented the first (and perhaps the only one) systematic effort undertaken by the Uruguayan state to analyze on a pure technical base its own reality. In 1964 it had completed a diagnosis of the different sectors of the country's economic and social activity. In 1965 CIDE released a report of several thousand pages in which it presented a development plan for the next ten years, a plan of basic structural reforms, a triennial investments plan, and an annual program for its financing (CIDE 1965).

<sup>14</sup> Personal interview conducted on July 1995.

he thought the departure point of the national economy was not as bad as in Chile or even Argentina.

Vegh Villegas admits he did not like the idea of “economic teams”. Besides he recognizes that Uruguay (unlike Chile) did not have enough trained liberal economists who could assume state-bureaucratic responsibilities to implement deeper economic reforms. It is significant to note that while Vegh Villegas was able to negotiate the appointment of the Director of the Office of Budget and Planning, the Ministries of Agriculture, Industry, and the president of the Central Bank, he lacked the power to appoint the President of the Bank of the Republic (Banco República, the bank in charge of financing development projects) because it was in the hands of a military high officer. Vegh Villegas was not interested in privatization of public enterprises because he thought Uruguayan public enterprises worked relatively good<sup>15</sup>. For him, monopolies were the main problem of a liberal economy, not private or public ownership of the enterprises. In Uruguay privatization of public enterprises would only replace public monopolies by foreign private monopolies but this would not face the challenge of free market competence.

In this period two main features characterized the economic policy. The first one was a policy of export promotion and the second component was a gradual set of stabilization measures. While in the past the family basket prices were totally controlled, by 1978 the liberalization process reduced price control and allowed a liberalization of 60%. The ban of labor unions allowed the reduction of real salaries which between 1974 and 1978 fell down 20%. Income distribution also worsened. Both measures were intended as a way of deficit and inflation reduction as well as a mean of reducing production costs and increasing capital savings and investment.

The state's weight on the economy grew up instead of decreasing as it had happened in Chile. Public investment grew at a annual rate of 45% which represented a rate four times higher than the growth of the GDP in the same period. On the other hand a gradual liberalization of financial foreign investments was stimulated through the liberalization of capital fluxes and interest rates as well as the authorization of foreign deposits in Uruguayan banks. (Ramos 1986).

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<sup>15</sup> Most of the references of Vegh Villegas thought were obtained in a personal interview in May 1995.

Inflation control was the main target, and a policy of six month in advance pre-announced exchange rate was the main instrument of this strategy. Export promotion policies through credits was undercut and price liberalization attained a 70% in relation to the prices of the basic family basket.

In 1978 a tariff reduction policy was announced. Tariffs were reduced to a 35% flat rate in a period of five years. A high rate of capital inflow was attained in this phase. The availability of capitals stimulated the internal demand and a strong increase of the external debt. As a consequence the rate of economic growth remained high but stimulated by internal consume, tourism (because of the exchange rate delay in relation to Argentina) and the construction industries, rather than by exports.

In the third phase (1981-1982) there were no major changes but pre-announced devaluations periods became smaller and tariffs began to be reduced. Exchange rate delay and external debt were increased. As a consequence the country lost competitiveness in relation to its bigger commercial partners: Brazil and Argentina.

All these factors together produced a situation in which debtors could no longer face their obligations, banks became insolvent and the Central Bank had to intervene buying some banks loan portfolios. Finally, the Central Bank had to abandon its exchange rate policy and a currency devaluation took place. Exchange rate almost doubled in a crisis that shook the country and is remembered as “la tablita” or “la ruptura de la tablita”, in an allusion to the break down of the fixed pre-announced exchange rate that the government had sustained until then. The aftermath of this crisis signaled the end of the neo-liberal experience under the Uruguayan authoritarian government. It was in 1980 in the apex of what was considered a successful economic experiment that the social security reform took place.

## 6.2 The Chilean Case: from “Undoing Allende” to Policy Shock

According to Vergara (1985), the Chilean regime had three different phases: (a) Ideological non-definition, (b) preeminence of economic neoliberalism, (c) preeminence of global neoliberalism

During the first phase (1973-1975) the regime struggled to define its goals. While one regime's faction simply wanted a cleansing of the former government leftists members, a set back of Allende's main anti-capitalist policies and the rapid restoration of the democratic system, the other faction assumed as a mission the foundation of a new political order. The first faction was called "corporatista" and the second "neoliberal". In this debate Pinochet was aligned with the foundational faction.

The corporatist faction wanted the normalization of the political system including "participation, division of power between branches of government, depersonalized leadership and respect for individual rights" (Borzutzky 1983). At the same time this faction wanted the establishment of a set a corporatist structures of representations to avoid the risk of marxist parties' incorporation.

According to Schamis (1991) economic policies were directed toward reversing the former economic and social policies of the Popular Unity (UP) rather than looking towards a positive economic program of development. The government concentrated its efforts in attacking inflation.

In the same period nationalized enterprises were returned to their former owners and a calendar of privatization of state owned enterprises was established. Value Added Taxes were raised and taxes on capital were reduced as a means of stimulating private investments. Labor unions were banned and collective bargaining prohibited.

Since these gradualist economic policy measures did not attain the expected results (inflation was reduced but was still high, the balance of payment got into a crisis partially as a result of dropping copper prices), in 1975 corporatists began to be displaced and neo-liberals started to consolidate their position inside government. Pinochet, who had tried to appear for a while as being above the ideological conflict, finally based his power on the ideological claims of the neoliberal groups inside and outside government urging for deeper reforms. Neoliberals and Pinochet mutually reinforced their power.

The economic component of this second phase was "launched" with an economic package that contained a policy shock against inflation. This was consolidated with the assumption of Sergio de Castro as Minister of Finances in April 1976.

Reducing the public deficit, increasing tax revenues and tightening monetary policies were the main objectives of the monetary team. Starting in 1976 a "Program for Economic Recovery" was launched. Inflation and the disequilibrium in the balance of payment were the reasons stated for the deepening of the economic strategy initiated in 1976.

While the total liberalization of trade was reached and a stable exchange rate was attained "it was expected that domestic prices would be set by world prices based on the monetary approach of the balance of payments which stipulates that as domestic inflation approaches the international one, the exchange rate could be held constant and price levels could thus be set automatically" (Schamis 1991)

institutionalization of the regime to the institutionalization of his personal leadership<sup>16</sup>.

In 1978 after Pinochet personal triumph in a plebiscite that strengthened his personal power he displaced the opposition from the Armed Forces and consolidated his alliance with the neoliberal team.

The third phase of the regime (1978 -1981) initiated a "libertarian revolution." In this phase neoliberal policies were expanded to the whole system of social relations for the sake of the construction of a self-regulated society in which the market should be the axis of the whole system of economic and social relations (Vergara 1985). A Constitutional reform approved in 1980 was the departure point for this third phase. The new Constitution was a compromise between the different factions in government which strengthened even more the personal leadership of Pinochet.

A program of institutional reforms called "the seven modernizations" characterized the third economic phase. José Piñera, the Ministry of labor appointed in 1979, appears to be the leading ideological figure of this project. He wrote the speech delivered by Pinochet announcing the "modernizations" in September 11, 1979 (Osorio and Cabezas 1995). The "Modernizations" included the reforms of the labor relations, social security, education, health, justice, agriculture, public administration and regionalization of the country.

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<sup>16</sup> In January 1978 Pinochet called for a plebiscite tofor support him as legitimate President, arguing that the country was being attacked by international aggressions.

This set of policy reforms was not only the adjustment of policy sector to a new economic model. It represented the attempt to restructure the relations between economy, society and politics. The social security reform was a key element in this whole restructure. The next section deals with this issue.

## **7. Ideas, Technocrats and the Politics of Social Security**

### **7.1 The Case of Uruguay**

#### **7.1.2 The De Castro Consultancy**

In April 1976 the Ministry of Labor and Social Security received from the United States Agency for International Development (USAID) mission to Uruguay a copy of a study on "Employment, Unemployment and Social Security" (de Castro 1976) The report had been written by the Chilean Economist Sergio de Castro in the framework of a broader project entitled "Studies for Development."

When Sergio de Castro concluded the USAID report on the Uruguayan social security system, he was already the Chilean Ministry of Economic Affairs. His policy recommendations anticipated what in 1980 would be some of the main characteristics of the Chilean Social security reform. The report had two parts. The first one is a description of the Uruguayan social security system and an identification of its main problems. The second one is a set of policy recommendations coherent with the neoliberal orientation of his author.

After his analysis, de Castro concluded that the system should be completely overhauled. Its serious problems made reforming the public pay-as-you-go structure insufficient. A new system had to be created from scratch. The transformation would not only help to save the system but it will make it "a true motor of economic development for the country."

The de Castro report recommended establishing a direct relationship between contributions and benefits, lowering the percentage of contributions on the payroll to avoid evasion, providing a minimum retirement benefit allowing pensioners to maintain their former level of life, and eliminating all privileged retirement schemes.

A mandatory pension system based on individual capitalization with funds administered by private financial institutions was recommended. Administrative institutions were to be organized

as limited liability companies and their Board of Directors was to be elected by contributors. These institutions would be monitored by the state through a superintendence specifically created with this purpose.

Contributions would be 12.5% of the workers' salary and employers' contributions would be eliminated. The financial institution would be responsible for investing the workers' funds in activities giving a minimum real yearly yield of 5%.

The individual pension's amount would be estimated by the individual cumulate savings plus the yields obtained from the investments made by the private financial institution. Retirement age was established in 65 years for men and 60 for women.

Since the transition from one system to the other would take some time and it will be expensive the report proposes to maintain both systems working together. Meanwhile, for keeping the transitional cost to a minimum, several variables from the pay-as-you-go component were adjusted.

### 7.1.3 The Influence of Martí Bufill And The *Asociación Iberoamericana De La Seguridad Social*

None of the recommendations reported by de Castro were followed. Instead the Ibero-American Social Security Organization (Organización Iberoamericana de la Seguridad Social - OISS) and particularly its General Secretary, Carlos Martí Bufill were the main influences for the 1979 Uruguayan social security reform.

Martí Bufill, a Spanish citizen, held the position of General Secretary of the OISS between 1954 and 1992. He was a lawyer, a teacher and a journalist. He was also President of the International Juridical Commission of the International Social Security Association and a member of its Directive Board. Besides being OISS General Secretary Martí Bufill was Editor in Chief of the *Revista de Seguridad Social Iberoamericana* as well as of the *Revista Iberoamericana de la Seguridad Social*. He was also Chair and professor at the International Center for Technical Training in Madrid and University Professor in Perú and Spain. In his country Martí Bufill was part of the Board of Directors of the National Institute of Social Security and held, at the same institution, several representative positions. At OISS he was the editor of its most important documents, among which the "Model of Participated Social Security". This key document



constituted a preview of former OISS declarations and would eventually become a model for Uruguayan social security reform of 1979.

During the seventies Martí Bufill visited Uruguay several times in official missions invited by the Ministry of Labor José Etcheverry Stirling<sup>17</sup>. At the same time the Uruguayan Ministry participated in several international conferences organized by the OISS. Etcheverry Stirling also held the Presidency and the Vice Presidency of some OISS Congresses.

The Chart of the OISS (OISS s/f) establishes that governments of the Iberoamerican countries, social security organizations managing social security funds and institutions managing complementary social security funds could be full members of the OISS<sup>18</sup>.

Cooperation and technical assistance to governments and social security institutions are among the functions of the General Secretary. As OISS General Secretary Martí Bufill participated in several advisory missions to the Uruguayan government on issues related to the social security reform of the seventies.

During the fifties the OISS encouraged governments and social security officials to relate social security with economic growth, to preserve the financial stability of the pension systems keeping a minimum of capital cumulation in the pension funds, to search for safe investment policies that could promote national development, and to keep pensions' real value according to economic growth.

Influence from development ideology was also noticeable in the OISS: the Organization supported the idea that economic development must lead to social development and that social security is an instrument for income redistribution. Accordingly, social security must be expanded to the whole population, investment policies must be in function of social wealth and the state must coordinate the management of the social security systems.

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<sup>17</sup> Interview with former Uruguayan Ministry of Labor, Dr. José Etcheverry Stirling.

<sup>18</sup> Congress resolutions are adopted having into consideration each country's numbers of votes. The maximum number of votes is three. Congress resolutions are not mandatory for any country until recognized by the country's political institutions.

According to Martí Buffill (1974b) social security is a right and a public service which should be provided by state policies. It is also an income distribution policy and an integral part of development. Interestingly it is also a discipline for the law sciences.

In the VI Congress (1976) the OISS launched what they called the New Model of Participated Social Security (Nuevo Modelo de Seguridad Social Participada). This proposal was elaborated as an intellectual framework for a National Social Security System to be created in the Ibero-American countries. The New Model integrated into a single structure principles previously approved by OISS Congresses and new ideas. This structure could be transformed and incorporated into a legal framework.

The New model established eight principles: 1. Universality: social security is a citizenship's right; 2. Integration and sufficiency: social security must satisfy the real needs of individuals and families; 3. Solidarity: social security must be redistributive; 4. Unity: any entity that provides social security benefits must be integrated into a single system; 5. Participation: social security beneficiaries must participate in the management of the system; 6. Subsidiarity of the state: the state must create mechanisms of compensation towards the weaker sectors of the population; 7. Institutional pluralism: the system must promote the institutional specialization; 8. National planning: the state must integrate social security among its planning priorities.

The main institutional features of the 1979 Uruguayan social security reform were already sketched. Let's go now to its main proclaimed principles:

1) Fair and equalitarian treatment for all contributors and beneficiaries of the public system, 2) Universal coverage, 3) Integral coverage of risks, 4) Financing through the contribution of employers, employees and the state, 5) Uniformity in administration, benefits and financing. The bases of the reform project stated that: "the social security system is based on a redistributive principle, in the principle of the solidarity of the social body and works on a pay-as-you-go basis." Finally, in its article No 3 the Institutional Act 9 established the principle of sufficiency. This principle means all individuals will have adequate coverage to satisfy their real needs in a rational and proportionate way, according to the economic possibilities of the country.

Behind these principles laid the philosophy of a system of social security close to the one proclaimed by the OISS and its General Secretary Martí Buffill. It is important to note how much

the Ministry of Labor Social Security defended the principles of the reform based on the OISS declarations as well as in Martí Bufill words. In a speech that the Ministry Etcheverry Stirling delivered at the Asociación de Dirigentes de Marketing del Uruguay (Marketing Managers Association from Uruguay) the Minister repeated the principles defended by OISS in its 1972 declaration: equality and fair treatment for beneficiaries and contributors, integrity in coverage for all risks, tripartite financing and uniformity in financing, benefits and administration. The Minister also quoted Martí Bufill saying that "Social policy establishes for the institute (of social security) urgent objectives of agility, efficiency and humanization." In 1979 a few months before the Uruguayan reform was approved, Etcheverry Stirling delivered a speech at the Permanent Comity and Directive Commission of the OISS where he stated:

Because in Uruguay, in certain way, a participated scheme of social security does exist, we adhere to the proposed model as long as the state, as the organic and political expression of the community, safeguards its power to delineate the general lines for social policies through the promotion of concrete projects of social welfare for its citizens (...) The document presented by Martí Bufill (the New Model of Participated Social Security) is a paramount event in the historical development of the Ibero-American social security (Etcheverry Stirling 1979).

According to José Etcheverry Stirling:

the individual right to be assisted in old age becomes a social right, not because of the individual but for the fact that this right is a duty that the society as a whole has taken over its own responsibility. What has to be taken into account it is not the individual but the "common good." Solidarity justifies income redistribution (...) To think that who contributes has to receive a proportional benefit, would mean that social security is a private commercial insurance and would imply that commutative justice provides meaning to its norms<sup>19</sup>.

Martins (1980) points out that the social security reform went further in its principles than the actual or juridical reality. According to Martins while the Acto N° 9 proclaimed the principles

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<sup>19</sup> Speech delivered by the Uruguayan Ministry of Labor at the Marketing Directors Association (Asociacion de Dirigentes de Marketing), September 9, 1976.

of Universality, Integrality, Solidarity, Unity and Sufficiency, and Participation none of these principles could be accomplished by the actual reform.

In any event, the reform consecrated the principles claimed by the OISS and not those provided by the neoliberal philosophy of the de Castro report. The Uruguayan reform kept the public pay-as-you-go financial structure of the system unchanged although the decision makers were aware of a market alternative to the current system. The different philosophy of both proposals as well as its practical consequences are huge and the claims made by Martins should not obscure them.

## **8. The Actors And The Decision-making Process**

### **8.1 Etcheverry Stirling Vs. The State Council: The Redistributive Against The Corporatist Logic. The Failure of The First Attempt to Reform The Pension System**

The key figure of the 1979 Uruguayan social security reform was the Minister of Labor and Social Security, Dr. José Etcheverry Stirling, a lawyer with a degree from the Universidad de la Republica, the oldest, public, most prestigious (and at that time the only), university in the country. He had a long experience in policy making and government<sup>20</sup>. He also practiced private law and was a high school teacher of literature. In 1966 elections the Blanco Party was defeated by the Colorado Party and President General Gestido took office in March 1967. One year after inauguration day President Gestido died and his Vice-President, Jorge Pacheco Areco, took office. Pacheco Areco did not immediately replace the cabinet but he organized a parallel body of experts to give him policy advice in different areas. Etcheverry Stirling was a member of this group of experts from July 1968 until July 1969. After the President elected a new Cabinet the advising body ceased functions and Etcheverry was dismissed although he continued being an advisor for the new Office of Planing and Budget. He was also, first a member and then, the President of the Commission for the Regulation of Prices and Salaries (Precios Ingresos y Salarios - COPRIN)<sup>21</sup> under Pacheco Areco's presidency.

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<sup>20</sup> Personal Interview.

<sup>21</sup> COPRIN was an organism responsible for advising on wages and prices for labor and capital, administering wage and price regulations, and processing demands for wages and prices increase. It was a

When Juan María Bordaberry took office in March 1972, Etcheverry Stirling was appointed Vice-Minister of Labor and Social Security and by July 1974 he was appointed Minister of Labor and Social Security.

According to the 1972 - 1977 National Plan of Development, social security reform was a top priority. The military regime celebrated three important meetings for the establishment of an economic policy strategy<sup>22</sup>. The Conclave of Colonia Suiza was the first one and was held less than three months after the coup (October 7, 1973). Participants at this meeting were the president, all ministers, the director of the Budget and Planning Office (OPP), the vice-president of the Central Bank, the president of the State Bank (Banco de la República), the Commander in Chief of the three Arms, and the Chief of the Joint State Command Estado Mayor Conjunto, a force that combined the three branches of the Army plus the police). In this meeting, the government established the principles and the guidelines for the "reorganization of the social security system." The main principle was that:

...the state will guarantee the right to social security for all inhabitants of the Republic. Under this main principle social security will have these main features: (a) equality in treatment, (b) universality of coverage, (c) integrality on the risks covered, (d) contributions from the state, employer and employee and, (e) administrative uniformity under state control (Conclave de Colonia Suiza 1973).

Guidelines for the social security reform were contained in seventeen points. Eight of them related to the pension system and the rest to other social security programs. The guidelines for pension system and social security system reforms established rationalization principles for the structure of benefits and administration. The Ministry of Labor and Social Security was appointed as responsible for the coordination of a commission in charge of reforming the system. The BPS and the Central Council for Family Allowances (Consejo Central de Asignaciones Familiares)

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corporatist body with representatives from the workers (two members), entrepreneurs (two members) and the government (five representatives).

<sup>22</sup> These meetings were named after the locations where they were held. These events took place outside Montevideo in secluded places and they were extremely important for the establishment of the authoritarian regime main policy guidelines.

became responsible for the design of a set of drafts and preliminary legal sketches for the general reform of the social security system. The deadline for preparing the reform draft was established in 90 days.

Three years after the *Conclave de Colonia Suiza* took place, the government had to recognize that a reform of the whole social security system could not be done in 90 days. The resistance to the project as well as the lack of technical capabilities of the government pushed it to adopt a “building block” strategy for social security reform. Nevertheless the reform met several obstacles.

The first step of this “building block strategy” was the reform of the pension system. In April 1976, the Executive branch introduced to the State Council (Consejo de Estado) a pension system bill. In the considerations of the draft the government acknowledged some obstacles:

It is not feasible nor materially possible, to give a total solution to the different complex problems that a integral social security reform faces. In order to accomplish this goal the country does not count with enough human, material and financial resources (Poder Ejecutivo 1976).

The project limited anticipated retirement, unified the retirement age and raised it to fifty-five years for women and sixty years for men. It also reviewed the different requirements for retirement and limited special and privileged retirement regimes; it unified and rationalized replacement rates; it established pension ceilings and limited the accumulation of different pensions and even set limits for the accumulation of pensions and other sources of income to save money and redistribute it to low income pensioners.

Although the project did not amend the organic structure of the pension system it proposed a general regime for the pension schemes administered by the BPS and the independent funds (notaries, university professional and banking employees). However it did not include military and policemen funds.

The State Council begun discussing the draft in March 1977 and its Labor and Social Security Comity considered it in April. The State Council was mainly a façade institution that rarely took any independent decision. Its function was merely to legitimize the Executive Branch's decisions.

The Ministry of Labor and Social Security presented and explained the draft of the new pension plan in the State Council's Social Security Committee. At the same time the government initiated a public campaign to promote the law. An important feature of the social security policy making process was that while most of the times policy decision making was undertaken in secrecy or without public consultancy, this was a relatively open and debated process.

The public campaign for the pension system reform was mainly conducted by Etcheverry Stirling. Between March 1976 and November 1977 Etcheverry Stirling gave press conferences and was frequently interviewed by the media. He also made public presentations defending the project before several organizations from the civil society and state institutions<sup>23</sup>. The project was promoted also in several international meetings from the Ibero-American Social Security Association (OISS) and the Social Security International Organization.

The campaign ended by the end of 1977 when it was obvious that the project was in a dead end. Until 1978 the pension system reform was no more in the public agenda.

The State Council resisted the draft for two main reasons. The first one was the ceiling imposed on pensions value. According to the project, a pensioner could not receive a pension higher than the salary of a state Minister. If the pensioner had any other income source which added to the pension's value represented more than a Minister's salary a portion of the pension had to be deducted until the accumulated income equals the Minister's salary.

The second reason for the state council resistance was the inclusion of independent pensions funds under a general regulatory regime. The Labor and Social Security Committee strongly resisted equal treatment for funds administered by the BPS and for independent funds for notaries, university professionals and bank employees. The organic structure of independent funds was not affected by the project but the proposed general regulatory framework established similar treatment for all categories of workers on retirement age, conditions for retirement, replacement rates, etc. State Council members were mainly university professional and they corporatively resisted to be treated like any other category of workers.

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<sup>23</sup> Some of these organizations included the Montevideo Rotary Club, the National Academy of Economy, the Spanish and the American clubs, the Marketing Managers Association, the Civil Service Office, etc.

Actually, State Council was resisting redistributive principles of the reform and the attack on their own privileges since most of them were university professionals or public notaries (which is also a university profession) in Uruguay.

## 8.2 The *Conclave De Solis* And The Reform of Social Security: The Acto Institucional Number 9 (1979)

The second “cónclave”, the *Cónclave de Solis* (Conclave de Solis 1978) was held in 1978 in the seaside resort of Solís. The “Conclave” adopted a resolution reinforcing the social security decisions taken in the former *Conclave of Colonia Suiza* (Resolution No. 7). This resolution backed Etcheverry Stirling’s positions and actions on social security reform. A group headed by Minister Etcheverry Stirling was created to carry on the measures emanated from this meeting.

The group worked within the framework of previous resolutions adopted by the Colonia Suiza and Solis Cónclaves, resolutions adopted by other Cónclaves and a document where the President supported the Cónclaves’ principles. Actually, the paper by the President was a clear indication that the reform should continue without the interference of the State Council. The failure of the pensions’ system reform indicated that all the power of the reformist coalition had to be reinforced and new institutional roads had to be seek in order to have the draft approved.

On May 1978, a special meeting of this group on social security reform was held<sup>24</sup>. The meeting was attended by the Ministries of Economy and Finances, Labor and Social Security, Health, Justice, Education and Culture, the Chief of *Estado Mayor Conjunto*, a representative from the State Council and two representatives from SEPLACODI (Secretaría de Planeamiento y Difusión), a surrogate of the Office of Planing and Budget created by the Constitution in 1966. Later the group added a representative from the Universidad de la República, and another from the Central Council of Family Allowances program.

In terms of professional affiliation the working group was integrated by three military officers, seven lawyers, six accountants, two physicians, one engineer, and three employees from

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<sup>24</sup> The following information was obtained from a document elaborated by the Ministry of Labor and Social Security, Dr. Etcheverry Stirling. The document was the speech Dr. Etcheverry Stirling gave to the President and the Commanders in Chief presenting the results of the social security working group once it had concluded its task.



social security institutions. Besides these twenty two members, representatives from ten different social security institutions participated in meetings that directly involved their institutions. The work lasted seven months and the working group had 34 plenary sessions along 140 hours of work. Besides, the working group conformed 14 study commissions that met for a total of 168 hours.

Unlike Chile's case, there were no economists (although accountants acted as such) in the social security team that reformed the Uruguayan social security system in 1979. Most of the team members were lawyers and bureaucrats from the system. The team did not have a neo-liberal agenda for social security reform since the government's economic team was heterogeneous in its approach to economic policy making. The tasks that the team undertook were mainly administrative rather than financial or even actuarial. The weight that the team gave to rationalization, consideration on rights and re-conceptualization of social security in the framework of a pay-as-you-go system evidences this assertion.

The group focused in three main tasks:

1. Revision of the regulating laws establishing rights and obligations for the social security affiliates and rationalization;
2. Simplification and systematization of the structures that provides the different social security benefits;
3. Design of the organic structure of the system, and;
4. Determination of the financial regime.

After seven months of work the working groups produced the following documents:

- a) A report about the organic structure of the social security: a critical analysis of its current structure and the proposal for a new one;
- b) A financial report on the social security system and;
- c) Five law projects: 1) Basic norms for a new system; 2) Norms for the family allowances program; 3) Norms for the sickness and work injuries program; 4) Norms for unemployment benefits; 5) Norms for the pension system.

The proposal was presented to the president and the Commanders in Chief on March 21 1979. In general terms the different projects were accepted and the last step would be the approval by an institution that could give it law status. Given the previous resistance showed by the State Council to the reform, the president decided to make it approved by the Nation's Council under the form of a Institutional Act. This maneuver would safeguard the approval of the

draft and would provide it constitutional strength<sup>25</sup>. The Acto Institucional N° 9, consecrated the first deep reform of the Uruguayan social security system since its inception, was approved by the Nation's Council on October 23, 1979.

## 9. The Case of Chile<sup>26</sup>

### 9.1. Ideas and Institutions: the Two Social Security Reform Projects: *Superintendencia De La Seguridad Social* and *Oficina De La Planificacion Nacional*

In terms of social security reform the 1980 neoliberal project was not the first one that the regime elaborated. The authoritarian regime proceeded, immediately after taking power to ask the Social Security Superintendence for a social security diagnosis. The report was presented to the government in November, 1973. It pointed out to the “well known problems of high costs, inequality of benefits and contributions, and chaotic administration” (Borzutzky 1983). After the evaluation made by the Superintendence, the government asked the National Planning Office (ODEPLAN) and the Social Security Superintendence itself to present two social security reform proposals.

ODEPLAN (like its homologous in Uruguay, the Office of Budget and Planning OPP) was an institutions dependent of the Presidency but, at its beginning, with less competence that it was expected. (Montecinos 1988). ODEPLAN policy making responsibilities increased since its inception under the Christian Democrat government. Under the Popular Unit (Unidad Popular) government ODEPLAN's directors received the status of state Ministers.

ODEPLAN was seen by the military as a source of leftist power embedded in a communist planning ideology but soon they realized that the institution could serve their own objectives. Headed by a retired military officer, between 1973 and 1979 ODEPLAN initiated a recruitment process among advanced neoliberal students of economics from the Universidad Católica. Miguel Kast who had an undergraduate degree in Economics from the Universidad Católica and a degree from the Department of Economics at the University of Chicago was one of these young

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<sup>25</sup> Personal interview to Dr. Etcheverry Stirling.

<sup>26</sup> The section about social security reform in Chile is entirely based upon the only existing deep political analysis of the Chilean social security reform written by Sylvia Borzutzki in 1983..

recruited. He rapidly escalated positions in the decision making structures of the government and as an ODEPLAN representative Kast was appointed technical secretary of the social Ministries. Later he became national Deputy Director of ODEPLAN and in 1979, Minister-Director of ODEPLAN. Kast was responsible for the appointment of several members of his Chicago trained economists network. Key economic positions were filled with his nominees.

ODEPLAN and the Superintendencia presented their social security diagnosis and reform proposals in April 1974. Their recommendations were not only completely different but opposite. While the Superintendencia proposed a state owned and administered system whose major aim would be the rationalization of the system, ODEPLAN set the blueprint for a private owned and administered system. After reviewing both proposals the Council of Ministers in charge of the social areas demanded ODEPLAN and the Superintendencia to integrate both proposals into a single one. The integrated proposal was released by August 1974 and was a mix of individual capitalization with state administration. The proposal was called "Anteproyecto del Estatuto Fundamental de Principios y Bases del Sistema de Seguridad Social."

The Anteproyecto was made public on November 1975 and submitted to the consideration of labor and interest groups as well as to labor law specialists (Borzutzky 1983). Criticisms were heard from all the interests' groups to which the Anteproyecto had been sent. Critics blamed the project for having financial rather than social concerns. Criticisms were also "centered around the nature and management of the Corporations, the nature of the individual capital accounts, and the elimination of pensions based on years of service" (Borzutzky 1985). Fears were also expressed about investment policies risks as well as for the future yields of the individual capital accounts.

After four months of public discussion the Anteproyecto was retired from public debate but went on under strong controversy inside the government. This controversy was an expression of the major differences about economic policy making that divided the government in the seventies and that ended up with the failure of the corporatist fraction and the triumph of the neo-liberals.

The mixed nature of the Anteproyecto mirrored the contradictions inside the regime. While ODEPLAN was in the hands of the ascendent neoliberal team, the Superintendencia was directed by the corporatists. Evidence of these contradictions are found in documents issued by the Junta de Gobierno which had announced as early as September 11, 1974 that the new pension

system would be framed on the principles of individual capitalization. In further declarations, Pinochet first and the Minister of Labor later, stated the same principles for the reorganization of the pension system (September 11, 1975 and May 1<sup>st</sup> 1976 respectively).

The differences were not only expressed by institutions like ODEPLAN and the Superintendence but by individuals in the Junta de Gobierno. General Leigh, Commander Merino and General Mendoza, the Commander in Chief of the Police argued against the individual pension accounts because the envisaged system would not benefit the workers but the financial institutions. They also considered that the system of individual insurance would only serve “to create a new center of economic power” and that there was a risk that different economic and financial situations would yield negative interest rates (Borzutzky 1985)

#### 9.2 Actors And Decision-making Process: Pinera, Kastz, De Castro And The “Chicago Boys”: The Structural Reform of The Social Security System

The end of the public debate, the replacement of the Ministry of Labor (Valenzuela) and the neoliberal economist Ricardo Schmidt at the direction of the Superintendence were expressions of the increasing power of neoliberal economists and the decline of the influence of corporatists and the old cadres of social security experts in the administration of the social security system. These changes implied also a decline of the Superintendence power in the definition of social security legislation. They implied also a loss of autonomy of social security as a sectorial policy in favor of highly structured and coordinated macro economic policy dominated by the economic Ministries (Economy and Finances) which in turn had a clear neoliberal orientation.

Changes at the level of the structure of economic decision making started with the replacement of Fernando Léniz by Sergio de Castro in the Ministry of Economy and later by the designation of de Castro as Ministry of Finances and his own replacement in the Ministry of Economy by Pedro Baraona. Sergio de Castro, Pedro Baraona and Alvaro Bardón heading the Central Bank acted as the “organic intellectuals” of the neoliberal revolution. Sergio de Castro was the leading figure of this revolution.

Sergio de Castro was one of the first and main products of the relations established between the Department of Economics of the University of Chicago and the Universidad Católica.

Sergio de Castro and other professionals<sup>27</sup> had been responsible for the elaboration of an alternative economic plan to the Allende government. The plan was called “el ladrillo” (the brick) and was elaborated between mid 1972 and mid 1973, having in mind the overthrow of the UP Government.

In 1978 Sergio Piñera was appointed Minister of Labor to cope with the threat of an international workers’ blockage declared by the American Labor Unions AFL-CIO. Piñera graduated as a Commercial Engineer from the Universidad Católica in 1971 and then he went to Harvard where he got a PhD in Economics in 1974. The same year he came back to Chile and before being appointed Minister Piñera worked for the UNDP, as an University Professor at the Universidad Católica and later as an economic expert for an economic conglomerate.

As Minister of Labor Piñera would undertake some of the most enduring social transformations carried out by the authoritarian regime. According to the Journal *El Cronista* (Bortuzki 1983) the Minister came to power “with a set of clear and explicit tasks: a) to coordinate the labor and economic sectors of the government; b) to institutionalize a new system of labor relations, creating a free and depoliticized labor organization; and c) to reform the social security system.”

In order to accomplish his tasks, that would materialize in a labor law reform (Plan Laboral) the first task was the liberalization of the labor relations. Soon after the Plan Laboral was approved, Piñera undertook the reform of the social security system.

To work towards the social security reform the Minister nominated a special Commission headed by Miguel Kast. Kast was able in this opportunity to promote ODEPLAN ideas and the blueprint of the reform was taken from its former proposal. An important addition was the elimination of employers’ taxes. Piñera added to the project the some ideas which would eventually become law. Among these ideas Borzutzki points out to the creation of private administrators of pension funds, the establishment of regulatory mechanism to ensure fair competitiveness among these private companies and the establishment of a minimum pension to allow low income persons to benefit from the new system.

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<sup>27</sup> Emilio Sanfuentes, Manuel Cruzat, Sergio Undurraga, Juan Brown, Rodrigo Mujica, Juan Carlos Méndez, Juan Villarzú, José Zabala, Andrés Sanfuentes, José Luis Federici, Ernesto Silva, Enrique Tassara, Julio Vildósola and Jaime Guzman were members of this team.

According to Piñera, approving the social security reform was a very difficult task because of the resistence of the military, the old social security experts and administrators, the labor unions and the corporatist, traditional right. Piñera points out that the approval of the “Plan Laboral” taught him about the intricacies of the decision making process. Working on the Labor Plan gave him the clues of the decision making process and allowed him to know the persons, institutions and practices that could either block or facilitate the approval of new pieces of legislation (Piñera 1991). Actually, what he is implying is that policy learning could be transferred from one policy sector to another and that the decision making logic is alike in different policy sectors.

The reform process had two periods, the first one went from Piñera’s appointment to the 1980 referendum, and the second one from the referendum to the approval of the Decree-Law 3.500. The whole process undertaken by Piñera and his team took fifteen months. The Minister did not depart from zero. As it was pointed out the Anteproyecto and the accumulated experience of the Plan Laboral paved the way for the final social security reform.

The draft did not follow the formal rules of policy decision making. Instead it was discussed and adjusted in several meetings between Piñera and his team with General Pinochet. Once Piñera perceived that Pinochet did not like the mandatory character of the reform he decided to give free choice of going between the old and the new system. The draft was presented to the Junta on April 16, 1980 and only one month later, on May 16, to the Legislative Commission headed by the Air Force Colonel Arturo Varela who had participated in the approval of the *Plan Laboral*.

Before that, in a working breakfast between Pinochet and labor union leaders, Piñera presented the outline of the reform proposal. Furthermore, the ideas and details of the draft had been presented by Piñera personally and individually to each one of the Junta members in several personal meetings before the formal presentation to the Legislative Commission (Piñera 1991).

1980 was a key year for the military. The Chilean government felt the international pressure and most of the policy initiatives had to be stopped in order to concentrate in the political goal of winning the 1980 referendum in order to achieve the legitimacy that the international arena was withholding to him. Therefore, “modernizations” such as social security reform had to be put on hold until a new legitimacy would be achieved. Actually, it looks clear the

final steps to the modernization were in need of solid support. Pinochet needed the reforms as a way of getting support for himself. In this sense he needed the “Chicago boys” as well as they needed him. But Pinochet did not want to take risks. The defeat or the triumph of the new constitution would imply the same destiny for the reformist coalition.

On September 11, 1980 the citizenry was convoked to the referendum and in a contested electoral process the government obtained the approval for its constitutional project (65.71% against 30.19%). Both the Armed Forces and the neo-liberal economists that worked inside the government felt that the victory implied both a support for the institutionalization of the regime and for its neo-liberal policies and technocrats.

Once the Plebiscite was won the Ministry knew his time had arrived. The social security reform was approved in November 1980 by the Junta and in the same session it was decided that the reform would be announced to the public on May 1 1981 (Piñera 1991).

Neo-liberal ideas on social security had found a window of opportunity when an anti-politicians coalition had been conformed and a neo-patrimonial way of rule was achieved. On the one hand traditional politicians were rejected by both the Military and the neo-liberal technocrats. According to the Military, politicians had conducted the nation to a point of political and social decomposition. They allowed corruption and socialism to get into power. For neo-liberals populist policies and politicians were against a scientific and rational style of policy making.

Neo-liberal policies, however, could not be achieved negotiating with the Armed Forces as a whole. The Armed forces constituted a part of the state and they were afraid of a smaller state because they understood a state like that could only be less powerful, something any Armed Force could not see sympathetically. In this space in which contradictory as well as convergent forces met, Pinochet’s need for legitimation emerged producing an encounter between the Prussian hierarchical structure of the Army and the new neo-liberal ideas.

## **10. Conclusions**

### **10.1 The Politics of Social Security**

As it has been shown, the Chilean and the Uruguayan social security system faced similar challenges. In terms of the administrative format the Chilean system was in worst shape than the Uruguayan. However, long term trend variables such as the demographic structure created higher

structural challenges to the Uruguayan system than to its Chilean counterpart. In any event both systems represented a heavy burden for the economy and for the stabilization of the economy.

The reform implied a reduction of the cost of labor and an eventual development of the long term capital market. On the other hand the transition from a pay-as-you-go to a capitalization system meant a long term increase of fiscal expenditures. The Uruguayan choice was to rationalize the pay-as-you-go system adjusting the expenditure levels and employing a discretionary indexation system which at the very end would imply a reduction of expenditures.

Both reforms were framed by opposite interpretations about the role of the social security system. While for the emerging Chilean new intellectual elites, social security did not imply neither solidarity nor distribution (Piñera 1991) for the Uruguayan in charge of the reform (even for the so-called neo-liberal) solidarity was a central idea to the process.

According to Piñera a social security system must establish a strict relationship between contributions and benefits. Otherwise individual responsibilities and duties will run separately. A social security system based on the idea of solidarity will inevitably conspire against human nature because solidarity intends to equalize human beings that are essentially different. At the very end this system will make individuals to avoid equalization eroding the basis of the whole system (Piñera 1991).

On the other hand the Uruguayan reform was framed in the ideas of equality, universality of coverage, solidarity, integrality on the risks covered, contributions from the state, employer and employee and administrative uniformity under state control. According to José Etcheverry Stirling "solidarity justifies income redistribution"<sup>28</sup>.

These statements highlight the different meanings that social security had for those policy makers involved in the Chilean and Uruguayan reforms. What I am saying is that structural variables constitute the frame in which policy choices are made but they are not explanatory variables which could show us *per se* the connection among events or the meaning of choices. A perspective that does not take into account subjective and non-structural variables leaves aside other variables that are at the core of policy changes. Elites' perception about the structures that

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<sup>28</sup> Speech delivered by the Uruguayan Ministry of Labor at the Marketing Managers Association (Asociacion de Dirigentes de Marketing), September 9, 1976.



impede or create the opportunities for policy change is an intervening variable between "objective conditions" (Best 1989) that promotes the policy change and the change itself. Structural variables like deficit of the system, demographic structure, conditionalities or administrative irrationalities, do not necessarily and automatically imply changes in policy outputs neither do they explain particular policy choices. Changes as well as choices are mediated by ideas, creativity and political power.

### 10.2 The Emergence of Economists as Policy Makers And Advisers

In Chile, since the thirties, a double process occurred: the consolidation of a highly sophisticated network of economists from different schools of thought and the decline of lawyers as policy makers. Starting by mid-fifties liberal economists became stronger and economics had displaced the supremacy of law and lawyers in policy making (Montecinos 1988). Economists and lawyers have different ways of perceiving the reality and to "construct it". As in Chile, Uruguayan lawyers were "trained in the tradition of state intervention". On the other hand liberal economists believe in the self-regulatory power of the market. Thus, while for liberal economists economic problems have to be confronted with the retreat of the state from the economic arena for lawyers, the state is responsible for economic regulation.

This was not the case in Uruguay, unless until the 90s'. Besides, since the 50s' the Universidad Católica de Chile had a agreement with the Department of Economics at the University of Chicago (Montecinos 1988, Vergara 1985, Fontaine Aldunate 1988, Valdez 1989). During almost two decades several generations of young Chilean economists from the Universidad Católica graduated from the University of Chicago where they were trained in the neo-classical tradition of the Department of Economics. The Universidad Católica and its Department of Economics became a think-tank of neoliberal thought. Such connexion did not exist in Uruguay because the University system consisted in a single public University and its economics department adhered to Keynesian ideas adapted by the Economic Commission for Latin America and the Caribbean (ECLAC) to the Latin American reality. In Uruguay there was not a network of economists with enough power to displace lawyers from key policy-making positions as in Chile.

The institutionalization of economics as an independent discipline and as a research field took longer and started earlier in Chile than in Uruguay. In Uruguay the Department of Economics was founded in 1931 but its presence was not strong since the Department was not independent and belonged to the School of Law. It was not until 1952, when the Economics Institute was founded, that the training of researchers began and it was not until 1958 that the Economics Institute began doing research. Until 1954 the Degree offered by the Department did not differentiate between the economist and accountant professions. As a requirement to obtain the degree in Economics students had to approve a “research seminar”. Only in 1954 when the first research institutes were created research on Economics began its development at the university level. Six research Institutes were created at that time: Monetary Economics, Banking Economics, National Rents (Renta Nacional) and the Statistics Institute. At the beginning of the sixties the Economics Institute had nine researchers and it was able to absorb students trained in the Institute. By this time an agreement with ECLAC allowed the Institute to start teaching courses on Development which were taught by professors from the Latin American Planning Institute (ILPES). The Program: *Intensive Courses on Economic Development Problems* (“Cursos intensivos de capacitación en problemas de desarrollo económico”) were directed to high rank officials from the public administration and managers from the private sector. This program was encouraged by ECLAC in all Latin American countries and was offered in Uruguay in 1960, 1962, 1963, 1965 - 1967 (Barbato 1986). Given the fragility of the economic discipline the influence of ECLAC and its structuralist thought was very strong in Uruguay. Heavy linkages were created with ECLAC and in 1969 when the Economics Department had 54 graduates, 16 of them had received graduate training abroad and 6 of them had been trained in Chile.

Meanwhile in 1969 the Universidad de Chile and the Universidad Católica had almost 500 graduates with a degree in Economics, ten times that of Uruguay. The school of Commerce and Economics was founded at the Universidad de Chile in 1935. By the mid-fifties both Universities had a very different approach regarding how an economist should be trained. At the Universidad Católica economic students were trained mainly in the framework of neo-classical economics. Its approach was more concerned with theory and the construction of “scientific models” rather than with empirical problems of the Chilean or regional economy. On the other hand at the Universidad de Chile the training was more empirically oriented and provided a broader knowledge of politics

The Development Plan 1973 -1977 was more market oriented than its predecessor, the Plan CIDE, but in any event it was more a continuation than a rupture with the past. And as it was shown economic policy making was framed in its guidelines.

While it looks clear that since the breakdown of democracy a competition between “corporatist” and “orthodox” economic policy makers was established among Chilean elites, the ideological and power conflict was won by orthodox economists trained in Chicago. In Uruguay such a dispute never existed. The Plan CIDE and its successor, the Development Plan of 1973-1977, did not contain a clear neoliberal ideology. There was not a team of neo-liberal economists ready to take over the centers of economic decision making. And, when some economic personnel with an economic approach similar to its Chilean counterpart took office they did not have enough power to impose their ideas on the military who had hired them.

Ideas are important but to materialize they need to be embodied in groups inside or outside the state apparatus. Both in Uruguay and Chile the dictatorship limited the inclusion of civil society claims. The power fights, or politics, took place mainly inside the state. It seems clear that in the Chilean case the neoliberal team got into power with certain difficulties. The “old right” had power and was the leading force behind the Popular Unity overthrown. This old right represented the interest of the “corporatist faction” who wanted the restoration of the old oligarchical order. During the first years of the authoritarian regime they had to fight against the foundational faction and they lost. New economic actors and a new kind of technocrat carrying neoliberal ideas won.

But ideas, in order to deploy power, needed to be shared with the military. In Chile they found an institutional context to flourish and be transformed into policies. As pointed out by Castiglioni (2000) the pre-existence of a socialist regime was a departing point different from the Uruguayan. The regime had to face not only restoration of a regime but to inaugurate a new order that could leave behind the socialist experiment. This was not the case in Uruguay where the Armed forces were against politicians but not against the democratic order as known in the past. Bordaberry’s corporatist attempt and its failure is a proof of this. But this departing point is not enough to explain both regimes different policy choices.

The structure of decision-making points to an important institutional difference. While the Chilean authoritarian regime was a neo-patrimonial case (Remmer 1989) the Uruguayan fits better

the Bureaucratic-Authoritarian Regime definition provided by O'Donnell except in one feature: there were no civilian technocrats (at least with the density needed to implement deep liberal reforms) able to propose a foundational socioeconomic order like in Chile.

Perhaps the Prussian formation of the Chilean Army with its respect for personal authority of the hierarchies permeated the whole condition of the regime, while the French formation of the Uruguayan Army with its deliberative nature did the same thing with the Uruguayan regime (Bianchi 2000). In any event what it is undeniable is that the Chilean regime was much more dependent on General Pinochet's authority than the Uruguayan on any personal authority. And Pinochet was in search of a personal source of legitimacy other than their own coming from his position inside the Army: a new set of ideas that could provide himself and the regime with the new source of legitimacy that he needed. Pinochet had more room than any other Uruguayan counterpart to experiment new economic ideas and new sources of legitimacy. He found a team of economists eager to provide them to him. He bet for his ideas and he won. This would not be possible in Uruguay.

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