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New Deal in Uruguay?

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NEW DEAL IN URUGUAY?

Ever since retired air force General Oscar D. Gestido became President of Uruguay in March 1967, his regime has been beset with serious political and economic problems. His Colorado Party is badly factionalized over major policies and divided by political rivalry among its leaders. The economic situation has been deteriorating steadily; production has stagnated and exports have dwindled while budget conflicts have grown and the cost of living has skyrocketed. Organized labor is strongly influenced by the Communists, and an almost continuous series of strikes and work stoppages has made it impossible to implement a meaningful anti-inflationary policy on wages. The government, however, has lately shown a new determination to put its house in order and although it may occasionally falter, there are indications that some progress toward halting the economic deterioration will be made.

Economic Policies

In his efforts to develop and implement a sound economic program, President Gestido has already gone through two sets of economic advisers and is now working with a third.

His first economic team was made up of men of widely divergent economic philosophies. Their quarrels soon led to a stalemate, while the cost of living continued to rise. The emergency economic bill they had prepared on Gestido's orders bogged down in Congress, detracting from Gestido's image as a dynamic leader.

In June, public criticism forced the President to choose among his advisers. He opted for a highly nationalistic group that believed the nation's economic life should be tightly controlled by the central government. Cabinet changes resulted, and the new finance minister, Amilcar Vasconcellos, broke off negotiations with the International Monetary Fund (IMF) and announced that Uruguay would solve its problems on its own.

The measures he proposed, however, did not touch the basic problems involved, and conditions continued to grow worse. Communist-inspired labor agitation went into high gear and the cost of living is expected to double this year.

The losing side of the old economic team had continued to press its case with the President. As conditions deteriorated under Vasconcellos' stop-gap measures, the arguments of the dissenters made more of an impression on the President. In October, Communist labor agitation became so economically damaging that Gestido proclaimed a limited state of siege and banned all strike propaganda. Vasconcellos, whose political support is largely drawn from the laboring classes, resigned to protest the government's "tampering" with worker's rights.

When several other prolabor ministers followed Vasconcellos out of the cabinet, Gestido reorganized it again and brought in yet another economic team--this time including many of the men whose advice he had scorned three months before.

The new group is relying on liberal economic policies to bring about simultaneously the necessary stabilization and development of the economy. It has proposed a complex program involving a drastic devaluation, reduction of the government deficit, strong wage controls for private as well as public employees, and sharp increases in private and public investment.

Gestido has told his countrymen that Uruguay cannot solve its financial problems by relying on its own efforts alone. He has pointed out that in addition to imposing strict internal austerity, the country will have to seek assistance from the IMF and expand its foreign trade--including that with Communist countries.

The government has begun to implement the policies backed by the new economic team. The president of the Central Bank, long a proponent of the Liberal philosophy, was in the US during the latter part of November holding talks with IMF officials. The peso, which had been pegged at the unrealistic rate of 99 to the dollar, was devalued on 6 November. The new rate of 200 to the dollar will stimulate exports, and the substantial devaluation meets one of the major conditions the IMF had earlier attached to the conclusion of a standby agreement.

So far, however, the public has felt only the short-run ill effects of the new policies. Devaluation has led to sharp price increases, and many unions are apt to strike for corresponding wage hikes that would undermine the government's efforts to keep wages stable. Criticism of the devaluation--primarily from within the President's Colorado Party--is helping the Communists capitalize on labor discontent.

Political Problems

The outlook for firm legislative support for the new economic policy is bleak. The Colorado Party has a slim congressional majority (one vote in the Chamber and three in the Senate), but party members are more loyal to individual faction leaders than to President Gestido. Moreover, discipline within the different factions is not tight, and on controversial issues the voting results are always uncertain.

Under these circumstances, the government's position would be untenable were it not for the fact that the opposition Blanco Party is equally factionalized and undisciplined. Blanco congressmen often vote with the Colorados, giving the government the votes it needs to push its legislative proposals through Congress.

All shades of political ideology and economic opinion are represented in the two parties. Although this situation makes it possible for Gestido to attract like-minded Blanco supporters, it also explains why he meets some Colorado Party opposition on practically any policy he attempts to follow.

Moreover, the party factions are headed by opportunistic politicians who are quite willing to oppose a sound economic policy if they fear it will make them unpopular with their supporters. Furthermore, many Colorado Party politicians are not above actively and publicly working against government policies in order to show Gestido up as a bungler, to demonstrate their own cleverness, and to improve their presidential chances in 1971.

Throughout the major part of his term thus far, Gestido has not been able to command the wholehearted support of all the Colorado faction leaders. Young Jorge Batlle, the leader of List 15, the most powerful Colorado faction, has been the most negative factor. Gestido narrowly defeated Batlle at the polls, and Batlle has never forgiven the older man for capitalizing on List 15's campaign call of reform and renewal, and thereby "stealing" the presidency.

As a result, Batlle refused Gestido his active support, unless he could have 60-percent control of the government. Batlle believed that if his terms were accepted, he--not the President--could take credit for "saving the country." If Gestido refused, List 15 could disassociate itself from the government's failure.

Batlle held to this position until the October cabinet crisis, when he decided that Gestido was at last going to take positive action. Afraid of missing the wave of the future, he dropped his 60-percent demand, brought his faction back into the cabinet, and promised Gestido his full support.

Despite this bow to party unity, Batlle remains Gestido's foremost rival. His cooperation will last only as long as he deems it politically necessary or expedient.

The immediate threat, however, comes not from Batlle but from former finance minister Vasconcellos, the leader of another Colorado faction. Vasconcellos is so angered by the switch in economic policy that he intends to instruct his faction members in Congress to vote against the new policies, thus depriving the Colorados of even their nominal legislative majority.

There is also the strong possibility that another Colorado faction will defect. In any event, Vasconcellos' action alone will force Gestido to seek needed votes among the Blancos. It is doubtful that such an unstable, volatile legislative alliance would hold up under pressure.

Outlook

The current program represents a realistic approach to the solution of Uruguay's deep-seated economic problems, but political realities are such that there will be many instances of backsliding in the process. Further politically unpopular economic measures must be implemented, and benefits from the new economic policies cannot be expected to reach the public for some time. Indeed, sacrifices will be required from most of the population. The 100-percent devaluation has already caused sharp price increases and popular discontent. Cost-of-living strikes, encouraged by the Communists and other radical groups, are likely to intensify. The administration's tenuous control over Congress, moreover, limits its ability to push through the necessary measures.

If the administration can hold to its present course until the new policies have time to take effect, the long-run prospects for stabilization and economic growth will be considerably improved. The recent UK devaluation, however, may have the effect of reducing government revenues from exports and further increasing the projected 1968 fiscal deficit.

President Gestido has now surrounded himself with realistic economists, and the government is showing a new determination to curb Communist labor agitation. ~~(SECRET)~~