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5. Big Business and Bureaucratic Authoritarianism in Uruguay: A Network-Based Story of Policy Infiltration for Self-Preservation

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Introduction

Bureaucratic-Authoritarian[1] regimes in Latin America faced the stagnation and beginning of collapse of Import Substitution Industrialization (ISI) in highly dissimilar ways and with different results. Whereas in Chile ISI institutions were displaced early on following the neoliberal recipe, Brazil gradually adapted a modest but vibrant industrial sector to the requirements of the open-market model. Argentina, in turn, although it attempted radical liberalization, was not able to sustain the process. The military government in Uruguay, by contrast, exhibited an erratic and irresolute trajectory of incomplete liberalization with businesses engaging heavily in capturing resources and taking subsidies.

Uruguay stands alone as an example of how the collapse of the ISI, the erosion and ulterior displacement of political institutions and cadres, and the severe oppression of organized labor set the stage for big business to continue with a rent-seeking orientation inherited from the ISI, although it adapted this to the requirements and opportunities of the new circumstances. There were two main adaptive responses to the threat of liberalization. The first strategy was a direct response to the exhaustion of available instances of institutionalized participation in policy-making resulting from a set of gradual reforms beginning in 1959: businesses increased direct and individualized participation in key government positions. The second strategy was a response to the competitive shock arising from the combination state subsidies being exhausted and businesses gradually being exposed to international competition: businesses engaged in overborrowing to take advantage of the fact that the most important private banks in the country were owned by the same families that presided over big business groups. These adaptive strategies on the part of businesses infiltrated the government, enabling the liberalization process to be compromised. An important merit of our argument compared to previous accounts of the period is that we put the emphasis in the role of agents—in this case, businesses and politicians—to complement the structural hypothesis that is widely used as the basis of analysis.

Our analysis unpacks the links among family-owned groups, between these groups and the banking system, and with the political system during the military period. Thus, it combines a historical case-oriented analysis with a network analysis. The historical analysis serves two purposes. On the one hand, the chapter carefully describes the historical evolution of accounts that forged the context in which business and the military government interacted. Of particular importance is the account of businesses' rent-seeking behavior during the ISI period to clarify why adaptive strategies evolved in the directions they did. On the other hand, case studies of the business groups serve to illustrate the two adaptive strategies. The network analysis, in turn, aims to provide an account of the structure of the big business community circa 1979–1984 as this is essential for understanding how this structure made the two aforementioned adaptive strategies possible.

The chapter is organized as follows. In the first section, we provide the relevant historical background. Then, we characterize big business in Uruguay using network analysis. Third, we provide detailed case studies of how influential and politically connected groups adapted rent-seeking strategies, managing to undermine the liberalization process in surgically precise ways. Finally, we explore the merits of the argument in the conclusion.

From Domestically Oriented Industrialization to Market Liberalization

Like several countries in Latin America, Uruguay began a process of industrialization by import substitution in the 1930s. Between 1930 and 1955, the ratio of industrial product to GDP went from 12%

to 22%.[2] This process led the country to achieve historic growth rates, as Fig. 5.1 shows, with annual maximums above 4% in GDP, 3.4% in per capita product from 1944 to 1950, and 7.7% of industrial growth yearly between 1945 and 1955.[3]

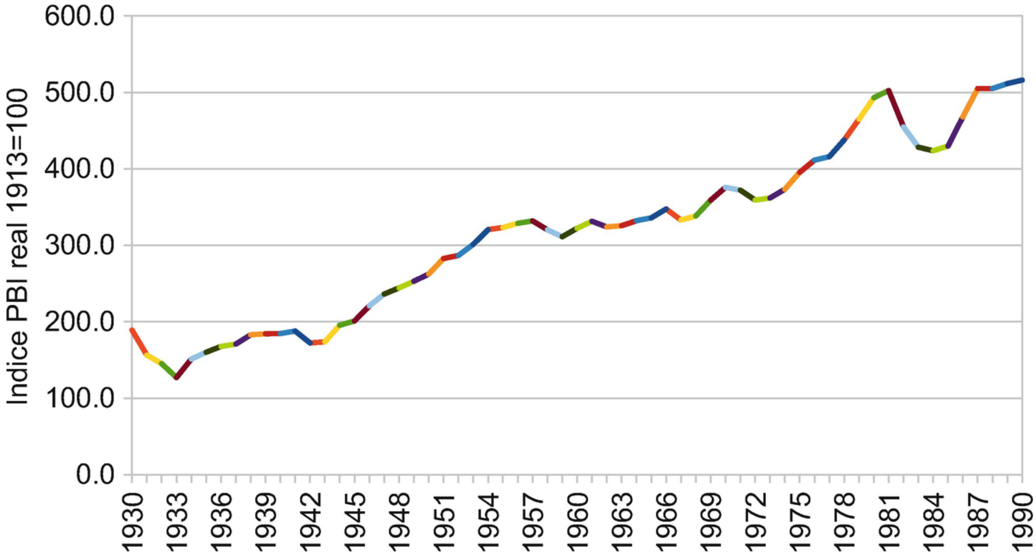

Fig. 5.1 Uruguay: Real GDP index (1930–1990, 1913 = 100). (Source: Banco de datos Facultad de Ciencias Sociales, Área Historia Económica)

Industrialization strongly relied on the import of inputs and capital goods based on foreign exchange. Through deliberate intervention and protection policies, the state diverted part of the income of the primary sector to the secondary sector, offsetting its productivity deficits. In the end, while the ISI failed to boost productivity-oriented strategies on the part of employers, it ended up strengthening a vicious cycle of never-ending subsidies and rent-seeking strategies. Subsidies and participation in decision-making fueled the proliferation of rent-seeking strategies across the region.

Between 1955 and 1970, the average annual GDP growth was 0.9%, although in per capita terms it was −0.3% (Fig. 5.1). The decrease in the prices of primary goods internationally in the 1950s, paired with the small size of the domestic market, began to reveal the bottleneck of the model and call its sustainability into question.[4] These demand-side conditions met a complex panorama in the Uruguayan agro-exporter sector as price controls had discouraged technological innovation to increase output. The stagnation produced a strong dispute over income, which evolved into a spiral of wages and prices coupled with a high inflationary process.[5] The average rates of annual growth in prices, calculated by 5-year periods, were 23.4% for 1956–1960, 30.4% for 1961–1965, and 66.1% for 1966–1970.[6] This upward spiral of prices and wages happened alongside increased fiscal deficits and domestic debt.

Economic stagnation fueled social conflict and polarization. Democratic institutions rapidly became unstable by the end of the 1960s while the public image of political parties plummeted under the siege of corruption, scandals, and allegations of inefficiency. A left-wing guerrilla movement (*Movimiento de Liberación Nacional*, MLN) also made its appearance in the political arena, fueling radicalization.

In 1973, the democratically elected President Juan M. Bordaberry dissolved the parliament, suppressing political activity to allegedly defeat the MLN and inaugurating an authoritarian regime that lasted until 1985. The military coup displaced traditional political elites, bringing new opportunities for influential business groups that crystallized around tailored exceptions and particularities for different sectors, as we shall explain in the next section.

The economic program of the new authoritarian government, in alignment with most of the region at the time, sought to implement a package of reforms aimed at liberalizing the economy. It was based on the following strategies: to diversify exports by promoting less devolved sectors; drastically reducing the real salary, partly by rendering unions illegal and repressing them; rapidly liberalizing the capital account in order to increase capital flows; and engaging in a process of trade liberalization.[7] It is important to bear in mind that articulated plans to move away from the ISI had been developing since the times of the Economic Development and Investment Commission (CIDE; 1960–1967) because this indicates that the business community had been familiar with the idea of the ISI gradually becoming exhausted and the need for market-oriented reforms to be introduced for at least a decade and a half before the military coup.

Reforms began in late 1974 and advanced more rapidly in the capital market than in the trade market until 1978. While average tariffs were scheduled to drop to an average of 35% by 1985, this was modified in late 1979 when a stabilization program was implemented, which included additional selective cuts on some 500 items.[8] Export taxes were lowered from 21% of export value in 1973 to 2% in 1976 for traditional exports (Fig. 5.2). However, financial and fiscal subsidies were put in place for non-traditional exports (Fig. 5.2). In those years, subsidies for non-traditional exports escalated from US $15 to 59 million. Tax rebates amounted to about 15% of export values.[9]

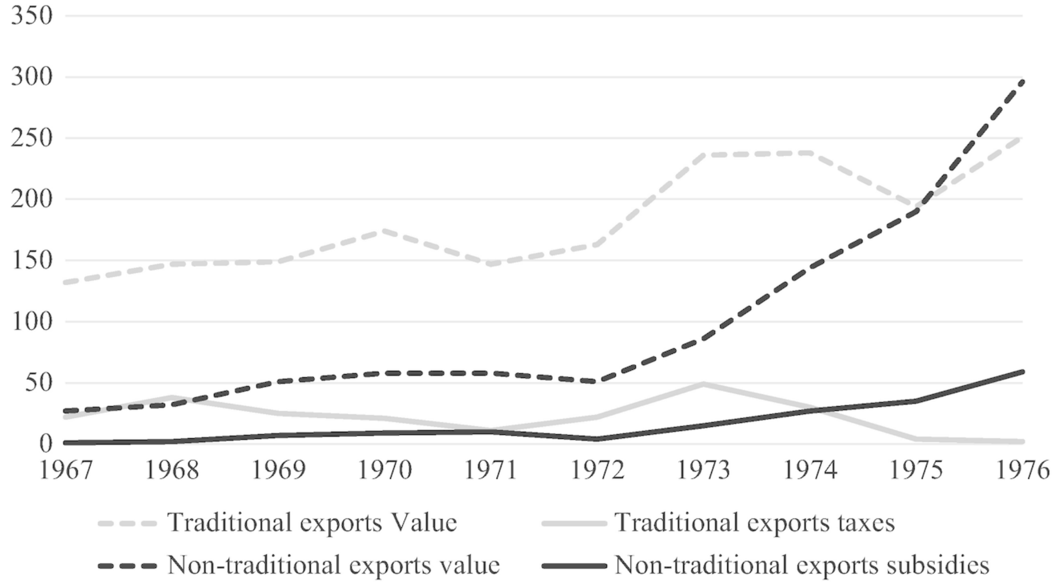

Fig. 5.2 Uruguay: Value and taxes of traditional exports, and value and subsidies of non-traditional exports (millions USD, 1967–1976). (Source: Authors' elaboration based on Bensión & Caumont, "Alternative trade strategies and employment")

Overall, the process of trade liberalization included tailored exceptions and particularities for different sectors. For instance, Rama's[10] analysis of protective measures in the industrial sector for the period 1975–1980 provides evidence that the liberalization process was not as effective as it seemed. The significant reductions on import tariffs, which occurred in 1977, 1978, and 1979, did not necessarily translate into a reduction in industrial protection. Industries such as tobacco, chemical products, and oil derivatives were not subjected to such reductions.[11] Although average formal nominal protection decreased significantly from 1975 to 1980 in this sector, the implied nominal protection was higher in 1980 than in 1975 (Fig. 5.3). Two factors account for this fact: superfluous protection and exchange policy (a fixed exchange rate with scheduled currency devaluations was instituted in 1978).

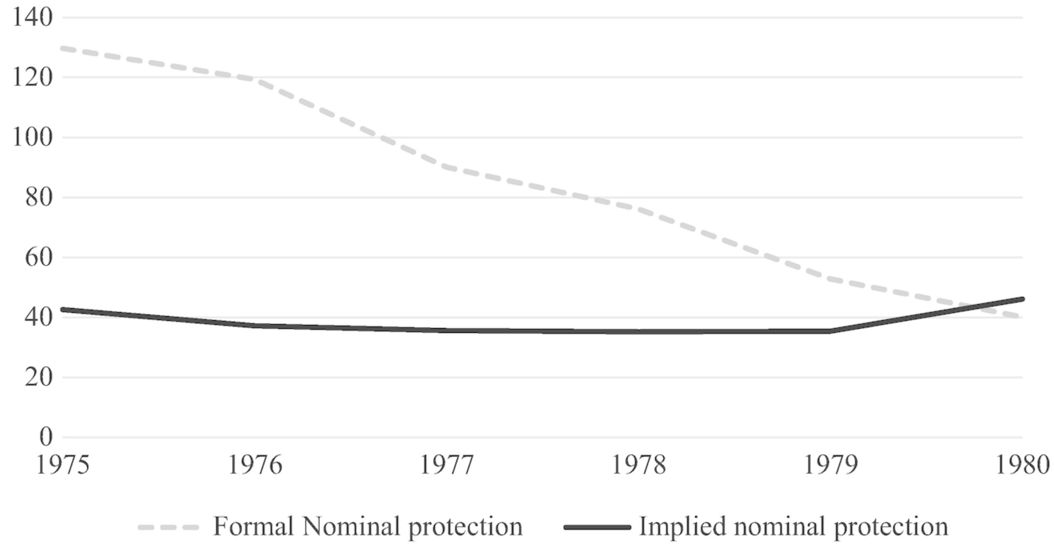

Fig. 5.3 Uruguay: Formal and implied nominal protection of industry (1975–1980). (Source: Authors' elaboration based on Rama's *Protección y crecimiento industrial*)

As in the rest of the region, economic liberalization was paired with restrictions of organized labor. This, along with the previous suppression of collective wage bargaining at the industry level since 1968, produced a steep fall in real wages during the following years (Fig. 5.4). By 1984, the purchasing power of wages had been reduced by 57% in respect to its 1973 level.[12] Both the steep decline in real wages and the dismantling of trade union movements benefited the business sector.[13] In this context, private consumption contracted and inequality increased rapidly—the Gini Index went from 0.37 before the coup to 0.49 in 1979, earners in the top 10% being the only ones with real income growth between 1973 and 1979. In terms of economic growth, however, the country was able to overcome the stagnation of the previous decades between 1973 and 1981, fueled by private and public investment and a boom in construction.[14] In spite of a few years of economic growth, the situation rapidly deteriorated with the 1982 debt crisis, which gave rise to one of the most important crises in national history and contributed to the already declining legitimacy of the military government.

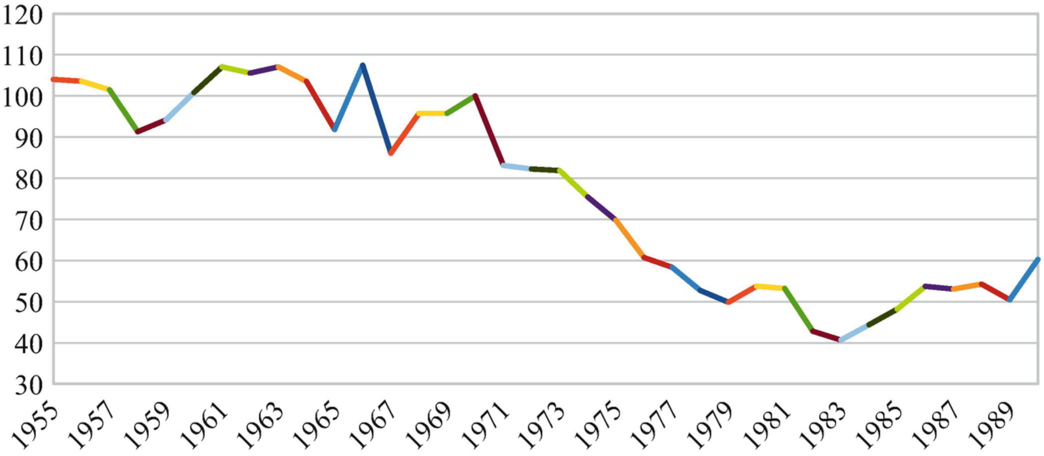

Fig. 5.4 Uruguay: Real wages index (1970 = 100). (Source: Authors' elaboration based on National Accounts 1955–1963 and Central Bank 1963–1990)

By the end of the military period, the impulse toward liberalization had created space for a restoration of democratic institutions and a brief return to centralized wage bargaining during the Julio Sanguinetti administration (1985–1989). Not until the second democratically elected administration (1990–1994) began did the liberalization impulse strengthen again in the midst of a sustained period of high inflation.

Big Business and the Mutation of Rent-Seeking Strategies

Historical Evolution of Business Groups and Their Political Influence

At the turn of the twentieth century, large domestic firms began a slow process leading to the formation of economic groups. These groups were organized as a set of legally independent firms, operating in multiple industries and bound together by persistent formal or informal links.[15] They usually had unrelated product portfolios in industry and primary sectors, were family-owned, and were organized as "loose networks."[16] In other words, no single firm exercised pyramid control over the group; the participation of family members on firms' boards of directors was the main top-down control mechanism.

By the time the ISI consolidated, business groups had increased their diversification, although industrial activity remained primary.[17] This was also the case all around Latin America at the time.[18] Groups evolved largely to diversify risk in an unstable region.

Corporate finance was mostly dependent on domestic credit. Banks, which were owned by domestic capital at the time—and often by big business groups themselves—strengthened their position as corporate financiers in this context. Only between 1973, with the onset of the oil crisis, and 2002, with the Argentinean crisis, did the banking sector gradually become more internationalized, clearly diluting the pervasive endogenous web between financiers and investors.

The ISI incentivized governments to deliver special benefits, mostly in the form of subsidies, to individual business sectors and groups because of their organizational strength or strategic importance. Governments at the time also granted some sectors institutionalized participation in decision-making related to business.[19] This, in turn, meant that employers' interests and demands, which became progressively more onerous as the ISI model deteriorated, infiltrated into the state.

Institutionalized sectoral participation in decision-making motivated rent-seeking behavior at the expense of productivity-oriented strategies. A prime instrument for rent-seeking was the exchange rate through the Import and Export Control Commission (CIE: *Contralor de Importaciones y Exportaciones*); its board of directors had 9 members: 4 business representatives and 5 members from the government. This commission operated until 1959 and controlled foreign exchange decisions, the main tool for implementing economic policies that supported the ISI.[20] Sectoral-based business coordination strategies strengthened during the ISI because of this access to institutionalized decision-making bodies.[21] There is consensus in the literature that when multiple exchange rates were abolished in 1959, rent-seeking turned toward higher nominal protection rates. Then, by 1974, in the aftermath of the military coup and at the onset of the liberalization process, rent-seeking efforts focused on increasing the reference price for the calculation of subsidies and taxes.[22]

Rama[23] shows how, in spite of the change in rent-seeking strategies, the number of rent-seeking actions remained stable during the 1960s and 1970s (Table 5.1).[24] The change in rent-seeking strategies was fueled, at least in part, by two important phenomena. On the one hand, institutional participation in price-setting decayed as these institutions gradually disappeared—as was the case with the CIE. On the other hand, as explained earlier, authoritarian tendencies expanded and the legitimacy of the party system was increasingly undermined. This is how corporate business's institutionalized access to decision-making gave it a space where it could pursue a strategy oriented toward implementing effective protection.[25]

Table 5.1 Uruguay: Rent-seeking actions by private businesses

In this context, the repressive right-wing Jorge Pacheco government (1968–1971) consolidated a technocratic shift in political cadres that had begun in 1958 (see Table 5.2), inviting prominent leaders and high-profile professionals from influential business groups to hold key government positions.[26] By 1972, a new class of technocrats closely linked to major business groups helped the newly installed Bordaberry administration (1971–1976) shift industrial policy toward more systematic export promotion.[27] While the technocratic shift can be seen as part of the government's political strategy to regain legitimacy and authority by integrating economic and political power, it presented businesses with an opportunity to operate on the institutional system and seek to cushion some of the effects of the recent liberalization process. As such, the technocratic shift can be understood as a diversification strategy in a context of increasing uncertainty.

Table 5.2 Uruguay: Business participation in the executive (% of ministries by administration)

The Structure of the Business Community According to a Network Analysis

In order to understand why business groups gladly entered the political arena in those turbulent years, it is paramount to understand the main characteristics of the business community at the time. For this purpose, we offer a network analysis describing the main characteristics of big business circa 1980. We base our analysis in social network methodology because it allows us to unveil the structure of the business network and the relative position of each group within it. Evidence shows that Uruguayan business groups were very tight and closed.

We built our database of business groups from the seminal work on business groups by Stolovich et al. (1987).[28] We used the following criteria for including the groups in the network: first, we included only the 15 groups that Stolovich et al. (1987)[29] classified as belonging to the topmost stratum (the largest groups).[30] We then included all groups directly linked to these 15 groups, as well as their connections, until all the connections were accounted for.[31] The nodes contained in the network are business groups, and the edges between them mean that two business groups had shares in at least one firm in common. Links are unweighted: a group either shared a company with another group or it did not, and the network is undirected, given that the link is reciprocal (that is, it does not indicate the number of shares groups owned).

Figure 5.5 presents the image of the network of business groups. In terms of economic significance, this complex network of alliances covered 256 companies, of which only 50 represented 8.5% of the total sales of the economy in 1987. Beyond the quantitative weight, this network of links between entrepreneurs included oligopolistic control of some strategic value chains (among them, fishing, rice, oil, flour, wool, leather, meat, rubber products, paper and cardboard, the financial sector, and media) at the time.

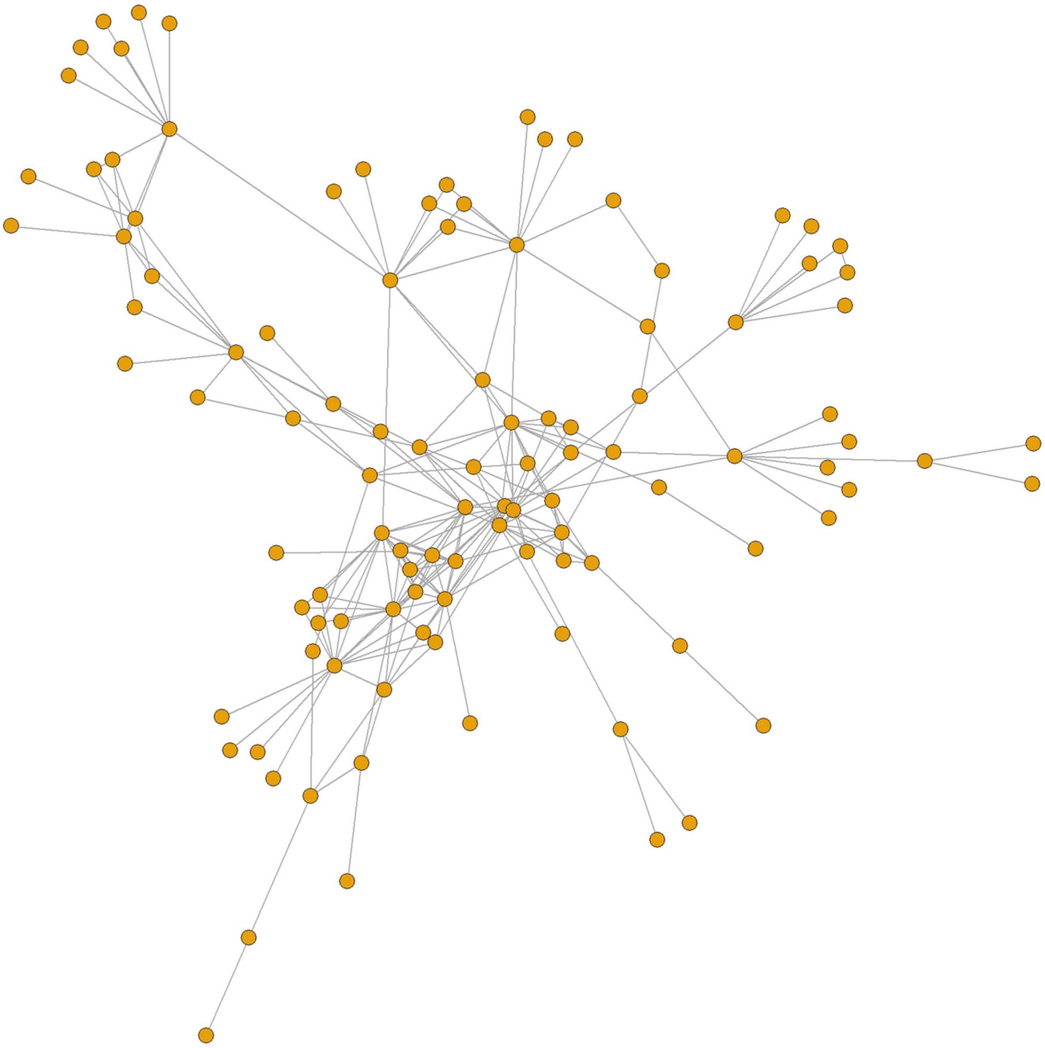

Fig. 5.5 Uruguay: Network of big business group and related groups. (Source: Authors' elaboration based on Stolovich et al., *El Poder económico en el Uruguay actual*)

The network contains 95 nodes (business groups), 220 edges, and a density of 0.05%. This low density is expected given the small size of the business community at the time, and the fact that edges represent a strong bond between the groups (having shares in at least one common firm). Despite the network having a rather low density, other measures such as the average path length and average degree indicate that it was effectively connected. On average, a single node is connected to 4.5 other nodes, meaning that groups shared 4.5 firms with other groups in the network, and it takes 3.5 nodes to reach from any given node to any other node within the network (as Fig. 5.5 shows). In addition, the fact that groups could be linked with each other in ways that this network does not capture (such as family /friendship bonds or club membership), suggests that they were capable of exchanging information in a highly effective manner.

Based on the small-worldness index proposed by Humphries and Gurney,[32] our network constitutes a small-world phenomenon (5.8 in our network).[33] This results in the distance between nodes being small compared to the number of edges. The key characteristic of this type of network is that it is highly clustered,[34] with information flowing rapidly throughout the network. This is a crucial factor considering that some business groups had direct political influence during the dictatorship.

Thus, our calculations show a tight network with a few important actors. This puts business in a privileged situation within a context of political turmoil. As Bucheli et al.[35] (2018) state, the opening up of a market does not necessarily imply that the importance of interpersonal networks and big business ties will decrease, as the Chilean case also shows.

Further analysis of the distribution of centrality measures for each node suggests that the network had a hierarchical structure. As Fig. 5.6 shows, three measures—centrality degree, betweenness centrality, and eigenvector centrality—have a large number of nodes with low coefficients and a small number of nodes with large coefficients, meaning that a small portion of business groups was crucial to the connectivity of the network. Furthermore, the network's closeness centrality—the extent to which a node can easily reach all other nodes in the network—has a rather normal distribution; that is to say, isolated groups of nodes do not exist in this network.

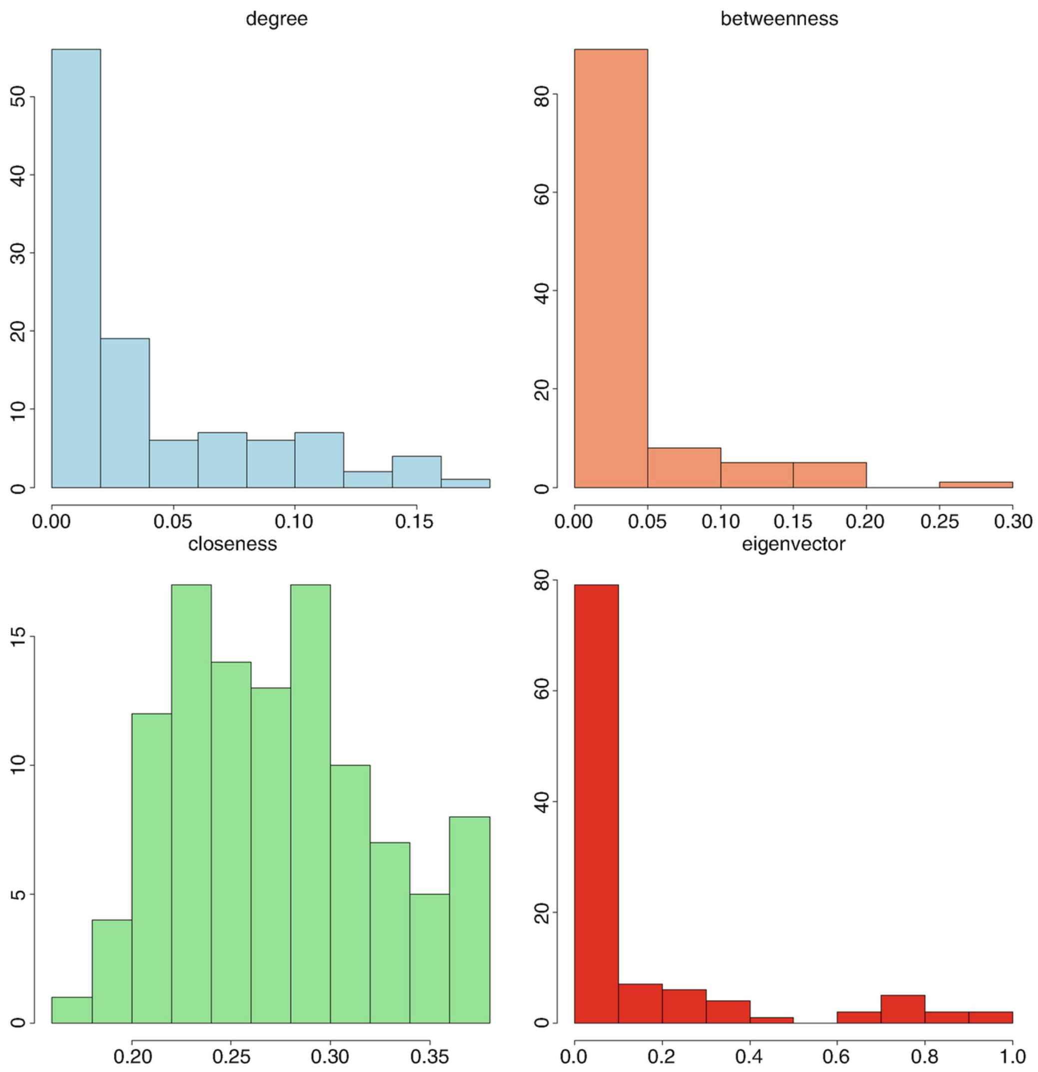

Fig. 5.6 Uruguay: Distribution of centrality measures. (Source: Authors' elaboration based on Stolovich et al., *El Poder económico en el Uruguay actual*)

While our analysis provides evidence of how business groups maintained strong links with each other by sharing the ownership of firms, previous research also suggests it was common practice at the time for business families to form marital bonds.[36] Both elements suggest the existence of shared interests manifested in both formal and informal links, although this does not mean that big business was univocal in its political interests. Nonetheless, the business community did constitute a very small, closed, and interconnected network, with the particularity of some nodes determining the flow of information.

With the small but highly interconnected and hierarchical structure of the business community in mind, we can better understand how the two main strategies used by business to fight the liberalization process worked out: direct political influence and financial mismanagement. The analysis identifies key business groups—key because of their position in the network—that adopted these new rent-seeking strategies: the Aznárez, Vargas Garmendia , and Cardoso Guani groups.

Direct Political Linkages in Influential Business Groups

We identify key business groups and their position in the network by using different measures. To start with, we identify the cut-points of the network, which are crucial to its articulation. These are the nodes that constitute "a point whose removal would increase the number of components by dividing the sub-graphs into two or more separate sub-sets between which there are no connections."[37] Our network has 19 cut-points. Three of them, the Aznárez, Vargas Garmendia, and Cardoso Guani groups, were those with the most direct links to the military government. In addition, these three groups had familial ties with three other important groups. For instance, the sister of Julio Eduardo Aznárez (the former Minister of Livestock, Agriculture, and Fisheries from 1974 to 1976), Gloria Aznárez Betchold, was married to the head of the Strauch group, Elbio Strauch. Some of Vargas Garmendia's group members were cousins of Soler group members. The Cardoso Guani and Cardoso Cuenca groups had close family ties.[38] As we describe later, these nodes played a crucial role in the business network at the time. In Fig. 5.7, we have illustrated the position of these groups by coloring the edges linked to them.

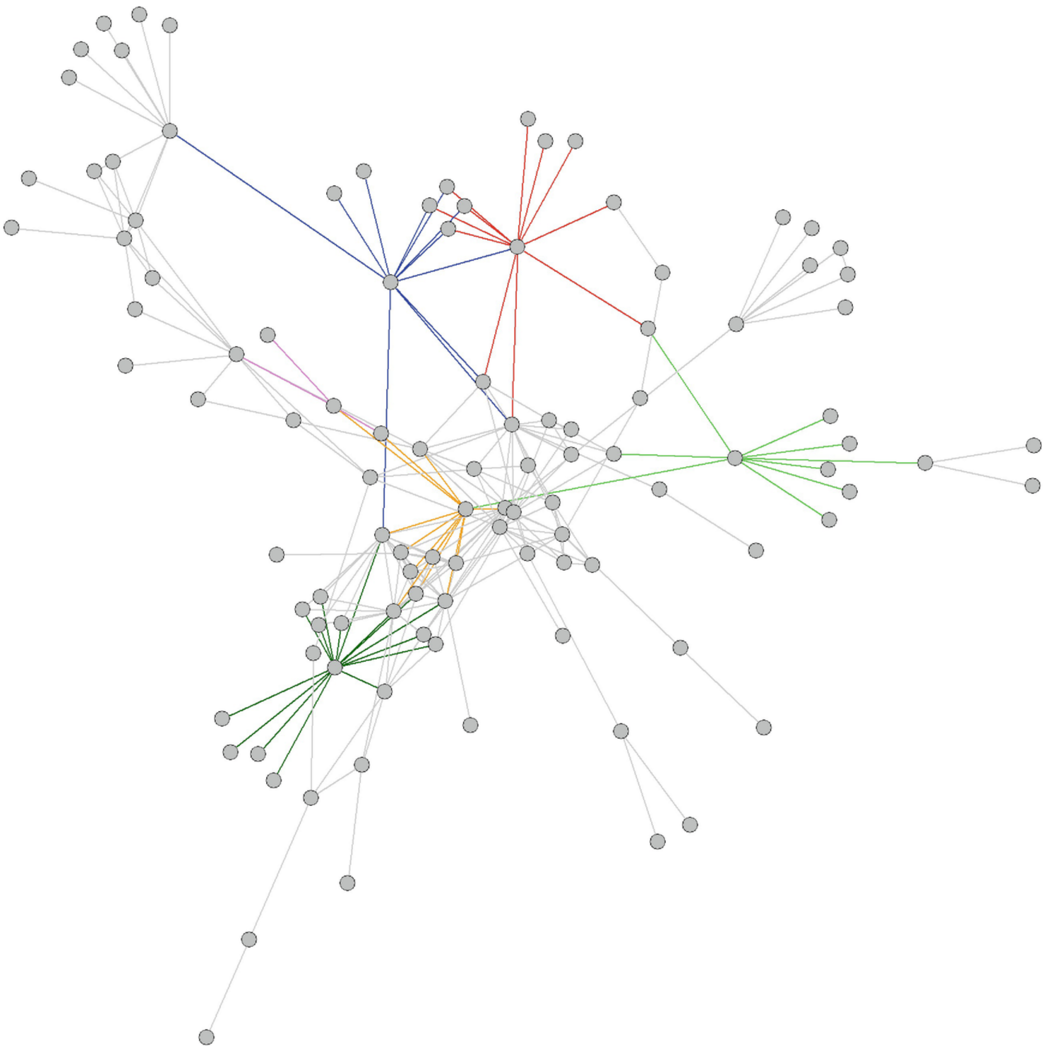

Fig. 5.7 Uruguay: The influence of the Aznárez, Vargas Garmendia, Cardoso Guani, Cardoso Cuenca, Soler, and Strauch groups. Note: Aznárez (red), Strauch (orange), Vargas Garmendia (dark green), Soler (green), Cardoso Guani (blue), and Cardoso Cuenca (violet) groups respectively highlighted. (Source: Authors' elaboration based on Stolovich et al., *El Poder económico en el Uruguay actual*)

Soler, Vargas Garmendia, and Aznárez were also among the five most important brokers, with Strauch and Cardoso Cuenca having also been relevant brokers. Brokers' importance lies in their ability to bridge structural holes in the network, making it more efficient at conveying information.[39] This happens because information circulates more within groups than between them, giving nodes that are able to share information with two groups a competitive advantage. Measures of Burt's constraint, which captures whether a node establishes bridges with other nodes,[40] are consistent with cut-point measures.

While information flowed efficiently from node to node due to the structure of the network, our three politically important nodes had a particularly large role in it. In addition to being cut-points and important brokers, they also ranked high in terms of their betweenness (Fig. 5.8), which measures the number of shortest paths that pass through that node, revealing the extent to which a business group serves as an intermediary "between" other business groups in the network.[41] This implies that the removal of vertices with high betweenness coefficients precipitates a decrease in network connectivity.[42] Figure 5.8 illustrates the high level of betweenness of these groups. The Aznárez group ranks 7/95, Vargas Garmendia 11/95, and Cardoso Guani 17/95.[43] Along with three other groups, with which they had family ties, they were well above the confidence interval of the betweenness centrality mean (0.027 ± 0.011 at 95% confidence): Strauch (1/95), Cardoso Cuenca (4/95), and Soler (6/95).

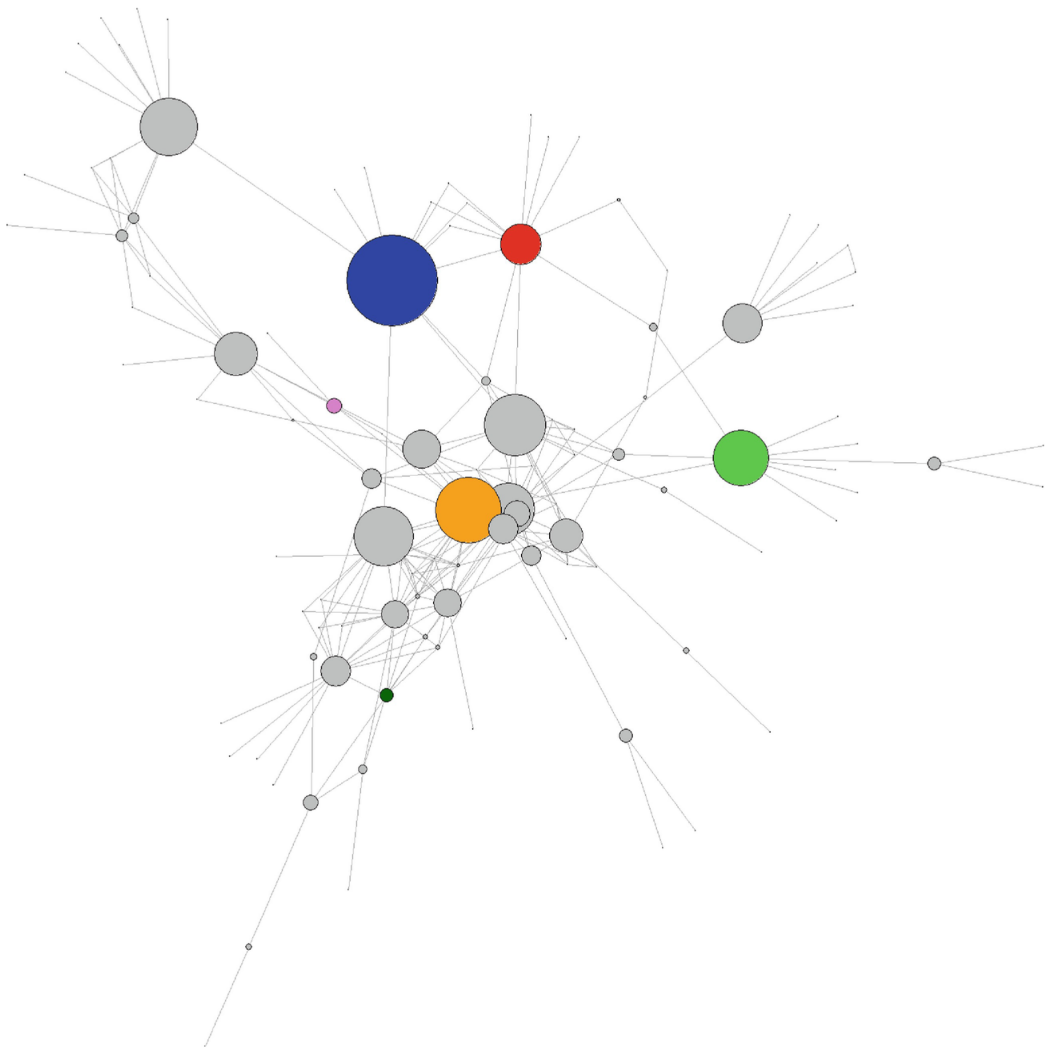

Fig. 5.8 Uruguay: Betweenness centrality and politically linked nodes. Note: Colors: red = Aznárez, blue = Strauch, green = Vargas Garmendia, yellow = Soler, orange = Cardoso Cuenca, Cardoso Guani = violet. Size of nodes represents magnitude of betweenness centrality. (Source: Authors' elaboration based on Stolovich et al., *El Poder económico en el Uruguay actual*)

In order to know how connected a node is with respect not only to its direct links but to a further set of nodes, a measure of closeness centrality was used.[44] Closeness centrality was particularly high for Strauch (1/95), Cardoso Cuenca (4/95), Aznárez (13/95), and Vargas Garmendia (18/95). This indicates that these groups had high levels of information access.

Overall, by any of these measures—cut-points, betweenness, and closeness—the five business groups represented in Fig. 5.8 had direct political influence during the dictatorship, just as those with family ties to them did. This is indicative of the good position big business was in to try to infiltrate the liberalization process for its own benefit. Although it is difficult to establish a quantifiable measure of the extent to which these groups, in particular, and the whole network, in general, benefited from direct political linkages, we provide a case study of three of these groups and analyze qualitative evidence illustrating how the rent-seeking process they engaged in could have developed.

The Aznárez group, one of the biggest at the time (see Diagram 1 in the appendix), whose assets were worth at least US $20 million per year in sales,[45] had two of its board members in key political roles during the dictatorship. Julio Eduardo Aznárez served as Minister of Livestock, Agriculture, and Fisheries from 1974 to 1976, while Walter Lusiardo Aznárez served as Minister of Industry, Energy, and Mining in 1982 and Minister of Economics and Finance from 1982 to 1983. This is of utmost importance given that the Aznárez group was, although highly diversified, an agro-industrial group, closely linked to one of the two biggest Uruguayan groups at the time measured in terms of the ownership of firms (24): Strauch.[46] Apart from family ties, they had solid business connections. The two groups, aided by foreign direct investment, founded an important fishery named Astra in the late 1970s. Our analysis expands the relevance of the fishery in understanding rent-seeking behavior during the military period.

The "Fishing Law" of 1969 provided export rebates and tax-free diesel to the industry. In addition, the state-owned bank (Banco República) granted several loans to the fishing industry, which attracted national and foreign capital. One of the drafters of the law was Marcial Bugallo, who was state counselor at that time. He had formerly worked for Nestle Uruguay and served as Labor Minister under Bordaberry in 1973–1974. Bugallo was also a board member at one of the fishing enterprises that benefited from the "plan pesquero," a plan consisting of a variety of tax exemptions and ease of obtaining credit for the fishing industry.[47,48] That a prominent member of the group served as the head of the Ministry of Agriculture, Livestock, and Fisheries also suggests a conflict of interests.

Besides family ties with the Strauch group, the Aznárez group had joint ventures with foreign and national groups. Among these, the Deambrosis, De Posadas, and Coca Cola Company groups were preeminent. Regarding sugar production—the Aznárez group's main business—the Aznárez established the "sugar trust": an alliance among local sugar companies to distribute production quotas and market segments.[49] The Aznárez group benefited directly from three government conclaves (meetings at which economic guidelines were settled by the military power and the executive branch) at which the sugar industry, a highly protected sector, was given an important position: San Miguel in 1973, Parque Hotel in 1976, and Solís in 1977. The conclaves stated that it was a government priority to ensure the autarkic supply of sugar in Uruguay, even though it was a declining industry and was not in the least competitive [50] Overall, the fishing- and sugar-related examples are clear illustrations of how economic groups adapted to the liberalization process by infiltrating the state.

The Vargas Garmendia group was also among the larger and highly diversified groups. It had stakes in the financial sector through bank ownership; in diverse industrial sectors such as textiles, rubber, and beverages; as well as in the newspaper business and the plastic industry. Businesses it owned in relation to these stakes included, respectively, the bank Banco Comercial, the wool company Lanera Santa María, the tire producer FUNSA, the brewing facility Fábricas Nacionales de Cerveza, the paper Diario La Mañana, and the plastic producer Atma. The group was also an important landowner.

The most relevant political linkage the Vargas Garmendia group had with the military government was Luis Vargas Garmendia—a board member at Atma and the brother of Eduardo Vargas Garmendia. Luis integrated several boards such as the previously mentioned FUNSA, Lanera Santa María, Fábricas Nacionales de Cerveza, among others.[51] He was Sub-Secretary of the Interior Affairs Minister from 1974 to 1976, later becoming secretary to the president during the de facto Aparicio Méndez administration (1976–1980). The group had family ties with the Soler group, one of the two biggest ones in Uruguay at the time.[52] While the Soler group had stakes in the production, commercialization, and import of automobiles, advertising, and banking, Daniel Darracq, the Minister of Education and Culture between 1975 and 1981, was married to a member of the Soler Garmendia family.

As in the Aznárez case, Vargas Garmendia comprised an extended network of alliances with joint ventures with other national groups. The most prominent of these included the Otegui group (textiles, media, and banks), Pardo Santayana (rubber, agricultural production, the beverage industry, and media), Fernandez Lladó (the meat industry), and Peirano Veira (mills, construction, and banking).

Unlike Aznárez, Strauch, or Vargas Garmendia, the Cardoso Guani group was comparatively small. However, its family tie with the Cardoso Cuenca group allowed it to have direct access to the financial sector and rice industry. The Cardoso Guani group had shares in one of the most important supermarket chains in the country (Disco del Uruguay), as well as in other sectors—for example, in textiles (Lavadero Oriental de Lanas). Its most relevant political linkage with the military government was Adolfo Cardoso Guani, who was the Minister of Industry, Energy, and Mining from 1974 to 1976.

Short-Term Budgetary Balance Via Financial Mismanagement

Besides direct political influence, some business groups were able to benefit from state intervention in the private banking sector. As Carrió[53] posits, private investment in this period relied largely on bank loans. However, investors and financiers were usually the same people. A significant portion of the business groups in our network were represented in the board of directors of the main private banks at the time (see Fig. 5.9), which suggests another potential conflict of interest: investors asking for loans were involved in the decision-making process for granting those loans.

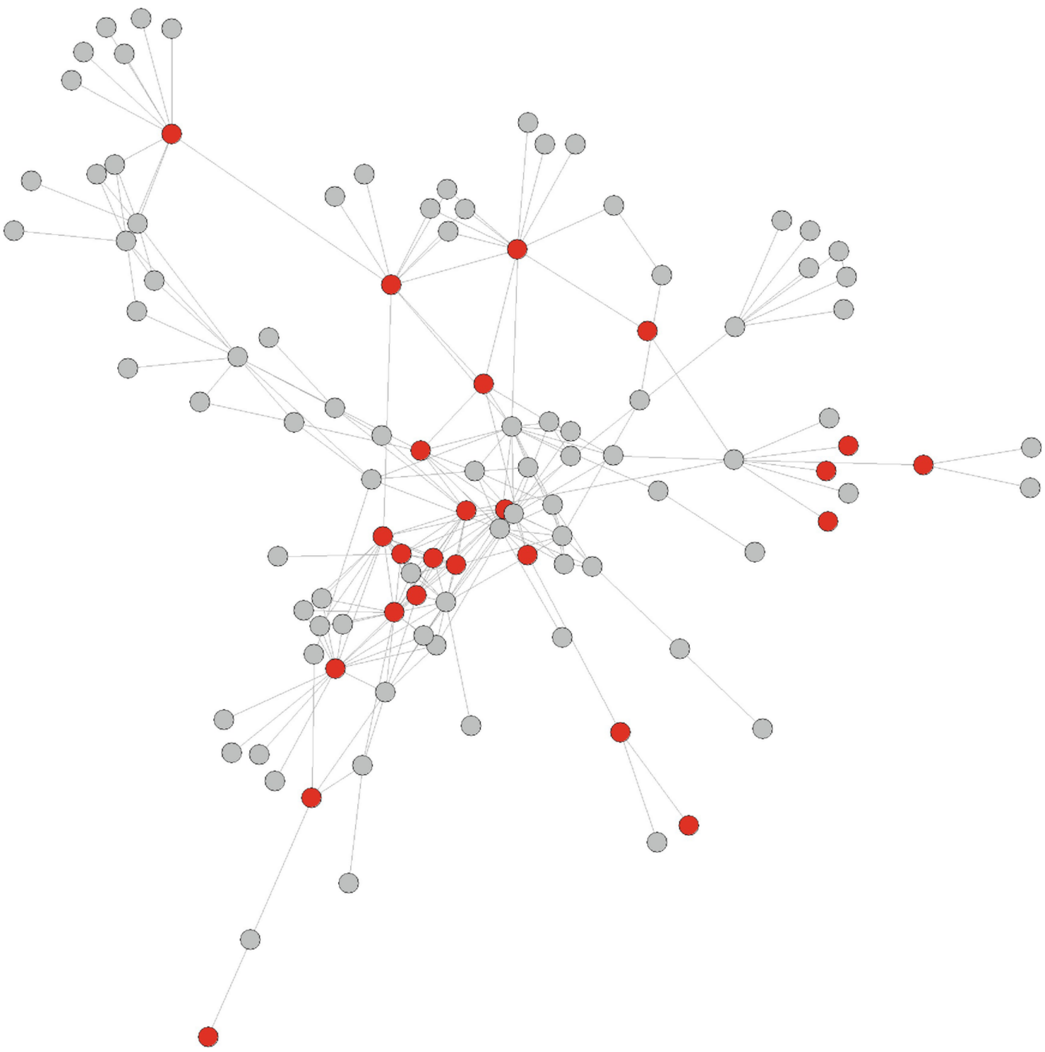

Fig. 5.9 Uruguay: Connection between business groups and financial institutions. Note: Colors represented are: red = business groups that had shares in a bank; gray = the remaining business groups. (Source: Authors' elaboration based on Stolovich et al., *El Poder económico en el Uruguay actual*)

This led to an escalating process of "internal debt" and speculation at the expense of "main street" clients and the state. The Latin American debt crisis was a financial crisis in which a huge demand for external funds was associated with increasing trade and fiscal deficits that provoked the worst recession since the 1930s.[54] For instance, it generated a regional GDP recession, and the region's poverty rate increased from 40.5% to 48.3% between 1980 and 1990.[55] In this context, some local banks developed a high amount of uncollectible debt—greater than the 50% of total bank placement—mainly acquired during the economic boom of 1978–1980. In response to this fragile situation, the military government decided to buy out local banks' uncollectible debts, selling them at nominal prices to foreign banks in order to maintain confidence in the local financial system. These operations had a total cost of the equivalent of 10–12% of the Uruguayan GDP at the time, which was assumed by the Central Bank; the number of local banks went from 11 in 1976 to only 2 in 1983.[56] As Werner[57] states, this procedure strongly damaged the economy of the Uruguayan state even while members of the government sat on the boards of directors of several of the rescued banks.

Five out of the six groups we analyzed in depth in the previous section were directly linked with financial institutions. The Aznárez and Strauch groups were represented on the board of BAFISUD bank, the Vargas Garmendia and Carodoso Cuenca groups were represented on the board of Banco Comercial, and the Soler group was represented on the board of Surinvest Bank. All three banks eventually had their debt bought by the state by one of two mechanisms. The first mechanism was for the Central Bank (BCU) to buy the debt in order to sell it to a foreign institution—the BCU-incurred cost of bailing out the BAFISUD was around US $94 million, whereas it was sold to NMB Netherland's bank in 1982 for around US $0.015 (1 Nuevo Peso). The second mechanism was for the BCU to buy debt in exchange for the granting of loans by the selling bank to the BCU, as was the case for Banco Comercial and Surinvest.[58]

Although this was not a deliberate strategy of indebtedness across large business groups—only a few of them were strongly involved in these operations and more than 40% of the acquired debt was owned by small or midsize businesses—some clearly used their connections in the financial system and government to access credit irresponsibly. The most notorious case was that of the Soler group, whose debt was acquired by the BCU at a cost of US $37 million (the highest of any business group). Among others, this group owed the BAFISUD (US $14.5 million) and Surinvest (a bank of its own). The Strauch group's debts with BAFISUD and City Bank peaked at US $6.5 million, of which US $2 million was granted solely in the name of Jorge Strauch, a member of BAFISUD's board of directors.[59] The bailout of the Banco Comercial included debts of about US $1.5 million from "Arrozal 33," a rice-producing firm that owned Arrozur, whose board of directors included Jaime Cardoso Cuenca (from the Cardoso Cuenca group), the son of Jaime Cardoso Saavedra (the director of Banco Comercial). Another example of a self-approved unpaid loan was the one granted by the same bank to the Bakirgian group (linked to the Vargas Garmendia group) for US $1.2 million.[60]

Conclusions

This chapter provided a descriptive account of how big business in Uruguay transited through the liberalization period by perpetuating rent-seeking strategies although it adapted the ones it inherited from the ISI period. The chapter began by filling in the contextual information on the collapse of the ISI model and of democratic institutions, as well as the liberalization process that followed. This included a detailed account of how the ISI incentivized rent-seeking on the part of businesses, and how the perpetuation of rent-seeking became their primary strategy as liberalization advanced.

We described how business strategy for influencing policy outcomes evolved from the ISI to the authoritarian period, moving from institutionalized corporate participation in decision-making to direct participation of businesspersons in government. This adaptation followed the stagnation and collapse of the ISI and the subsequent attempt at liberalization attempt that began in 1974.

By using network analysis methodology, the chapter also provided novel information from an extraordinary database of business networks originally produced by Stolovich et al.[61] Thus, we were able to characterize the network and to illustrate the importance of certain nodes with different measures of centrality. We were able to assess the centrality and influence of key business groups with direct political linkages and domestic bank ownership. The network analysis presented evidence of how business groups maintained strong links with each other by sharing the ownership of firms and how the structure of the business community opened the door for the two adaptive strategies. In particular, the business community structure at the time constituted a very small, closed, and interconnected network, with the particularity of some nodes determining the flow of information. Among them, Aznárez , Vargas Garmendia, and Cardoso Cuenca, as well as Strauch and Soler, stand out because of their economic and strategic importance, along with their close ties with government and domestic banks.

Once the chapter had described the context, the structure of the network, and the main characteristics of its central nodes, it went on to explain how the two main strategies used by businesses to infiltrate—and shelter themselves from—the liberalization process worked. First, they scored political influence by establishing direct political linkages with the authoritarian administration, and, second, they injected short-term capital by means of financial mismanagement. To this end, the chapter recounted case studies of three influential business groups—Aznárez, Vargas Garmendia, and Cardoso Cuenca—based on several secondary sources that we connected to new insights from the network analysis.

The secondary historical evidence helped to better explain how these influential groups managed to infiltrate the inevitable liberalization process that would otherwise have seriously damaged their wealth and industries at the expense of the state's economy and ordinary citizens' well-being, particularly in light of the banking crisis that unfolded after 1982 and how the authoritarian government at the time bailed out banks, business groups, and, ultimately, the few families behind them.

Overall, we used a novel network analysis in order to tie together the rich but not sufficiently connected domestic and international scholarship on corporate business, the breakdown of democracy, and economic liberalization in Uruguay. Our innovation is in improving an already rich descriptive characterization of these processes using network-related metrics that foster an understanding of the relations between big business and the military government in Uruguay from a richer comparative perspective.

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Footnotes

1 Guillermo O’Donnell’s seminal work on authoritarianisms in Latin America, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: University of California, 1973) during the Cold War classified the military governments in the Southern Cone as Bureaucratic Authoritarianism in order to differentiate them from traditional military coups. In Bureaucratic-Authoritarian regimes, among other important characteristics, the military takes over the government as a corporation after the coup, without handing it back to civilians immediately.

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14 Finch, *La economía política del Uruguay*, 291–292.

15 Tarun Khanna & Yishay Yafeh, “Business groups in emerging markets: Paragons or parasites?” In *Journal of Economic Literature.* Vol. 45, No. 2 (2007): 331–372.

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23 Rama, “Crecimiento y estancamiento económico en Uruguay.”

24 Rent-seeking actions are identified as all those actions and decrees enacted on a single product—or type of merchandise—related to tariff rates and reference prices for the reliability of tariffs or subsidies. Changes in the exchange rate only correspond to 1955, since in 1959 the system of multiple changes was eliminated.

25 Rama, “Crecimiento y estancamiento económico en Uruguay”; Luis Macadar, *Restauración democrática y política económica. Uruguay 1985–1989.* (Montevideo: Ediciones de la Banda Oriental, 1992).

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28 Economic groups classified as big business (the topmost stratum according to the classification of Stolovich et al.) had at least US $20 million in assets and/or annual sales for the same amount. Only 15 of 111 groups identified by Stolovich et al. belong to this stratum.

29 Stolovich et al., *El Poder económico en el Uruguay actual.*

30 We included only the 15 groups that Stolovich et al. (1987) classified as belonging to the topmost stratum, which are those whose assets were at least US $20 million.

31 Only two of the fifteen groups that belong to the topmost stratum did not have any links with other groups. As is customary in network analysis, we excluded isolated nodes (groups).

32 Mark Humphries & Kevin Gurney, “Network ‘small-world-ness’: a quantitative method for determining canonical network equivalence” (2008): https://doi.org/10.1371/journal.pone.0002051

33 The small-world phenomenon means that the logarithm of the number of nodes converges to the average path length.

34 Duncan Watts & Steven Strogatz, “Collective dynamics of ‘small-world’ networks” *Nature*, 393 (1998): 440–442. https://doi.org/10.1038/30918

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36 Stolovich et al., *El poder económico en el Uruguay actual.* Raúl Jacob, *Banca e industria: un puente inconcluso* (Montevideo: Fundación de Cultura Universitaria-CIEDUR, 1991).

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38 Stolovich et al., *El poder económico en el Uruguay actual.*

39 Ronald Burt, “The network structure of social capital.” *Research in organizational behavior*, Volume 22 (2000): 345–423.

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41 Peter Monge & Noshir Contractor, *Theories of communication networks*. (USA: Oxford University Press, 2003).

42 Linton Freeman, “Centrality in social networks conceptual clarification.” *Social networks*, Volume 1 Issue 3 (1978): 215–239.

43 See Table A1 in the appendix for a complete list of the normalized values.

44 Stanley Wasserman & Katherine Faust. *Social Network Analysis: Methods and Applications*. (Cambridge: Cambridge University Press, 2005).

45 Stolovich et al., *El poder económico en el Uruguay actual.*

46 Stolovich et al., *El poder económico en el Uruguay actual.*

47 Executive decree of August 31, 1983.

48 Miguel Carrió, *País vaciado: dictadura y negociados (1973–1985)*. (Montevideo: Monte Sexto, 1987).

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50 Stolovich et al., *El poder económico en el Uruguay actual.*

51 Carrió, *País vaciado: dictadura y negociados.*

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53 Carrió, *País vaciado: dictadura y negociados.*

54 Luis Bértola & Antonio Ocampo, *El desarrollo económico de América Latina desde la independencia.* (México: Fondo de Cultura Económica, 2013); Diaz Alejandro, *América Latina en los años treinta* (México: Fondo de Cultura Económica, 1988).

55 Bértola & Ocampo, *El desarrollo económico de América Latina.*

56 Carrió, *País vaciado: dictadura y negociados.*

57 Fabián Werner, “La estrategia y la política económica de la dictadura, 1973–1984,” in *El negocio del terrorismo de estado* (Montevideo: Debate, 2016): 183–208.

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59 Stolovich et al., *Compra de Carteras.*

60 Carrió, *País vaciado: dictadura y negociados.*

61 Stolovich et al., *El poder económico en el Uruguay actual.*