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Uruguay's neoliberal shock therapy

In Uruguay, the centre-right government dismantles the very system that made its pandemic response so successful

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'Oasis', 'phenomenon', 'model': the Uruguayan government is receiving plenty of international recognition and approval at home for its successful efforts to control the Covid-19 pandemic so far. And quite rightly. It reacted quickly, decisively and with good judgement, without a harsh lockdown, relying on personal responsibility and scientific advice. The number of active cases has remained consistently low, while locally developed testing capacities are high. Uruguay: once again a positive exception to the rule in South America.

Less international attention, however, has been paid to the fact that the centre-right government, which only came into office shortly before the public health emergency, is ploughing ahead with a comprehensive reform agenda at the same time. In a constitutionally controversial move, it pushed a huge package of laws through both chambers of parliament under a fast-track procedure. But it doesn't provide any answers, or even references, to the historic dimensions of the pandemic-induced recession. Many measures run counter to what one might expect in response to such a fundamental crisis. The only common thread running through the reform package is austerity, deregulation and repression.

Instead of strong economic stimulus packages, the government is tightening its belt. It had already cut the current annual budgets of all ministries by 15 per cent in March – by presidential decree. Instead of public investment programmes, it is now pushing a statutory spending cap through parliament on top of the already existing debt brake. To be sure, with the support of all the parties, it quickly set up a corona fund together with temporary unemployment benefits and a favourable loans scheme for companies. But instead of stimulating domestic demand, it continues to stifle it: in the midst of the pandemic, it raised tariffs for electricity, water and phone services by around 10 per cent and reduced the 4 per cent VAT rebate on card payments, which particularly affects low-income earners.

Neoliberalism with repression

At the same time, in the wage negotiations conducted by the tripartite wage councils, it is pushing for a deal that is significantly below inflation – in other words, a reduction in real wages. The government is rejecting a temporary basic income scheme for the quarter of households still dependent on precarious and informal incomes, as demanded by the opposition and trade unions. Instead, it's relying on charitable measures such as the distribution of food packages. In the Ministry of Social Affairs, 'efficiency-enhancing restructuring' is hampering the functioning of existing programmes – in the midst of the crisis and on top of the budget cuts. By the end of the year, the government has to present its own first budget – then we will see how far it is prepared to go with austerity.

Its second objective is to dismantle regulations which previous governments had used to protect public interests against the interests of capital. The law on financial inclusion, which, among other things, obliges employers to pay salaries only by bank transfer and thus makes tax evasion more difficult, is being wound up. The government is curtailing the unions' right to strike, which is enshrined in the constitution. And although it's finally establishing a ministry of the environment in Uruguay, it wants to open up a large part of the country's protected natural areas for commercial use. Moreover, with a new media law, it wants to restore some of the privileges of the big media corporations, restrict public rights and remove the legal limits on media concentration.

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Thirdly, it is coupling this neoliberal agenda with repression. Among other things, the government is tightening laws on crime and extending both the powers of the police and impunity for armed self-defence. The government's zeal, which has not been curbed even by a pandemic, can be explained in part by the lessons learned from Mauricio Macri's failure in Argentina: instead of a piecemeal approach, it prefers shock therapy right at the beginning of its term of office, defying the resistance from trade unions and social movements.

Additionally, it is uncertain how much longer the five-party coalition can continue to guarantee majorities in parliament. It was held together above all by a shared tactical interest in getting the centre-left alliance Frente Amplio out of office after 15 years, as well as by the integrative

efforts of President Luis Lacalle Pou. In contrast to his predecessor, he has shown himself to be an omnipresent, dynamic, approachable and empathetic crisis manager. He reacted with 'pain and responsibility' to a homeless person's death from the cold. He represents in person the coalition's election promise of 'being ready', and thereby hides the chaos that sometimes reigns in the ranks behind him.

The right gained cultural hegemony

Even eight months after the election victory, numerous government posts are still vacant. Moreover, there are major differences over substance within the coalition and the parties' medium-term interests and strategies are widely divergent. In particular, the militaristic right-wing populist movement Cabildo Abierto is playing its own game against the political establishment. Foreign Minister Ernesto Talvi, leader of the second largest coalition party 'Partido Colorado', resigned in exasperation after only three months. In the parliamentary negotiations, the opposition was able to use the cracks in the coalition to, at least, negotiate the removal of the partial privatiaation of state-owned companies from the current reform package.

In the midst of the Covid-19 crisis, the government's reforms are now threatening to weaken some of the things that set the country apart in the region – and which in part explain its current success in pandemic control. No country in the region is less unequal, no country has reduced the informal sector as much and has such a robust public health system. The welfare state is solid, real wages are high and employment protection is good thanks to strong unions and functioning wage councils. The digital infrastructure is well developed and trust in the institutions, although declining, is higher than in neighbouring countries. Public debt is relatively high, but so are the country's credit rating and the state reserves. In a recent report with which it seeks to attract international investors, the government itself highlights this as an advantage.

At home, on the other hand, it cultivates the narrative of the 'catastrophic legacy' that it supposedly inherited. And here lies part of the explanation for how it was able to win an election in the first place and to maintain broad support: it has won back cultural hegemony. It discredited the previous government with often justified references to continuing grievances, some of which came from the left – only to now strike with measures from the right.

Above all, the government has successfully established the idea that the interests of capital and of the business elite square with the common good. That's then also how the burden of the crisis is to be shared:

whereas the government reduced higher public sector incomes for months by up to 20 per cent to finance the corona fund, and whereas lower incomes have been hit by the measures described above, it categorically rules out higher taxation for the top earners and big companies – after all, they will be responsible for the hoped-for recovery.

Contrary to all neoliberal wisdom, the country had emerged from the deep financial and economic crisis at the beginning of the millennium through active investment policy coupled with progressive social and wage policies and an expansion of civil rights. The upshot was the top ranking in the region on many social, democratic and economic indicators, coupled with the longest unbroken period of growth in its history – which is only now coming to an end in the Covid-19 recession. It may be that the government's hopes for a 'V-shaped' economic recovery will be fulfilled – if international demand, on which it is highly dependent, plays along. But on the path to reducing inequality – which, despite 15 years of progressive government, still has a long way to go – Uruguay is now performing a stark U-turn.



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