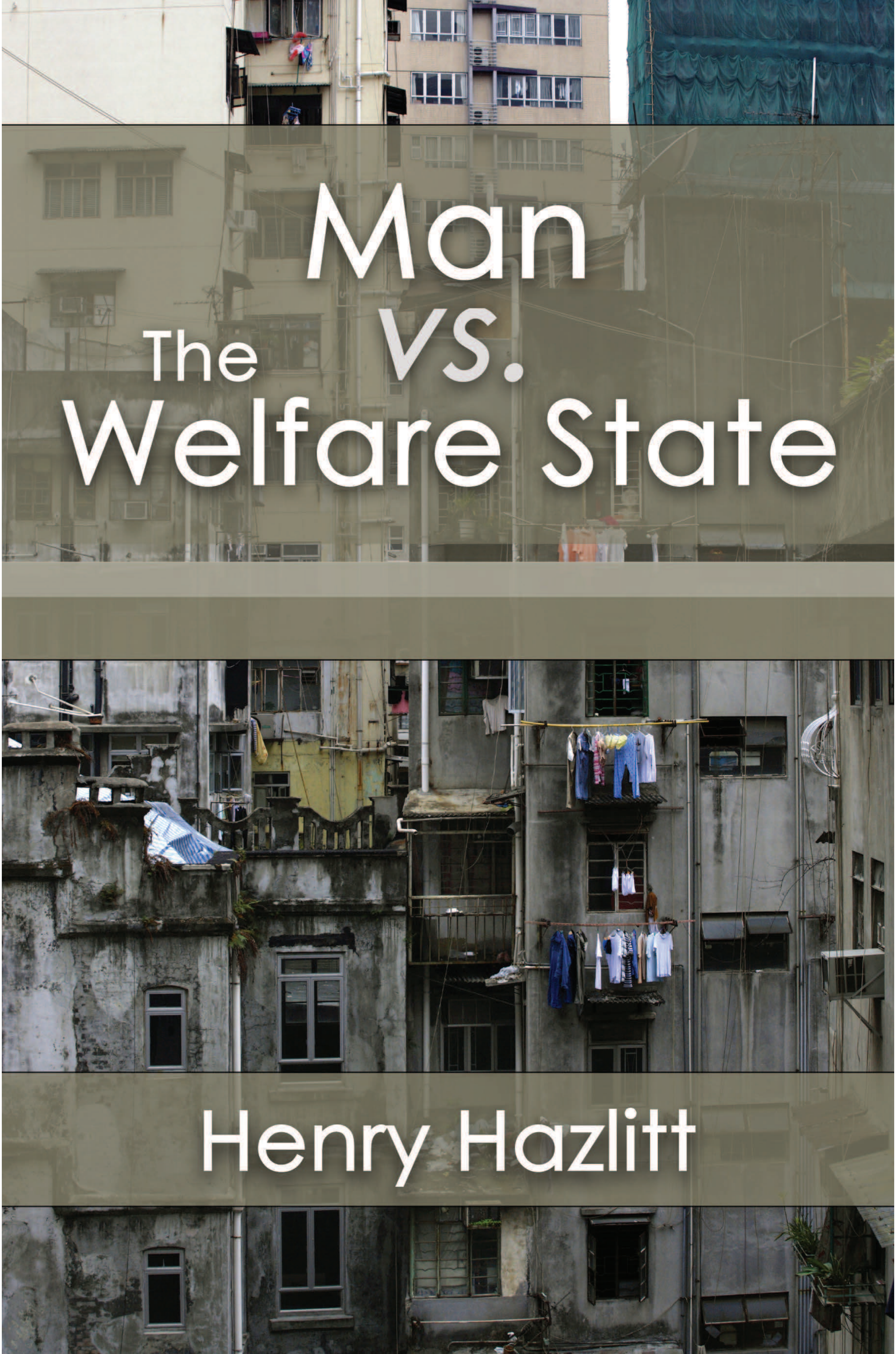

The Man vs. Welfare State

Henry Hazlitt

CHAPTER 18

Uruguay: Welfare State Gone Wild

IF THERE WERE A NOBEL PRIZE FOR THE MOST extreme or worst example of the welfare state (and if the outright Communist states of Russia and China were made ineligible), which country has done most to earn it?

The decision would be a hard one. Among the outstanding candidates would be Britain, France, Sweden, and India. But the British case, though the most familiar, is certainly not the worst; it is the most discussed and most deplored because of the former eminence of Britain in the world.

The tragedy certainly reaches its greatest dimensions in India, with much of its 500 million population always on the verge of famine, and kept there by an incredible mixture of economic controls, planning, welfarism and socialism, imposed by its central and state governments. We have already discussed a few of India's sins of commission and omission in Chapter 9. However, India has always been a poverty-stricken country, periodically swept by drought or floods resulting in human misery on a catastrophic scale, and it is often difficult to calculate just how much worse off its governmental policies have made it.

Perhaps the most dramatic example of a country needlessly ruined by "welfare" policies is Uruguay. Here is a country only about a third larger than the state of Wisconsin, with a population of only about 2.8 million. Yet that population is predominantly of European origin, with a literacy rate estimated at 90 per cent. It was once so distinguished for its high living standards and good management that it was frequently referred to as "the Switzerland of Latin America."

Uruguay adopted an elaborate state pension system as early as 1919. But its major troubles seem to have begun after March, 1952, when the office of president was abolished, and Uruguay was governed by a nine-man national council elected for a four-year term, six members of which belonged to the majority party and three to the leading minority party. All nine were given equal power.

What is so discouraging about the example of Uruguay is not only that its welfare programs persisted, but that they became more extreme in spite of the successive disasters to which they led. The story seems so incredible that instead of telling it in my own words, I prefer to present it as a series of snapshots taken by different first-hand observers at intervals over the years.

The first snapshot I present is one taken by Karel Norsky in the *Manchester Guardian Weekly* of July 12, 1956:

Uruguay today offers the sad spectacle of a sick Welfare State. It is living in a Korean boomday dream. . . . No politician comes out with the home truth that this country's wide range of welfare services has to be paid for with funds which have to be earned. Demagogy is used as a sedative. The result is that the foreign payments deficit is increasing, internal debt soaring, wage demands accumulating, prices rising, and the Uruguayan peso rapidly depreciating. Nepotism is rife. Now one in every three citizens in Montevideo, which accounts for a third of the country's 3 million inhabitants, is a public servant, draws a small salary, is supposed to work half a day in a Government office, and more often than not spends the rest of his time doing at least one other job in a private enterprise. . . . Corruption is by no means absent. . . .

The foreign payments deficit has been running at a monthly rate of about 5 million pesos. The public servants are asking for a substantial increase in salaries. The meat-packing workers are on strike for higher pay and a "guaranteed" amount of a daily ration of four pounds of meat well below market price. . . .

No politician here can hope to get a majority by advocating austerity, harder work, and the sacrifice of even some of the Welfare State features.

I should like to pause here to underline this last paragraph, for it illustrates what is perhaps the most ominous aspect of the welfare state everywhere. This is that once a subsidy, pension, or benefit payment is extended to any group, it is immediately regarded as a "right." No matter what the crisis facing the budget or the currency, it becomes "politically impossible" to discontinue or reduce it. We will find this repeatedly illustrated in Uruguay.

The next snapshot I present was taken by S. J. Rundt & Associates of New York nearly seven years later, in April, 1963:

In one of his first statements the new President of the National Council admitted that Uruguay is practically bankrupt. . . . He made it pretty clear, however, that the country's welfare system of long standing will remain more or less unchanged.

The "social laboratory of the Americas," Uruguay has launched a legislative program which goes much further toward the complete "welfare state" than any similar plan in this hemisphere. . . . The government grants family allowances based on the number of children; employees cannot be dismissed without proper indemnification; both men and women vote at the age of 18. . . .

An elaborate and all-encompassing state pension system was introduced as early as 1919. Financed by payroll deductions of 14 to 17 per cent, which must be matched by employers, a pension is available to any Uruguayan at the age of 55 after 30 years of work, or at 60 after 10 years. At retirement, the worker draws his highest salary, plus what has been deducted for pensions. . . . Employees obtain free medical service and are entitled to 20 days of annual vacation with pay. The government takes care of expectant and nursing mothers.

The overwhelming expenses of a super-welfare state (where nearly one-fifth of the population is dependent on government salaries) and the uncertain income from a predominantly livestock and agricultural economy have left their marks. Today, Uruguay is in severe financial and fiscal stress. . . .

Inflation is rampant. . . . Local production has declined sharply. Unemployment has risen. There are many severe strikes. Income from tourism has fallen off markedly. . . .

So far as exchange controls and import restrictions are concerned, Uruguay has tried them all. . . .

In an effort to prevent another buying spree in 1963, the new Administration decreed an import ban for 90 days on a wide array of goods considered non-essential. . . . All told, the ban applies to about one-third of all Uruguayan importations. . . . The smuggling of goods, mainly from Brazil and

Argentina, has become one of the foremost headaches of Montevideo planners. . . .

Capital flight during 1963 is estimated at between $40 million and $50 million. . . .

The budget deficit in 1961 nearly doubled to 210 million pesos. The situation turned from bad to worse in 1962 when the Treasury recorded the largest deficit in 30 years. . . . Press reports cite a red figure of 807 million pesos. The Treasury is said to owe by now nearly 700 million pesos to the pension funds and roughly a billion pesos to Banco de la República. The salaries of public officials are at least one month behind schedule. . . .

Labor costs in Uruguay, the Western Hemisphere's foremost welfare state, are high. The many contributions toward various social benefits—retirement, family allotments, sickness, maternity, accident, and unemployment insurance—vary from industry to industry, but the general average for industry as a whole is at least 50 per cent of the payroll. In some sectors, the percentage is much higher. . . .

Social unrest is rising. . . . Widespread and costly strikes have become the order of the day. As a rule, they involve demands for pay hikes, sometimes as high as 50 per cent.

Our third snapshot was taken by Sterling G. Slappey in *Nation's Business* magazine four years later, in April, 1967:

Montevideo—Two hundred imported buses are rusting away on an open dock while Uruguayan government bureaucrats bicker with each other over payment of port charges. The buses have not moved in nearly four years.

Scores of men listed under false female names receive regular government handouts through Uruguay's socialized hospitals. They are listed as "wet nurses."

At many government offices there are twice as many public servants as there are desks and chairs. The trick is to get to work early so you won't have to stand during the four to six hour workday that Uruguayan bureaucrats enjoy.

It is rather common for government workers to retire on full pay at 45. It is equally common to collect on one retirement while holding a second job or to hold a job while collecting unemployment compensation. These are a few of the facts of life in Uruguay—a nation gone wild over the welfare state. . . .

Between 40 and 45 per cent of the 2.6 million people in this once affluent land are now dependent on the government for their total income. These include youthful "pensioners" who have no great problem getting themselves fired or declared redundant, thereby qualifying for large retirement benefits. . . .

At any given moment eight to ten strikes are going on, in a nation which until fifteen years ago called itself "the Switzerland of Latin America" because its people were so industrious, busy and neat. Montevideo is now one of the world's filthiest cities outside the Orient. The people have so little pride left they litter their streets with paper and dump their nastiest garbage on the curb. . . .

Besides controlling meat and wool production and supplying meat to Montevideo, the government also entirely operates:

Fishing; seal catching; alcohol production; life and accident insurance; the PTT—post office, telephone and telegraph; petroleum and kerosene industry; airlines; railroads; tug boats; gambling casinos; lotteries; theaters; most hospitals; television and radio channels; three official banks; the largest transit company. . . .

In 1950 the Uruguayan peso, South America's most solid coin, was worth 50 cents. During a six-day period last February, the value of the peso slumped from 72 to the $1 to 77.

Cost of living went up 88 per cent in 1965. During 1966 the increase was something like 40 to 50 per cent.

To keep pace the government has increased its spending, ground out more paper money and lavishly passed out huge pay raises—some as high as 60 per cent a year. . . .

One fiscal expert diagnoses Uruguay's troubles as "English sickness" which, he says, means trying to get as much as possible out of the community while contributing as little as possible towards it.

Until President Gestido took over, Uruguay had been ruled for fifteen years by a nine-member council in a collegiate system of government. It was idealistic, unworkable and rather silly from the start. It quickly fragmented, making the government a coalition of seven different groups. Every year a different member of the council took over as president, or council chief.

The collegiate system was a Tammany Hall patronage-type of group. Instead of each party watching the opposition, all took care of their friends and got their cousins government sinecures.

The western world has rarely seen such patronage, nepotism, favoritism.

The return to a presidential system brought hopes that Uruguay's extreme welfarism could now be mitigated. But here is our fourth snapshot, taken by C. L. Sulzberger for the New York *Times* of October 11, 1967:

Montevideo—Contemporary England or Scandinavia might well take a long southwesterly look at Uruguay while murmuring: "There but for the grace of God go I." For Uruguay is the welfare state gone wild, and this fact, at last acknowledged by the government, brought about today's political crisis and the declaration of a state of emergency.

This is the only country in the Western Hemisphere where the kind of democratic socialism practiced in Norway, Labor Britain or New Zealand has been attempted. Alas, thanks to warped conceptions and biased application, the entire social and economic structure has been set askew. Here charity begins at home. One out of three adults receives some kind of pension. Forty per cent of the labor force is employed by the state. Political parties compete to expand a ridiculously swollen bureaucracy which only works a thirty-hour week. . . .

The cost of living has multiplied 32 times in the past decade. Gross national production has actually declined 9 per cent and this year will take a nose dive. . . .

Instead of having one President, like the Swiss they elected a committee and, not being Swiss, the Uruguayans saw to it the committee couldn't run the country. The result was a system of self-paralysis. . . .

Anyone can retire on full salary after thirty years on the job, but with full salary worth one thirty-second of its worth ten years ago, the pension isn't very helpful. To compound the confusion, trade unions make a habit of striking. Right now the bank employes refuse to handle government checks so neither wage-earners nor pension-receivers get paid. . . .

This was a needless tragedy. Uruguay has proportionately more literacy and more doctors than the United States. It is underpopulated and has a well-developed middle class. . . .

Uruguay should serve as a warning to other welfare states.

Our fifth snapshot was taken by S. J. Rundt & Associates on August 6, 1968:

The mess continues . . . and seems to perpetuate itself. . . . The government is getting tougher and Uruguayans more obstreperous. The powerful and sharply leftist, Communist-led 400,000 member CNT (National Workers Convention) is on and off 24-hour work stoppages in protest against the lid clamped on pay boosts by the price, wage and dividend freeze decreed on June 28. . . . The currently severe six-month drought has brought a gloomy brownout, after a 50 per cent reduction in electric power use was decreed. . . . The near-darkness helps sporadic anti-government rioting and terrorist activities. A leading pro-government radio transmitter was destroyed by bombs. . . . Last year there were 500 strikes; the dismal record will surely be broken in 1968. . . .

Of a population of around 2.6 million, the number of gainfully active Uruguayans is at the most 900,000. Pensioners number in excess of 300,000. Months ago the unemployed came to 250,000, or almost 28 per cent of the work force, and the figure must now be higher. . . .

The government closed at least three supermarkets and many stores for having upped prices, as well as such institutions as private hospitals that had violated the wage-price freeze decree. But despite rigid press censorship and Draconian anti-riot and anti-strike ukases, threatening punishment by military tribunals, calm fails to return.

Our sixth and final snapshot of a continuing crisis is from a New York *Times* dispatch of January 21, 1969:

Striking Government employes rioted in downtown Montevideo today, smashing windows, setting up flaming barricades and sending tourists fleeing in panic. The police reported that one person had been killed and 32 injured.

The demonstrators acted in groups of 30 to 50, racing through a 30-block area, snarling traffic with their barricades, and attacking buses and automobiles. The police fought back with tear gas, high-pressure water hoses and clubs. . . .

The striking civil servants were demanding payment of monthly salary bonuses of $24, which they say is two months overdue.

These six snapshots, taken at different intervals over a period of thirteen years, involve considerable repetition; but the repetition is part of the point. The obvious reforms were never made.

Here are a few salient statistics to show what was happening between the snapshots:

In 1965 consumer prices increased 88 per cent over those in the preceding year. In 1966 they increased 49 per cent over 1965. In 1967 they increased 136 per cent over 1966. By August, 1968, they had increased 61 per cent over 1967.

The average annual commercial rate of interest was 36 per cent in 1965. In 1966, 1967, and August, 1968, it ranged between 32 and 50 per cent.

The volume of money increased from 2,924 million pesos in 1961 to 10,509 in 1965, 13,458 in 1966, 30,163 in 1967, and 40,738 million pesos in August, 1968.

In 1961 there were 11 pesos to the American dollar. In 1965 there were 60; in 1966 there were 70; in early 1967 there were 86; at the end of 1967 there were 200, and in April, 1968, there were 250.

Uruguay's warning to the United States, and to the world, is that governmental welfarism, with its ever-increasing army of pensioners and other beneficiaries, is fatally easy to launch and fatally easy to extend, but almost impossible to bring to a halt—and quite impossible politically to reverse, no matter how obvious and catastrophic its consequences become. It leads to runaway inflation, to state bankruptcy, to political disorder and disintegration, and finally to repressive dictatorship. Yet no country ever seems to learn from the example of another.