

URUGUAY: THE RISE AND FALL OF A WELFARE STATE SEEN AGAINST A BACKGROUND OF DEPENDENCY THEORY

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RESUMEN

Después de la segunda Guerra Mundial, Uruguay era conocido como "La Suiza de Latinoamérica". Su población gozaba de un alto nivel de vida y la democracia funcionaba mejor que en muchos otros países de América Latina. Esta situación empezó a cambiar a comienzos de la década del 50. Uruguay se vio enfrentado a crecientes problemas económicos, decremento del bienestar y decadencia política y, desde 1968, a una considerable emigración.

El artículo examina el "desarrollo del subdesarrollo", valiéndose críticamente de la teoría de la dependencia como marco explicativo. El trabajo estará dividido en las siguientes secciones:

1. breve descripción del surgimiento del Uruguay como estado de bienestar social.
2. Descripción más detallada de la débil base económica de este estado de bienestar.
3. análisis de la decadencia económica, social, política y demográfica del país y sus causas.

Un factor crucial en el proceso de deterioro parece haber sido la negligencia por el sector primario, el cual permaneció en un nivel de desarrollo comparable al del siglo 19. En ningún

momento se realizaron serios intentos por intensificar la producción ganadera y los modelos de distribución desigual de la tierra continuaron existiendo.

En la sección final del artículo se analizan los problemas uruguayos contra el fondo de la teoría de la dependencia. El deterioro gradual del bienestar no se puede explicar satisfactoriamente como el resultado de la dominación externa y la dependencia desde el surgimiento de la economía agrícola orientada a la exportación. Una explicación más adecuada parece estar en la incapacidad y renuencia por desarrollar antes el sector agrícola. Tal desarrollo no hubiera estado en desacuerdo con los intereses de los países desarrollados. Esto sugiere que las causas del estancamiento en el desarrollo del Uruguay son principalmente internas.

1. INTRODUCTION

Uruguay was known after the Second World War as the Switzerland of Latin America. Its population enjoyed a high standard of living and democracy functioned there better than in many other Latin American countries. There has been a change in this situation since the beginning of the 1950's. Uruguay was confronted with serious economic problems, a reduction in prosperity, political tensions and, since 1968, with a considerable emigration. This development of 'underdevelopment' will form the central theme of the present article, taking the dependency theory as an

interpretation context, although in a critical manner.

A very brief description will first be given of the rise of Uruguay as a welfare state, after which the weak economic basis of the country's prosperity and its economic, social, political and demographic decline and their underlying causes will be examined in greater detail. The article concludes with a postscript in which the developments described are viewed against the background of the 'dependencia' theory.

II. FROM GAME PRESERVE TO WELFARE STATE

Uruguay was for a long time an area of little significance. After the discovery of America the Spaniards quickly found that Uruguay did not grow any important spices or contain valuable minerals which could be easily exploited. The country also proved to be practically uninhabited, which meant that there were no large groups of Indians whose labour could be used or who could pay taxes. The Spaniards did ferry horses and cattle over from Buenos Aires in 1603. These animals rapidly multiplied and were hunted occasionally.

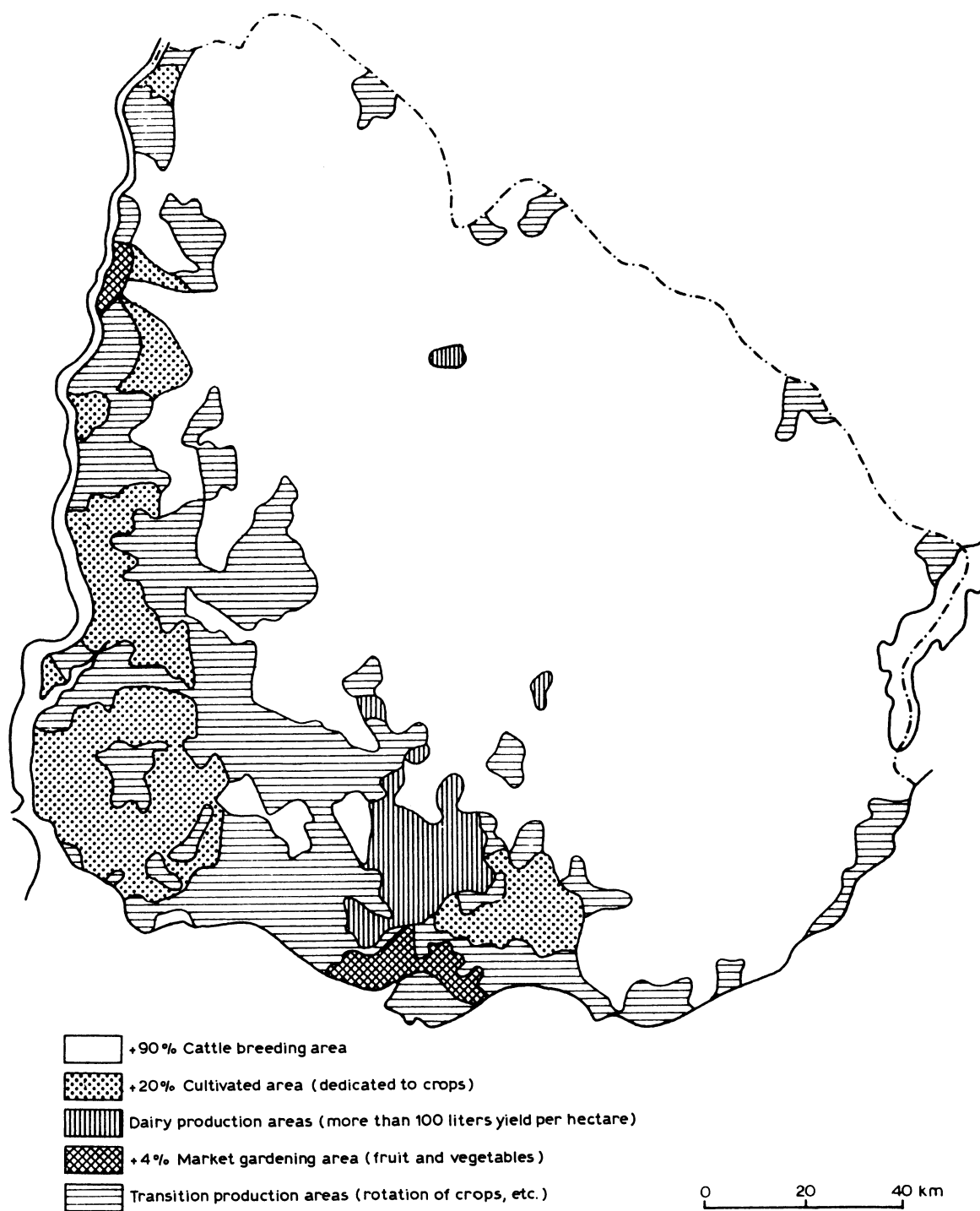
Not until the 18th century, when the trading prospects in hides and dried meat became rather more lucrative, were permanent settlements created, which served mainly as trading posts and formed the permanent headquarters from which the 'gauchos' hunted the cattle. At that time the Spanish crown also granted rights on the land, thus laying the foundation for the great 'estancias'. After that the large landed estates began their expansion northwards from the southern coastal region and the Uruguay river. Extensive cattle and sheep farming remained the only activity of any significance. The population consequently remained very sparse. When Uruguay became an independent state in 1828 through the intervention of the British and, as such, came to function as a buffer between Argentina and Brazil, the country had no more than 60 to 70,000 inhabitants, of whom some 15,000 lived in Montevideo.

After independence important changes took

place in the economic sphere as a result of the development from the middle of the last century of an export-oriented, capitalistically organised, livestock farming economy. Besides the Uruguayans themselves, it was mainly the British who recognized the favourable conditions for the practice of cattle and sheep farming and began to encourage its development through the supply of high quality breeding animals and various other assets (such as barbed wire), the establishment of a meat extract plant at Fray Bentos, the construction of railways, the introduction of refrigerated ships and the building of a modern abattoir with ancillary processing plants (frigorífico). At the beginning of the present century the Americans also provided capital for the construction of two 'frigoríficos' at Montevideo. As a result of all this the cattle and sheep population expanded rapidly and a further occupation of the territory took place. The greater part of the land came into the hands of large landowners, who continued to exploit it in an extensive manner, so that the yields per hectare remained low.

Only 12% of the agricultural land was ultimately used for arable farming, which mainly served for national self-sufficiency and largely developed during the present century, when the economic depression and the war led people to realise that the lack of attention to arable farming had resulted in an extreme dependency. The greater part of the arable farming is practised in the southern and western part of the country, which is the most suited physically to the purpose and has the largest concentration of population (map 1).

The dependency on imported industrial products was also exposed in the present century and the Uruguayan government has consequently strived since the First World War to expand manufacturing industry by such means as protection and the setting up of government-owned factories. The need to provide additional employment in Montevideo was a further important motive here. By 1961, 27% of the economically active population was employed in the secondary sector and the contribution of manufacturing industry to the gross domestic product was 28% in 1955. The greater part of the industry was service industry at the national level. Uruguay was by



Map. 1. Principal Land Use Regions in Uruguay
 (Source: Ministerio de Agricultura)

then itself already producing many consumer goods in common use. The majority of factories, with the exception of the frigoríficos, operated with Uruguayan capital.

The strong emphasis on extensive livestock farming had important consequences for the size and distribution of the population. Although the rise of the export-oriented livestock farming economy did make possible the immigration of 648,000 persons during the period 1836-1926, this immigration was not very large by comparison with the immigration into the neighbouring countries of Brazil and Argentina. Uruguay, which had only 229,000 inhabitants in 1860, still had no more than 505,000 in 1882, only 1.14 million in 1910 and 1.9 million in 1930.

The majority of immigrants did not go to the countryside, because the extensive sheep and cattle ranches there offered little employment. Many found a living in the secondary and tertiary sectors in the city. The countryside remained very thinly populated and one of the direct consequences of this was that the growth of the urban centres was severely restricted, since they could perform only a modest service function.

The most important towns after Montevideo were Salto and Paysandú, but even today they still have each only about 80,000 inhabitants. The remaining urban centres are still more modest and often even have fewer than 10,000 inhabitants. They fulfil mainly a commercial and administrative function and also serve as the residence of 'estancieros', who leave the daily running of their ranches to managers. With the exception to some extent of Paysandú, no industry of any importance is to be found in these centres.

The only settlement with a real urban character is Montevideo. Although the whole country had a population of only 2.76 million in 1975, no less than 1.23 million people lived in the capital. Consequently, its population is about 16 times as large as that of the second city, Salto. Montevideo calls the tune in many fields. This pronounced primacy is partly the result of the city being ahead at the moment of independence, and partly of the attraction which the capital has always been able to exert, in a small and easily accessible territory, on economic activities and facilities of all kinds and, through them, on the population. A regional

decentralisation policy which could have compensated for this was not considered necessary.

In about 1950 Uruguay had a very unbalanced economy. Although it could already supply many of its own needs in arable products and simple manufactured goods, 90-95% of exports were still accounted for by products from the primary sector (mainly wool, meat and hides). It goes without saying that the one-sided character of the export trade made the country vulnerable and dependent upon international price fluctuations and changes in international demand.

It should not be concluded that Uruguay in about 1950 was a 'normal' Latin American country. When the majority of Latin American states after the Second World War could be described without hesitation as 'underdeveloped', Uruguay was known as the Switzerland of Latin America.

Although the country was completely dependent in the economic field on the export of a few primary products, until the early 1950's the volume of exports, prices and rate of exchange were such that the balance of payment was in Uruguay's favour. Inflation was very low. Many countries even regarded Uruguay after the war as such a healthy and stable country that they deposited a lot of capital in the Uruguayan banks. Moreover, Uruguay was successful at that time in reducing considerably the British investments. Politically, Uruguay was regarded as a model. While many other Latin American countries were regularly convulsed by civil war, revolution and violence, peace and order prevailed in Uruguay. Democracy functioned there in an exemplary manner.

Uruguay, too, after its independence was for a long time the scene of political disturbances, but these came to an end under the progressive president Batlle y Ordoñez (1903-1907). During his second term of office, in particular (1911-1915), many administrative reforms were carried out or set in train and the foundation was laid for a properly functioning democratic system, which was respected and valued by all 'Uruguayos' in the period around 1950. The army was a small one and did not concern itself with political matters.

Socially Uruguay was far ahead of the other

Latin American countries after the Second World War. Batlle y Ordoñez believed that much of the unrest in his country was related to the contrast between rich and poor. He and his followers of the Colorado party, which ruled the country, tried to abolish this by means of a comprehensive welfare policy. Consequently, the life of the Uruguayans in about 1950 was characterised by a high measure of security. The social provisions were even better than in the majority of European countries.

The symptoms of underdevelopment, which are characteristic of Latin American countries, were lacking. Thanks to a low birth rate (13.5 per thousand) population growth was no more than 1-1.3% per annum. Life expectancy approached 70 years. The majority of Uruguayans were, moreover, well-fed and (partly thanks to government subsidies) generally reasonably or even well housed. More than 90% of the population could read and write. From the standpoint of welfare many people belonged to the middle class. A large part of this class was formed by salaried workers, employed in service trades, and by officials. In order to reduce unemployment and raise the level of welfare Batlle and his followers created many jobs, particularly in the government sector. The government's extended welfare policy indeed also made this desirable.

III. FROM PROSPERITY TO CRISIS

Stagnation in the Livestock Sector

After 1955 an increasingly serious crisis developed in Uruguay. The vital agricultural export trade ran into difficulties and this had consequences for the whole economy. The causes of the crisis are primarily of a structural nature.

The Uruguayan 'estancieros' had scarcely begun to intensify their livestock farming. According to Prost (1977) the cattle and sheep population had already been fully improved in about 1935 by the introduction of new breeds and certain other measures (such as vaccination) and, moreover, all the suitable grazing land had been occupied. Since then the livestock farming has been little more than the continuation of a routine. Consequently an expansion of the livestock population was scarcely any longer possible and the

number of animals in the 1960's was not appreciably higher than at the beginning of the present century. As a result there has not been a significant rise in agricultural production (2/3— 3/4 of which is generally derived from the livestock sector) for nearly 40 years (Brannon, 1957). In the period 1948-1950 average meat production was 341,000 tons per annum, in the 1960's it was 376,000 tons. If, as in New Zealand, more intensive methods had been applied, this figure could have been two or three times as high. Against the stagnation in the livestock sector, however, there was a growth in the human population, which was more rapid than the increase in agricultural production. While the population of the country in 1900 was only 936,000, it had risen to 2.3 million in 1940 and was estimated at 2.9 million in mid 1977. After 1920, moreover, the level of prosperity rose considerably.

All this resulted in a continuing rise in home meat consumption and, to a lesser extent, in the demand for wool, leather etc. In Uruguay, in particular, this had serious consequences for export prospects, since the 'Uruguayos' have traditionally consumed large quantities of meat. In the period 1940-1950 the average annual consumption of meat per head of the population was 106.4 kg. and, in 1969, when the country was already considerably impoverished, the figure stood still at 77.5 Kg.

Apart from a rising meat consumption, the higher prosperity also meant that more demands were made on life in many other fields and that therefore more had to be produced or imported. In order to be able to realize this more exports were needed, but these were not forthcoming, because the production ceiling had been more or less reached on the extensive sheep and cattle ranches. Instead of an increase there was in fact a decrease. In the period 1935-1937 about 51% of the livestock products and 24% of the arable crops were destined for export; in the years 1959-1961 the proportions were only about 31% and 13% respectively (Petit de Prego, 1978).

This account of an increasing imbalance between production, home consumption and exports, however, is not the end of the story of the problems of the livestock sector. The explanation

of the crisis must also be partly sought in international price developments. For many years there was a heavy demand for wool and prices were favourable. During and shortly after the Second World War they can only be described as high. Since then, however, they have risen insufficiently or even fallen, mainly as a result of the increasing production of artificial fibres. To a lesser extent the same applies to the prices of hides, since substitutes are also increasingly being used for leather. Meat prices, which had been relatively stable during the pre-war period and had even increased considerably during the 1940's, also declined after 1955. Supply within the E.E.C. and of a number of non European producers continued to expand. In particular, after the end of the Korean war there were marked falls in the prices of a number of agricultural products.

The prices of industrial raw materials and end-products, however, most of which Uruguay had to import, did not fall or did so to a lesser extent. In comparison with primary products, therefore, these goods tended to become dearer. The consequence was that Uruguay had to export increasingly large quantities of primary products in order to maintain its level of imports, something which was impossible because the production ceiling of its extensive agriculture had been reached. As a result, the balance of payments became increasingly unfavourable.

The Role of the Large Landowners.

It was already realised in the 1950's that an increase in agricultural production was needed and that this could not be obtained through an expansion of the farming area, but only through intensification. There had to be higher yields per hectare.

This intensification is difficult to realise in practice, however. A fundamental obstacle is the attitude of the (absentee) large landowners. They have always been accustomed to devote little care to their estates and to leave the running of them as far as possible to managers. Put another way, they have always been exploiters of livestock and land, but not entrepreneurs, constantly concerned to

increase their own production through intensification and other measures. Many are still satisfied with a net yield of 7 dollars per hectare of extensively used pasture land (Prost 1977).

When intensification proved in the course of time to be increasingly unavoidable many 'latifundistas' lacked not only the interest, but the necessary capital, for many incomes are absorbed in providing the necessities of life, so that insufficient is left over for investments to increase production. It is not only a question of lack of capital, however, because if it were, the provision of credit would offer a solution. A more basic difficulty is perhaps that intensification of production also means a completely different form of operation, with much more attention to the running of the estate. This implies, for example, that the landowners require knowledge of modern agriculture, but many of them have never studied advanced production methods. It also means the introduction of more labour, which is scarce in the countryside and, therefore, expensive.

Weakened Competitiveness

The situation became even more unfavourable because wages began to rise. After the war people in the countryside became increasingly less content to lead simple, or even sober lives, which was, in any event, not to be expected in a country where the great majority of the population had already found non-agricultural occupations in the cities and had already achieved a level of prosperity that was high by Latin American standards. The agricultural workers therefore also began to desire higher wages, while the more active, in particular, exchanged a livelihood in the countryside for one in the city. In the cities, too, labour costs rose, particularly in the 1940's and early 1950's. According to Pendle (1963), the wages of the members of 31 trade unions increased by 110% between 1948 and 1954, but the cost of living by 58%.

Wage increases and government subsidies certainly do not have to be disadvantageous to the economy, provided they are balanced by a rise in productivity. The latter did not take place sufficiently, however. The wage increases and the increasingly extensive social provisions consequently resulted in an increase in production costs,

which certainly did not improve the country's competitive position on the international market.

Various other countries, on the other hand (such as Australia and New Zealand), saw the opportunity to compensate for the deteriorating market prospects by measures in the production sphere aimed at maintaining a favourable level of prices, thereby intensifying competition.

Developments in this direction had indeed already begun earlier, but their effect had remained limited because of the exceptional situation during and after the Second World War. Great Britain, which had been an important customer for Uruguayan products until the beginning of the 1920's, had become increasingly orientated since the world depression and the creation of the British Commonwealth towards such areas as Australia, New Zealand and South Africa. These countries consequently came to occupy a privileged position. Uruguay, however, did not form a part of the British Commonwealth and, because of its limited and even declining export trade, also proved to be decreasingly able to exert an influence on the international market for animal products and the price developments occurring there.

The Role of the Government and of the Population

The responsibility for the present-day problems does not lie exclusively with the large landowners, who have reacted insufficiently to changing circumstances. The rest of the Uruguayan population and the government also had a share in the creation of the present crisis, while the latter —as was shown above— was also due in part to unfavourable international developments.

As far as the Uruguayan government is concerned, it may be noted that it has always left the large estates alone and thereby only favoured the climate for extensive production. Even under the progressive government of President Batlle y Ordoñez serious steps were never undertaken by the state to break up the large estates. His regime drew its support mainly from the urban population and had an urban orientation. Many rural problems went unnoticed by his government.

It is, in fact, not surprising that serious attempts were never made to break up the estates, since the large landowners have always had a considerable influence in administrative circles. The senior officials of the Ministry of Agriculture generally originated from the class of the cattle and sheep-raising *latifundistas*. They incidentally had no need to avail themselves of their influence, since their livelihood remained unthreatened. No attempt was even made through the democratic process to split up the large estates.

This last fact certainly does not mean that there have not been social problems in the Uruguayan countryside. Until the 1920's rural prosperity was certainly not high. Many country-dwellers migrated in search of work and the villages of that time were characterised as '*pueblos de ratas*'. The rural population was very small, however, and not growing rapidly. It was also scattered, so that it was not easily to form a large and well-organised rural pressure group, which could demand the splitting up of estates. Moreover, those country dwellers who were dissatisfied with their situation could seek an alternative livelihood in the city. For a long time they could do this without much difficulty. Many incomes from livestock farming were spent in the city, thus creating a considerable amount of employment there. The government also made its contribution by expanding the number of jobs in the public sector and encouraging industry. It also provided good social services. Thus the urban economy was able for a long time to absorb the rural labour surplus, which was, in any event, not very large. Once incorporated into urban society the rural migrants no longer had any direct interest in pressing for land reform or intensification.

Not only had the Uruguayan government never made any serious attempts to divide up the '*latifundios*', but neither had it invested very much in agricultural research, education or advice. Even during the period 1955-1961 an average of only 2.6% of government expenditure went to agriculture and fisheries, even though much government income was derived directly or indirectly from agriculture. Defence, on the other hand, received 15.8% (Brannon, 1967).

Brannon (1967) also states that the government has neglected to encourage the landowners to

intensify production. The method of taxation of imports and exports increased the costs of means of technical improvement, while reducing the prices paid to producers and therefore the profit margins of stock breeders and farmers. The prices paid for wool and meat were generally kept below those in competitor countries. Fiscal policy was, moreover, often arbitrary, so that there was a lack of the necessary confidence for investments. As a result of all this there was insufficient incentive to increase the production.

Nor was sufficient use made of the instrument of income tax to encourage investment. If it had been, farm improvements could have been offset against tax.

Taxation measures to encourage intensification found little sympathy among the politically influential large landowners, nor did they have much support among the officials responsible for tax collection. The latter have always regarded the proper application of certain tax laws as a troublesome and time consuming chore, especially as they could not always enforce their authority in the provinces.

The government has therefore always obtained a large part of its income from levies on imports and exports, but this had the disadvantage of encouraging the smuggling of agricultural products, for example, to Brazil, where prices were often more favourable. Such levies also meant a uniform tax, both on those owning a lot of land and those owning a little. Accordingly, there was no question of a progressive taxation system as a means of countering the extensive exploitation of the large estates. Not until 1968 was a serious attempt made to increase the productivity of the land through fiscal compulsion. The intention was that the measures drafted for the purpose should come into full operation in 1971. Opposition from the farmers and some government officials, however, and the absence of a proper system of land classification by quality classes meant that hardly any success was achieved (Griffin, 1974; Kirby, 1975).

Nor was it possible to achieve a significant intensification of the majority of large agricultural holdings through production subsidies and credit facilities. Measures of this kind are generally most successful where they enable the recipient to

augment a meagre income, but many landowners already earned enough from their land and did not need higher incomes when this also meant that they had to devote a lot more care to their enterprise. As a result, part of the credit facilities was not taken up.

A not unimportant factor, finally, is that the relatively large urban population has wanted to keep its cost of living as low as possible and the government has gone along with this through its prices policy. Although the result has been an absence of social unrest in the cities, in the countryside it has checked intensification of production.

A further important point is that the city dwellers—but also many country dwellers—accepted 'Bathism' for many years. In other words, they accepted a government policy which aimed at smoothing out class differences by protecting the large landowners, while countering social discontent among the mass of the population through extensive social legislation and expanding employment in the public sector, although the economic basis for such measures was narrow and vulnerable. In fact, a large part of the national budget was swallowed up by consumer-oriented expenditure, leaving insufficient means to strengthen and diversify the economy.

Because of the limited population and favourable export conditions no problems arose for a long time, but already by the 1950's it appeared that the policy which had been followed so far had not been sensible in every respect. Labour costs had risen to an exceptional height by Latin American standards. They weakened the country's ability to compete internationally, in the industrial as well as in the agricultural field, and caused the government enterprises to operate at a loss. These losses were borne by the state. The extensive social provisions and subsidies formed an increasing burden on the national economy, especially since these provisions naturally had to be increased periodically to keep in step with the demands of the time. The country's income stagnated, on the other hand. It became very clear, particularly in the 1960's, that the policy had been too progressive in various respects and that retrenchment was needed.

An Equally Underdeveloped Arable Farming

Uruguay will not only have to modernise and intensify the livestock sector in order to be able to produce more cheaply and in greater quantity for the home market and for export; it will also have to develop its arable farming further. Prost (1977) has pointed out that the natural conditions bring greater production risks for arable than for livestock farming. A further important fact, however, is that in thinly populated Uruguay, with its extensive areas of land, livestock farming has always been a much simpler and less labour-intensive form of subsistence. In view of the attractiveness of livestock farming, the government has always had to take active steps to encourage the expansion of the arable area and many arable farmers have tried to become livestock farmers where possible. It is, of course, not easy to change such attitudes, but in view alone of the necessity to produce more animal feedstuffs, it would be desirable to expand the area of arable land.

The people who do take a positive attitude towards arable farming are hindered in their efforts to expand the area or intensify cultivation by the constant failure of the government to do enough in the field of agricultural advice and education. As a result, many of them do not have the appropriate knowledge, nor can they call upon an extensive backup structure. Technically, therefore, arable farming has remained at a low level.

Other handicaps are obviously the limited home market, export difficulties and the shortage of labour in the countryside. A further important negative factor, particularly among the smaller arable farmers, is the lack of capital.

In this connection, attention should be drawn to the fact that although Uruguay is characterised on the one hand by the existence of many 'latifundios', another problem of the agricultural sector arises from the presence of many small-sized holdings. In 1961 no less than 46% of holdings were smaller than 20 ha, although they occupied in total only 1.9% of the area used for agriculture. On these holdings, however, lived 40% of the farm population. No less than 44% of their area consisted of natural grassland and 25% of

Table 1. Farm Size Distribution in Uruguayan Agriculture (1961)

Farm Size Classes	as % of Holdings	as % of area of agricultural land
1-10 ha	29.68	0.72
10-20 ha	16.14	1.16
20-50 ha	18.08	2.29
50-100 ha	10.92	3.97
100-200 ha	8.50	6.13
200-500 ha	8.03	12.80
500-1000 ha	4.27	15.36
1000-2500 ha	2.98	23.51
2500-5000 ha	1.02	17.91
5000-10.000 ha	0.32	10.93
10.000 ha and above	0.06	4.59
All size classes	100.00	100.00

Source: Agricultural census, 1961.

arable land, on which mainly wheat and maize were grown, the yields of which were below the national average. Many small farms, therefore, also prove to be characterised by extensive land use and low yields. The consequence of this situation is that incomes within the agricultural sector are unequally divided. In 1967, 58% of farm families earned only 27% of the agricultural income, while at the other end of the scale, 6.3% of farm households received 24% of the income (Kirby, 1975). This makes saving impossible on many holdings.

The situation in respect of renting of land certainly also favoured in no small degree the non-intensive character of the arable farming. No less than 50.4% of all the land in agricultural use at the end of the 1960's was rented in one form or another; 36% of the farmers were tenants. Conditions are not unfavourable by Latin American standards, in view of the fact that, since 1954, the agreements are signed for a period of five years and that subsequent extensions of three years are possible. In general, however, this is still too short a period for making substantial investments. The betterment provisions are also insufficiently attractive, so that the tenant would rather invest his capital in livestock, which he can take with him to another rented holding, if necessary (Kirby, 1975).

An Insufficiently Serviced Countryside.

Not only should a policy be pursued of increasing agricultural production, but a completely new servicing of the rural living and working space is necessary. There are, in fact, too few provisions in the countryside to permit a life to be led there that is adapted to the demands of the age. Many secondary roads are in a poor condition. Sometimes there are no motorable roads at all and it is better to go on horseback. The extent and quality of the educational provision also leaves much to be desired in many places, nor is much to be expected from the small urban centres in respect of other services or recreation. The specialised medical facilities are concentrated mainly in Montevideo. The Uruguayan welfare state, which is often described in lyrical terms, in fact existed mainly in Montevideo and in part of the southern coastal zone. That is where most of the investments were made. The remainder of Uruguay received far less attention, with the result that the level of welfare and education of many rural dwellers has always been lower than that of the city dwellers.

Lack of employment, the inability to absorb even the modest rural population increase and the low level of liveability of the countryside have led to stagnation in rural population growth over many decades and, since 1951, even to an absolute decrease. As a result there now live so few people in many rural areas that there is a danger of investments being considered decreasingly necessary and attractive there.

Kirby (1975) has pointed out that the Uruguayan countryside is also characterised by an absolute infrastructure for the marketing of agricultural products. Neither the railway network nor that of the roads have been sufficiently intensified during the course of time to cope readily with the traffic generated by intensive agricultural production. Moreover, because of the limited maintenance of recent years, the quality of the networks has declined still further. The quality of port facilities also leaves much to be desired (Kirby 1975; Brannon 1967).

The traffic network in New Zealand proves to be much denser and of better quality. This country also has factories processing agricultural products

in a large number of places. In New Zealand nearly all agricultural holdings lie within a 50-mile radius of a port with abattoirs and dairies, so that transport costs to the ports are kept low and quality losses are limited. In Uruguay, on the other hand, exports pass mainly through Montevideo, where the greater part of the processing plant is also situated.

Under these circumstances, it is not surprising that part of the agricultural production is moved to Brazil and that farmers prefer to drive their fatstock to the regional abattoirs and markets rather than make use of rail or road transport. Consequently, weight and quality losses occur in Uruguay much more than is necessary.

Problems Surrounding Further Industrialisation.

Apart from being faced with agricultural problems, Uruguay was increasingly confronted, particularly after the Second World War, with difficulties relating to further industrialisation. A very important handicap is the small home market of less than three million inhabitants. A favourable circumstance is that many Uruguayans have achieved a relatively high living standard, but this is counterbalanced by the fact that prosperity in the countryside is lower than in the cities. One of the consequences of this situation is that even those firms which are concerned with the manufacture of fairly simple consumer goods often have under-used capacity and, in general, their production costs are high. The quite high labour costs (wages plus social provisions) also contribute to this.

The limited market also means that the manufacture of more complicated consumer goods, as well as of various semi-manufactures and capital goods is still insufficiently economic. Consequently Uruguay does not have heavy industry or an extensive capital goods industry. Many parts of more expensive consumer goods are not produced in the country itself, but are imported for subsequent assembly (e.g. motor cars).

Quite another handicap is that Uruguay does not possess any important mineral raw materials. The only 'natural' wealth of any significance which could serve as a basis for industrialisation

—and has indeed so served— are the products of the agricultural sector. Insofar as there is any mining or quarrying, it is restricted to the exploitation of building materials. There are no oil or coal deposits of economic significance below the surface of Uruguay, so that oil imports have become an increasing burden on the balance of payments in recent years.

Apart from the lack of many raw materials, there is a lack of capital, especially since the country has got into difficulties with its agricultural exports. These difficulties have also aggravated the foreign exchange position, just at a time when Uruguay needed to import many capital goods and auxiliary materials in order to achieve further industrialisation. The lack of capital and shortage of foreign currency have also resulted in some of the industrial plant becoming obsolete.

Yet another handicap is the lack of experience in many fields of industrial activity, since Uruguay has always been strongly oriented towards agricultural production and trade. Industry was for a long time limited to the necessary agricultural processing plants and to those concerns which were the most essential for national self-sufficiency. There has never been much industrial research.

Uruguay has tried to reduce the force of these objections since 1960 by admitting more foreign firms, who not only provide the necessary capital, but also supply the necessary know-how. Tax facilities and other measures have attracted some 43 transnational enterprises (Rovetta, 1978). Such a policy means, however, that the country suffers the disadvantageous consequences of an industry which is partly in the hands of foreign capital owners: much of the profit flows out of Uruguay.

Making up the balance of the industrialisation policy which has been followed, it may be concluded that, although the import of numerous finished products has been greatly reduced, this industrial self-sufficiency has been achieved only through the import of large amounts of fuel, raw materials, semi-manufactures and machines, despite the scarcity of foreign currency, and by making a call upon foreign enterprises. Uruguay is not yet able to export manufactured goods on any scale. In 1976 primary products still accounted for 66% of exports (and textile products,

mainly woollens, for 14%), so that the markedly one-sided structure of the export trade has not yet been broken down. Nor has industry been able to bring about a sufficient expansion of employment.

In 1977, 32% of the economically active population was employed in industry (inc. mining and quarrying, public utilities and construction). The contribution of industry to the gross domestic product in that year was 36% (28% in 1960); the share of manufacturing industry was 29% (21% in 1960). The services sector, however, contributed no less than 52% in 1977 and about half of the economically active population is employed in the tertiary sector. This means that Uruguay is to a large extent a 'services economy', but without a level of development having been reached that is in all respects comparable with that in the highly industrialised countries.

Other Post-War Economic Problems

During the 1960's and 70's the Uruguayan economy has gone continuously downhill. Agricultural production rose insufficiently, while home consumption remained high and even increased somewhat because of population growth. An additional factor was the increased international competition, which resulted in prices for agricultural products showing a less favourable development than those for industrial products. Taking the terms of trade in 1970 to be 100, by 1977 the index had fallen to 74. It was difficult, however, to reduce imports. Import substituting industry required capital goods, raw materials and increasingly expensive energy sources. In addition, a considerable import was desired of all kinds of goods which Uruguay did not itself produce, but to which the population had become accustomed in its enhanced standard of living.

The increasingly large deficits which arose in the national exchequer and the balance of payments had therefore to be covered by using up the reserves and contracting loans. The country's foreign debt grew rapidly. While it was already estimated at about 800 million dollars at the beginning of 1972, by June 1978 it had risen to 1,700 million dollars. While initially the loans

served to reconstruct and give fresh impetus to the stagnating economy, they gradually had to be used increasingly to pay off old loans and meet the obligations of debts incurred earlier.

The financial deficits have also been partly made good by the 'creation of money'. More than once printing money was the only solution for the Uruguayan government, which was faced annually with multifarious social security payments and the wage bill for the huge civil service, without adequately increased resources. Such a policy naturally meant that the money constantly decreased in value, so that devaluations were necessary relative to foreign currencies, something which had hardly been necessary up to the 1950's. In 1963 one dollar was equal to 11 pesos, but by 1973 the exchange rate was 928 pesos to the dollar and, by 1975, 2330. During the period 1960-1970 average annual inflation was 51%, and 68%, for the years 1970-1977.

Inflation and devaluation had many unfavourable side-effects. Corruption, livestock smuggling to Brazil and tax evasion increased, because people did not want to give up the high level of prosperity which had been attained. After 1955, foreign owners of capital preferred to invest their money elsewhere. The Uruguayans themselves preferred increasingly to buy landed property or sought attractive investments abroad. The flight of capital during the period 1962-1968 is estimated at 250 million dollars (Petit de Prego, 1978). Because of this drain of capital, investments in agriculture and industry, for example, remained limited and obsolescence and stagnation were still further encouraged.

All this shows very clearly that the Uruguayan economy has lost much of its dynamic in recent decades. During the Period 1960-1977 the gross domestic product grew on average by only 0.8% per annum.

Effects of the Crisis for the Population.

The crisis compelled Uruguay to adjust its expenditure to its income. The international suppliers of credit also pressed for economies and were often prepared only on these conditions to make available fresh loans. The policy of

retrenchment led, among other things, to the freezing of wages as far as possible, which meant for the Uruguayans that the cost of living came to stand in an increasingly unfavourable relationship to incomes. Those who did not wish to give up their old standard of prosperity were compelled to work overtime or to send members of their family out to work. Taking the real wage in 1961 to be 100, the index of the same wage in 1968 was 86.5 and, in December 1976, only 69.4. The Uruguayan population has therefore lost a considerable part of its purchasing power. Rovetta (1978) illustrates this by stating that, during the period 1970-1977, milk consumption in Montevideo fell by a half, while the annual purchase of shoes fell to one fifth during the past twenty years. Another consequence was that, in Montevideo, the 'cantegriles' (shanty towns) have rapidly increased in extent, although these quarters have fortunately not reached the magnitude of those in other Latin American cities.

Besides a disturbing increase in hidden unemployment, there has been a marked growth, particularly in the cities, in registered unemployment, despite the efforts of the government during the 1950's and early 60's to increase employment still further in the already very extensive quaternary sector (to such an extent even that, in 1966, more than 40% of all wages and salaries were paid by the government.). The official unemployment rate was 7% in 1972, 12% in 1975 and 12.8% in 1977, but these percentages give too optimistic a picture of the reality. There is, in fact, also much concealed and seasonal unemployment, many Uruguayans have part-time jobs, civil servants and bank employees work only 30 hours per week in order to increase the number of jobs, and many thousands of Uruguayans have meanwhile emigrated. In Montevideo no less than 48% of the registered unemployed are under 25 years of age and 35% are newcomers on the labour market (Lerin/Torres, 1978).

The unemployment payments to these people are forming an increasing burden for the national economy and the government's budget. Various other social payments have had a similar effect. Particularly unfavourable in this connection is the fact that, as a result of the age structure and the progressive pension legislation, a relatively large

proportion of the Uruguayan population are pensioners. The charges have therefore to be borne by a relatively small economically active population (about 37% of the total population, but this figure includes unemployed). Some 20% of the economically active population consists of civil servants, whose activity cannot exactly be called 'productive'.

The constantly deteriorating economic situation (as well as the political situation, which will be discussed later) has led to a massive exodus of Uruguayans. Calculations based on the census of 1963 and assuming an annual natural increase of 1.3% have shown that the country lost about 10% of its population between 1963 and 1975. If there had been no emigration the population in 1975 should have been about 3,060,000, but in fact it was only 2,764,000. The average annual increase for the period 1970-1977 was no more than 0.3%.

The consequence of such migration for Uruguay has been a massive loss of qualified manpower, although it has reduced the pressure on the labour market. The level of real wages would otherwise have fallen still further. The government did not take any measures to counter the emigration, since it contributed towards a reduction of social pressures, which is not to say that it has resulted in a reduction of unemployment.

In Montevideo the unemployment rate fluctuated between 7.3 and 9.1% during the period 1965-1974 and in 1976 was as high as 12.7% (de Sierra, 1978).

Political Decline: Military Dictatorship without Notable Economic Successes.

Apart from the unfavourable economic situation, the massive emigration is related to the constantly deteriorating political climate. There has been a progressive breakdown of democracy. Whereas the army previously had a very limited and exclusively defensive task, it now calls the tune. Consequently, there is now little to distinguish the country from many other Latin American states.

In 1966, after a referendum, the governing

council, which had not proved able to restore the country to its old prosperity and so had largely lost the country's confidence, was replaced by a president. The president was given wide powers. In 1967, J. Pacheco Areco came to power. He used the new presidential powers to put the country's affairs in order. His drastic economy measures (intended to restore economic health and advocated by credit organisations) and further economic decline resulted in serious social unrest. Democracy was still maintained, however.

In February 1973 the military openly entered the political scene by occupying various important government posts. On 27th June 1973 followed the coup which turned Uruguay into a military dictatorship. The motive for the military seizure of power was that national security was in serious danger as a result of the increasing economic disruption, the social unrest and political tensions, including the actions of the Tupumaros, an urban guerilla movement. The latter had, however, been almost eliminated late in 1972. More important, according to many people, was the consideration that a policy of economic restructuring, characterised by considerable economies, would be difficult to realize within a democracy and that more foreign capital would have to be attracted to accelerate economic growth. In order to encourage foreign investment there have to be a favourable wages situation and an absence of strikes and other forms of unrest. All this could be guaranteed in Uruguay only by a strong government.

The political control which had already been stiffened in the late 1960's has only been intensified since 1973. There is complete censorship and a widespread system of controllers and informers, avowedly in the interests of national security. According to Amnesty International, there were no less than 6-7,000 political prisoners in 1978. 10-15,000 people are said to have been deprived of their political rights.

In order to maintain law and order an expansion of the army and police was necessary. In 1972 the army had no more than 15,800 men, but in 1977 it had been expanded to 27,000, while in the same year the police force numbered some 22,000. This expansion meant an increasing burden on the impoverished government's bud-

get, especially since the army and police are well paid (Lerin/Torres, 1978). Rovetta (1978) states that no less than 50% of the government's budget is devoted to this purpose. This compares with 8.5% in 1967.

The military regime has aimed within the framework of a five-year plan for the period 1973-1977 to get the economy moving again and to restore to the country its old prosperity. The rulers regarded an important condition for this to be an increase in foreign trade, so that there would be a strengthened outward-oriented growth ('desarrollo hacia afuera') which would stimulate the domestic economy. Through eliminating the trade unions, slowing down wage increases and a certain measure of price liberalisation, domestic purchasing power has already been reduced to such an extent that more meat is available for export. An attempt has also been made to increase exports by encouraging production (mainly in the livestock sector and profitable branches of industry). The government has succeeded in attracting the necessary loans and investments by economy measures, tax facilities and the maintenance of order and security. Loans and investments have accordingly increased in recent years. The volume of direct foreign investment in 1976 was estimated at 960 million dollars (Lerin/Torres, 1978). In the early 1970's, American private investments (the most important of all foreign investments) amounted to some 470 million dollars. The once quite important British investments did not exceed 20 million dollars. (Kurian, 1979).

The results of the policy have so far not been very impressive. The production of various farm crops (such as rice, maize and fruit) and of fish has increased, but the livestock sector displays insufficient dynamism. The number of cattle in 1977 was still about 10 million (c.9 million in 1961). This means that a solution for the problem of extensive livestock farming has still not yet been found. If the index of agricultural production for the period 1961-1965 is set at 100, then the index for 1975 was 93, which gives rise to doubts about the agricultural development strategy followed up to that date. Another unfavourable development is that much land is being bought up by foreign enterprises.

Small and medium-sized industries, in particular, have got into greater difficulties as result of the declining purchasing power and the increasing competition. An increasing number of state enterprises have been taken over by foreign companies. During the plan period the gross domestic product has grown by an average of only 2.2% per annum, although the plan target was about 4%.

It is not yet possible to speak of an increase in prosperity, nor has there been an improvement in the unemployment situation. The newly created jobs during the years 1974-1976 could absorb only 47% of the newcomers onto the labour market. Apart from the modest number of jobs provided, this situation is related to the fact that, because of the decline in the value of real wages, a larger part of the population has begun to look for work. Only in this way is it often possible to maintain the family income to some extent. In the Montevideo region unemployment has, in fact, increased. While the number of people looking for work in 1974 accounted for 8.1% of the economically active population, in 1976 the proportion had risen to 13%. The number of unemployed there rose from 34,100 in 1970 to 66,700 in 1976.

The social differences between wage-earners and their families (about 80% of the population), and the more prosperous remainder of the population (people of independent means, entrepreneurs and other owners of capital) increased still further. Only the latter group was able to save. Expressed as percentages of the gross domestic product, the savings were not inconsiderable: 14.2% in 1976 and 1977, thanks to a falling flight of capital. Compared with the period 1961-1965, however, when the proportion was 16.5% per annum, these savings were somewhat meagre. Many investments served mainly to replace old investments rather than to increase economic growth. One of the most positive results of the development plan is considered to be the increase in the international reserves, mainly through the arrival of foreign capital, which was attracted by a favourable interest rate and the necessary security for investments (Lerin/Torres, 1978).

One of the reasons for the establishment of a

dictatorship was the fear of the economic and military elite for unrest and certain radical social reforms. Because of this fear they received active or passive support from abroad. The United States was not anxious to see further Cubas created in South America, nor did Brazil wish to have unrest in its southern neighbour. It is therefore not surprising that Uruguay has received considerable loans in recent years, particularly from the United States and various international organisations (notably the I.M.F.). This support has even been higher than ever before in Uruguayan history, but a consequence in that foreign debts have reached unprecedented proportions. At the beginning of 1977 they already amounted to 1,139 million dollars, which was nearly twice as great as the volume of exports, which amounted to 607.5 million dollars. As already stated, foreign investments were also considerable (Lerin/Torres, 1978).

All this means that the Uruguayan government is becoming increasingly the guardian of the well-to-do Uruguayans, of various foreign powers (who are fearful of suffering the disadvantages of unrest and possible social changes) and of the interests of foreign owners of capital.

IV POSTSCRIPT

The analysis of recent developments has shown that the former welfare state is beginning to show increasing symptoms of underdevelopment. There has been a process of socio-economic and political decline, which –if it continues– threatens to turn Uruguay into a 'normal' underdeveloped country. Indications for this sombre picture of the future are to be found particularly in:

- **the weak and still stagnating economy.**

This has always been characterised by under-utilisation, one-sidedness and, consequently, vulnerability and has in recent decades lacked the ability to react adequately to changing circumstances, although it had to do so if it was to continue to be able to satisfy the needs of the population (which incidentally was not even growing rapidly.)

- **the marked reduction in prosperity,** resulting from the stagnating prospects of earning a living and the declining purchasing power.

- **the massive emigration.**

- **the increased social and political tensions,** leading to the disappearance of basic civil freedoms. Uruguayan democracy was not considered capable of solving the social and economic problems.

A question which we should like, finally, to examine in this postscript is the extent to which what has been described fits into the general theories of underdevelopment. The foregoing has already shown that the history of Uruguay has been determined to a considerable extent by external impulses. For more than three centuries the country was colonial territory. Although Uruguay lay then on what was for Spain an uninteresting periphery, the colonial inheritance was by no means unimportant. It led to the emergence of a thinly populated country of a relatively small extent, in which the ownership of the land, as in the remainder of Latin America, was already concentrated in the hands of a small number of persons. Already in the 19th century Uruguay had developed into an exporter of agricultural products, *inter alia*, because Great Britain, in particular, became an important customer and made available know-how and capital for the improvement of the livestock and the construction of an export-oriented infrastructure. Nor did the foreign influence disappear after this phase. For example, various countries invested in industry and services. United States investments already amounted to 64 million dollars by 1929.

All of these facts support the underdevelopment theory formulated by the 'dependencistas'. What accords less or not at all with the theory, however, is the fact that Uruguay, despite its colonial past and the later 'neocolonial' relationships with various industrial countries, nevertheless succeeded in making so much progress that, in about 1950, the country was decidedly prosperous. The explanation for this is to be found in the small, almost wholly white, population with a relatively high level of education, a low rate of natural increase, a relatively favourable market situation and fairly favourable internal power relationships, thanks to a well-functioning democracy, which resulted in political peace and a progressive social policy. These factors indicate the importance not only of

the international context, but also of the domestic situation.

The sketch which we have drawn has also revealed that the basis upon which the development of Uruguay has rested has always been a weak one. The country has always had a very one-sided and non-intensive export economy. Only at a relatively late date have serious efforts been undertaken to develop arable farming and industry more highly, in order that the country should not be wholly dependent on imports. The strong dependence on the primary sector, however, as far as exports are concerned, has not completely disappeared. Moreover, much industrial activity, such as the textile industry (mainly wool), is directly or indirectly based on agriculture. An understanding of the problems of the primary sector, therefore, is essential for an appreciation of the current welfare crisis.

The agricultural export economy has obviously served the interest of European, American and other foreign customers, but it would be wrong to state that the Uruguayan livestock sector has always had to maintain its extensive character in order to be able to produce as cheaply as possible for the foreign market. In spite of much more intensive farming methods and less favourable distances to the market, the New Zealand livestock farmers have nevertheless been able to continue exporting. The extensive character of the livestock farming, to which many problems are traceable, was not 'imposed' on democratic and politically independent Uruguay, but must be attributed mainly to the fact that the country has always been for the largest part in the hands of large landowners.

Thanks to the size of their properties they derived sufficient income from livestock farming and did not regard a more intensive form of exploitation, which would have demanded much more attention and manpower, as necessary. Neither did the government and the remainder of the population, which enjoyed increasing prosperity, thanks to extensive 'distribution mechanisms', see the necessity for intensification. It was, therefore, not so much 19th and 20th century international power relationships, as the situation inside the country which caused Uruguayan agriculture to retain a structure that is in many respects 'Latin American', i.e. underdeveloped.

The fact that the former welfare state of Uruguay has, in recent decades, threatened to decline into a situation of underdevelopment, is to be related mainly to the 'Latin American' character of its livestock farming industry and to the closely related circumstance that the economic power structures have also remained partly 'Latin American'. Consequently the livestock sector, which was so essential to the economy, did not react quickly and adequately to the changing internal and international situation and thereby considerably contributed to the emergence of an economic crisis, the more so since it greatly hindered the further differentiation of the economy.

As the crisis intensified, the Uruguayan elite (of livestock farmers, non-agricultural entrepreneurs, politicians and the military) became increasingly less prepared to let the mass of the population have a share in the decision-making and to profit from the prosperity, as it previously had done. From fear of a popular movement it followed the example of many other Latin American countries. The social course of 'Batllism' was abandoned; politically the country returned to the 19th century. The civilian elite first tried to obtain more economic and political power, but without incidentally succeeding in restoring the country to its old prosperity. It felt compelled to adopt a policy of economies, but this was difficult to realize within a democratic system. The result was increasing social tensions. Since, according to the military, these brought a growing threat to national security, the army considered in 1973 that the time had finally come to take over complete control of the country. With this, democracy ceased to exist.

Again, as far as the recent changes in Uruguay are concerned, it seems necessary to refer for a proper explanation not only to 'dependencia' theories (which emphasize particularly the external, imperialistic influences), but also to the viewpoint of Lacoste, who has stressed the often unfavourable role of (partly) autonomous national elites. Although this elite has in recent years tied Uruguay financially more closely to foreign powers, so creating an increased dependence which might hinder a return to the former prosperity and democracy, such dependence must be regarded in our view as largely the conse-

quence of an economic crisis, the causes of which were originally internal. It was precisely this crisis which opened the way to the expansion of economic and political imperialism in recent years.

We should like to suggest, in conclusion, that theories such as that of the 'dependencistas' are useful tools in searching for explanation of underdevelopment, but exclusive dependence on them can hide aspects of a complex reality. In our view, the most satisfactory approach is to analyse as deeply as possible the origins of a country's underdevelopment. This is something which still happens too infrequently. Geographers can also make an important contribution here, thereby not only enlarging knowledge of the problems of the Third World, but also contributing to a better building of theory.

L.using various explanation models.

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