



**3rd International Conference
on Public Policy (ICPP3)
June 28-30, 2017 – Singapore**

**T02 - COMPARATIVE PUBLIC POLICY SPONSORED BY
JOURNAL OF COMPARATIVE POLICY ANALYSIS**

*P13 - Confronting Theories of Institutional Change in
Anticorruption Research*

The Uruguayan Way from Particularism to Universalism

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I. Introduction

Uruguay's present international reputation is of a non-corrupt country. Even though clientelism, as a discretionary practice to distribute goods, public employment and preferential treatment in exchange for electoral support, has been a common political practice for many decades of the last century, the phenomenon of corruption, as "...the misuse of public office for private gain" (Rose-Ackerman 2008:551), has never been pervasive in Uruguay. The introduction of comparative instruments of measurement across countries (like the Transparency International corruption perception index CPI and the World Bank governance indicators) has only confirmed this intuitive positive image. Furthermore, diverse comparative political studies of public opinion, such as those published by Latinobarometer and Latin American Public Opinion Project, also place Uruguay in a position of regional good governance leadership. Finally, recent comparative academic works on corruption also place Uruguay, along with Costa Rica, among developed countries where corruption is not pervasive and reduced to a marginal 'use of wealth to seek influence within strong political and administrative institutions" (Johnston 2005:60) and as clear exception to the norm of public integrity (Mungiu-Pippidi 2015: ch 5)

Nevertheless, considering corruption in a broader sense, Uruguay shows a long history of political particularism. The way in which most of the citizenry related to the state had a significant discretionary component until the 1960s. The intermediation of political brokers was the norm in order to obtain state services, and patronage defined the logic of recruitment into public sector jobs. Although corruption in the strict sense of the word was never a pervasive practice, Uruguayan public policy in the twentieth century belonged more with particularism than ethical universalism model of governance. Nevertheless, significant changes in institutions and political competition –occurring gradually between the sixties and the nineties- made clientelism increasingly ineffective or directly non-viable in such a way that transformed the country into an open access regime.

The simple teleological view of modernization theory associates the processes of modernization with the end of particularism and the adoption of universal criteria. However, many countries in the world have experienced important process of economic development without achieving significant improvements in terms of universalism. North, Wallis and Weingast (2009), Fukuyama (2014) and Mungiu-Pippidi (2015) have stressed the complexities involved in this kind of transitions, in particular for the late modernizers.

In the Uruguayan case the political elites associated with the traditional parties competed for votes since 1916 through open, free and fair elections. However, over time their electoral support has increasingly come to depend on their ability to deliver public resources in a clientelistic manner. Therefore, the discretionary use of the state resources became the norm. By the end of the fifties the limits of this political strategy to remain in power had become apparent. The gradual exhaustion of the efficacy of the clientelistic strategy, led to the rise of a new challenger (outside the old traditional parties) the Frente Amplio (FA), and more important, to a mentality change of the younger members of the traditional political elites that would govern the country during the eighties and nineties (among them Jorge Batlle, Julio M. Sanguinetti and Luis A. Lacalle). This mentality change, which emerged in the sixties, was reinforced after the re democratization in the eighties, by the fear of dictatorship as an answer to politician's incapacity to deal with economic and fiscal crisis. They realized the need to change the allocation of state resources towards more efficiency and equity both, in order to remain in power. In an incremental fashion, the transformation in the electoral competition pushed political leaders of traditional parties to commit to the transformation of Uruguay to a regime of universal access, where particularism and corruption are the exemption and not the rule.

This chapter outlines the process of change from particularism to universalism in Uruguay, departing from the socio-economic challenges the political system faced between the fifties and sixties and the political responses to these challenges. In particular, it shows how the changes in the way parties compete for votes (from a clientelistic to a programmatic way) led to the more general transformation in the way that society grants rights, and distributes and allocates public resources. The following section describes the historical departing point and the creation of the old bipartisan clientelistic equilibrium. Next, we propose a theoretical argument to explain the process of change. The fourth section describes the key political transformations and the political agency behind these processes of reform. Next section characterizes Uruguay as a "contemporary achiever", and finally, the main lessons of the Uruguayan political and social process from particularism to universalism are discussed.

II. Time zero: the old bipartisan clientelistic equilibrium

Uruguay has the longest democratic history of any Latin American country, and used to have a very proud self-image by the middle of the twentieth century, which can be summarized with the sentence “como Uruguay no hay” (there is nothing like Uruguay)¹. By that time, the country had a very wealthy socio economic situation and a renowned democratic system. Both characteristics – wealth and democracy- had significant connections. Putting aside the well-known literature in this regard (Lipset 1959, Przeworski et al. 2000, Boix and Stokes 2003), that specific connection was made in Uruguay through the State. During the first half of the twentieth century, Uruguayan traditional parties found a way, not only to coexist peacefully through regularly conducted elections, but also to share the government positions and the use of state resources. The latter, known in local politics as “co-participation”, has been pointed out as one of the main features of the Uruguayan party system, and its origin come from the pacts made between the two parties by which they distributed the territorial authority by the end of the XIX century (Pérez Antón 1989). The permanent growth of that partisan-shared state, in functions and in personnel, but particularly in its increasing participation in economic activities, made for the economic development and the wealth distribution reached by the country.

Along with its early democratization, Uruguay developed a welfare state that implied a joint process of building political and social citizenry (Castellano 1996). During the first decades of the twentieth century, under the leadership of José Batlle y Ordóñez (PC), various political (universal and secret suffrage, free and fair elections), social (separation of church and state, eight-hour working day) and economic reforms were implemented. In the absence of strong contending actors, the state acquired a central role in the economy and in the provision of all kind of public services. By these means the country forged a wealthy, integrated and modern society with a growing middle class during the first half of the twentieth century (Filgueira and Filgueira 1994).

The early democratization process in Uruguay has a cornerstone in the 1917 constitutional reform. That constitution established the first set of electoral rules that allowed to reach a general agreement between the traditional parties. It was an inclusive agreement that enacted not only all electoral guarantees (like universal and secret ballot), but also the instruments to obtain a fair distribution of power between Partido Colorado (PC) and Partido Nacional (PN) and among their internal factions. In that vein

¹ The slogan was coined in the 1950 election by the Batllista faction of the incumbent PC

the electoral system included the multiple simultaneous vote, proportional legislative representation, and a very peculiar institution, the National Council of Administration (NCA), a collective organ of the executive power with one third of its seats reserved for the minority. Additionally, that agreement gave constitutional status to different public companies and mandate that their directive boards must be appointed by the NCA, ensuring by that means a formal share in the state apparatus for the opposition. That peculiar agreement, made in a particular critical juncture, created a very strong inertia along time, restricting the characteristics of the subsequent reforms in a path dependent way.

The two aspects of the reform, on the one hand the electoral system, and, in the other the co-participation between parties in governmental posts, are connected by a particular "electoral connection". The connection is made taking votes as a currency that is exchanged for positions. This exchange is direct and transparent in relation with elective positions, but it was also used increasingly over time to appoint all kind of governmental authorities. The presence of a multiple simultaneous vote system was key to achieve that goal. The double and triple simultaneous vote (DSV and TSV) is one of the most particular or rare characteristics of the Uruguayan politics during all the XX century. This system was developed by the Traditional Parties (PN and PC) to allow internal competition between party factions at the same time they compete against each other. So, voters were able to vote for a party and then for a list or a candidate inside the party. For example, in a national election, citizens selected a party, then they could vote for any of the different presidential candidates that run for that party, or any of the different lists the party had for the Senate, and for any of the party lists for Representatives. As the electoral supply (the combination of candidates between levels: President, Senate, and House of Representatives) was not restricted, every person who wants to run was able to present a list of candidates. Therefore, the number of lists that competed inside each party started to grow. Nevertheless, the vast majority of the lists to the House were not able to elect a representative, even though they were useful anyway to collect votes. Party leaders and second level politicians used the amount of votes each list received as a measure of the effort made by a faction or a leader and a way to define the particularistic benefits allocation among lists (Aguiar 1984).

The distribution of governing posts between the two parties and among the different factions inside parties was not problematic until the 1930 decade. But, "The Uruguayan Public Administration, after 1930 turned into unconcerned with efficiency, facing the essential necessity to relieve the pressure exerted over the political system by those unemployed. For that reason, the distribution of public posts was made over clientelistic

basis and not taking into account the qualities of the applicants.” (Solari and Franco 1983:88). As a consequence of the 1929 international depression, the main factions of the two traditional parties made an agreement to use public employment as a means to alleviate the growing unemployment rate. In that pact they agree to distribute public jobs over partisan bases. The opposite factions called that agreement as “Pacto del Chinchulín” (chitterlings pact) in order to discredit it, and they eventually took power by means of a coup in 1933. It was a civil coup that sought rapid re-institutionalization through constitutional and legal reforms, mainly eliminating the NCA and establishing the concurrence of all elections. However, the lack of legitimacy of the two elected governments (1934 and 1938) under these norms implied that effective democracy was only recovered in 1942, with a new constitutional reform.

The conservative coalition that ruled the country during the 1930 decade made a moderate use of public employment because they promoted economic growth and employment through public investments rather than public jobs (Filgueira et al 2003). But when democratic competition was restored in 1942, the previously defeated factions regained power (in particular the batllista faction of the PC leaded by Luis Batlle²), and from that point the generalized use of public jobs and the discretionary allocation of pensions came to be a norm. During this period the PN, the PC, and their different factions constructed their political bases over a clientelistic distribution of public resources. This equilibrium was based on institutions, which assured easy access to goods to be distributed both, for the party which currently held power, and for the party that was forced into the position of opposition. Álvarez points out that, “Uruguay is a society with a strong tradition of statism and clientelism” (2012: 40). Using Scheffer’s (1994) categorization, both parties can be considered to be “internally mobilized” parties, those constructed from within the state apparatus.

If that practice did not become a fiscal problem while the economy was growing (during the forties and the beginning of the fifties), it increasingly begun to turn into a significant problem inasmuch the economy stagnated by the mid-fifties. Complementary, in 1952, the system of co-participation was carried to an extreme by a new constitutional reform. Among other things, that reform reestablished a collegiate executive power with six seats for the majority and three for the minority. Additionally, the constitution stipulated that directive boards in all public companies and services must be appointed at the rate of three for the majority and two for the minority.

² Nephew of José Batlle y Ordóñez

By that time the clientelistic use of the state became apparent and was put in the center of all kinds of diagnosis of the problems of the country. The scarce literature about the links between the state and politics refers to this problem without exceptions. Filgueira and Filgueira (1994), Solari (1988) and Rama (1971) say that public employees were recruited in exchange for party support. In words of Solari and Franco "...the entry to public jobs was made by the intermediation of the traditional political parties. The 'political club' acted as an employment agency..." (1983:88). And Filgueira and Filgueira (1994:14) argue that in Uruguay there were no state policies implemented by a bureaucratic organization under a government orientation. For them, it was a state full of political party hidden professionals, which intermediate between the state and society. They also say that political parties were able to capture the state's apparatus due to the fact that social state consolidation was produced at the same time that the authority of the state was built, and parties and the whole political system reached their modern configuration. This fostered clientelistic politics. The particularistic application of universal norms was part of the political contest between parties, factions and politicians. Speeding up a pension implied being part of a political network. The same happened with subsidies, as the case of access to milk at lower prices or the political distribution of cards to get access to public health care. In the same vein, Real de Azúa (2009) highlights that the power of political parties was based on the electoral laws, on the distribution of public employment and on the brokerage to public services access. In particular, Real de Azúa argues that the key of the system was the control in access to pensions. Political parties had the mechanisms to speed up or to delay the access to a pension. Thanks to this power, traditional political parties were able to reproduce their electoral support.

Not only academic literature agrees with the pervasiveness of clientelism. That feature was also mentioned in technical reports as the one made by the Commission of Investment and Economic Development (CIDE), the National Development Plan (PND) and even in an early report made by a foreigner consultant in 1954 (Hall 1954). The PND, an official report based on the CIDE work, states that the "the relation between bureaucrats and professional politicians, in addition to lead to the proliferation of public posts based on particularistic loyalties, allows personnel with low levels of instruction, scarce vocation for public service, and mainly interested in a regular source of income, access to the bureaucracy". As it couldn't be other way, all our interviewees also agreed with that characterization, particularly the elderly, including ex-presidents. As a piece of color, one interviewee, who was appointed as director of the public oil company in 1985, told us that he was surprised, when he went for the first time to his office, by the size of

the entrance hall which is connected to the five directors' offices. One day, he ask the doorman, an old man that has worked in that company for a long time, for what reason that hall was so large. And the doorman answered: "you can't imagine how many people came to this hall in other times, bringing a card of a broker and asking for a job"³. This anecdote can picture that the pervasiveness of clientelism was so high that it was even translated into public architecture.

III. A theoretical explanation of the Uruguayan transformation

The Uruguayan case, and its governance transformation, cannot be explained by any modernization theory. Transformations in society and economy, toward a more developed country, are just the context but neither the trigger nor the main cause of change. Moreover, in Uruguay particularism grew up simultaneously with the middle class, and both fueled each other. Economic growth during the forties and fifties of the XX century in Uruguay, was the economic base that support the expansion of the clientelistic manner to deliver public services and to appoint public jobs. Citizens became more educated and the middle class grew during those years, but at the same time educated middle class citizens legitimized clientelism as the usual way parties compete for votes.

The exhaustion of the "import substitution industrialization model" since the end of the fifties made particularism unsustainable as a strategy of competition between PC and PN. Clientelism was increasingly more expensive to reward middle class citizens` support, and at the same time public revenues became scarcer. While clientelistic competition was sustainable during the forties and fifties, the game between Colorados and Blancos can be represented as a "Hunter Dilemma", a game also called Stag Hunt or Assurance Game⁴. Both parties would be better if they agree in stopping clientelism, however choosing the clientelistic strategy is a second best equilibrium.

³ Conrado Hugues interview

⁴ The game is inspired in a situation described by Jean-Jacques Rousseau in which two individuals go out on a hunt. Each of them can choose to hunt a stag or a hare without knowing the choice of the other. To hunt a stag, cooperation of both players is needed to succeed. An individual can get a hare by himself, but a hare is worth less than a stag. Formally, stag hunt is a game with two pure strategy Nash equilibria-one that is risk dominant (both individuals going on their own for hares) and another that is payoff dominant and Pareto superior (both individuals cooperating to hunt the stag).

Once the economic and fiscal crisis arose at the end of the fifties, the game changed and became a “Prisoner’s Dilemma”. Clientelism turned into a dominant strategy, cooperation became very difficult to achieve, and the payoffs in equilibrium decreased compared with those in times of economic growth. Additionally, the iteration until 1970 of the clientelistic strategy to compete for votes worsened the economic and fiscal situation, getting the system into a vicious circle. The deepening of economic and social crisis at the end of the sixties made new parties more competitive, because the traditional parties (PC and PN) and their particularistic strategy lost the support of the urban middle class. This situation led to the emergence of the FA, the first important challenger from the left.

In that context, the traditional parties (PC and PN) clustered increasingly together at the center right of the ideological spectrum, since they jointly advocated and conducted pro-market reforms. Shifts in the party system strengthened since 1971, as the FA moved toward more moderate ideological positions and adopted state-oriented proposals that were being abandoned by the traditional parties. Once the FA appeared as a serious challenger to traditional parties, the game between PC and PN changed again, taking the form of a “Chicken game”, also known as the hawk-dove game⁵. Keeping to the clientelistic strategy left them in the worst scenario, which will lead both parties to lose power, at least in the long term. The 1973 -1985 dictatorship, caused by the same economic, social and political crisis, reinforced this idea.

The economic and fiscal crisis and the loss of legitimacy of the clientelistic system among citizens, helped the FA to break the domination of the traditional coalition and facilitated a change toward a more open regime in North, Wallis and Weingast (2009) terms. This new actor in the party systems, without any access to public resources, competed only in programmatic terms and transformed, in an incremental path, the logic of political competition between parties in the whole system. The traditional parties in power needed to make state reforms and an

⁵ The chicken game models two drivers, both driving in opposite directions by a single lane. If no one swerves, the result is a potentially fatal head-on collision. In this game, equilibrium outcomes need different strategies from both players, with one of them staying straight while the other swerves. Also, non-cooperation is not dominant nor mutual cooperation is an equilibrium

electoral reform to adapt the system towards a new competitive equilibrium which means to change the rules of the game. In order to retain or regain votes they have to make state reforms that improve government performance, and to achieve electoral coordination they have to modify the electoral rules. The new equilibrium should be one with programmatic left-right electoral competition and with second round majority run-off to facilitate the gathering of the traditional parties votes. Thus, far from being a matter of development, the changes in the Uruguayan case have political drivers in a context of a long term economic crisis.

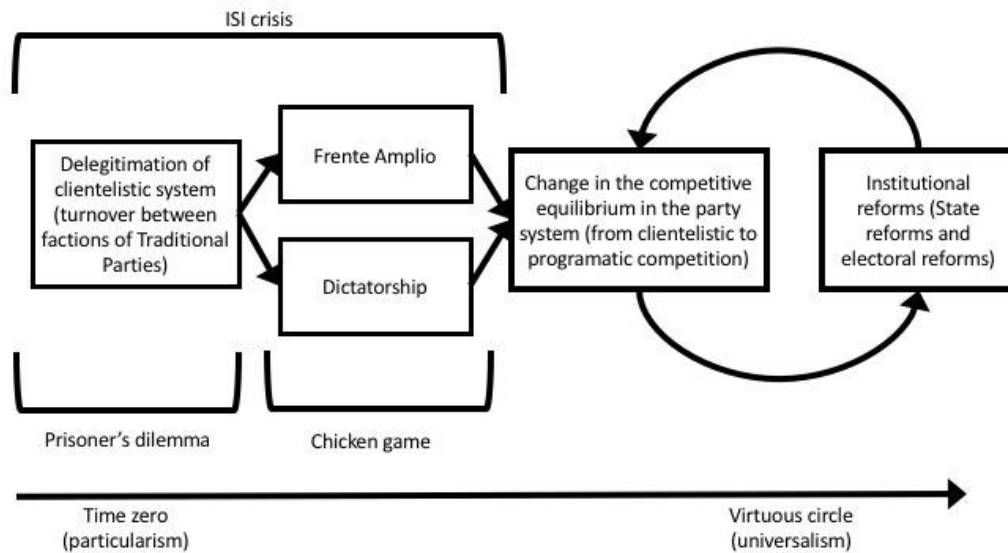
The notion of equilibrium, as commonly used in game theory, suggests a situation in which outcomes are stable as the result of all players continuing to play their best strategies. But from a dynamic point of view, the question here is the way in which that equilibrium is reached "... by individuals interacting until they can find no position that would be better" (Levi 2008: 128). The construction of the equilibrium mainly consists of the political process by which players came to the adoption of a set of rules to play the game. The search for the causes of the transformation requires a dynamic approach that begins identifying the critical junctures (Collier and Collier 2002) that led to a significant change of the rules. That critical junctures are "...often understood as periods of contingency during which the usual constraints on action are lifted or eased" and then "... open up opportunities for historic agents to alter the trajectory of development" (Mahoney and Thelen 2010:7).

The critical juncture appeared as a consequence of the economic crisis and the political challenge mentioned above. The transformation of the system is the result of institutional reforms and elite behavioral changes made in the context of that critical juncture. The institutional reforms, mainly some important state reforms and an electoral reform, were made with some path dependent restrictions⁶, in order to achieve a new competitive equilibrium that could accommodate the political interests of the main actors. The outcome was achieved during the nineties in a way in which the best strategies of all players drove to a Pareto superior situation that generated a virtuous circle. The following

⁶ Basically, preserving a strong presence of the state in the provision of different goods and services, and keeping open internal competition for parties in the electoral system.

picture represents the general idea, and the next section shows a spatial electoral competition model that fits with our argument.

Figure 1. Process of transformation of governance in Uruguay



IV. A Spatial electoral competition model of change.

The model departs from the classic Downsian model of electoral competition, focusing on the dynamics of the political process of change that can happen in that conditions. Even though the model is very simple, it allows to see in a very clear way, the kind of political and institutional changes that were theorized. The model proposed incorporates time in four steps and a couple of additional assumptions in terms of political behavior. Initially, politicians are policy oriented and citizens vote sincerely. But, as a consequence of a process of competitive adaptation, politicians became vote and office seekers and citizens vote strategically. The dynamic character of the model allows to see how equilibrium is reached, then, how disequilibrium can arise, and, finally how re equilibrium can be achieved again.

The first point in time (t_0) is the pre equilibrium situation in the Downsian model with no modifications to the original one. Two parties (G and O), one on the left and the other on the right, compete for votes in a single ideological dimension

using plurality rule. At this original point, parties are more policy oriented than office or vote seekers, which explains clearly differentiated positions between them. Voters are only policy oriented and are evenly distributed along a left-right continuum. Voters has Euclidean preferences, which means that the way voters choose a party to vote, is based in the distance from his/her ideal point to the point in which the party is located. The citizen votes for the party which is closer to his/her own ideological position. In that conditions the party which is closer to the median voter is the winner (Downs 1957).

In such circumstances there is no equilibrium, since parties has incentives to move towards the median voter's position. As a consequence of a process of competitive adaptation, they became increasingly vote seekers, and selects a position on the scale in order to win the election or get the most votes. If parties moderate their positions in reaction to the electoral incentives, eventually an equilibrium is reached in the second relevant point in time (t_1), with both parties having the same position of the median voter ($G=O=M$) (Hinich and Munger) . So far, no modifications were done to the classic downsian model, and the process of moderation and convergence of parties has been well documented in a variety of countries.

The problem arises with such an equilibrium. If both parties have (almost) the same ideological position, then, the whole electorate will be indifferent with respect to the two parties. So, for what reason will someone vote for one of the two at all? If voting is optional the rational behavior for a voter will be to abstain. If voting is mandatory the rational option should be to cast a blank or null vote, or in a system with no such options or with that options being costlier than voting for one party, the voter should decide his vote randomly. And, if so, why that equilibrium will remain through time?

While parties do not have incentives to move away from the median voter, the reasons for this equilibrium to endure have to be out of the policy oriented electoral behavior of the citizenry. We can imagine different ways to hold the equilibrium, but the one most relevant to this is that we can assume that parties build their electoral support distributing state resources in a particularistic way, as the well documented clientelistic system Uruguay had for a long period. But

in any case, the programmatic stability of the system is precarious and it could be destabilized easily, particularly when state resources became scarce and then the clientelistic loyalties gradually diminish. Such an equilibrium is vulnerable by a programmatic challenge, whether from the left or the right.

At this point is when the third relevant moment arises (t_2). In such conditions a third party could enter the competition and get votes, either in the left or the right. A new party can decide to enter the competition at any time its leaders consider the expected benefits of the electoral outcome exceed the respective cost. So, the lower the electoral cost and the higher the expected benefit, the more likely a new party enters the contest. But, as parties are originally policy oriented, they are not supposed to enter the competition in a position that maximizes their share of the vote or their probability to win. Let assume that a third party enters offering a platform in the left. As most voters are indifferent with respect to the two dominant parties, and most of them do not have any other reason to select one of them, those who are closer to the new leftist party will vote for it. When the third party gets a significant share of the vote (say $\Delta < \text{plurality}$) there is no more an equilibrium, because the older parties with positions equal to the median voter, have incentives to move to the right.

Assuming now that all voters vote for a party, because they are no longer indifferent between them, the new party gets Δ votes and G and O get both $(100 - \Delta)/2$, having both a probability of 0.5 of winning. So, if one of them moves slightly to the right, increases its probability of winning to 1. In such conditions we can expect a new dynamic to arise, with the old parties moving to the right, in the same way the new party begins to move towards the median voter since it becomes more vote seeker. The question here is if this process can stop in a new equilibrium point. With vote seeking parties there is no Nash equilibrium with three parties and plurality rule (Cox 1987). Still, there are other possibilities but no one of them could be a stable equilibrium under plurality rule. For instance, there could be an equilibrium with the leftist party at $1/3$ and the two old parties at $2/3$, if parties are office seekers (just concerned with the probability of winning) (Gehlabach 2013). In that conditions L wins with probability one, but no party has incentives to change position. But such an equilibrium can be easily modified because voters who are closer to the old parties have incentives to coordinate on

one of them in order to get their preferred policy enacted. If this happens one of the old parties will disappear and the process could lead back to the equilibrium in t_1 with the new leftist and one of the old parties located at the median voter.

But an alternative equilibrium path can be imagined, when the fourth relevant moment takes place in this model (t_3). While both old parties have the same chance to disappear and have the power to change the electoral rule, they can find more profitable to change plurality to two round majority, than to compete between them for the votes on the right. If that electoral change is made, the incentives for parties change again, and an equilibrium with three parties can be reached.

V. Economic stagnation, disequilibrium in the party system competition, and the long process of reforms.

Following the Great Depression, the prosperity based on the great performance of agricultural and cattle exports was associated with an “import substitution development model,” which was intended to promote industrial development but fell into crisis at the beginning of the 1950s, as a consequence of a significant drop in commodity prices. As a result, a long period of economic stagnation and social turmoil followed (Thorp 1986; Azar et al. 2009).

As it can be seen in the figure below, the total number of public employees as well as the total number of pensions grew systematically from the first decades of the 20th century up to the beginning of the decade of 1970. From the mid-fifties to the end of sixties, the period during which the total pensions grew from 60% of people over 60 years old to double that figure, and the total number of state employees grew from 6% of people over 18 again to double, coincided with the worst period of economic performance. This evolution partly explains why during the 1960 decade the political and social conflict reached extraordinary levels of violence, and why political parties realized the need to change their strategies to regain political support.

Figure 2. Government employment, pensions and GDP growth



Source: Figure generated using data from <http://www.iecon.ccee.edu.uy/base-de-datos-area-de-historia-economica/contenido/32/es/>

The first expressions of the crisis over the political system, were manifest by a systematic electoral turnover. After four consecutive electoral victories of the Batllista faction of the PC (1942, 1946, 1950 and 1954), there were three consecutive changes in government. The PN came into office, for the first time in the XX century, in the 1958 election. In the following election, the PN retained office, but in the hands of its former minority faction. And in 1966, the PC came back to office, but led by the anti batllista faction. This is to say that, as a consequence of a worsening situation, the citizenry went through the whole political spectrum. Uruguayan voters put subsequently in office the two opposite factions of the two traditional parties. In a complementary way, during the same period, the process of unification of minor parties took place. After two frustrated attempts for the 1962 and 1966 elections, the launching of the third relevant party, the FA, occurred in 1971 with a significant electoral success. That fact implied the beginning of the new ideological configuration of the Uruguayan party system.

During the sixties, the traditional elites began to make subsequent attempts of reform, oriented to rationalize government and the functioning of the state. The first big project was the creation of the Commission of Investment and Economic Development (CIDE), an inter-ministerial organ, coordinated by Enrique Iglesias and devoted to the elaboration of plans and projects of development. The CIDE worked between 1960 and 1967, and made a very complete diagnosis of the country situation and presented a significant number of projects in a great diversity of areas. While most of the initiatives presented by the CIDE were not put in practice, some recommendations were included in the constitutional reform of 1967, like the creation of the Central Bank and the Planning and

Budgeting Office⁷. Particularly, a pamphlet with suggestions of reform, written by Enrique Iglesias, had significant influence over the new constitution. That reform, which is still in force, could be considered the first step towards a more efficient government and more rational functioning of the State. The system came back to the one-person executive power, a President with more power than ever vis-à-vis the legislative branch. One of the most striking changes was the reinforcement of the exclusive initiative given to the executive in budgetary matters, and the ban on the legislative to increase public spending. Representatives and Senators lost room to bargain with the Executive. That crucial reform totally altered the incentives for political careers, which had in the House of Representatives the focus for pork barreling politics. The ex-president Julio M. Sanguinetti (Representative between 1962 and 1969 and leader of the constitutional reform process) said that “the expending initiative of the legislative, oriented by the voluntarism of legislators, lead the system to an ungovernable nature”⁸.

Additionally, the constitutional reform gave the executive more control over the autonomous and decentralized entities, like public companies. Nevertheless, this change proved to be insufficient to limit the clientelistic practices that continued to be channeled preferentially through those institutions. The attempts to reform faced the resistance of second line politicians, who were supposed to exchange the votes they gather for clientelistic benefits.⁹ But during the 1960 decade the first rules limiting the access to public jobs were enacted; in 1964 a system of open competition for state employment was established for the first time in country’s history, and in 1970 a ban on the incorporation of new civil servants until certain date was approved.

Nevertheless, all attempts made by the political system during the 1960 decade and the beginning of the next one, couldn’t stop the deterioration process. The economic, social and political crisis led to a coup in 1973 and a 12-year military authoritarian regime that ended in 1985. The dictatorship was similar to others (of the ‘bureaucratic-authoritarian’ type) that devastated the region at that time (O’Donnell 1973), and was the only time in the twentieth century when the government was not elected and when the traditional political parties were excluded from power. That period of authoritarianism, represented the system’s incapacity to include a new actor, the FA, which imposed a new competitive strategy based on a party platform rather than on clientelistic distribution.

⁷ Enrique Iglesias was appointed as the first president of the Central Bank.

⁸ Personal interview

⁹ The continuity of that kind of practices can be indirectly verified by the growing number of lists for the chamber of representatives occurred during that period and recorded by the entire academic research on the matter (see for example Aguiar 1984).

When the constitution was restored in 1985, a double transition process took off (Lanzaro 1993). On the one hand, the re-democratization was rapid and restored the rule of law – with the exception of the prosecution of human right violations during the dictatorship – and the previous political and party system with all its complexities. On the other hand, successive governments of the traditional parties gradually implemented a process of economic and state reform. But while the democratic transition was rapidly concluded, various privatization and state reform attempts were blocked by a coalition between the leftist opposition (FA) and social organizations – mainly labor unions, frequently resorting to mechanisms of direct democracy.

The democratic restoration reestablished in the agenda basically the same challenges that the country faced in the sixties, but with the 1967 constitution as an instrument and the traditional political elite more committed with the necessity of reforms because of the trauma suffered. Among political elites, many of those who were young politicians in the sixties and were involved in the above-mentioned reform projects, were appointed in relevant governing posts¹⁰. By that means the reform proposals made by the CIDE and the PND reenter on the agenda.

Nevertheless, the first democratic government, led by President Sanguinetti (1985-1990), couldn't do much in that respect, because that government was more concerned with the political transition tasks (like the restoration of the rights of those public employees dismissed by the military and the human right violations under the dictatorship). However, a first attempt was made in order to orient public companies more technically. In President Sanguinetti's words "the first major attempt was to transform the culture of state enterprises, try to make politicians understand that the political directors had to run a business"¹¹. Differently from past traditions, some renowned technicians were appointed as directors instead of active politicians. As an example of that orientation, the appointment of Eng. Serrato as president of the electricity company or the Acct. Slinger as president of the main public bank, made for a more technical management of those public bodies. The former begun an important process of reform in the management system of the electricity company through a contract with a Spanish company, which was continued over time.

The reformist process gained momentum during the 1990 decade. In the Luis A. Lacalle (PN) administration (1990-1995), the transition toward democracy was not the main

¹⁰ Chief among them, Enrique Iglesias was appointed as Foreign Affairs Minister. But another good example is Agustín Cansessa, who authored the administrative reform chapter of the PND and was appointed as vice-director of the Planning and Budgeting Office in 1985.

¹¹ Personal interview

issue, as it was in the previous administration. Luis A. Lacalle, the leader of the pro market faction of the PN, tried to carry out different structural reforms inspired in a neoliberal vein, as privatization and economic openness. At the same time, he looked to reform the management of different public companies (i.e. the electricity company) and the Central Bank. As in the Sanguinetti government, not all appointments to the public companies' boards had the same high technical proficiency and commitment. Some of them were, as usual, politicians that did not have an especial managerial capacity.¹²

Reducing the inflation rate was one of the main objectives Lacalle's government had. Therefore, public spending reduction was a major concern. In this regard the government passed a law that prohibited to hire new public employees. This policy tied the hands of government to use public employment as an electoral resource. Nevertheless, this law did not cover all public administration, since public companies, and local governments were not under that restriction. Lacalle also promoted the appointment of the "social directors" to the board of the Social Security Bank, as it was mandated by the 1967 constitutional reform. Having in that board one representative of the pensioners, one of the active workers and one of the businessmen, served as a control mechanism and made for a reduction in the discretionary allocation of pensions.¹³

Another strategy to cut down public spending was the Public Enterprises Law. This law allowed the privatization of the main public companies and the demonopolization of the alcohol production and the car insurance markets.¹⁴ After a referendum, supported by the unions, the FA, and the main faction of the PC led by Sanguinetti (the former PC president), the Public Enterprises Law was repealed. However, the process of demonopolization remained, and was extended to the port services. Additionally, Lacalle's government launched the National Program of Debureaucratization (PRONADE), a program with the objective of cutting off red tape. This initiative reduced paper work and unified different procedures in public administration.

Economic and administrative reforms were more important during Lacalle's administration than in Sanguinetti's first government. However most of the legislative initiatives during that period didn't pass because his government lost parliamentary support very soon (Chasquetti 1998). The main political leaders realized the necessity of state and administrative reforms in order to improve government performance. Since these reforms implied a good deal of electoral cost in the short run, the strong competitive

¹² Conrado Hugues interview.

¹³ Gabriel Lagormasino called our attention to this point in our personal interview.

¹⁴ The insurance market was a public monopoly since 1911, and so was alcohol since 1931.

character of the relation between the two traditional parties led to lack of cooperation during that period, reproducing the “prisoner’s dilemma” structure of the political game.

Lacalle’s faction in the PN and Sanguinetti’s faction in the PC, were the favourites to win next presidential election. Ex-president Lacalle explicitly recognized that the lack of legislative support he had from Sanguinetti’s faction, was due to the electoral interest of Sanguinetti who was promoting his own presidential candidacy for the next term.¹⁵ Putting apart the lack of legislative support, the interviewees who were involved in Lacalle’s government stressed that they needed to improve state efficiency as a way to have electoral success but recognized that the effort was not the same in the different state areas.

Surprisingly, the 1994 election result showed an almost triple tie among PC, PN and the FA. In this scenario, the traditional parties (PN y PC) finally realized, on the one hand, that no significant reform would pass without the cooperation of the both of them, and, on the other, that the systematic growth of the FA’s electoral support, would throw them out of office in the near future. The natural vote seeking strategy of both parties, makes it rational for the one that lost the presidency to oppose the initiatives of the other that are unpopular, like most of the needed reforms. But at that point, this rationale became false, inasmuch the credit for opposing unpopular measures were increasingly turning to the advantage of the FA. The political interaction between the traditional parties turned at this point into a “chicken game”, where the non-cooperative strategies do not lead to an equilibrium any more, and with the payoffs being the worst for both of them.

Without cooperation between them, neither the incumbent traditional party can claim credit for any achievement, nor can the opposition one be electorally rewarded for opposing. This diagnosis made for a radical change in the strategies of traditional parties, which from that moment began to lead the government within the framework of a formal and explicit coalition among them. From this point on, the PN gave to the PC the legislative support that the latter denied to the former during the previous administration.

The basic agreement to form a coalition between the whole traditional parties’ factions was leaded by the PC President Sanguinetti and Alberto Volonté, the then leader of the PN who acquired particular prominence during that period. That agreement had two cornerstones, the reform of the pension system and an electoral reform.¹⁶ The former

¹⁵ Personal interview

¹⁶ As Alberto Methol Ferré –a prominent PN intellectual- stated, the electoral reform was Sanguinetti’s priority, but the social security reform was the Volonté’s condition to form the coalition, “it was the cornerstone of the coalition”. Alberto Methol Ferré quoted in Podetti (2003:243).

was done in order to solve the main fiscal problem of the country on the long run, the social security hug and increasing deficit. The latter was done in order to create an institutional environment that facilitates electoral coordination among traditional parties. Different sectorial reforms were continued to be carried out in different areas¹⁷, but the both abovementioned reforms are keys to understand the new ideological equilibrium of the Uruguayan party system.

On the one hand, the reform of the pension system can solve the fiscal problem of the social security for the future (the main fiscal problem of the country), but it immediately cut the use of pensions as the main clientelistic resource in the hands of politicians. The reform introduced private pension funds, creating a mixed public-private system that preserved the pay-as-you-go pillar for low wages, and introduced a personal account savings pillar for higher wages. It was a moderate change, that preserved the state presence in the system and the interests of the current pensioners, in order to be the least unpopular, but it introduced a rigorous system of register (the labor record) and paperwork that prevent for the discretionary allocation of pensions.

On the other hand, the electoral reform, introducing the majority runoff for the presidential election, worked as a double safeguard for the electoral future of traditional parties. It not only made the electoral victory of one of them more likely, as traditional voters could gather their votes in the second round, but also prevented for the strategic desertion from one of them in the first round, causing disproportionate damages, especially in terms of legislative seats, since presidential and legislative votes are tied. Additionally, the electoral reform cut the triple simultaneous vote, reducing the possibilities of political brokers to claim for benefits on the basis of their own votes. Thus, the electoral reform promoted the cooperation between the traditional parties and, at the same time, concentrated the party power in the hands of the main national leaders.

The traditional parties finally caught up with the needed reforms combining social security and electoral changes. If State reforms don't give them an electoral reward in the short term, they will likely have another five-year term to make the results apparent for the public. By that means, both traditional parties were placed together in the center-right of the ideological spectrum, as a consequence of their explicit moderated pro market programmatic orientation, and the electoral system promoted such an ideological

¹⁷ During that period the most outstanding sectorial reform was the achievement of a 100% digitalization of fixed telephone lines. This allowed to connect new telephone lines immediately and without restrictions, in such a way that a former generalized clientelistic resource was eliminated for political brokers. Ricardo Lombardo, the then president of the telephone company said in a personal interview that he received a lot of calls from second line political leaders complaining for such a decision.

alignment, since the electorate will face, in the second round, with one candidate of that block, against the presidential candidate of the center-left, the pro state candidate of the FA, which increasingly assumed the role of a defender of the state-owned enterprises, along with the rights of the workers and the poor.

Even though the agreement reached its primary goal, things didn't work exactly in the way it was expected. The candidate of the PC, Jorge Batlle, won the presidency in the 1999 election, due to the support of PN voters in the second round, but very soon a financial crisis arose, when the system almost collapsed following a run on the banks, and a deep recession started. As a consequence, with a drastic devaluation of more than 100% and the inflation rising up to 26%, Uruguay reached its highest levels of fiscal deficit and external debt in more than a decade. But the reform process didn't stop and, during that period, two other important reforms begun –the customs and tax offices- at least in part due to the extreme need for revenues that the State had for that time.

In 2004 the FA won the presidential election in the first round and obtained an absolute majority in congress. Tabaré Vázquez (FA) took office with a strong mandate for change. The FA first administration (2005-2010) maintained previous reforms and promoted new ones in the same vein of efficiency and rationality. The FA is an exterior party, their electoral bases has not been built around the particularistic distribution of state resources, because it had not been in office before. Therefore, reforms that reduced discretionary use of governmental resources did not generate the same tensions between national leaders and sub-leaders than in the traditional parties.¹⁸ Nevertheless, tensions emerged among the FA factions due to different ideological positions inside the party.

The FA governments (2005-2010 and 2010-2015) have shown a strong commitment in fighting against tax evasion and informality. As Ignacio Otegui, president of the Uruguayan Chamber of Construction said: "I think there is an increasingly strong conviction in society and in government (to fight against informality), and that is a merit. I see it steadily increasing since the crisis and especially during the leftist governments. There is a militant attitude in seeking the formalization of the economy..."¹⁹ In particular, FA governments have made important advances in formalizing highly informal sectors as domestic and rural work.

The FA governments promoted the reform of the state with a broader vision than the previous traditional parties' governments. Those reforms were leaded by the economic

¹⁸ Again, as indirect evidence, the lower number of lists for the chamber of representatives that the FA always had, allows to confirm such idea.

¹⁹ Personal interview

team, which pertains to the moderate wing of the party, and has an institutional economics approach. That view could be found in the book that Mario Bergara (2003) published as an economic programmatic platform before the victory of the FA. In an interview, Bergara claimed credit to FA for almost all reforms, but he recognized that some reforms had been made or started before. The question is that just when the FA came into office, all reforms were carried out with an integral approach.²⁰ This was in part due to the condition of external party of the FA. So the FA could continue the process of reforms that were initiated before (like public companies), implement reforms previously approved (tax administration reform), and carry out their own reforms, like tax reform, customs reform, financial inclusion law, new bankruptcy law, and competition promotion law.

VI. Uruguay as a “contemporary achiever”

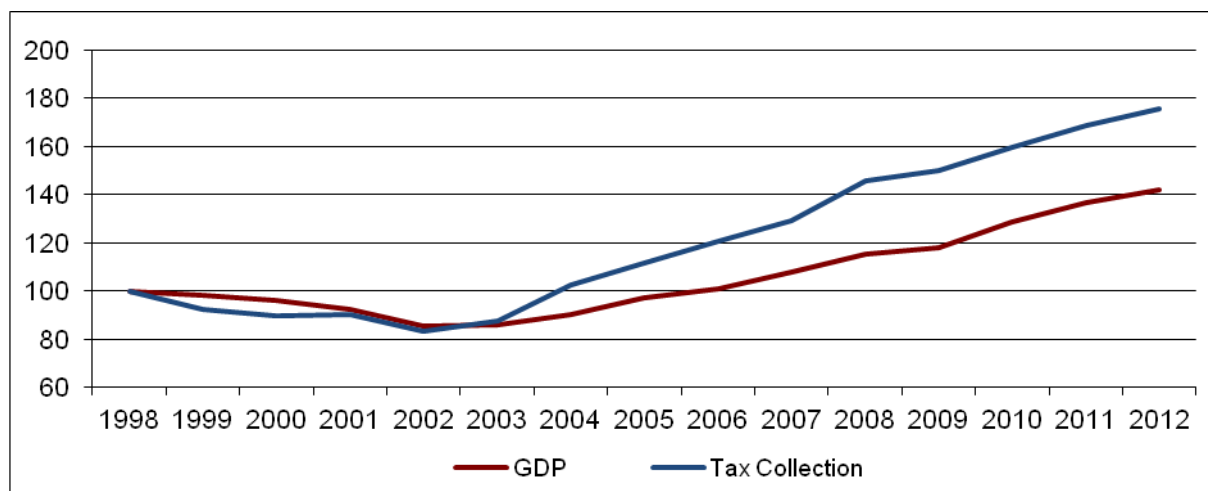
Uruguay became an open access regime during last years. It is hard to find data, in particular quantitative, which can be used to show the change in the governance regime that Uruguay underwent in recent years. This is due to the lack of statistical data before 1973. Before and after regime change indicators are particularly important to understand if there is actually any change in the governance regime and their dimensions. But, in figure 2 above, it can be seen that, from the 1990 decade on, the number of pensions and public employees, in relation with the corresponding population, shows a clear descending trend.

Also, a striking figure that shows an important change from particularism to universalism in Uruguay is the systematic improvement on tax avoidance reduction. This stable pattern of progress in the development of state capacity implies significant changes oriented toward shortening the ability of economic agents to circumvent state control. Regarding informality, state capacity to collect taxes increased substantively during the last 8 years. A tax reform and an institutional improvement of the agency in charge of collecting taxes resulted in tax collection growing systematically more than the gross domestic product since 2003 (DGI, 2013). The office that is in charge of collecting taxes in Uruguay (Dirección General Impositiva, DGI) was reformed in 2000 in terms of its bureaucratic capacities. The reform was initiated in the first year of Jorge Batlle administration (PC) and was aimed to increase tax collection. Since 2007 Uruguay has

²⁰ The FA program of reforms defined a more detailed and coordinated reform's agenda.

implemented a tax reform that includes an income tax. This reform also simplified all tax systems and ended with exemptions that favored different economic and social sectors. Figure 3 shows that since 2003 the evolution of the level of tax revenue collection at constant prices is systematically bigger than GDP growth.

Figure 3. Gross Tax Collection and GDP Evolution 1998 – 2012 (1998 =100)



Source: Figure generated using data from *Dirección General Impositiva – Aseosría Estadística*

At the same time, the number of people who regularly contribute to social security increased by 62% since 2004 (BPS, 2013). The coverage of the Uruguayan social security system grew from 50% of the economically active population in 2003 (the post crisis year) to 67% in 2010. These figures are outstanding in the Latin American context and comparable only to those in Costa Rica and Chile (Rofman and Oliveri 2012). This process was driven not only by economic growth but also by specific policies oriented to formalize former highly informal activities, like domestic servants or rural workers. In that respect it is telling to observe that the coverage in the primary sector grew from less than 45% in 2000 to more than 70% in 2010, while in the secondary and tertiary sectors the increase was just a little over 10 percentage points (Rofman and Oliveri 2012). Additionally, other policy reforms encouraged labor formalization, like the health reform, which, by broadening the health coverage for the relatives of formalized workers, created incentives for workers' formalization. These figures show an important process of economic formalization and a substantive improvement in the state capacity to fight against tax evasion.

Public allocation of services and goods is not discretionarily distributed any more. It is very difficult to observe any serious bias in the design or execution of public policies. For example, Vázquez first administration (2005-2010) made important reforms in safety

networks, especially increasing money transfers for the poor and expanding health coverage. The “equity plan” (Plan de Equidad), a classic CCT program, covers all children under the poverty line with a “family allowance” (Asignaciones Familiares) of about \$50 per child. This kind of plans opens opportunities to particularistic allocation, but in this regard there is no evidence of any political bias, even though the government party obtained some electoral profit among the targeted population (Queirolo 2010).

Since the 1990s reforms, traditional parties have strived to tackle an oversized and inefficient state by reducing the number of state employees and privatizing state-owned enterprises. Additionally, the Frente Amplio (FA) governments, first at the capital city hall (Intendencia Municipal de Montevideo) since 1990 and then at national government since 2005, made significant changes, introducing more competitive recruiting procedures without completely removing political influences. Thus, in general terms, it could be said that government currently makes efficient use of most available human, financial and organizational resources.

Change in the competitive strategy between parties from clientelism to programmatic offers, led to this process of reforms that reinforces at the same time programmatic competition throughout the restriction of available resources to distribute in a particularistic manner. Therefore, in this process institutional changes constitutes a virtuous circle (Mungiu-Pipidi 2016).

VII. The Uruguayan path and what can we learn from it

Uruguay is a “contemporary achiever,” a country that has only recently could be considered as an open access regime, which has registered modest economic achievements over the last 30 years. Uruguay shows how a change in the competitive equilibrium of the party system (from a system based in clientelistic competition to one grounded in programmatic competition) transformed the country into an open access regime. In this context, the political, administrative, and economic reforms mentioned in this text only can be fully explained because of a simultaneous transformation in the structure of party competition. Agency matters since the will of the leaders is a necessary condition for reform, but agency needs institutional incentives to work.

Although corruption was never pervasive in the past, the former governance regime in Uruguay was built around particularistic distribution of benefits and public services. Rama (1993) shows how organized interest and individual citizens were prized or

penalized in a discretionary manner. The Uruguayan transition from particularism to universalism since 1985 is a transformation which can be best understood in the context in which clientelistic competition became unsustainable, a change that was driven in large part by the transformation of the party system from one in competitive equilibrium between two traditional parties, to another that had to incorporate a third party challenger. This process of change consolidated a system of political competition between two blocks that are ideologically opposed, the FA on the center left and both traditional parties on the center right. This highly institutionalized party system, which demonstrated once again its ability to adapt, is the key to this political transformation, which is a cause and not an effect of the reform process in Uruguay.

Reforms in Uruguay were possible because the country met a set of conditions that made them viable. As Geddes argues, “reforms occur when the larger parties in a political system are approximately equal and thus control approximately equal amounts of patronage” (1994:21) and when “legislators have some additional incentive to eschew patronage, such a widespread pressure for reform from constituents” (1994:99). Also, reforms can advance and consolidate, when a newcomer (from the outside of the two traditional parties) gets office, because his political support do not depend on the particularistic use of public resources. The successful trend of reforms in Uruguay took advantage of the sequence of both processes, which created a virtuous circle.

The economic and political crisis led to a change in the Uruguayan governance order. As Mungiu-Pippidi (2016:104) says: “change will occur gradually and punctuated equilibria will be the rule”. In Uruguay, this severe crisis disbanded the clientelistic barriers that had prevented programmatic challenges to traditional parties. Nevertheless, institutional changes were not the product of the traditional elite displacement, but the transformation in its political strategy to remain in power in front of a threat. Particularism was not an option for newcomers from the FA, but also for the younger leaders of traditional parties.

The Uruguayan case shows a way in which particularistic practices could be overtaken due to an institutionalized party system which could adapt its electoral strategies when an exogenous economic and financial crisis arises and produce the entry of a new challenger. In this chapter we tried to argue how the joint effect of a fiscal crisis and a new political challenger can create incentives for the elite to stop clientelistic practices. As on the one hand, a crisis leaves old parties with less resources and persuade voters to look for an alternative, and, on the other hand, a new party poses a successful programmatic offer, the old parties must adapt to programmatic competition trying to

show their capacity to govern in an efficient way. These were the political drivers of the Uruguayan transformation into an open access regime.

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