

# **Big Business and Bureaucratic-Authoritarianism in Uruguay: a network based story of policy permeation for self-preservation**

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Understanding the relations of business and politics is of profound importance. This chapter examines corporate interlocks among business elites in Uruguay during the bureaucratic authoritarian period and business-related connections among government officials. First, we describe how business strategy for influencing policy outcomes evolved from the ISI to the Bureaucratic-Authoritarian period. We show how it moved from institutionalized corporate participation in decision-making to direct participation of businesspersons in government after the shift towards technocratic management in government beginning in 1967 and continued after the military coup in 1973. Second, we characterize the structure of big business circa 1979-1984 using network analysis. We explore its' connections with the rest of the economy, identifying the most relevant business communities and how they were linked to each other. The chapter concludes with the identification of the most influential business-groups by different network related measures and in terms of its' connections to government during the military period. For the most important business-groups, we provide a case study of how they permeated the military government's liberalization process in order to cushion its' impact on their wealth and industries.

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## Introduction

In Uruguay, as in the rest of Latin America, big business takes the form of family based diversified economic groups. Consistent with both a diversified family ownership structure and financing patterns in the region, there has been no significant development of stock-market based corporate finance in Uruguay. Business-groups we identify circa 1979-1984 began to take form mostly during the 1950s –despite a few ones before the 1930s–, after two decades of continuous growth under the auspices of the world wars –internationally– and Import Substitution Industrialization (ISI) in the domestic arena.

The ISI incentivized governments to deliver special benefits, mostly in the form of subsidies, to certain business sectors and groups because of their organizational strength or strategic importance. Governments at the time also granted institutionalized sectorial participation in decision-making to business through different institutions.<sup>2</sup> This, in turn, made the state permeable to employers' interests and demands, which became progressively more onerous as the ISI model stagnated and eventually collapsed.

Contrary to the South Asian experience at the time, ISI failed at boosting productivity oriented strategies on the part of employers, but ended up strengthening a vicious cycle of never-ending subsidies and rent-seeking strategies. Subsidies and participation in decision-making instances fueled the proliferation of rent seeking strategies region-wide.

In Uruguay, rent seeking was mainly aimed at sectorial differences in the exchange rate through the Import and Export Control Commission (CIE - *Contralor de Importaciones y Exportaciones*). The literature agrees in that when multiple exchange rates were abolished in 1959, rent seeking turned towards higher nominal protection rates. By 1974, in the aftermath of the military coup and at the onset of the liberalization process, rent seeking focused on increasing the reference price for the calculation of subsidies and taxes.<sup>3</sup>

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<sup>2</sup> See Caetano (1984) and Zubriggen (2006) for detailed historical accounts of this process in Uruguay during the ISI period.

<sup>3</sup> See Rama (1982 and 1990) for a more detailed account of the evolution of rent-seeking strategies.

Corporate finance was mostly dependent on domestic credit. Banks, which were owned by domestic capitals at the time –and often by big business groups themselves–, strengthened their position as corporate financiers in this context. It would only be between the oil crisis in 1973 and the Argentinean crisis of 2002 that a gradual process of internationalization of the banking sector would definitely dilute the pervasive endogenous web between financiers and investors.

In this chapter, we use network analysis to show a novel characterization and analysis of the structure of big business, and provide a descriptive account of how business groups' with a central position in the network were able to permeate the state and the liberalization process through direct political linkages and financial mismanagement. We do so by unpacking the links between family-owned groups, between these groups and the banking system, and with the political system during the military period through a detailed network analysis of the big business-groups.<sup>4</sup> We argue that liberalization neither weakened corporate actors influence in decision-making nor business preferences for rent seeking. While the use of institutionalized decision-making to influence policy gave place to individual businesspersons' involvement in party-politics and government, influence in law- and decree-making (including a wide variety of mechanisms from company-level tax exemptions to the acquisition by the government of self-inflicted debt) became the preferred strategies. This change was possible, in part, because of a process of replacement of traditional political elites that began under the Pacheco administration (1967-1971) with an overt intention to bring technocrats to key positions in government. With the military coup, traditional political elites were definitely displaced, bringing new opportunities for influential business-groups.

The chapter is organized as follows. In the first section, we briefly characterize big business in Uruguay. Then, we explain how the liberalization process unfolded and evolved. Finally, we elaborate, based on our network analysis, a description of big-business networks during the military period and their political and economic bonds. We provide detailed examples of how some strongly politically connected groups managed to make surgical perforation of the liberalization process.

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<sup>4</sup> See Stolovich et al. (1987) for a more detailed account of the classification of business groups.

### **Big business and the mutation of rent-seeking strategies**

As several countries in Latin America, since the 1930s, Uruguay went through a process of industrialization by import substitution. This model was characterized by a change in the productive structure focusing in the local market industry. This process led the country to historical growth rates, with annual maximums above 4% in GDP, and 3.4% in per capita product (Finch, 2005: 266).

Big business in Uruguay took the form of diversified groups, although with a primacy of industrial activity, between the 1950s and 1980s (Trías, 1958; Stolovich et al. 1987; Finch, 2005). This was also the case all around Latin America at the time (Schneider, 2004). Groups evolved largely to diversify risk in an unstable region.

Industrialization strongly relied in the import of inputs and capital goods based on foreign exchange (with a great contribution of the primary goods export sector, mainly livestock). Through deliberate intervention and protection policies, the state diverted part of the income of the primary sector to the secondary sector, offsetting its productivity deficits. The decrease of primary goods prices internationally in the 1950s began to show the model's bottleneck, posing a question on its' sustainability (Bértola, 1991).

Uruguayan business progressively gained institutionalized decision-making ability from 1931 to 1938. Of particular importance was the creation of the Import and Export Control Commission –which Board of Directors had 9 members: 4 business representatives and 5 members from government–. This commission operated until 1961 and controlled foreign exchange decisions, the main tool for economic policies that supported the ISI model. This Commission provided organized business with the possibility of controlling the economy through corporatist participation in the state (Zurbriggen 2006). Sectoral-based coordination strategies on the part of business strengthened during the ISI because of this access to institutionalized decision-making instances (Bogliaccini 2012 and 2018).

The crisis of the ISI resulted in prolonged economic stagnation. Between 1955 and 1970 the average annual GDP growth was 0.9%, although in per capita terms it was -0.3%. This stagnation produced a strong dispute over income, which evolved into a wages and prices spiral besides a high inflationary process (Instituto de Economía, 1969). The

average rates of annual growth of prices were 23.4% for the 1956-1960 period, 30.4% and 66.1% for the 1961-1965 and 1966-1970 periods respectively (Finch, 2005; 267).

Economic stagnation fueled an increase in the level of social conflict and polarization. Domestic industry vulnerability increased with the stagnation of the ISI and the subsequent crisis of rent-seeking strategies brought about because the State was progressive unable to deliver special benefits. As in the rest of the region, industry was the most affected by this stagnation. At the political level, the idea of the need of a more efficient and less hesitant government grew rapidly. This crystalized in the constitutional reform of 1966 –which suppressed the collegiate Executive–. However, democratic stability deteriorated rapidly by the end of the 1960s while political parties image plummeted under the siege of corruption scandals and inefficiency allegations.

In this context, the Colorado government of Pacheco (1968-1971) made a technocratic shift, inviting influential leaders of big business-groups to key government positions. We define big business using the classification made by Stolovich et al (1987) in their description of Uruguayan economic power in the 1980s.<sup>5</sup>

Therefore, institutionalized access to decision making for corporate business gave place during this decade to individualized access to government positions by handpicked business-bosses. By 1972, this new class of technocrats closely linked to large business groups helped the newly installed Bordaberry administration (1971-1976) to shift industrial-policy toward a more systematic effort at export promotion (Bensión and Caumont, 1981; Notaro, 2015).

The 1973 coup was the political corollary of this process of political and economic deterioration. The economic program of the new authoritarian government sought to implement a package of reforms aimed at overcoming economic stagnation. It was based on the following strategies: to diversify exports by promoting less devolved sectors; a drastic reduction of the real salary –partly by the illegalization and repression of

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<sup>5</sup> Economic groups classified as big business (stratum one in Stolovich et al. classification) had at least USD 20 million in assets and/or annual sales for the same amount. Only 15 of 111 groups identified by Stolovich et al. belong to this stratum.

unions—; a rapid liberalization of the capital account in order to increase capital flows; and a process of trade liberalization (Notaro, 1984; Astori, 1989, Yaffé, 2010)

Because of all this, large business groups were progressively exposed to external pressures in a context of ISI exhaustion and progressive attempts to open the economy during the 1970s and 1980s. These pressures took different forms. Increasing competition with inward oriented FDI would be one of them beginning in the late 1960s (Stolovich et al. 1987). However, available evidence suggests that large economic groups accommodated to this new scenario by allying with foreign capital. Policy shift towards liberalization, however, would prove to be more threatening to big business (Rama 1982). In particular because of a long-standing rent-seeking oriented behavior during the ISI.

#### **The liberalization process and its' tailored exceptions (1974-1984)**

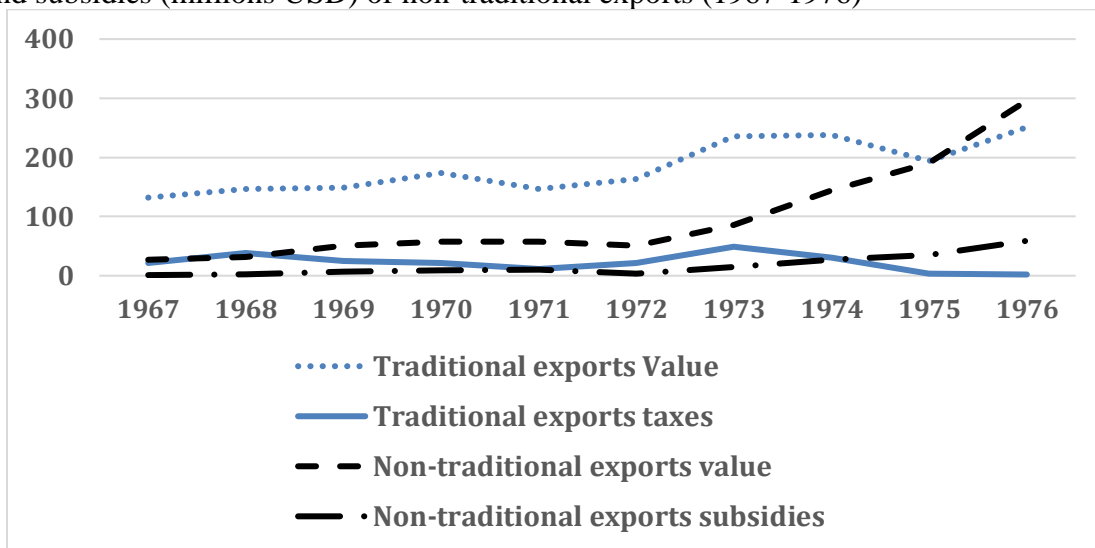
By 1968, the ISI in Uruguay had become a highly restrictive controlled system (Bensión and Caumont, 1981), albeit exports were less regulated. Traditional primary sector exports were taxed while non-traditional exports were subsidized. The level of protection for domestic goods was so high that only goods not produced locally were imported (Bensión and Caumont, 1981).

In august 1973, after the military coup, the Bordaberry government approved a development plan for the period 1973-1977 based on a liberalization strategy (Notaro, 2015). Reforms began in late 1974, advancing more rapidly in the capital market than in the trade market until 1978. While average tariffs were scheduled to drop to an average of 35% by 1985, this was modified in late 1979 by the implementation of a stabilization program, which included additional selective cuts over some 500 items (Hanson and de Melo, 1983). Export taxes were lowered from 21% of export value in 1973 to 2% in 1976 for traditional exports (figure 1). However, financial and fiscal subsidies were put in place for non-traditional exports (figure 1). In those years, subsidy payments of non-traditional exports escalated from 15 to 59 million of USD. Tax rebates amounted to about 15% of the value of exports (Bensión and Caumont, 1981).

Overall, the process of trade liberalization included tailored exceptions and particularities for different sectors. For instance, the analysis of the Uruguayan industry protection in the period 1975-1980 made by Rama (1982) provides evidence that the

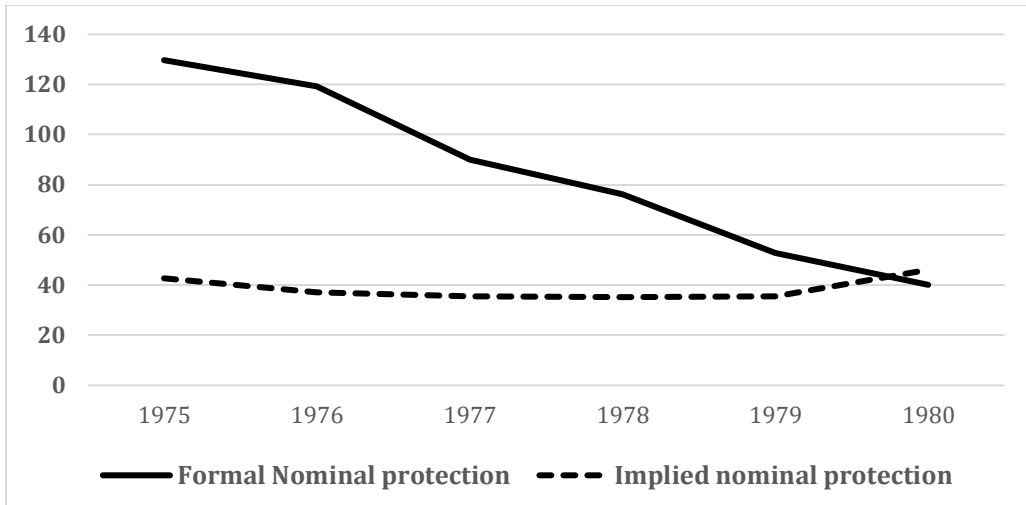
liberalization process was not as effective as it seemed. In other words, the significant tariff reductions on imports (three decrees: 1977, 1978 and 1979) did not necessarily translated into a reduction in the protection of the industry. To start with, some industries such as tobacco, chemical products or oil derivates did not even suffer tariff reductions (Rama, 1982). Moreover, although the average formal nominal protection for the industry decreased significantly from 1975 to 1980, the implied nominal protection was higher in 1980 than in 1975 (figure 2). This is explained by two factors mainly: superfluous protection and exchange policy (a fixed exchange rate was instituted in 1978).

Figure 1. Value and taxes (millions USD) of traditional exports (1967-1976) and value and subsidies (millions USD) of non-traditional exports (1967-1976)



Source: Own elaboration based on Bensi3n and Caumont (1981)

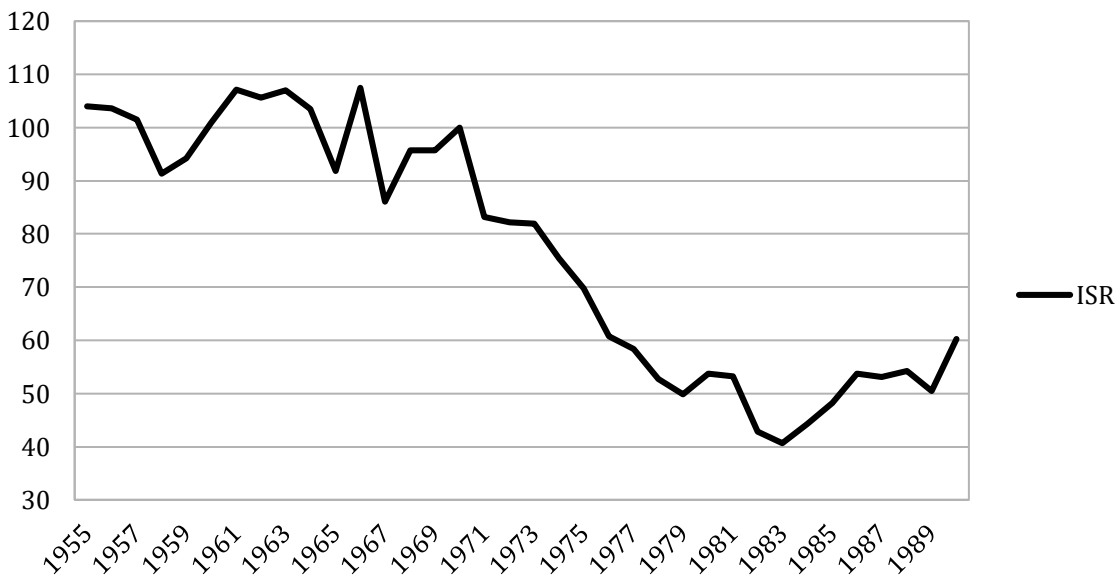
Figure 2. Formal and implied nominal protection of industry (1975-1980)



Source: Own elaboration based on Rama (1982)

The liberalization process was accompanied by the proscription of organized labor after 1973. This, along with the suppression of collective wage bargaining at the industry level since 1968, fueled the fall in real wages (figure 3). By 1984, the purchasing power of Uruguayan wages had reduced by 57% with respect of its' 1973 level (Yaffé, 2016). This massive decrease in real wages and the dismantling of trade union movements during the military period benefited significantly big business (Bohoslavsky, 2016).

Figure 3. Index of real salary (1970=100)





Source: own elaboration based on National Accounts 1955-1963 and BCU 1963-1990.

In a context of GDP growth and decrease of real wages, profits made by big business increased swiftly (Demasi, 2016). The relationship between business sectors and the military government became one of mutual understanding amidst the liberalization process. This overall situation –which continued until the 1982 debt crisis– could be well illustrated by an anecdote occurred in 1976, when the president of the industry chamber (CIU – *Cámara de Industrias de Uruguay*) explicitly thanked the government’s support for the sector’s growth trend made by installing export refunds through the Industry Promotion Law of 1974 (*Ley de Promoción Industrial*).<sup>6</sup>

In this context of a permeated government by the lobby of big business groups, a perforated liberalization process and oppressed organized labor, business lobbying was oriented towards achieving an increase in effective protection during the period (Rama, 2003; Macadar, 1985). An account of rent seeking actions by business is made by Rama (2003), which shows that these do not evidence a downward trend during the military period amidst the ongoing liberalization process (table 1). Rent seeking actions are identified as all those actions and decrees enacted on a single merchandise –or type of merchandise– related to tariff rates, reference prices for the reliability of tariffs or subsidies (changes in the exchange rate only corresponds to 1955, since in 1959 the system of multiple changes is eliminated).

Table 1. Rent-seeking actions by business

<b>Year</b>	<b>Rent-seeking actions</b>
<b>1955</b>	50
<b>1960</b>	78
<b>1965</b>	92
<b>1970</b>	88
<b>1975</b>	251
<b>1980</b>	62

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<sup>6</sup> La Mañana. 1976. November 12th.

<b>1983</b>	69
<b>1955, 1960, 1965 average</b>	73
<b>1970, 1975, 1980, 1983 average</b>	94

Source: Rama (2003: 206).

### **Big business circa 1979-1984: a social network analysis**

Once we have set the context and form in which the liberalization process unfolded and evolved under the military government, we aim to describe the main characteristics of big business circa 1980. For this, we base our analysis in social network methodology. We build our database of business groups from the seminal work on business groups by Stolovich et al (1987). We used the following criteria for including the groups in the network: first, we include only the 15 groups that Stolovich et al (1987) classified as belonging to the stratum number one –as explained before–. We then include all groups directly linked to these fifteen groups, and their connections, until all connections are accounted for.<sup>7</sup> The nodes contained in the network are business-groups and the edges between them mean that two business-groups have shares in an at least one same firm. Links are unweighted, a group either share a company with other group or not, and the network is undirected given that the link is reciprocal (does not distinguish the number of shares groups own).

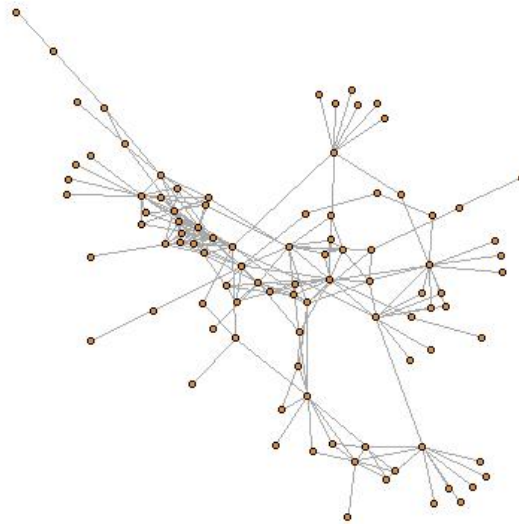
For visual inspection, figure 4 shows the image of the network of business-groups. In terms of economic significance, this complex network of alliances covered 256 companies, of which only 50 represented 8.5% of the total sales of the economy in 1987. Beyond the quantitative weight, this network of links between entrepreneurs includes oligopolistic control of some strategic valuable chains (among them: fishing, rice, oil, flour, wool, leather, meat, rubber products, paper and cardboard, the financial sector and media) at the time.

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<sup>7</sup> Only two of the fifteen groups that belong to the first stratum did not have any links with other groups. As customary in network analysis, isolated nodes (groups) were excluded from the analysis.

This network is characterized as concentrated but low-density. High level of concentration is expected due to the criteria used to build the network (we first consider 15 nodes and then those related to them; if the initial 15 nodes are somewhat related between them -as we expect for the biggest Uruguayan economic groups-, no fragmentation is expected). This reflects in the fact that concentrated components are only 3 while the maximum concentrated components possible was 15. This means that of the 15 largest business groups, 13 of them can link with each other by a path of  $i$  given nodes. The remaining two components have no known links. As a result, from now onwards we will consider the largest connected component as the whole network.

Figure 4: Uruguayan big business group and related groups network



Source: own elaboration based on Stolovich et al (1987)

The network contains 95 nodes, 220 edges, and the density is 0.05%. This low density is expected given the small size of the business community at the time, and the fact that edges in this network represent a strong bond (having shares in at least one common firm).

Despite having a rather low density, other measures such as the average path length and average degree indicate an effectively connected network. On average, a single node is connected to 4.5 other nodes (that means that groups share on average 4.5 firms with other groups in the network), and on average it takes 3.5 nodes to reach from any given node to any other node within the network. On top of that, the fact that groups could be linked with each other by ways that this network does not capture (such as family/friendship bonds or club membership), suggests that were capable of exchanging information in a highly effective manner.

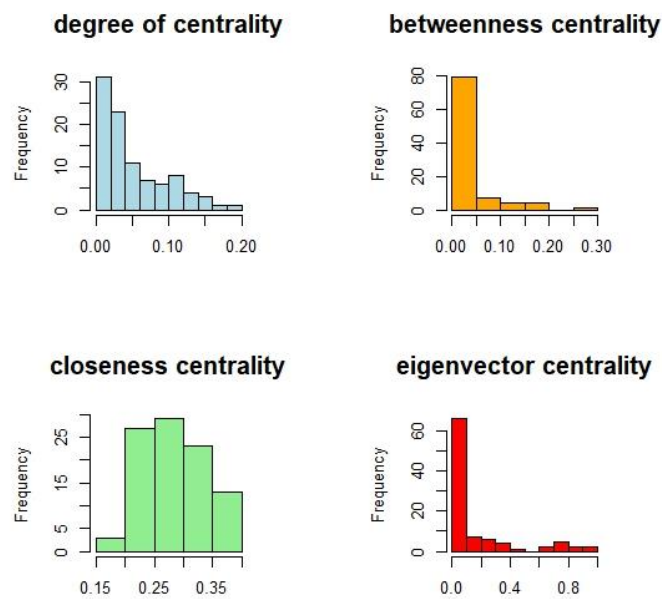
Based on the small-worldness index proposed by Humphries and Gurney (2008), our network constitutes a small-world phenomenon (5.8 in our network). The small-world phenomenon means that the logarithm of the number of nodes converge to the average path length. This results in the distance between nodes being small compared to the number of edges. The key characteristic of this type of network is that are “highly clustered, like regular lattices, and yet have small characteristic paths length like random graphs” (Watts and Strogatz, 1998). This way, information flows throughout the network in a short time. This is a crucial factor considering some business-groups had direct political influence during the dictatorship. Despite high transitivity -the transitivity index is defined as the number of transitive triplets divided by the number of potentially transitive triplets- being a property of small-world networks, our clustering coefficient is not particularly high (0.42). As a result, information flows even with more efficiency between business-groups, as more shortcuts are generated.

Further analysis on the distribution of centrality measures for each node suggests a quite hierarchical structure. As figure 5 shows, three measures –centrality degree, betweenness centrality and eigenvector centrality– have a large number of nodes with low coefficients and a small number of nodes with a large coefficient, meaning that a small portion of the nodes are crucial for the connectivity of the network. Furthermore, closeness centrality which can be described as the extent of which a node can easily reach all other nodes in the network has a rather normal distribution, that is to say that isolated groups of nodes do not seem to exist in this network.

The network analysis provides evidence of how business-groups maintained strong links with each other from sharing firms’ ownership. On top of that, previous research

suggests it was a common practice to form marital bonds between business families (Jacob, 1991; Stolovich et al, 1987). Both elements suggests the existence of a group of common interests manifested in both formal and informal links, although this doesn't means big business political interests were univocal. Nonetheless, it did constitute a very small, closed and interconnected medium, with the particularity of some nodes being determinant for the flow of information.

Figure 5. Distribution of centrality measures.



Source: own elaboration based on Stolovich et al (1987)

### **Big business political influence and its impact**

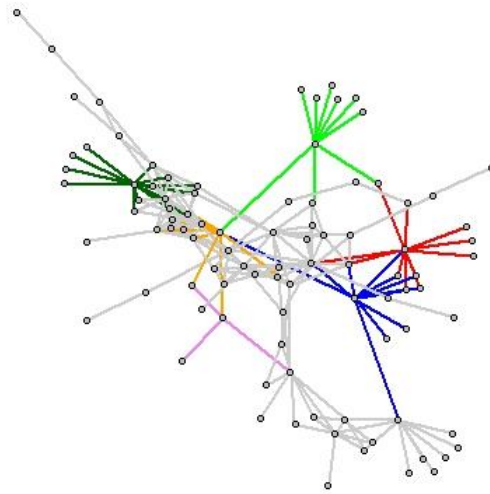
We carried out measures for each vertex, which enable us to identify some attributes of each business group in relation to the whole network. In other words, it is possible to know, in a series of different metrics, the position each node occupies in the network. To start with, we identify the cut-points of the network, which are crucial for its articulation; the nodes that constitute “a point whose removal would increase the number of components

by dividing the sub-graphs into two or more separate sub-sets between which there are no connections” (Scott, 2017; 118).

Our network has 19 cut-points. Three of them, the Aznarez, Vargas Garmendia and Cardoso Guani groups, were those who had the most direct links with the military government. Besides, each of these three groups are family-related with other three important groups. For instance, the sister of Julio Eduardo Aznarez (his political implication will be addressed below), Gloria Aznarez Betchold, was married to the head of the Strauch group –Elbio Strauch. Some Vargas Garmendia’s group members were cousins to Soler group members. The Cardoso Guani and Cardoso Cuenca groups had close family bonds (Stolovich et al, 1987). As we describe below, these nodes played a crucial role in the business network at that moment. Figure 6 illustrates the preponderant position of these groups by coloring the edges linked to these nodes. An important proportion of nodes in the network were directly linked to these six groups.

Furthermore, measures of Burt’s constraint, which captures whether a node establish bridges with others and capturing new information or is constrained by the structure (Burt, 2004), are consistent with cut-points. Those with lower coefficient are considered brokers: Soler, Vargas Garmendia and Aznarez were among 5 most important brokers. Strauch and Cardoso Cuenca also were relevant brokers. As Burt (2000) explains, brokers’ importance lies in their ability to bridge structural holes in the network, making it more efficient at flowing information. This happens because information circulates more within than between groups, giving nodes who are able to share information with two groups a competitive advantage.

Figure 6. The influence of Aznarez, Vargas Garmendia, Cardoso Guani, Carodoso Cuenca, Soler and Strauch groups



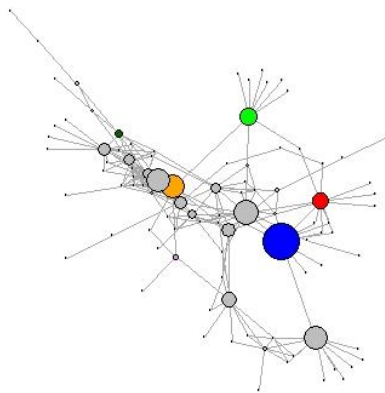
Note: Aznarez (red), Strauch (orange), Vargas Garmendia (dark green), Soler (green), Cardoso Guani (blue) and Cardoso Cuenca (violet) groups respectively highlighted  
 Source: Own elaboration with data of Stolovich et al (1987)

Three groups are of great importance for understanding big business' involvement with the military government: Aznarez, Vargas Garmendia and Cardoso Guani. While information flowed efficiently from node to node due to the structure of the network, these three politically important nodes had an important role in the network. Not only the three are cut-points, but rank high in terms of betweenness (figure 7); which measures the number of shortest paths that pass through that node. In other words, it tells the extent to which a node serves as an intermediary "between" other nodes in the network (Monge and Contractor, 2003). Freeman (1978; 226) argues that "interest in control of communication requires a measure based upon betweenness". This implies that the removal of vertices with high betweenness coefficient derives in a decrease of the network connectivity. Figure 7 illustrates the high level of betweenness of these groups. The Aznarez group ranks 7/95

in betweenness centrality, Vargas Garmendia 11/95 and Cardoso Guani 17/95.<sup>8</sup> Along with other three groups, with which we will see they had family bonds, were well above the confidence interval of the betweenness centrality mean ( $0.027 \pm 0.011$  at 95% of confidence): Strauch (1/95), Cardoso Cuenca (4/95), and Soler (6/95).

Closeness centrality is a measure that goes further than centrality degree (the amount of connections a node has) by allowing to know how connected a node is respect not only to their direct links but to a further set of nodes. This way, as Monge and Contractor (2003: 38) state, “a node can have a high closeness score even if the node has a low degree score, but is connected to nodes that either have high degree scores or are, in turn, connected to other nodes that have high degree scores”. Closeness centrality was particularly high for Strauch (1/95), Cardoso Cuenca (4/95), Aznarez (13/95), and Vargas Garmendia (18/95). This indicates that this groups high information access, as closeness centrality is a measure which provides useful information in how capable a node is -directly or indirectly- of gathering information from the network (Wasserman and Faust, 1995).

Figure 7. Betweenness centrality and politically linked nodes



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<sup>8</sup> See Table A1 in the appendix for the complete normalized values.



Source: Own elaboration based on Stolovich et al (1987)

Note: Colors: red = Aznarez, blue = Strauch, green = Vargas Garmendia, yellow = Soler, Orange = Cardoso Cuenca and Violet = Cardoso Guani. Size of nodes represents betweenness centrality magnitude.

Overall, all three measures –cut-points, betweenness and closeness– indicate that the nodes that had direct political influence and those family-related to them during the dictatorship period were key components of the business-group network in Uruguay. This is indicative of how good the position was for big business to try to permeate the liberalization process in their benefit. Although, it is difficult to establish a quantifiable measure of the extent to which this groups in particular and the whole network in general benefited from direct political linkages, we provide a case study of the three groups and analyze qualitative evidence illustrating how this rent-seeking process could have developed.

#### *Aznarez Group*

The Aznarez group, one of the biggest at the time, whose assets were worth at least USD 20 million per year in sales (Stolovich et al, 1987), had two of its board members in key political roles during the dictatorship. Julio Eduardo Aznarez served as Secretary of Agriculture and Fishing from 1974 to 1976, while Walter Luciaro Aznarez as Secretary of Industry and Energy in 1982 and Secretary of Economy from 1982 to 1983. This is of utmost importance given the Aznarez group was, although highly diversified, an agro-industrial group, closely linked to one of the two biggest Uruguayan groups at the time measured by firms ownership (24): Strauch (Stolovich et al, 1987). Apart from family bonds, they had solid business connections. The two groups, aided with FDI, founded an important fishery named Astra in the late 1970s. Our analysis expands the relevance of the fishery in understanding rent-seeking behavior during the military period.

The “Fishing Law” of 1976 provided export refunds and tax-free diesel to the industry. In addition, the state-owned bank (Banco República) granted several credits to the fishing industry, which attracted national and foreign capital. One of the drafters of the law was Marcial Bugallo (state counselor at that time) who was also a board member at

one of the fishing enterprises that benefited from the “plan pesquero”<sup>9</sup> (Carrió, 1987). Having a prominent member of the group serving as head of the Ministry of Agriculture, Livestock and Fisheries also suggests a collision of interests. Moreover, Aznarez and Strauch, aided by FDI, founded one big fishing enterprise (Astra) in the late 1970s.

Besides family bonds with the Strauch group, the Aznarez group had joint ventures with foreign and national groups, among which Deambrosis, De Posadas and Coca Cola Company groups are preeminent. Regarding sugar production –Aznarez group main business–, the Aznarez’ integrated the "sugar trust": an alliance between local sugar companies to distribute production quotas and market segments (Trias, 1961: 226, 227, Mate Amargo, 1990: 19). The Aznarez group was benefited directly in three government conclaves granting a relevant position to the sugar industry, a highly protected sector, –San Miguel (1973), Parque Hotel (1976) and Solís (1977)–. The conclaves stated that it was a government priority to ensure autarkic supply of sugar in Uruguay, although being a downhill industry and not being competitive at all (Stolovich et al, 1987).

Overall, the fishing and sugar related examples are clear illustrations of how economic groups adapted to the liberalization process at the expenses of a permeated state.

#### *Vargas-Garmendia Group*

The Vargas Garmendia group was also among the larger and highly diversified groups, having stakes in the financial sector –bank ownership (*Banco Comercial*)–, in diverse industrial sectors such as textiles –wool (*Lanera Santa María*)–, rubber –tires (*FUNSA*)– and beverages –beer (*Fábricas Nacionales de Cerveza*)–; as well as being an important landowner. The group had also stakes at the newspapers business (*Diario La Mañana*) and plastic industry (*Atma*).

The most relevant political linkage the Vargas Garmendia group had with the military government was Luis Vargas Garmendia –board member at *ATMA*, brother of Eduardo Vargas Garmendia who integrated several boards such as the previously mentioned *FUNSA*, *Lanera Santa María*, *Fábrica Nacional de Cerveza*, among others–

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<sup>9</sup> Executive resolution 31.08.1983

(Carrió, 1987). He was Sub-Secretary of the Interior Affairs Minister from 1974 to 1976, later becoming Secretary to the President during the de facto Aparicio Mendez administration (1976-1980). The group had family bonds with the Soler group, one of the two biggest ones in Uruguay at the time (Stolovich et al, 1987). While the Soler group had stakes in the production, commercialization and import of automobiles, advertising and banking, the Education and Culture Secretary between 1975 and 1981 –Daniel Darracq– was married to a member of the Soler Garmendia family.

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

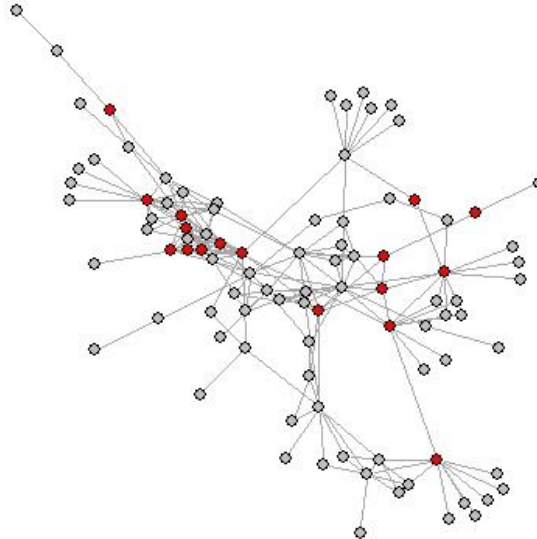
#### *Cardoso Guani Group*

Unlike Aznarez, Strauch or Vargas Garmendia, the Cardoso Guani was not as large a group. However, their family bond with the Cardoso Cuenca group allowed them to have direct access to the financial sector and rice industry. The Cardoso Guani group had shares in one of the most important supermarket chains in the country (*Disco del Uruguay*), as well as in other sectors, for example, in textiles (*Lavadero Oriental de Lanás*). Its most relevant political linkage with the military government was Adolfo Cardoso Guani who was Secretary of Industry from 1974 to 1976.

#### **Big business and corporate finance**

Besides direct political influence, some business-groups were able to benefit from the state intervention in the private banking sector. As Carrió (1987) posits, private investment in this period relied largely on bank credit. However, investors and financiers were usually the same. A significant portion of the business groups in our network were represented in the board of directors of the main private banks at the time (see figure 8); which suggests another potential conflict of interests: investors asked for credit were involved in the decision-process of granting those credits.

Figure 8. Connection between business groups and financial institutions



Source: Own elaboration based on Stolovich et al (1987)

Note: Colors represented are: red = business groups that had shares in a bank; grey = the rest of business groups

This led to an escalating process of “internal debt” and speculation at the expense of “main street” clients and the state. Some local banks, in the context of the Latin American debt crisis, developed a high amount of uncollectable debt -more than the 50% of total bank placement–, mainly acquired during the economic boom of 1978-1980. In response to this fragile situation, the military government decided to buyout local banks uncollectable debts, selling them at nominal prices to foreign banks in order to maintain confidence in the local financial system. These operations had a total cost assumed by the Central Bank of the equivalent of 10-12% of the Uruguayan GDP at the time; the number of local banks going from 11 in 1976 to only 2 in 1983 (Carrió, 1987). As Werner (2016) states, this kind of procedures strongly damaged the Uruguayan state’s economy while several of the rescued banks had members of government in their board of directors.

Five out of the six groups we analyzed in depth in the previous section were directly linked with financial institutions. Aznarez and Strauch were in the board of BAFISUD bank, Vargas-Garmendia and Carodoso Cuenca were in the board of Banco Comercial, and Soler was in the board of Surinvest Bank. All three banks eventually had their debt bought by the state by one of two mechanisms. A first mechanism was for the Central Bank (BCU) to buy the debt in order to sell it to a foreign institution—the BCU incurred cost in bailing out the BANFISUD was around USD 94 million; while its' selling price to NMB Netherland's bank in 1982 was of around USD 0.015 (1 Nuevo Peso)–. A second mechanism was for the BCU to buy debt whose counterpart was the granting of loans by the selling bank to the BCU –as it was the case for Banco Comercial and Surinvest– (Stolovich et al, 1986).

Although not a deliberate strategy of indebtedness across large business groups - only a few of them were strongly involved in these operations and more than 40% of the acquired debt was owned by small or midsize business–, some clearly used their connections in the financial system and government to access credit irresponsibly. The most notorious case was the one of the Soler group, whose debt was acquired by the BCU at USD 37 million (the highest of any business group). Among others, this group owed the BAFISUD (USD 14.5 millions) and Surinvest (a bank of their own).

Strauch group debts with BANFISUD and City Bank picked at USD 6.5 million – of which USD 2 millions were granted at the sole name of Jorge Strauch, a board of directors' member at BANFISUD (Stolovich et al, 1986).

The bailout of the Banco Comercial included debts of about USD 1.5 million from “Arrozal 33” a rice-producer firm that owned Arrozur, in whose directory was Jaime Cardoso Cuenca (from Cardoso Cuenca group), son of Jaime Cardoso Saavedra (director of Banco Comercial). Another example of a self-approved unpaid loan was the one granted by the same bank to Bakirgian group (linked to Vargas-Garmendia) for USD 1.2 million (Carrió, 1987).

## **Conclusions**

This chapter aims to provide a descriptive account of the structure of big business community in Uruguay circa 1979-1984 and to shed light on how influential groups

managed to perforate the liberalization process through a direct political linkages strategy directed to permeate government decisions and straightforward financial mismanagement. We do the former by using network analysis methodology to produce novel information from an extraordinary database of business networks originally produced by Stolovich et al. (1987). We do the second by providing a brief case study of three influential business groups –Aznarez, Vargas Garmendia and Cardoso Cuenca– based on several secondary sources that we connect to new insights from the network analysis.

We first describe how business strategy for influencing policy outcomes evolved from the ISI to the Bureaucratic-Authoritarian period, moving from institutionalized corporate participation in decision-making to direct participation of businesspersons in government. This adaptation followed the process of stagnation and collapse of the ISI and the subsequent liberalization attempt beginning in 1974.

Then, we characterize the structure of big business using network analysis. We are able to assess the centrality and influence of key business groups with direct political linkages and domestic bank ownership. The network analysis provides evidence of how business-groups maintained strong links with each other from sharing firms' ownership. The business community structure at the time constitutes a very small, closed and interconnected medium, with the particularity of some nodes being determinant for the flow of information. Among them, Aznarez, Vargas Garmendia and Cardoso Cuenca, as well as Strauch and Soler stands out because of their economic and strategic importance, close ties with government and domestic banks.

Finally, the qualitative evidence points at better explaining how these influential groups managed themselves to permeate the inevitable liberalization process -that otherwise would have inflicted serious damage upon their wealth and industries- at the expense of the state's economy and ordinary citizens wellbeing.

Overall, we use a novel network analysis in order to tie together the rich but not sufficiently connected -domestic and international- scholarships on corporate business, democratic breakdown and economic liberalization for the Uruguayan case. Our innovation is in improving an already reach descriptive characterization of these processes using network related metrics that help understand the relations between big business and the military government in Uruguay from a richer comparative perspective.

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## Appendix

Table A1. Id, normalized centrality degree, normalized betweenness centrality, normalized eigenvector centrality and normalized closeness centrality and Burt's constraint.

	Group name	Centrality degree	Betweenness centrality	Closeness centrality	Eigenvector centrality	Burt's constraint
1	AZNAREZ	0.13	0.13	0.35	0.05	0.16
2	STRAUCH	0.12	0.28	0.40	0.13	0.18
3	FERRÉS	0.11	0.12	0.31	0.04	0.19
4	OTEGUI	0.16	0.08	0.38	0.96	0.19
5	PUIG	0.06	0.00	0.31	0.06	0.38
6	DEAMBROSIS	0.17	0.19	0.39	0.20	0.15
7	SANGUINETTI	0.10	0.11	0.38	0.18	0.18
8	PEIRANO FACIO	0.12	0.10	0.36	0.37	0.17
9	OYENARD	0.02	0.02	0.24	0.00	0.50
10	SOLER	0.10	0.14	0.32	0.09	0.11
11	GARD	0.02	0.02	0.19	0.01	0.50
12	AMEGLIO	0.12	0.02	0.35	0.83	0.25
13	COOPAR	0.04	0.01	0.29	0.03	0.43
14	CHRISTOPHENSEN	NA	NA	NA	NA	NA
15	MAILHOS	NA	NA	NA	NA	NA
16	IMASA	0.01	0.00	0.26	0.01	1.00
17	A.E. STALEY	0.01	0.00	0.26	0.01	1.00
18	COCA COLA	0.01	0.00	0.26	0.01	1.00
19	GARCÍA AROCENA	0.02	0.01	0.26	0.01	0.50
20	DE POSADAS	0.06	0.03	0.35	0.07	0.25
21	ORTOLANI	0.02	0.02	0.29	0.01	0.50
22	DENMARK SKIBS	0.02	0.00	0.30	0.02	0.59
23	A.S. ATLAS	0.02	0.00	0.30	0.02	0.59
24	NATIONAL SEA PRODUCTS	0.02	0.00	0.30	0.02	0.59
25	CFI	0.02	0.00	0.30	0.02	0.59
26	FRANKFURTER	0.01	0.00	0.29	0.01	1.00
27	DIENA	0.01	0.00	0.29	0.01	1.00
28	BEGHIN SAY	0.03	0.00	0.25	0.01	0.53
29	HARGUINDEGUY	0.02	0.00	0.25	0.00	0.62
30	PARIETTI	0.09	0.04	0.28	0.01	0.30
31	FRASCHINI	0.06	0.01	0.27	0.01	0.41
32	CARDOSO GUANI	0.04	0.05	0.31	0.09	0.34
33	ALDAO	0.05	0.02	0.33	0.07	0.28
34	CASARONE	0.02	0.00	0.24	0.01	0.69

35	ENSSLIN	0.01	0.00	0.24	0.00	1.00
36	FERNANDEZ LLADÓ	0.06	0.02	0.32	0.36	0.31
37	SAENZ	0.06	0.02	0.32	0.36	0.31
38	PARDO SANTAYANA	0.09	0.06	0.30	0.43	0.26
39	VARGAS GARMENDIA	0.16	0.10	0.33	0.60	0.16
40	TRAMBAUER	0.19	0.09	0.36	1.00	0.18
41	IRURETA GOYENA	0.10	0.00	0.34	0.74	0.31
42	PEIRANO VEIRA	0.11	0.01	0.35	0.77	0.27
43	COBHAM	0.11	0.02	0.34	0.74	0.26
44	GARCIA CAPURRO	0.09	0.00	0.33	0.67	0.31
45	GALLINAL	0.12	0.03	0.36	0.76	0.22
46	CARDOSO CUENCA	0.14	0.18	0.38	0.78	0.19
47	BRAGA	0.16	0.18	0.39	0.90	0.20
48	CALCAGNO	0.13	0.08	0.38	0.22	0.18
49	TERRA	0.03	0.00	0.30	0.05	0.49
50	RESGUCI	0.03	0.00	0.30	0.05	0.49
51	GUELFY	0.04	0.03	0.33	0.06	0.34
52	ZERBINO	0.14	0.07	0.37	0.34	0.18
53	RAFFO	0.07	0.00	0.33	0.12	0.30
54	BENZO	0.02	0.02	0.29	0.02	0.50
55	ALCAN CANADA	0.04	0.00	0.31	0.08	0.44
56	ROMAY SALVO	0.07	0.01	0.32	0.14	0.33
57	SCHECK	0.04	0.00	0.28	0.10	0.48
58	SLOWAK	0.02	0.01	0.27	0.04	0.50
59	MINNESOTA M&M	0.02	0.02	0.27	0.04	0.50
60	ADELA INVST.	0.01	0.00	0.20	0.00	1.00
61	SAMUEL MONTAGU	0.01	0.00	0.24	0.01	1.00
62	UNIBANCO	0.01	0.00	0.24	0.01	1.00
63	BANCA ROBERTS	0.01	0.00	0.24	0.01	1.00
64	CASTELTON	0.01	0.00	0.24	0.01	1.00
65	SEAGRAM	0.01	0.00	0.24	0.01	1.00
66	ROCCATAGLIATA	0.01	0.00	0.24	0.01	1.00
67	ECHEVARRÍA	0.03	0.04	0.24	0.06	0.43
68	BUNGE Y BORN	0.01	0.00	0.16	0.00	1.00
69	SOLODUCHO	0.04	0.00	0.25	0.00	0.54
70	CHILLEWICH CORP	0.01	0.00	0.22	0.00	1.00
71	OLASO	0.04	0.00	0.25	0.00	0.54
72	CAMPOMAR ETCHEVERRY	0.01	0.00	0.24	0.01	1.00
73	VEJO	0.02	0.00	0.29	0.09	0.68
74	MARESCA POLLIO	0.04	0.03	0.27	0.15	0.34
75	BANCA COMMERCIALE ITALIANA	0.01	0.00	0.25	0.06	1.00
76	UNION DES BANQUES SUISSES	0.01	0.00	0.25	0.06	1.00

77	PARIBAS INTL.	0.01	0.00	0.25	0.06	1.00
78	DRESDNER BANK	0.01	0.00	0.25	0.06	1.00
79	BEMBERG	0.03	0.00	0.30	0.25	0.42
80	HEINEKEN	0.03	0.00	0.30	0.25	0.42
81	ANSELMI	0.03	0.00	0.30	0.25	0.42
82	FERNANDEZ GOYECHEA	0.03	0.00	0.30	0.25	0.42
83	GLAXO R.U.	0.01	0.00	0.25	0.07	1.00
84	BARREIRO	0.04	0.04	0.32	0.05	0.31
85	SAPELLI	0.01	0.00	0.27	0.03	1.00
86	WILLIAMS	0.01	0.00	0.22	0.00	1.00
87	AROCENA	0.02	0.00	0.24	0.00	0.50
88	SOCIETE GENERAL BELGUIQUE	0.01	0.00	0.21	0.00	1.00
89	STEVERLYNCK	0.12	0.18	0.32	0.02	0.14
90	STEVERLYNCK (ARG)	0.01	0.00	0.24	0.00	1.00
91	STEVERLYNCK (BEL)	0.01	0.00	0.24	0.00	1.00
92	U.C.O. (BEL)	0.01	0.00	0.24	0.00	1.00
93	CESAR MACHI (ITA)	0.01	0.00	0.24	0.00	1.00
94	MARTINI ROSSI INTL.	0.01	0.00	0.24	0.00	1.00
95	ALPARGATAS	0.01	0.00	0.24	0.00	1.00
96	FONTAINA DE FEO	0.05	0.00	0.30	0.17	0.40
97	ACLE	0.01	0.00	0.22	0.01	1.00

Source: Own elaboration based on Stolovich et al (1987)