

# 7

## The Widening and Deepening of Democratic Development

*Oswaldo Sunkel*

In an elegant, convincing and comprehensive manner, José Antonio Ocampo's chapter covers the dual task of justifying the need for a new development agenda to overcome the serious deficiencies of the policies of the so-called Washington Consensus, and presenting a well-structured alternative agenda at the global, regional and national levels. Since I concur with most of Ocampo's analysis, I will limit myself to three comments. My first comment refers to my single substantial disagreement with Ocampo, and my other two comments will emphasise aspects of Ocampo's agenda that I believe must be given priority.

### **Economic Liberalisation and Democratic Development**

In his second section, Ocampo states, "the region undertook with enthusiasm ('ownership') economic liberalisation in the mid-1980s (or earlier in some countries)". I have a rather different view of what took place, and it is important to clarify this matter because it has some serious implications for the economics profession, international financial institutions and the socio-political situation of many Latin American countries.

It is important to recall that after the Great Depression and the Second World War, all regions of the world adopted wide-ranging modernisation and growth policies, inspired by the state-led Keynesian and socialist paradigms. In the non-industrialised countries, these policies consisted of the development of infrastructure (energy, communications and transportation), industrialisation, agricultural reform and social services (public

education, health, housing and social security). In the case of Latin America, this gave rise to the so-called “import-substituting industrialisation” model, a completely misleading label, which singles out one problematic aspect of a much more complex, wide ranging and rather successful modernisation process: GDP grew faster than at any other time before or since, poverty declined, standards of living increased, and social conditions improved.

Although serious economic imbalances were developing, what brought this state-led modernisation process down were not so much the pitfalls of the import-substituting industrialisation policies, which in any case were being widely recognised and in the process of being revised, but two other unrelated events.

The first type of events were the internal socio-political upheavals leaning towards socialism that – in the context of the Cuban Revolution and the Cold War – ended in some countries in harsh dictatorships and the adoption of neo-liberal market-led policy reforms.

The second event was the oil crisis, with the consequent huge accumulation of petrodollars in the international banking system and the large increase in foreign debt that followed. This brought about the debt crisis of the early 1980s, after the sharp shift in monetary policy in the United States with the second oil shock. The imminent threat of default on these foreign debts rallied the governments of the industrialised countries and the international financial organisations to impose drastic macroeconomic adjustments on the debtor countries, policed by the IMF, followed later by market-oriented structural reform programmes.

These policies found local support in a new generation of US-trained economists, largely in the Chicago School tradition, which were gaining a strong academic presence mostly in some private universities, where they were seen as a healthy antidote to the structuralist and socialist learning tradition of the public universities, but which did not have any substantial support in the private business community nor in the population more generally.

The negotiating weakness of the debt-ridden countries afforded the international financial community and the community of orthodox economists a golden opportunity to dismantle the state-led development policies of the previous decades and to impose a simplistic technocratic and normative textbook version of neo-classical economics, strongly biased ideologically against almost any kind of government activism in the economy. In fact, a black legend was invented to characterise the earlier policies as if they had been total failures and as if there had existed centrally planned socialist economies.

The dramatic shift from a mixed-economy, state-led development process to an extreme neo-liberal market economy was not simply a shift in economic policies, it was nothing less than a socio-political and cultural revolution, which has brought about fundamental changes in social structure and behaviour and has entailed enormous costs, both economic, social and moral (meaning corruption). This in turn has produced serious destabilising political effects in Latin America on the newly inaugurated phase of democratically elected governments of the 1980s. Over the last eleven years, seven presidents have had to abandon office before ending their terms due to corruption and popular upheavals!

In a new era of democratic governments, a growing contradiction is emerging between the majority of the population and the kind of economic policy favoured by the technocratic elites of governments and international financial institutions, or at least with the way in which these policies are implemented. This contradiction surely has much to do with the recurrent phenomenon of presidents that are elected on progressive platforms only to turn, when taking office, to a team of conservative technocrats – or directly to former high banking or financial executives – in order to implement policies aimed at financial stability and investor confidence.

There is an urgent task for the economics profession and the international economic organisations to critically review the prevalent conventional economic policy prescriptions in the light of the economic and socio-political experience of the last two decades. They should make the prescriptions more flexible and adjustable to the particularities of different countries via creative economic, social and political proposals with respect to such major intractable problems as persistent low investment and growth, large foreign debt burden and economic instability, state reform, unemployment, inequality, poverty, innovation and creativity, and so on.

Financial stability cannot constitute a rigid and dogmatic framework, but financial globalisation imposes certain limits on policy, depending on the efficiency, creativity and responsibility with which the political and technical teams (including those belonging to the international financial institutions) promote the process of political and economic reform. The challenge is a formidable one, but it also represents an opportunity to reorganise our economies and societies to move towards a new era of democratic sustainable development.

If development and democracy are to be mutually sustainable, it is vital that economic policy and public institutions become impregnated

with the need for solidarity with the majority of the population, through greater social participation, decentralisation, the strengthening of social movements and of the weakest social actors, as well as non-governmental organisations. This constitutes a wide and complex field of action that is part and parcel of what could be called the “widening and deepening” of democratic development. The science of economics, the economics profession and international economic organisations cannot continue to ignore the social, political and cultural effects of globalisation and neo-liberal policies.

### **Old and New Development Strategies**

In the first section of his chapter, Ocampo offers strong evidence against the orthodox prediction that neo-liberal policies would lead to international convergence. Indeed, such convergence only seems to have occurred in periods and countries when deliberate state-led industrialisation policies were adopted. Therefore, “levelling the playing field” (i.e. applying Washington Consensus policies) worsens asymmetries since it favours the stronger against the weaker actors in the international and national systems, as shown by the strong renewal of the trend towards income divergence in recent decades. When the players are unequal, “levelling the playing” field benefits the stronger players. This is why in sports, for instance, players have different handicaps as in golf, and there are different categories and levels in boxing, football and other games. Therefore, as Ocampo correctly states, international systemic asymmetries must be addressed and corrected, and he makes several important proposals in this regard. But meanwhile, the levelling of the playing field in such matters as trade and capital market liberalisation continues to take place. This must be compensated urgently and strongly with national public policies aimed at strengthening the weaker local players. The development of competitive, innovative and high value added productive activities must be a top priority.

The success achieved in international markets in recent years by many Latin American countries was based principally on the move from an inward-looking to an export-based development strategy. This required the establishment of the appropriate framework of macro and microeconomic conditions, an extension of the role of the market and support for private economic agents. A greater innovative and entrepreneurial effort was likewise required on the part of the business community. The implementation of these urgently needed changes have been the most important tasks after the debt crisis.

It is only fair to point out that in order to achieve the objectives just mentioned, Latin American countries have been able to count on a considerable patrimony or “stock” of pre-existing productive potential, which is the positive inheritance of the state-led development of previous decades. This includes the accumulation of social capital and knowledge about the availability of natural resources; transport, communications, and energy infrastructure; the increased capacity for industrial production and the availability of experienced and well-qualified human capital. In other words, initial conditions were far more favourable than in the earlier phase.

Indisputably, the most positive aspect in this process of transformation has been the great qualitative and quantitative leap in terms of international integration through dynamic export expansion. But there is no guarantee that this newly found dynamism is lasting, because it contains contradictory trends. On the one hand, to continue to conquer foreign markets and develop deeper international linkages, the learning process will have to be strengthened. On the other hand, to the extent that the impulse derived from the favourable initial conditions gradually becomes exhausted, one can expect a deceleration in this process. After the first stage, which was to some extent based on an expansion of previously “repressed” exports, we could enter into a phase of decreasing returns.

To a large degree, the principal institutional changes and shifts in the orientation of the economic policy that were required have already been undertaken. The exceptional profit rates at the beginning of the period are tending to level out because of the pressures for a lower real exchange rate and the increase in national and foreign competition. The most accessible foreign markets are showing signs of saturation and it is increasingly difficult to gain access to these markets. New competitors are appearing from countries that are in the process of adopting similar export strategies. The existing infrastructure and productive capacity are reaching their limits. Renewable natural resources are being deteriorated by overexploitation, and the non-renewable resources are running out or are entering a phase of increasing costs. The entrepreneurial dynamism and innovative capacity, linked above all (although not exclusively) to large enterprises, has to confront the challenge of interacting with medium, small and even micro-firms.

Within the context of the new export-based model that has been adopted, the potential for economic and social development in our countries depends to a large extent on the successful promotion of export growth and the strengthening of its internal productive and

social linkages, which has been disappointing. We cannot continue on the same path as before – a dynamic structural transformation is required with respect to markets, products, processes, organisation, technology and resources. Export growth in excess of the current expansion of productive capacity is a necessary condition for the success of economies that depend on the highly dynamic importation of capital, technology, critical inputs and sophisticated consumer goods.

This implies a whole new set of objectives and policies: an intensification of the process of capital accumulation, innovation and adaptation of scientific and technological knowledge; the penetration of new markets; the revitalisation and modernisation of domestic production; the promotion of linkages between the export sector and international and internal markets; the incorporation of the informal productive sector into the modern sector; the exploitation, in a sustainable manner, of renewable natural resources; the replacement of non-renewable resources through new investment and technologies; and a shift towards the export of goods with higher value-added, singling out products in the most dynamic segments of international trade in goods and services.

To sum up, the challenge is to promote an “industrialising” export-led developmental model, in the sense of increasingly incorporating technology and knowledge, and making better use of economies of scale through the deepening of the process of domestic integration between productive sectors, both horizontally and vertically. All this should be directed towards improving competitiveness and raising the share of technologically advanced, high value-added exports.

This set of structural and institutional policies should be specified in detail in an explicit development strategy over the medium and long-term for each country. It represents the way of the future with regard to industrial, science and technology, human resource and educational policies.

Some important initiatives already exist and have been put into practice, in both the private and public sectors. But a lack of a general national and regional awareness in the countries of Latin America about the need for a renewed collective effort of sufficient scope, tenacity and coherence, especially with respect to regional integration, is worrying. All social and economic actors should be involved in an informed and systematic process of discussion regarding possible and probable scenarios. Debates should be encouraged with respect to policy guidelines and the identification of priority actions over the long and medium term. It is necessary to pool limited resources and to take maximum advantage of the available opportunities against an admittedly sombre situation of

competitive international markets, sluggish economic growth, persistent protectionism, and growing uncertainty and instability.

It is also necessary to acknowledge the fact that it is impossible to respond simultaneously and instantaneously to all social demands. We need to define medium and long-term priorities and search for compromise solutions that distinguish between what is feasible immediately and what can only be achieved gradually. This requires the elaboration of a clear vision of the future in which all members of society will find a decent place, including the most marginalised members. We have learned that it is not possible to supplant the market. It constitutes an irreplaceable system of signals by which economic transactions are ordered. Nevertheless, at the same time, it is also necessary to recognise that the market is incapable of resolving the kind of questions raised before, all of which require important strategic decisions and public policies. These should be elaborated collectively by means of a medium and long-term strategy, articulated through all the actors involved (private, public and foreign). The strategy should stimulate and bring forth proposals and initiatives that are complementary to those that emerge from the market process.

No organisation, institution or modern enterprise can dispense with a strategic vision. In the past, exemplary planning and developmental organisations were created in Latin America; institutions that played an extraordinarily important role in their heyday: Corporación de Fomento de la Producción in Chile, Nacional Financiera in Mexico, Banco Nacional do Desenvolvimento Económico in Brazil, the Planeación Nacional in Colombia and so on. Perhaps it is worth remembering that many of the most successful privatised enterprises of today, and a considerable number of their owners and managers, owe their apprenticeship and development to these institutions. For the era in which we now live, we need to invent new institutions designed to deal with the medium and long term according to the realities and necessities of the present and with the objective of anticipating those of the future. In collaboration with the state, all the different social actors have a fundamental contribution to make in this respect.

### **The Social Challenge**

Latin America is facing an era of sharp social polarisation. Even during its most stable and successful periods, Latin America has been characterised by the persistence of enormous disequilibria between its different economic and social sectors and geographical areas. These

imbalances are profoundly rooted in history. As a consequence, islands of modernity, progress and richness comparable to those in the developed world, coexist with oceans of backwardness and poverty, similar to those of the most underdeveloped regions in the world.

There are violent social and demographic contrasts between the levels of income and the quality of life in the midst of the large urban metropolis, as well as between these urban centres and the rural areas, and within the urban and rural areas. There are huge areas where large marginalised populations of pre-Hispanic and Afro origin and culture persist side by side with privileged sectors in an advanced process of integration with the global economic and cultural system. These small modern areas are like an archipelago in an ocean where the basic economic, political, cultural and environmental conditions are more akin to the underdevelopment of the nineteenth century, or even earlier.

The principal and immutable social, economic, political and cultural characteristic of Latin America is this heterogeneity, diversity, contrast, and fragmentation. Will these characteristics be accentuated or weakened by the profound national and international processes of economic reorganisation, socio-political restructuring, institutional reform and cultural transformation in which they are immersed? As can be gathered from some of the observations that follow, I believe that the future panorama is fairly grim.

The widespread and prolonged reduction in investment, employment, income and consumption over the last decades has led to an overwhelming expansion in the numbers of “new poor”, in addition to those who already lived in poverty. One of the most significant elements of this phenomenon in most countries has been the lack of adequate public social expenditures, even through these expenditures increased in several countries. This has manifested itself in numerous ways; a serious deterioration in the public educational and health institutions and infrastructure; a large increase in unemployment and underemployment, a striking reduction in the salaries of professionals and other people who work in these sectors; a sharp decline in the middle and organised working classes; a serious shortage, and sometimes complete lack, of essential supplies and equipment; the overcrowding of classrooms and hospital wards; an alarming school drop-out rate; a lack of urgent attention and the existence of prolonged waiting lists at hospitals; a precipitous decline in morale and a partial or total exodus of the most able staff. In general, there has been a serious deterioration in public services. One especially shocking example is the neglect of preventive health care facilities.

Bearing in mind the experience of the majority of members of the lower and lower-middle classes in Latin America with respect to social service provision, we cannot help but conclude that a new form of polarisation is occurring that represents a kind of social apartheid. Whereas a select minority enjoys social services of a quality similar to those in the industrialised countries (even to the extent of having access to the most reputable hospitals of the United States), the great majority are deprived of adequate social services. Another aspect intimately linked to the subject of poverty and social inequality is the widespread and profound change that has occurred in the employment structure during the past decade in Latin America. It is the key to understanding the gravity of the current social problem. The current process of economic liberalisation and transnational integration further aggravates the pre-existing conditions of social segregation. This is particularly relevant in those sectors of the economy where large and medium enterprises with the greatest innovative capacity are continuously restructured in order to compete on the domestic and international markets. This process results in the creation of highly productive and well-paid employment for some, but also considerable job losses for others in the newly privatised, restructured enterprises and in the firms that do not resist the intensification of competition.

Thus, there are divergent tendencies between the workers who form part of the modern sector, characterised by high productivity and a considerable and growing degree of internationalisation, and the rest, who either join the ranks of the unemployed or are forced into low-productivity activities, self-employment and unemployment. Unfortunately, left to the spontaneous interaction of market forces, the latter group is usually far more numerous than the former, and together they make up what we could term “the new poor”.

The social challenge that Latin America faces is staggering in scope. There is a pressing need to tackle both the “old poverty” inherited from previous socio-economic models and the “new poverty” generated by the present transition, crisis, adjustment and restructuring. Social policies must be placed within this context; however efficient they may be, they can represent no more than palliatives since they constitute merely an attempt to struggle against the current thrust of economic policy. To make social policy truly efficient, substantial modifications are required in economic policy, as well as changes in social policy itself.

To achieve this objective, there is a need to distinguish between the primary income distribution and the degree of redistribution achieved after state intervention. Redistribution as a policy is very much con-

strained due to the reduction in the role of the state and the preference for low and regressive taxation. While this situation needs to be corrected urgently, it is also necessary to think of ways to alter the primary distribution of income through structural reforms which promote better access to productive assets such as land, capital, education and knowledge, and institutional changes to facilitate the creation of new small and medium-sized business ventures.