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CONTENTS

Education and changing production patterns with social equity. <i>Fernando Fajnzylber.</i>	7
The empty box syndrome. <i>Pitou van Dijk.</i>	21
Consolidating democracy and development in Chile. <i>Osvaldo Sunkel.</i>	37
Development pattern and environment in Brazil. <i>Roberto P. Guimarães.</i>	47
Integration today: bases and options. <i>Eugenio Lahera.</i>	63
Globalization and convergence: Latin America in a changing world. <i>José Miguel Benavente and Peter J. West.</i>	77
The world agricultural outlook in the 1990s. <i>Giovanni Di Girolamo.</i>	95
Evolution of the rural dimension in Latin America and the Caribbean. <i>Emiliano Ortega.</i>	115
The potential of Mexican agriculture and options for the future. <i>Julio López.</i>	137
The privatization of the Argentine telephone system. <i>Alejandra Herrera.</i>	149
Rationalizing social policy: evaluation and viability. <i>Ernesto Cohen and Rolando Franco.</i>	163
The political economy of the developmentalist State in Brazil. <i>José Luis Fiori.</i>	173
Guidelines for contributors to <i>CEPAL Review.</i>	187
Recent ECLAC publications.	189

Consolidating democracy and development in Chile

*Oswaldo Sunkel**

The transition to democracy in Chile has been achieved in an unusually rapid and successful manner. Its consolidation is only just beginning, however, and is faced with serious challenges which will call for extensive and complex efforts in the years to come.

At the political level, it will be necessary to do away with the institutional anomalies originally agreed to for facilitating the transition, to overcome the anachronisms that built up before and during the long spell of authoritarian rule, and to enhance the social and cultural dimensions of the democratic process. In the economic sphere, it will be necessary to strengthen the process of outward growth by promoting an industrialization-based form of export development—capable of further strengthening future structural dynamics both in terms of the country's place in the international economy and its domestic linkages—through a concerted strategy of "development from within". At the social level, the greater structural heterogeneity generated by the need to attain international competitiveness will call for redoubled economic and social efforts and the highest level of effectiveness of public policies, including profound conceptual and institutional changes in them in order to make significant advances toward basic macrosocial balances. All this, coming as it does on top of the wild swings observed in the past from the excesses of Statism to those of neoliberalism, and the new domestic and external challenges now being faced, calls for a profound reform of the State, which must be transformed into the socially negotiated institutional expression of the above-mentioned interrelated political, economic and social changes. If these changes mutually strengthen each other, this will strengthen in turn the possibility of consolidating development and democracy. If we fail in one of these fields, this could lead to growth without democracy, or democracy without growth, or—if the worst comes to the worst—to a situation where there is neither democracy nor growth.

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This article is an abridged text of the address delivered by the author on 6 April 1992 in the Hall of Honour of the University of Chile, on the occasion of his incorporation as a full member of the Academy of Social Sciences of the Instituto de Chile.

I have been examining many aspects and stages of the development of the region over the last four decades from the standpoint of the Latin American structuralist approach, which uses a historical, multi-disciplinary and transnational method.

The most recent stage has been characterized by an extremely severe economic and social crisis and drastic adjustment and restructuring policies which are generating serious political tensions in our democracies. This has caused me to concentrate on studying the current economic, social and political problems and their future prospects and, in particular, to undertake a critical review of the role of the State. This is why I have considered it appropriate to reflect on some of these questions on this occasion, since they seem to me to be particularly relevant to this moment of transition to democracy in Chile.

In contrast with other countries of the region which have gone through similar processes, two years after recovering our fundamental democratic institutions there is a widespread feeling in the country and among international observers that the *transition* has been a success and that it provides solid ground for the consolidation of democracy in the future. Once the initial priorities have been taken care of, however, concern begins to shift to more fundamental levels related to the economic and social content, and to the nature of civic interrelations and of political institutions. Consequently, there is a growing awareness that the *consolidation* of democracy in Chile displays the shortcomings and problems typical of a process which is only just beginning and still has a long way to go.

In this initial period, priority has been given to efforts to reach agreement on the changes which most Chileans considered indispensable and urgent in the first stage. Because of this, there was express recognition of the need to accept certain restrictions and even distortions of the democratic regime because these were laid down as essential conditions for the transition by powerful sectors linked with the previous regime which felt profound misgivings over what the restoration of democracy could mean for them and for the country.

In these circumstances, the new government has had to foster confidence among key economic and political sectors (such as national and foreign business circles, which are now leading social actors in the market economy), in the vitally important world of international finance, among the

opposition parties, and within the armed forces themselves, which had only just vacated the government.

It has also had to foster the moderation, understanding and support of the majority social and political sectors of the centre and the left. These sectors had long been systematically ignored or persecuted, and their access to and participation in the cultural, social, economic and political life of the country had been seriously restricted by means which included exile and violations of human rights. This was especially so in the case of the leaders and active members of left-wing parties and movements.

Thus, the political spectrum of the country—which had displayed extreme discrepancies and conflicts before the military coup—is now tending to converge towards centrist positions. The main political currents define themselves as centre-right or centre-left, and one current even calls itself “centre-centre”. This is a direct consequence of our stormy history of the last two and a half decades, but it is also due to the far-reaching changes which have taken place in the international geopolitical, ideological and economic context. The prevailing disposition of the most significant political currents and social actors has therefore been to play down, moderate and reduce controversies, often avoiding tackling them head-on and putting them off into the future.

This relatively cosy situation should not and cannot be a reason for passivity and complacency. On the contrary, it provides grounds for carrying out a very necessary and urgent exercise: to shift our attention from immediate and urgent matters and contemplate the medium- and long-term future. This should not be misunderstood or seen as an unjust criticism, for I fully acknowledge that important initiatives are already to be observed in this respect in various spheres of national life.

I am firmly convinced, however, that it has become an urgent and top-priority national task to begin to devote more explicit, systematic and decided attention to building a Chile which can enter the twenty-first century with an institutionally normalized, socially integrated and politically cohesive democracy and a dynamic, flexible and innovative economy capable of eradicating poverty and creating suitable conditions for greater equality of opportunity, while at the same time generating new capabilities for winning fresh positions in the world economy. All this must be accompanied by a process of cultural renewal which can combine the international trends towards greater homogenization with

the maintenance of variety and pluralism in an effort to build a national identity on the basis of the values of an authentically democratic culture which combines our own special features with those of universal scope, reconciles human and spiritual values with the specific demands of science, technology and efficient organization, and unites tradition with innovation and modernity.

In the limited time available to me, I shall briefly examine four subject-areas: one political, another economic, a third one social, and finally a subject-area—based on all the foregoing ones—which deals with the role of the State. I consider it essential to clarify these matters so that, now that we are well into the *transition*, we can advance towards the *consolidation* of democracy and development.

At the *political level*, the process has been complex, with positive aspects predominating over some serious shortcomings. All in all, however, the situation now is that the executive and legislative authorities have been legitimately elected; the fundamental freedoms of opinion, assembly and association have been restored; there are political parties which freely exercise their functions of supporting or opposing the government; the rule of law now prevails to a reasonably satisfactory degree, with due separation of the powers of the State; and human and civil rights have been restored. From this point of view—that of the procedures and forms of political coexistence inherently associated with democracy—it could even be accepted that in many respects the transition has already been accomplished.

It is also obvious, however, that some of these procedures suffer from serious shortcomings. Some of them are the result of the institutions inherited from the previous regime and the conditions negotiated in order to ease the transition. They are well known to all, and for our purposes it is sufficient merely to note that they have the effect of creating situations of political, economic, institutional and legal privilege for those who were leading figures in the military government.

As the transition to democracy progresses in a generally satisfactory manner, there is growing acceptance of it by those who previously mistrusted it. However, concern is beginning to be shown by other sectors of society who, now that they have fulfilled their desire to recover a democratic political regime, want it to be reflected in greater achievements at the economic, social, cultural and legal levels. Thus, for

some the reasons for these safeguard clauses are gradually disappearing, while for others there is a growing perception that they represent increasingly unjustifiable anomalies.

These clauses played a stabilizing role in the early phases of the transition. Now, however, they are beginning to have the opposite effect, since they are introducing a systematic bias in favour of minority political currents and actors which supported the military regime, and they often produce domestic and international friction and tensions in civil-military relations in circumstances which should not give rise to major problems if these anomalies were eliminated. They thus form a constant source of irritation, frustrations, conflict and pressures for the normalization of the political regime and the reform of the Constitution and the legal system.

There are other political problems, of a more general nature, which are connected with the ongoing process of perfecting democracy. These include, for example, the possibility of reforming the Presidential system in order to make it more flexible and improve the balance between the Executive and the legislature; securing greater participation and representation of the masses and of the various social agents at the national, regional and local government levels; agreeing on legislation which is more in keeping with actual conditions and social values in such areas as the status of women and youth and in regard to such issues as abortion and divorce; recognizing the urgent need to review the legislation and institutions concerning the environment; and modernizing the public administration and public action in general, especially with regard to the social sectors. Among these, I think that priority attention is particularly necessary with regard to the deplorable state of the judicial services and their inherent inability to meet the needs of the popular sectors.

These and other similar issues have been increasingly prominent in public debate, and some of them have managed to find a place on the agendas of the political authorities, so that they have been, are, or will be the subject of legislation. Thus, the more permanent institutional features of the State are gradually taking shape, even though the political bias referred to earlier means in practice that the parliamentary process is still not democratically representative. This could have serious consequences: broad sectors of the population which are under-represented could feel that the emerging set of institutions lacks political legitimacy.

In addition to the limitations of the legislature, due to the peculiar electoral system and the institution of the "designated senators" who were not elected by popular vote but appointed by the previous régime, there are the constitutional and legal restrictions which hamstring important powers of the Executive, especially with regard to its relations with the Armed Forces. Even more serious, in my opinion, is the situation with regard to the legal system and especially the Supreme Court. The generally accepted fact of their anachronism gives rise to skepticism among the population with regard to their authority, respectability and effectiveness, and this weakens the perception that the rule of law prevails in Chile, which is of the essence of democracy. I therefore believe that if certain State authorities continue to display these characteristics, this will seriously hinder the consolidation of democracy in the minds of the population.

The main political task of the moment is therefore to overcome this anomalous situation. In order to do this, it is necessary to press on tirelessly with the dialogue- and negotiation-oriented attitudes, dispositions and procedures which were so successful in overcoming the critical initial phase of the transition. It is also necessary to advance in the process of their social extension and enhancement from the political elites to the other social sectors and actors and the population as a whole. The values of a democratic culture must be assumed to the full and the representativeness and efficacy of the institutions which regulate their functioning must be further perfected. The social leaders in general, and the political parties in particular, have a historic responsibility in this task, especially when political controversy is heightened in the periods before electoral processes or debates on fundamental reforms.

In its *economic aspects*, the Chilean transition has been even more highly praised than in its political dimension, since the contrast with most of the other countries of the region is particularly marked. There is no doubt that during the military regime fundamental and vitally urgent corrections were made in key aspects of economic policy. Nevertheless, there are still some decisive tasks to be carried out. Without prejudice to the important initiatives which are already under way, it seems to me to be essential to draw attention also to the need to heighten and generalize concern and reflection over medium- and long-term problems.

Chile is a small country, geographically distant from the great centres, but it is increasingly part of

transnational circuits in the spheres of culture, the environment, technology, economic matters, and politics. This is an inevitable and irreversible feature of the current situation, and it offers both advantages and drawbacks. In order to minimize the latter and take advantage of the former, the country must make a major effort to meet the unavoidable challenge of forming part of a world society which is rapidly becoming more and more globalized. As we are not outstandingly significant in terms of geographical size or population and we do not enjoy a strategic geographical location either, we can only interact advantageously with the rest of the world on the basis of quality, creativity, efficiency, seriousness and competitiveness in all our international forms of expression. This calls for an exceptional degree of social cohesion, discipline and co-operation, and poses demands on which I shall dwell later in this presentation.

With regard to internationalization, I cannot resist mentioning a coincidence which I only noticed when I was writing this address, after the date and place of this ceremony had been decided. The only previous occasion on which I had the honour of speaking here was on 17 November 1966, when I gave one of the inaugural lectures of the Institute of International Studies, whose twenty-fifth anniversary was celebrated only a little while ago in this same hall. My presentation on that occasion was entitled "National development policy and external dependence".¹ In it, I noted that the cycle of the expansion of industrialization through import substitution was becoming exhausted and that a radical change of course towards an export strategy was becoming essential. Indeed, the corresponding section of my presentation was entitled "Export or die". I also drew attention to the emerging phenomenon of the great expansion of transnational corporations and the dangers that this involved, alongside the opportunities it offered. In order to take advantage of the latter in terms of transfer of technology and export promotion, I proposed a form of association which I called "co-production": similar to the current "joint ventures".

The success achieved in recent years by the Chilean economy on international markets has been based, on the one hand, mainly on recognition of the vital need to progress from an inward-looking development strategy to another one based on the idea of incorporating the economy into a new international setting: something which was already clearly perceived at that time. On the other hand, it is also based on the establishment of a suitable framework of macroeconomic conditions, greater confidence in and expansion of the role of the market and private economic agents, and a great effort of entrepreneurial innovation. In my opinion, making this urgently needed change of course was the most important function fulfilled by the military regime's economic policy.

It is only fair to acknowledge that in achieving this the regime had the advantage of considerable existing production potential inherited from previous decades, in the form of already evaluated natural resources, energy and transport infrastructure, industrial, forestry and agricultural production capacity, experienced entrepreneurs and skilled human resources. Far-reaching structural and institutional changes had also already been effected, which permitted better use to be made of these resources. In technical terms, there was a new and more favourable set of initial conditions for growth.

At the same time, however, this economic reorientation process also meant great social sacrifices: a long period of high unemployment and considerable declines in real wages, with abnormally high rates of profits, resulting in a deterioration in income distribution and heavy concentration of ownership of assets.

The most positive aspect of these changes was the great qualitative and quantitative improvement in the form of incorporation of the Chilean economy in the international setting. Even here, however, there are no grounds for complacency. Nothing guarantees that this dynamism will be of a lasting nature, for it contains contradictory tendencies: on the one hand, an ongoing learning process regarding the winning of external markets and the development of international links, which must be further strengthened in order to make it a cumulative phenomenon, but on the other hand a probable slackening of this dynamism as the momentum of the once-and-for-all changes in initial conditions gradually wears off. After an exceptional first phase, in many cases this

¹ Reproduced in *Estudios Internacionales*, Institute of International Studies, Santiago, Chile, April 1967, and in the *Journal of Development Studies*, London, October 1969.

momentum is entering, or may enter, a stage of diminishing returns.

The main institutional and economic policy changes have already been made. The exceptional rates of profits are tending to level off under the pressure of the drop in the real exchange rate and the increase in domestic and foreign competition. Wages are going up again with the reduction in open unemployment and the renewed organization of the working class. The most easily accessible external markets are beginning to show signs of saturation, and new competitors are arising in the form of countries which have adopted or are adopting export strategies of a similar nature. The installed capacity of both the infrastructure and production facilities is reaching its limits. Renewable natural resources are suffering from over-exploitation, while the non-renewable resources are showing signs of exhaustion. Entrepreneurial dynamism and innovation, which are found primarily, though not exclusively, in big firms, now face the challenge of linking up with and spreading to medium-sized and small enterprises, and even micro-enterprises.

New initiatives and greater efforts are needed, both to offset these constraints and to support the new capabilities which have been acquired, for the praiseworthy level attained by exports is not enough: it is necessary to maintain and even increase its growth rate. In a dynamic context, growing as fast as the rest really means standing still: in order to progress it is necessary to advance at a relatively faster rate. It is not enough to continue to follow the established paths: what is needed is to create a recurrent dynamic of structural change with regard to markets, products, processes, organization, technology and resources.

This means moderating consumerism and increasing the investment and saving effort; heightening the process of innovation, incorporation, adaptation and exploitation of scientific and technological knowledge; penetrating new markets and further enhancing the present ones; boosting and modernizing upstream and downstream linkages with domestic production sectors and entrepreneurial circles by connecting them with the export sector; bringing the informal production sector into the trend towards modernity; using the production potential of renewable resources on a sustainable basis through a form of management which preserves the ecosystems on which their survival depends; finding substitutes

for non-renewable resources which are becoming depleted; and advancing towards the export of products with higher added value and technological content.

A particularly important aspect in successful export economies has been the changes made in business organization, both within enterprises and in their relations with each other and with the State and workers. This last aspect includes the provision of greater stability, better status and enhancement of skills of the workers and their active participation and collaboration with a renewed entrepreneurial sector in the management and improvement of production: all crucial factors which raise productivity and decisively aid in achieving flexibility, efficiency, discipline and cooperation.

In the final analysis, what is involved is promoting an "industrializing" form of export development through policies designed to increase the proportion of the fastest growing exports in international trade and to link up other branches of production and domestic entrepreneurial strata with the expansion of the export sector.²

This set of structural and institutional policies is particularly important at the present time, when the leeway for traditional economic policies is extremely limited for both domestic and international reasons.

In some of these aspects, important private and public initiatives already exist or have been proposed. A matter of concern, however, is the lack of a generalized national awareness of the need for a renewed collective effort of sufficient scope, persistence and coherence. This effort should involve the various economic and social actors in an informed and systematic process of forward-looking exploration, investigation of possible and probable scenarios, and shared reflection on basic orientations and priority actions aimed at the medium and long term. This means concentrating limited resources in order to identify and make the best possible use of the available production potential and the opportunities offered by an extremely competitive and difficult international setting. It must also be understood that it is impossible to meet all social demands in a satisfactory, simultaneous and immediate manner, so that it

² Osvaldo Sunkel (ed.), *El desarrollo desde dentro; un enfoque neoestructuralista para la América Latina*, Fondo de Cultura Económica, Serie Lecturas, Mexico City, 1991; English version: *Development from Within: Toward a Neostructuralist Approach for Latin America*, Lynne Rienner Publishers, Boulder, CO, 1993.

is essential to define priorities and seek concrete trade-offs between what is feasible at the present moment and what can only be achieved gradually. This calls for the preparation of future scenarios in which the various sectors of Chilean society, especially the most underprivileged ones, are able to see that they will have a place for which it is worth striving.

We have learnt that while the market constitutes an indispensable system of signals for ordering economic transactions, it is not sufficient for settling these types of questions, which call for major strategic decisions. These decisions must be arrived at collectively through a prospective and properly socialized planning mechanism which stimulates and helps to generate proposals and initiatives that supplement those emerging from the market itself. No truly modern organization, institution or enterprise can be without this function and its corresponding set of institutions. In the past, Chile invented an exemplary planning institution for carrying out a function of historic importance: namely, the Corporación de Fomento de la Producción (CORFO). It must now invent a new set of institutions in line with the conditions and needs of the present and those anticipated for the future. Here, too, the social actors and the State, together with the political parties, have a fundamental contribution to make from their own respective standpoints.

Let us now move on to the question of *social affairs*, which is undoubtedly the most difficult of all. The unavoidable effort currently being made by the country to find the best possible place in the international economy cannot be successful or sustainable unless it is accompanied by a thorough-going change in forms of domestic organization and cooperation. Little attention has been paid to the fact that the dynamics of transnational integration often generate conditions of social segregation within the country.³ This may be seen in the various sectors of economic activity, where new enterprises are set up and those of the greatest innovative capacity are restructured to compete in international and domestic markets. This means new and well-paid jobs of high productivity for some employees, but it also means unemployment for the workers displaced from the restructured

enterprises and from those which are not able to stand up to the new competition.

Divergent trends are thus generated between those who enter the modern sector of high productivity which is in the process of internationalization and those who sink to an inferior level of employment in low-productivity jobs, underemployment or self-employment, swelling the ranks of the informal economy and the poor. Unfortunately, when matters are left to the free play of market forces, the former tend to be much fewer than the latter, in view of the growth of the population and of the labour force, the severe demands for restructuring deriving from policies that foster liberalization, privatization and international competition, the massive incorporation of capital-intensive technology, the insufficient investment effort, and the lack of skills, education and suitable work habits on the part of much of the active population.

In this way, a new situation of structural heterogeneity with features different from those of the past is being built up. It discriminates against older persons, the big contingents of young people without work experience, and women, especially if they are heads of households and do not have the necessary skills. In contrast, it favours urban adults with better qualifications and skills, greater initiative, and the ability to gain access to the segmented labour markets.

Thus, in the different productive sectors, in the regions, in urban and rural areas and in the different social strata, we have a situation of coexistence, in very unequal proportions, of modernity and backwardness in production activities, affluence and poverty in terms of income levels, and sharp environmental contrasts which give rise to tremendous cultural, institutional, political and demographic differences which tend to be self-reproducing. Consequently, the new generations living in a state of poverty have few possibilities of escaping from it. Economic growth, although without doubt an indispensable condition for tackling this situation, nevertheless does not represent the solution in itself. Without institutional changes and effective economic and social policies, it may even accentuate inequalities and contribute to discrimination and social conflict, criminal behaviour, political confrontation, and dissatisfaction, instability and social violence in general. Ultimately, it threatens all that has been

³ Osvaldo Sunkel, *Integración transnacional y desintegración nacional*, *Estudios Internacionales*, Santiago, January-March, 1971. English version: "Transnational Capitalism and National Disintegration in Latin America", *Social and Economic Studies*, vol. 22, No. 1, Jamaica.

achieved in recent years: the incipient democracy, some fundamental points of consensus, and the indispensable economic growth itself.

We know that substantial efforts have been and are being made in these respects. In this connection, special mention may be made of the change of emphasis from basically assistance-oriented policies to productive policies designed to establish suitable conditions for the permanent elimination of marginality. The task is of daunting scale, however. It is not just a question of the enormous deficits already built up: the "old poverty" inherited from the previous economic model, and the "new poverty" generated by the change of model, the crisis, the adjustment and the restructuring process. In addition to this, it is necessary to halt and reverse the effects of the mechanisms tending to reproduce inequality through the differences in conditions of access, quality, efficacy and permanence with regard to both the infrastructures and services aimed at providing assistance and those designed to support productive activities.

New forms of public and private institutions are required. In particular, imaginative additional efforts by the private sector are needed in the field of labour relations and cooperation within the enterprise, which includes the types of relations now recognized as being crucial factors in entrepreneurial superiority and success. A change of priorities and greater efficacy is also required in public expenditure and management, together with additional transfers of assets and income between sectors of production, regions and social strata, through truly progressive approaches to public income and expenditure.

Quite apart from their ethical grounds, the elimination of poverty, the reduction of inequalities, the search for equity and the opening up of an attractive horizon of opportunities are pressing needs for the consolidation of democracy and the firm establishment of a dynamic and modern economy.

I must stress at this point the need for special concern for youth, which forms a large proportion of the population. It is the section which is most seriously affected by unemployment and discouragement, which is most exposed to all kinds of risks, and which has the greatest need for opportunities and above all for encouragement, understanding and hope.

I feel that the great scope of the social task calls for profound conceptual and institutional changes.

Economic policy, for example, has well-defined priority objectives of growth, macroeconomic equilibrium and price stability, and to help establish these objectives there are a number of institutions comprising the Ministry of Finance, the Central Bank, the Department of the Budget and other bodies, with suitable procedures for control of activities, programmes and projects, evaluation of the results, and monitoring of extensive and timely statistical information. There are even international institutions, both public and private, which follow up, supplement and backstop the domestic ones.

In social matters, which should really be the ultimate objective of economic policy, something similar is called for. Thus, just as everyone accepts the need to achieve basic macroeconomic equilibria, it is also necessary to achieve "basic macrosocial equilibria". This notion is implicit in political action at the highest level and should be reflected in an institutional organization which gives greater effectiveness and coherence to the work of the government in these fields. Notwithstanding the praiseworthy efforts and achievements which have been made in the area of coordination, social policies and actions are in fact still organized on a sectoral basis, through multiple programmes carried out by a number of different ministries. Moreover, they are affected indirectly, and more often than not implicitly, by the economic policies adopted. This institutional weakness is the result of having assumed in the past that economic growth and stability would inevitably result in social improvement. As this assumption was not fulfilled in practice, the social services were gradually expanded in the course of time, resulting in a set of sectoral policies supplemented with special programmes and projects. More recently, part of these services (those servicing the higher income groups) have even been privatized.

It is essential to set up an institutional structure of sufficiently high political level and operational capacity to secure the effective integration of social policies both with each other and with economic policy. This presupposes theoretical and conceptual work to define priority objectives, identify and specify their content and determinants, and permit the formulation of the corresponding policies, including the systems of information, management, follow-up and evaluation. I consider this to be an indispensable task for progressing more resolutely towards the elimination of poverty, the reduction of social inequalities and injustices, and the opening up of an horizon of opportunities which will be attractive

above all to young people, for without this it will be very difficult to achieve the social stability and co-operation needed to consolidate democracy and development.

This brings me to the need to make a critical and dispassionate review of the *role of the State*. Firstly, as I hope I have already clearly shown, the action and reform of the State in the political, economic and social fields are essential if those objectives are to be consolidated in conjunction. Secondly, to a considerable extent the State should be the organic institutional expression of the interrelation between those fields. If these conditions mutually strengthen each other, then this will also strengthen in a synergistic manner the possibility of consolidating development and democracy. Failure in one of these tasks could result in a situation where there is growth without democracy, democracy without growth, or, in the worst of all events, neither democracy nor growth. Thirdly, it is essential to dispel the excessive ideologization currently prevailing in these matters, in order to be able to debate in a rational manner the general lines that should guide their reorganization in the future.

For this reason, it is also desirable to shift our attention for a while from the problems and tasks of the present and examine the changing role of the State from a historical perspective.⁴

After the Great Depression of the early 1930s, the State came to play a leading role in the development and structural transformation of the Chilean economy and society. It took on new functions of intervention in the markets for goods and services in order to reorient the economy towards industrialization and modernization; it made itself responsible for the financing of long-term investment projects and programmes, in order to make up for the absence of a financial market which would support the development of private activities in industry and other sectors; it took income redistribution measures, creating and expanding the infrastructure and the public social services for health, education and culture, housing and town planning, and social security and insurance; it made State investments in infrastructure in order to secure the physical integration of the domestic market through the modernization and expansion of the national transport, communications and

energy services; it set up public enterprises in industries where private enterprise was not interested or unable to do this; and it generated employment opportunities in the activities in question, thus contributing to the training of skilled human resources and the formation of a substantial organized wage-earning sector and a substantial middle class made up of entrepreneurs, non-manual workers, technicians and professionals.

In this respect, Chile was doing no more than following world trends. After the golden age of nineteenth century *laissez-faire* there was a profound crisis of capitalism which lasted from the First World War to after the end of the Second World War, including the turbulent 1920s and the great crisis of the 1930s. During this period there were great economic, social and political changes aimed at tackling and reversing that crisis and its consequences.

The first of these great changes was the Socialist Revolution. As is well known, in the economic changes that took place in the Soviet Union and in the countries where that nation imposed its model, the State took total control of the economy, and through a process of centralized planning it carried out far-reaching structural changes and forced ahead rapid processes of economic growth and social improvement.

State action was also resorted to within the capitalist area in order to tackle the difficulties that arose. This was so, for example, in the fascist corporative regimes established in much of Europe in the 1920s and 1930s. The Scandinavian and Anglo-Saxon countries, for their part, developed the Welfare State and the New Deal, which represented unprecedented State intervention in the economy in order to overcome the crisis, redistribute income and cure the cyclical instability of capitalism. The underdeveloped countries of Latin America, Africa and Asia turned to the developmentalist State in order to carry out modernizing changes in those backward peripheral societies.

In contrast with the "black legend" which has been woven in recent years around this period, the empirical evidence shows beyond any doubt that those policies were very successful for several decades. From the late 1940s until the 1970s, the majority of the capitalist countries, whether developed or underdeveloped, registered unprecedented rates of economic growth and of improvement in material well-being. Although this may seem paradoxical in

⁴ Osvaldo Sunkel, *Auge, crisis y renovación del Estado: una perspectiva de largo plazo*, in Matías Tagle (ed.), *Los desafíos del Estado en los años noventa*, Foro 90, Santiago, Chile, 1991.

view of their current collapse, the same was true of most of the socialist countries.

As well as making a very necessary reappraisal of the role of the State in this period, however, it is also necessary to make a critical review of it, since that historical cycle entered into a stage of decadence and reached its end in the 1970s, when the mass of new functions that the State was assuming gave rise to contradictory trends which became more and more acute with time.

In the economic field, the State intervened in the market to an ever greater degree, but with less and less justification, hindering and distorting its indispensable complementary function in the allocation of productive resources, with increasingly negative effects on their proper use, efficiency, competitiveness and growth. In the financial field, the State displayed an insatiable hunger for fresh resources in the face of growing resistance to increased taxation, thus heightening inflationary pressures and wage demands and reducing profit margins, thereby discouraging the private sector. In the institutional field, there was excessive bureaucratization, interference and administrative controls in economic and social life, giving rise to growing rigidity and arbitrary actions and leading to the questioning of the political legitimacy of the State. In the economic and social field, there was a heightening of the conflict between the crushing weight of the State apparatus and the strengthening of aspirations for greater participation, decentralization and freedom in both individual terms and with regard to civil organizations. In international relations, there was a worsening of the imbalance between the processes of transnationalization of the economy, finances, society and culture and the efforts of individual States to restrict, limit and control these processes. These and other contradictions ended up by causing the expansionary phase of State interventionism to run out of steam, and they finally caused its terminal crisis.

In Chile, the above-mentioned contradictions gave rise to some important reorientations of a more market-oriented type already in the 1960s. With the arrival of the Unidad Popular government, however, the functions of the State were greatly expanded, even involving the replacement of the market with generalized price controls and the nationalization of the banking system and much of the system of production, leading to economic and financial chaos which was socially and politically unsustainable.

The military government adopted a radically opposite programme, characterized by unrestricted and indiscriminate support for the market mechanisms and private enterprise through liberalization, deregulation, opening up to the exterior, the privatization of public enterprises and services, and reduction of the size and functions of the State. Not only did it reverse the policies of the socialist government in this way, but it also dismantled and replaced even the more moderate forms of State interventionism which had grown up in previous decades.

This set of policies was carried out in a strongly regressive manner, with the whole weight of the drastic process of adjustment and restructuring being placed on the shoulders of the lower and middle classes. There was a considerable increase in unemployment, underemployment and informal sector activities; incomes and wages went down; the tax burden of these sectors was increased; and the public services in the fields of education, health, housing and social security suffered cuts, went down in quality, and became more expensive. All this was in sharp contrast with the succulent benefits received by the minority sectors which enjoyed privileged conditions for gaining access to the processes of privatization, deregulation and greater external openness and participating and obtaining benefits from them.

Fundamentally, the outbreak of the structural crisis of the Chilean State in the 1980s had three main roots in my view. The first –the most widespread and deep-rooted– was the long-term tendency of the rise and fall of the State cycle, which began with the years between the wars and ended in the 1970s. The second was the all-embracing but unsuccessful attempt at State control and socialization promoted by the Unidad Popular government between 1970 and 1973. The third had its origins in the drastic neoliberal policies applied as from 1975 and subsequently further intensified on account of the debt crisis and the adjustment and restructuring policies.

The sharp pendulum-like swings observed in the role of the State in Chile in recent times have had heterogeneous and complex effects on its structural, institutional and functional characteristics. No realistic, balanced and detailed diagnosis is yet available of the true nature of the State apparatus which we have inherited. In the meantime, we are facing new historical conditions and there are novel problems

and challenges for national development and its effective interaction with the world context, including those which I referred to in earlier sections. This brings me finally to posit the urgent need to tackle the question of reform of the State in all its magnitude and scope.

It is necessary to start a broad-ranging, pluralistic and well-informed debate on the nature and characteristics which the State should have in the future in order to overcome its current shortcomings and appropriately meet, *inter alia*, the new objectives, realities, challenges and tasks noted earlier in this presentation. It will be necessary to make the greatest possible collective effort to bring the interests of the pressure groups in line with the common good of society, to identify and overcome as far as possible the ideological skews which characterize the different schools of thought on these matters, and to make use of the greatest possible realism, basing our efforts above all on the critical and dispassionate analysis of our own experience, as well as that of other

countries. Despite its occasional distortions, its vicissitudes and its current detractors, we have the advantage in this of having a respected and fruitful tradition of public service and of a "State in due form", as Alberto Edwards called it some time ago. The path which the State has followed in the course of our history as a Republic deserves the deepest respect, which can and must be recovered. The fact is that even though the State has lost some important functions, it undoubtedly represents –if I may be excused the use of an "economicistic" expression– one of the most important comparative advantages of our country.

In my opinion, the problems of the State, together with those which I referred to in the political, economic and social fields, form the main challenges, and their solution represents the most crucial task, if the successful transition which we have experienced so far is to be converted effectively, as most of us wish, into a process of consolidation of democracy and development in Chile.