

# CEPAL

## REVIEW

NUMBER 56  
AUGUST 1995  
SANTIAGO, CHILE

**ANIBAL PINTO**  
*Director of the Review*

**EUGENIO LAHERA**  
*Technical Secretary*



UNITED NATIONS

## CONTENTS

<b>Democracy and development</b> <i>Fernando H. Cardoso</i>	7
<b>Can growth and equity go hand in hand?</b> <i>Joseph Ramos</i>	13
<b>Stability and structure: interactions in economic growth</b> <i>José María Fanelli and Roberto Frenkel</i>	25
<b>Pension system reform in Latin America</b> <i>Andras Uthoff</i>	43
<b>Recent economic trends in China and their implications for trade with Latin America and the Caribbean</b> <i>Mikio Kuwayama</i>	61
<b>Economic relations between Latin America and the high-performing Asian developing economies</b> <i>Ronald Sprout</i>	83
<b>Economic relations between Latin America and the European Union</b> <i>Roberto Smith Perera</i>	97
<b>Rules of origin: new implications</b> <i>Eduardo Gitli</i>	111
<b>Globalization and restructuring the energy sector in Latin America</b> <i>Fernando Sánchez Albavera</i>	127
<b>The kaleidoscope of competitiveness</b> <i>Geraldo Müller</i>	141
<b>The privatization of public water utilities</b> <i>Miguel Solanes</i>	153
<b>How much can we spend on education?</b> <i>Guillermo Labarca</i>	169
<b>Women and migrants: inequalities in the labour market of Santiago, Chile</b> <i>Ivonne Szasz</i>	185
<b>Guidelines for contributors to <i>CEPAL Review</i></b>	197

# Democracy and development

*Address delivered by H.E. Fernando Henrique Cardoso,  
President of the Federative Republic of Brazil,  
on the occasion of his visit to  
ECLAC Headquarters at Santiago, Chile,  
on 3 March 1995.*

---

First of all, I should like to say how grateful I am for the kindness with which I have been received everywhere I have been in Chile. Nevertheless, ECLAC has a very special meaning for me. I am perhaps a little conservative in my habits, although not so much in my way of thinking, as Enzo Faletto seems to think ...

Whenever I can, when I am in France, I go to Chartres and its cathedral. One of the world's great monuments: a page of history in its own right. To see it is a pleasure for one's artistic senses, but it is perhaps even more than that: something in the nature of a pilgrimage ... There is something mystical about it which always remains in my mind, but my visit to it is also a symbolic gesture of embracing the culture it represents. Likewise, every time I come to Chile I visit another cathedral of a slightly different kind. So here I am once again in ECLAC, where so many great minds preached their gospel. Among all those prophets, however, there are two whom I always mention and to whom I should like to refer once again today. The first of them is Raúl Prebisch, who gave his name to this conference room and who has been a source of inspiration for all of us.

I remember so well when I first came to Chile. The ECLAC headquarters were not as grand as they are now. ECLA, as it then was, was still in the old building at the corner of Providencia and J. M. Infante, and as always we were short of space. There was nowhere halfway decent for me to install myself, so I began to occupy the office of Prebisch's secretary. As in those days Prebisch was in the United States most of the time, at the IDB, when he was away I took the liberty not only of occupying his secretary's office but also of using his own office to receive my friends from Brazil. They were tremendously impressed, and wondered how someone like me, who had only a lowly post, could occupy such magnificent

accommodation ... But the truth is that I was also using those offices to draw inspiration, for Prebisch was the mentor of all of us, and still is.

The second person I want to mention is José Medina Echavarría, with whom I worked so closely. He had the enormous patience to read my manuscripts and those of Enzo Faletto for the book on development and dependence in Latin America, or maybe dependence and development: I don't recall the title for sure—there were so many books, and it was so long ago. Anyway, don José read them patiently and corrected the Spanish they were written in, which was pretty awful in my case.

Everything passed through the hands of Weinberg, who was the reviser, but even so don José still read and improved the text. I think he was never very convinced by our arguments, but he respected them. He followed a Weberian train of thought: even more so than I, who had already adopted some of Weber's ideas. He looked at all that like someone who was asking himself: what is going to happen with Latin America? To tell the truth, possibly because of his own personal background, don José was in some ways the inspiration for the analyses we made. Don José was Spanish, but he had lived in Puerto Rico and later in Mexico.

But don José was now in Chile. He knew about everything under the sun. He had written important books, and he continued to do so while we were there, and afterwards too. I think he always looked at the intellectuals and problems he worked with, here in ECLAC, in Latin America, with the feeling that he was dealing with something that was very close and yet at the same time very different. It was nearly Europe, but yet it wasn't. It was nearly Spain, yet it was not Spain. This was more or less the set of ideas we were working on, which grew much later into the Frankenstein of dependence theory.

Basically, what we wanted to bring out was just that: a search for an identity like that which don José had as a European. He looked at us and asked himself if one day we would have our own identity, or if we would always be using an imitation. The answer was not easy to arrive at, and it still isn't. That was our horizon: agonizing, existential, almost Hamletian. It really is striking how some people live in Latin America as though they were foreigners, in terms of their mentality and surroundings. In the past, they looked to Europe; now, their eyes are fixed on the United States, and maybe tomorrow they will be looking to Japan: who knows? There are others who have a more realistic outlook, however. They accept what they are and what they are not. They take a dialectic view, as I do.

No-one has gone into this matter more fully than ECLAC. Never, in our continent, has there been a school of thought which has produced a sounder or more serious answer to this question of what we will finally become, how we will form a nation and a State, and what kind of relationship we will have with the rest of the world.

ECLAC has been working on this ever since it was set up, and it is still seeking a final answer. The little that I was able to do personally when I was here was, as Gert Rosenthal noted, to make a modest contribution to the political dimension of ECLAC's field of study. Maybe I was also able to contribute something here and there in the social dimension. However, the broad lines were already defined by the centre-periphery theory. Basically, it was all there, and everything else would be a question of nuances, of doing things somewhat less mechanically. Maybe the periphery also has a life of its own. Maybe the bonds that bind it are bonds that permit some degree of growth. Maybe tomorrow we will attain an identity strong

enough to allow us to break out of our situation of stagnation, which is so often depicted as a situation from which there is no way out, yet sometimes we do discover new paths and ways out, so we must keep on searching.

Nowadays, I have other matters to deal with: everything that has to do with Brazil, especially in the political field. The great feat that has to be performed, not only by Brazil but by many other Latin American nations and peoples too, is to keep up a process of growth and to maintain the advance of democracy in conditions of such great inequality, of such concentrations of poverty. Keeping democracy alive and dealing with the growing demands that democracy itself brings to the surface is our great challenge, and I believe that we have only a certain length of time at our disposal for doing this.

This morning, before I came to ECLAC, I was in the sector of Santiago known as La Florida. In Lomas de La Florida, the community put forward its demands in the presence of the Presidents of Chile and Brazil. We were there to celebrate the achievement of some social advances, but they very rightly wanted more, for social progress is something that has virtually no end.

While the social situation is difficult in Chile, it is much more complex in Brazil, for there are many, many millions of people who need assistance there, and sometimes, in order to keep our actions soundly-based and credible, we are obliged to say "no" to perfectly justified requests, because if I say "yes" today but cannot keep my word, tomorrow I will be obliged to say "no". And that "no" will be an absolute negative, because there will be nothing more to do. Thus, it is better to say "no" now, with the hope that maybe tomorrow I can say "yes" with the certainty of fulfilling my promises. It is very hard to maintain the people's faith in democracy in these circumstances.

We are making progress in Latin America. Maybe this is the legacy we can bequeath to other countries of the world: perhaps to Asia, whose development is of such recent date. Here, we have indeed attained democracy, not only in the institutional sense, important though it is, but also in the social sense. We have freedom. We do not yet have full democracy as regards institutional channels and mechanisms for meeting demands, but we do have freedom, won after a hard struggle. We have freedom, and we are beginning to have institutions which make possible participation and can thus help to ensure democracy. This is an important point, to my manner of thinking, and will continue to be so. Of course, due to the vagaries of life, I also had to cope with a situation in Brazil which involved a further source of concern: levels of inflation which were squeezing the life out of us.

When I became Minister of Finance, inflation was running at around 20%. When I left that post, it stood at nearly 35%, but even so, people applauded me in the streets. How can this be? What was the reason for this unusual reaction? The explanation is that I told the people the truth. I appeared on television many times, because when one analyses the situation and explains to the people the reasons for a given measure, this means putting into effect the values that we ascribe to democracy. One cannot overcome economic difficulties by taking the measures designed by some technocrat, some equations written on a scrap of paper, and then imposing them on the people. They must be explained to them. Even when inflation was rising, I explained the reasons for this and asked the people to have faith, because inflation was going to go down, and I explained to them how this was going to happen.

It also fell to my lot to carry out a stabilization programme. Fortunately, I am not an economist, because it is very difficult to apply a stabilization programme and, because economists know a great deal, this sometimes prevents them from boldly trying to do what seems to be impossible in order to break through the difficulties facing them at a given time. It is not a task for a single person. The truth is that the people understood the situation, and I am not saying this in a demagogic sense. The people understood that inflation ran against their interests, but the peculiar feature of the Brazilian situation was that inflation did not harm the interests of big firms, because everything was indexed.

Perfectly foreseeable levels of inflation are the same thing as no inflation at all for those who are in a position to handle them, but they are not the same as the absence of inflation for someone who depends on the salary he receives, and who has no money left at the end of the month because it disappeared in the whirlwind of an inflationary spiral that rises and rises and never stops.

It is at times like those that it is necessary to have faith in democracy. This means confidence that it will be possible to explain the situation to the people and that they will understand if the explanation is clear enough. It is necessary to have faith in the possibility of overcoming obstacles and in the justification for stabilization measures when the people see that it is necessary to curb inflation for their own good. According to the latest calculations of the Ministry of Finance, stabilization allowed between US\$12 billion and US\$15 billion to come into the hands of the people, of consumers. This was money that came into the hands of the lowest-paid people, because the others already had everything indexed and were well protected. It was money that went to those who had no way of defending themselves.

The opposition to a stabilization policy disappears if an effort is made not to apply the process solely on the basis of some abstract theories which have little to do with the everyday life of the people. It is necessary to have the courage to refuse to give into theories and to avoid imposing views which, no matter how attractive they may seem from the intellectual point of view, do not have much to do with common sense. This calls for courage on the part of the economic team and the decision-makers and the capacity to announce what is going to be done and then fulfill that promise.

I think this fits in with what Gert Rosenthal said a little while ago: if taken seriously, political life and intellectual life have a good many points of convergence. No-one can take sound decisions in politics if he does not have the intellectual capacity to know why he is taking them and the deep conviction that he is doing the right thing. Even though he may be mistaken, he must have a deep belief in what he is doing and must do everything possible to make that belief come true. When someone stakes everything in this way, he is no longer in the groves of Academe but in the dusty paths of real life.

Many of us in Latin America are staking everything in this way, in body and soul. Here in Chile, and in many other countries too. We are now once again passing through a complex, very delicate period which is not limited to Latin America but is worldwide. Yesterday in Valparaíso, where I was deeply affected and honoured by the way I was received by senators and deputies alike, I said that the Bretton Woods institutions are no longer sufficient for dealing with the current challenges. Those institutions go back to before the days of the computer: everything is different now. Speculation is now possible on a massive scale, because

there is much more money that is not subject to any form of control –by a country or by a Central Bank– than the money that is subject to such controls. We must deal with this problem, which is a political issue and, I believe, a challenge that ECLAC should take up.

I no longer have the time to engage in the intellectual analysis of this type of challenge, but it is a very suitable opportunity for an institution like ECLAC to point the way to follow once again: an opportunity to save us from our present disoriented situation, in which we are copying models from various sources. It would be a good thing if someone were to speak out plainly and say that there is a problem here –a political problem– which calls for decided action not by the developing countries but by the richest nations. They must speak out and say what they want to do with the world they created, like latter-day Frankensteins, but which they do not know how to handle. Neither we nor a country like Mexico know how to control the situation, and this is why it is vital to put a stop to certain processes which are beginning to eat away the international economic system.

I believe the time has come for institutions like the United Nations to take this question very seriously. Now that we are celebrating the 50th anniversary of the world organization, we should no longer confine ourselves to discussing who should be a member of the Security Council to act as a global policeman, necessary though that task is, but should also tackle the vital task of considering the reform of the appropriate institutions in order to ensure the continuity of the world trade system, the finance system, and the availability of liquidity in the international financial systems.

How are we to do this? Allow me to give you an example from my own experience. As Minister of Finance, I tried to obtain a stand-by credit of a “measly” two billion dollars from the International Monetary Fund. I did not manage to obtain it, however, and providentially we did not need the Fund’s approval for what we had to do. The reason why I did not obtain it was that some middle-level technicians felt that the political conditions in Brazil were not appropriate. To this I replied: “What on earth do you know about these things? For God’s sake, try to be a little less arrogant!”, because they viewed the developing economies through distorting glasses, as they still do. What they need is a better sense of politics, of the democratic dimension I mentioned earlier, of the courage and faith that society at large sometimes displays, of the importance of self-esteem and the capacity for recovering it. All this is important, but not for them. The only thing that matters for them is their little account-books, which are not always very accurate. They only take into account the operating deficit, the deficit on this or that account. But on what basis and with what data are these accounts prepared, and how many hypotheses are there that back them up? My goodness, how many errors do they contain!

The time has come to declare, loud and clear, that though we need international institutions with the capacity to say “no”, when they refuse something they must do so on the basis of broader criteria, not on the basis of hypotheses and theories which are often mere prejudices and are not even worthy to be called hypotheses or theories.

I believe this is an important moment for ECLAC to set forth its ideas. The challenge has been given, but it is not only wealth that is concentrated, but also the international wisdom to meet this challenge. The experts possess great wisdom, but they are perhaps too deeply entrenched in their positions and are not fully aware that there are new issues to be faced.

So the institutions must take a fresh look at the problems. The cathedrals should keep on being cathedrals and we should still be able to visit Chartres with admiration, for although sometimes no Mass is being celebrated, the priest will come later. It is the same here. Here we have many priests, even, one might say, cardinals. Maybe we do not have a Pope, but there are people who have a clear idea of the present situation. This, then is the great moment.

If I may say so, I do not myself know the answer to all this. Indeed, the humble President of a country with so many problems could hardly make bold to offer such an answer. What I do have, however, are doubts, concern, anxiety, and I address myself to this organization, which has so much intellectual strength, to ask it to renew its ideas once again and help the world to understand that we are living in a new era: an era which holds out many possibilities but will be marked by stagnation and regression unless we adapt our institutions to seize those opportunities. Yet there is no reason why this should happen. We are no longer living under the threat of World War III: indeed, there is no longer even a situation of serious ideological polarization. Why should we not seize these opportunities, then? Why should we not take this step forward, make the first move and clearly recognize that the world must be rebuilt? Our peoples deserve more than this. We owe it to them to show qualities of leadership which will make it possible to progress in terms of greater democracy and growth, greater equality and social justice.

I am here, then, to ask for your help in the name of all the people of Brazil—that may sound a little demagogic, but after all I did receive quite a few votes—and I believe you can indeed help us. Think freely, and do not be afraid to speak out. Do what Prebisch did in his time. Speak out clearly. If necessary, shout so that all may hear. I will be in the Presidential salon to applaud your words, and it will be a great pleasure for me to do so.

(Original: Portuguese)