

Oswaldo Sunkel

Chilean economist Oswaldo Sunkel has written extensively on inflation, economic development, international relations, and sustainable development.

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Interview

The Global Impetus for Industrialization in the 1930s

INTERVIEWER: Who was Raul Prebisch? What was he like as a person?

# COMMANDING HEIGHTS

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OSVALDO SUNKEL: [Raul Prebisch] was a very impressive figure. He was a very elegant man. He spoke very distinctly with a very fine accent. ... We called him the maestro, the master -- very convincing. A very, very, very distinguished figure. [Professionally] he was an Argentine economist who became very famous in the '30s because he was president of the Central Bank of Argentina and started to develop Keynesian policies, before Keynes [was] in Argentina. Out of that, [he] started to develop an interpretation of the world economy. Argentina being affected by the crisis very seriously, he started to look at how the world economy worked and what the position of countries like Argentina was with respect to the developed countries. He developed this framework of analysis which he called the "center periphery approach," center industrialized countries, periphery Latin America, Asia, African countries, producers of raw materials. This was his basic approach, and I think that made a very big impact ever since.

INTERVIEWER: This was a fairly towering intellectual achievement. It's fair to say that he's almost the first economist who conceived of the economy in global terms.

OSVALDO SUNKEL: I think there are some antecedents. There was a German called [Ernst] Wagemann who had a view of the world economy. By the way, this German had been born in Chile and came back after the world war. I think Prebisch probably got some inkling from that worldview. But he was, I think, the first economist who developed this worldview, and out of that grew the interest in the nature of the industrialization process, because what made the big difference between developed and underdeveloped countries, as they became called afterwards, was the existence of an industrial sector, a sector that could produce capital investment goods, innovate, generate new technologies, and therefore become a dynamic expanding economy, generating employment, well-being, and so on. This was not the case of these countries which were exporting copper, fish, and agricultural products and nitrates, and so on. Nothing grew out of that very much, except that the government could get some revenue from that and invest it.

INTERVIEWER: In his view, what was the key difference between the center, the central countries, and the peripheral economies?

OSVALDO SUNKEL: The essential difference was industry, in the sense of being a sector where innovation was taking place, technological innovation. It was what he called the center for generating technological progress. In his thinking, technological progress was essential for development. Technological progress was generated in the industrial sector, and the industrial sector was in the developed countries.

The interchange of industrial products and primary products was always in detriment to the primary exporting countries because of declining prices, declining terms of trade, lower rates of growth, of demand, which developed into a very fundamental argument about the nature of the terms of trade between countries, which were always unfavorable for developing countries.

INTERVIEWER: So he felt that the structure of the world economy was permanently unfair?

OSVALDO SUNKEL: Biased. The structure of the world economy was biased against developing countries.

INTERVIEWER: Developing countries like Chile and Argentina?

OSVALDO SUNKEL: All the Latin American countries, all the African countries, and all the Asian countries.

INTERVIEWER: So has there been change?

OSVALDO SUNKEL: Now something has changed because, of course, in Asia, Japan first became a powerful industrial country, highly innovative, technologically progressive, and then the latecomers -- the gang of four, the Asian tigers, Korea, Taiwan, etc. -- also industrialized. And in Latin America, some countries industrialized to some extent, like Mexico and Argentina and Brazil, but somehow did not complete this industrial phase in order to become also innovative, technological progress generating countries.

INTERVIEWER: Raul Prebisch saw that the basic inequality was a lack of industrialization in the lesser-developed countries. What was his solution? How did he think that should be corrected?

OSVALDO SUNKEL: Prebisch thought that, first of all, we had to industrialize, both in order to transform these societies into technologically based modern societies, and also in order to be able to interchange.

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State Intervention in the Economy in the 1930s

INTERVIEWER: Prebisch saw that industrialization was the key to development. How did he propose actually making that happen?

OSVALDO SUNKEL: As I said, he had two basic aims: first, to industrialize this country, because this was the way to achieve technological progress and modernization; and second, because this would put these countries in a better condition in the world economy, to overcome this bias that was prevailing. Having no industrialists, having no business class -- the business class we had was where those groups were agricultural, or mining interests for export industries -- the only possible actor was the state. So the recipe, so to speak, was to generate state institutions who could shift resources from other sectors of the economy, mainly from the export sector, and put them into generating infrastructure, roads, energy, communication systems, and basic industries -- steel, cement factories, and so on. Then we have

these institutions supported by the state, owned by the state, developing other institutions like universities in the areas of engineering, so that engineers could be brought into the new factories.

I think it's very important to take into account that this was not only happening in Latin America. It was a worldwide phenomenon -- again, the global emphasis. It was happening in the Soviet Union with the socialist regimes also trying to modernize their countries and acquire modern technology. It was happening in Europe with the fascist regimes. Hitler and Mussolini were doing more or less the same. And, in fact, it was also happening in the U.S. and Britain and Scandinavian countries with the welfare state, and in the U.S. with Roosevelt's New Deal, including big public works programs [like] the Tennessee Valley Authority. So it was a worldwide period where the state was brought [in] to get the countries out of the recession and to develop new activities in the countries that did not have the industrial activities.

INTERVIEWER: You've talked about this entirely in terms of what was being done, [what] could be done inside the countries, but wasn't there also a great issue about raising tariffs and keeping out? But first, what do you mean about capturing resources?

OSVALDO SUNKEL: In order for the government to be able to spend more and not generate inflationary pressures, it had to tax resources away from areas where you had incomes to be taxed away. These were basically in the foreign-trade sector, which was the exporting sector; it was the sector that generated wealth. So that sector was taxed, either directly or through systems of exchange rates taking away part of what was exported for the state. And these then were resources, monetary resources, fiscal resources, that the state acquired in order to be able to spend on roads, buildings, schools, health systems, and so on.

INTERVIEWER: Could you give a concrete example?

OSVALDO SUNKEL: In the case of Argentina during the first Peron regime, Argentina was a very big agricultural exporting country. Peron created, I don't remember the name exactly, but a government institution which bought the agricultural produce from the farmers at a certain price and exported these goods to Britain and Germany [and other countries] at a higher price. The difference would be resources obtained from the foreign sector to help the government invest in other areas and create and generate industries.

In the case of Chile -- there was this very much in many countries -- what was created were what were called development corporations, which was government corporations, big government corporations, something like the Tennessee Valley Authority, which would get resources from the government and then either start projects on their own or lend long-term capital to private entrepreneurs.

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## The Rise of Import Substitution in Chile

INTERVIEWER: We often hear people use the phrase "import substitution." Can you explain what that means?

OSVALDO SUNKEL: Import substitution grew out of the Depression. In the Depression, our exports all collapsed completely, and imports continued. We continued to spend our reserves, coal reserves, and dollar reserves, pound reserves in those years, until a point where we exhausted reserves, and then a devaluation took place. The prices of the imported goods increased, and on top of that we imposed tariffs. Initially, this was part of a short-term policy to respond to circumstances. But it eventually became a policy to protect local industry, to keep these higher tariffs in order to make it competitive and profitable for local entrepreneurs to start business, producing things that were imported, and producing them locally.

INTERVIEWER: Is this general theory -- we're talking about the Prebisch theory -- is this what's known as the dependencia theory?

OSVALDO SUNKEL: No, I don't think so. The import-substitution process, which started as a consequence of the crisis, became a policy. It eventually, through these development corporations, soon became a policy and was pursued for two or three decades. During this process, as local industrial production was protected through tariffs, international firms, the global corporations which started to expand in the '60s or '70s couldn't get a hold into these markets. So what they started to do was to establish subsidiaries in the local markets, importing the inputs -- the materials and machines and so on -- and then producing the goods locally.

We would have imported a car, and then we started to import the parts that made the car, but produced the final assembly of the car locally. This is what eventually led to the idea that here we were trying to develop national industry, but in fact [we were] helping to generate the conditions for subsidiaries of global corporations to take over industrial process in the countries. And this was sort of the initial views about dependency that were in fact not [true]. Dependency was a condition that we'd had since colonial times. We were dependent on Spain, dependent on Portugal, and then we were dependent on Britain. But more specific dependency meant that there were new conditions. We had been trying to create a national economy, a strong national industrial economy, but this, in fact, had been expropriated, so to speak, by the big foreign firms. It's also called the new dependencia because of that, because this was the essential concept.

Then it became the economic concept. It also became expanded into a sociological or sociopolitical approach, arguing that the national industrial groups which had been formed during the previous period became also associated to transnational corporations, and that your national bourgeoisie was in fact becoming a transnational

bourgeoisie associated with multinational corporations, therefore eroding the process of national development.

INTERVIEWER: This sort of neo-dependency outlook is paradoxical when shared by people from the left like Fidel Castro, nationalists like Peron.

OSVALDO SUNKEL: It was shared mainly by people from the center to the left, and it had various shades. There was a very strong Marxist argument, which we would not share in CEPAL, which argued that the development of developed countries produced the underdevelopment of underdeveloped countries -- in other words, a cause-and-effect relationship. Our argument was different. Our argument was that both developed and underdeveloped countries grew out of this relationship, but some grew more than others did. And then there is a right-wing argument, but this is more of a nationalist argument, which is not so much on dependencia, which is based on a phobia [of foreignness], more the Nazi fascist kind of nationalism. But that would be some of the right-wing groups.

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## The Creation of the Economic Commission for Latin America

INTERVIEWER: Do you mind just telling me roughly what ECLA was and what its significance is?

OSVALDO SUNKEL: ECLA is Economic Commission for Latin America. After the second world war, the United Nations created regional economic commissions for Africa, for Asia, for Europe to help the countries devastated by the war to rebuild themselves. In the case of Latin America, we hadn't been affected directly by the war, but we had been affected because of the exports of primary products necessary for the war effort were controlled, the prices. So we made a financial contribution.

So Latin America also got one of these [commissions]. The Economic Commission for Latin America was created in 1948, established in Santiago, Chile, which was by that time one of the few democratic countries with well-established governments. [ECLA] is an international organization which depends on the United Nations; it's part of the United Nations. It has a council composed by representatives of governments, and different governments ask the economic commission to develop reports. It's like many other international organizations which help the governments in providing information, studies, research, proposals for their economic and social policies.

Prebisch became general secretary of ECLA. He was not the first one. He was the second or third one, because by the time [he assumed the position], in 1950 or so, he was becoming very famous with his approach and his discourse about industrialization, which then became the ECLA discourse.

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## Prebisch's Influence on Latin American Development

INTERVIEWER: How influential was Prebisch in the late '40s and '50s? How extensive was his influence in Latin America?

OSVALDO SUNKEL: It was very, very big. He was a leader. He had a very powerful appeal. He could invoke presidents and organize meetings to discuss the development of Latin America. He was very instrumental at the time of the Kennedy government to generate the Alliance for Progress, which was the recognition by the United States, as a consequence of the Cuban crisis, of the need to help Latin America to develop and industrialize and progress.

INTERVIEWER: As people tried to put his theories into practice, did they work or not?

OSVALDO SUNKEL: Oh, yes. I think a lot of the industrialization process that has taken place in Latin America is a consequence to a very large extent of those influences.

Now, as often happens, one thing is to propose certain lines of activity, and the other thing is how this eventually is applied. Prebisch, for instance, became very critical of the high tariffs around the mid-60s. He became very critical of the fact that governments were taking over industrial development and not helping the private sector to expand. So he was very critical of the inflationary pressures which were being built up in those years. So in many senses, Prebisch and ECLA and ourselves became critical of the very process that we helped to engineer. So by the mid-60s or so, Prebisch was already critical and was very strongly recommending a reduction of tariffs and a larger effort for Latin America [and] the industry that had been created to expand exports. He also was very instrumental in promoting Latin American integration as a way to expand markets for Latin American industrial production.

INTERVIEWER: And was he listened to?

OSVALDO SUNKEL: Yes. He was very deeply involved in the first integration movements in Central America and Latin America, and the Andean region. He was promoting the economic integration programs very strongly.

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## Origins of the Latin American Debt Crisis

INTERVIEWER: Can you explain to us what the Latin American debt crisis was?

OSVALDO SUNKEL: The debt crisis is something that comes much later. Debt crisis is a phenomenon that occurred in the early '80s. I think I have to give a little background to the debt crisis of the early '80s. The process of Latin American industrialization and development started to get into difficulties by the late '60s and early '70s for many reasons. The industry that had been created was not very

competitive; [there was] high tariff protection, the foreign companies had come in and taken over, and so on.

There were also inflationary pressures building up, and there was a very strong political influence. In the early '70s we had the Allende regime in Chile, and then the military coup. [There were] also revolutionary movements in Argentina and Uruguay and Bolivia. The political factor [was also] very much influenced by the Cuban presence and Che Guevara exporting revolution to Latin America.

So the policies of the '50s and '60s were declining, were becoming less effective in the '70s. The way to keep development going was to invite foreign capital to come in and to get into credit. During the '70s was exactly the period when the oil crisis in '73 produced a huge increase in the price of oil and generated what was known as the petrodollar accumulation in the Arab countries and in the global banking system. So the banks became very anxious to lend, and our countries became very anxious to borrow. During the '70s there was a buildup of foreign debt, and then there were two or three big blows at the end of the '70s and early '80s which unleashed the debt crisis.

One [of these blows] was a second huge rise in the price of oil in '79, which induced the developed countries to apply deflationary policies, restrictive policies. This produced a huge increase in interest rates, and countries that had become heavily indebted could not pay at those interest rates. The first country that collapsed was Mexico, in I think August '82, and then there was a chain reaction of other countries that followed. That was the origin of that crisis.

INTERVIEWER: And the point of all the borrowing was presumably to try to finance industrial development?

OSVALDO SUNKEL: Of course. And continuing to try to finance industrial development, under conditions where this wasn't really very viable anymore.

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## Early Notions of Structural Reform in Latin America

INTERVIEWER: One person may disagree that the Latin American debt meant two kinds of bankruptcy. One was a sort of financial bankruptcy, but the other was the intellectual bankruptcy, that the new dependency theory really didn't hold water anymore.

OSVALDO SUNKEL: No problem about the financial crisis; that was obviously the leading factor. The intellectual -- I don't know if one can call it intellectual bankruptcy. Let me clarify something: Dependencia is not a policy. Industrialization was a policy, and import substitution was a policy. These countries were following policies of industrialization. Dependencia was a critique of those policies. As well it was a critique from the left to the left. So it isn't really that dependencia had become

obsolete; the policies that had been pursued ran out of steam and became obsolete given the new conditions.

What came was a new wave of thinking which overran the type of thinking that had gone on before. Dependencia was swept aside because what came in was a critique from the right that swept dependencia away as a critique from the left. And the new critique was: We have to change from state-promoted development to market-promoted development. And that is the big shift that was very easy to bring about because these countries were in the middle of the debt, having to apply restrictive policies. It was very easy for international financial organizations and for the economists -- a profession which is basically very right wing, very market-oriented -- to link the provision of support for getting out of the crisis with structural reforms, which would put the state out of the picture and open the door for the markets to take over the essence of the functioning of the economy.

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The Chicago Boys and the End of Statism in Chile

INTERVIEWER: Let's step back about 10 years before the debt crisis. In a way, what happened in Chile under the Chicago Boys and Pinochet prefigures what's going to happen in the '80s and '90s. Is it a significant event, an influential event, or was it just an odd little story that happened off on the side of world events that didn't really matter?

OSVALDO SUNKEL: I think it was a very significant event for Chile -- it couldn't be more significant -- but it was also significant internationally. Before the coup, the Allende regime became unsustainable. The economy ran into unsustainable cost conditions -- huge inflation, misallocation of resources -- a very huge economic disaster. And when the coup came on top, [it] came as partly a consequence of that. So the conditions were there to start anew [at] the first year of the Pinochet regime. The Chicago Boys took over only a year later. The first year, there was an attempt to rebuild the kind of economy that was functioning before, in the initial years of the Allende regime, but it didn't really work. And then the military decided that there really was a need for a complete alternative. I don't know that story exactly from the inside, how the Chicago Boys linked to a very important figure there, a fellow called [Ricardo] Hausmann, who apparently was a political man who was related to the Chicago Boys, and also to the military, who brought the two together. The Chicago Boys had a complete new program for the Chilean economy, and promised to stop inflation, reallocate resources, and turn back the nationalized industries to private sector. This played very much into the hands of the people who had been very seriously affected by the Allende regime.

So that was a complete new start, a blank slate where, in the initial years at least, the Chicago Boys could do almost anything they wanted to do, except for certain things that the military didn't allow. They didn't allow the Chicago Boys to privatize copper, for instance, one of the things that the military really resisted. But otherwise

they were given a free hand. And that was a consequence as later with the debt crisis, where countries also became very weak to respond to financial right-wing business interests after the political crisis in Chile. This was also a situation where you had a political void, and this proposal then sounded very, very promising to the military, and they applied it. They took it over, completely bought it.

INTERVIEWER: One question about the Chicago Boys in Chile. What happened here was first of a kind. Was it influential on other countries, even on Britain or on other Latin American countries? Or was the human rights record so ugly that people tended to shy away from it?

OSVALDO SUNKEL: I think the Chicago Boys' experiment in Chile was influential in other countries, but it was a part of a changing worldwide climate against the statism of the '50s and '60s. It happened very soon afterwards with Margaret Thatcher in England, with Reagan in the United States, and there was already, in the financial circles, the beginning of the end of the socialist experiments. The world climate was changing from what I call state-centric development to market-oriented development. This was something that was happening all over the place.

I think it was also very much a consequence of the tremendous expansion of the monetary and financial sphere of the economy. As a consequence of the petrodollar expansion, banks became much more important. Financial press became much more important; the economic profession became much more market-oriented. Keynesianism was being pushed aside. So there was a whole objective and subjective change in the world conception about economic policies and the managing of economies. And the Chicago experiment in Chile came right at that moment. It was in that sense very fortunate, and it began having consequences in other countries of the region where, by the way, many of these Chicago Boys were also in other countries. All the other countries of the Latin American region had also studied; there were many colleagues around in the various countries who were watching these experiments very closely and with much interest and hoping that in their own countries they would have a chance to do the same things.

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Chile Since the 1970s

INTERVIEWER: What's your final verdict on the Pinochet years? Did the Chicago Boys and Pinochet make a success of the economy here, or did they do more damage?

OSVALDO SUNKEL: The final verdict on the Chicago Boys and the Pinochet regime will have to wait for some years. It's a very, very polemical question. There are so many different things. Obviously, there is the very negative human rights record, the political side of it, which is obviously very negative, and I think it will be recorded in that sort of way in the future. On the economic side, I believe that it is certainly not a miracle. It certainly will not be recorded by history as a fully successful

experiment. I think basically what the Chicago Boys did was to reorganize and recreate the conditions for a market economy to work.

In terms of the well-being of the people, this had to reach a peak in the early '70s, in the early years of the Allende regime, but it wasn't sustainable. The well-being of the Chilean population probably didn't get back to that level of the early '70s until the mid- or late '80s, with a much worse income distribution. We are always dealing here with averages. Only by the late '80s did you get the same, but with a very different composition, with much more poor people and much more rich people at the same time, and with probably a decline of the middle classes; the middle classes have suffered a lot.

On the other hand, they have certainly reorganized the economy in a way in which it could function again, in a market system, and in that sense probably prepared the conditions for the Chilean economy to be relatively successful in the globalized conditions of the '80s and '90s, but with one very big flaw, which is that we went back to square one in terms of comparative advantages. I don't know if this is a bit too technical a term. But instead of progressing towards a more modern economy in terms of industrial development, in terms of technological development, we in a sense went back to having an economy based to a very large extent, particularly in its exports, on natural resources, and this has limits. There are certain parts of it which incorporate modern technology and are very progressive in that sense, but other parts are just a kind of commodity that we've been trying to get away from since the last century, and in this sense I think there has not been any big progress.

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## The Shortcomings of Import Substitution in Latin America

INTERVIEWER: Since you've mentioned the state centralist policies, with hindsight, was there a flaw to that policy?

OSVALDO SUNKEL: I have developed a theory that life or economics [or] social progresses have a cycle of ups and downs. I think that these policies were the right thing to do in the '50s, but I think they tried to follow on much more than they could deliver. One of the aims of the import-substitution policy was to change the structure of exports. If our international relations were unfavorable because our exports were natural resources and our imports were manufactured, then the change of the nature of that exchange was that we had to start exporting manufactured products.

This was clearly one of the implicit aims of the policy. But we kept our protected markets. We did not make the effort, like the Asian countries did, to soon move from import substitution to export promotion. I think this was a very big flaw. If I may quote myself, which isn't very elegant, but I have an article published in 1967 which had a subsection titled "To Export or to Die." This is paraphrasing Churchill, because we were becoming convinced that import substitution had run out of steam and it had to change. And one basic flaw was that it did not put emphasis, in the mid-60s

or so, to become very strongly based on the export of manufactures. I think that was a big flaw.

I also think that one other big mistake was that the governments did not rationalize their tax policies sufficiently to have a sound tax base to promote the continuation of their policies. They increasingly ran into inflationary situations, which were eventually unsustainable.

On the whole, I think the state grew out of proportion. It became too bureaucratic, too heavy [with] monopolies and a protected situation where they could charge prices above and not compete. So there were many flaws, obviously. But on the other hand there was the debt crisis; there was the oil crisis; there were the political problems. There were also other factors contributing to the change in policies.

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## The Shortcomings of Market-Centered Economic Theory

INTERVIEWER: What were the mistakes [the Chicago Boys] made? What was bad about the policy? What bad effect did they have upon ordinary people?

OSVALDO SUNKEL: I think that an economic policy based strictly on the functioning of markets has negative economic and social consequences. Markets in the textbooks are so-called perfect markets, and there are all sorts of assumptions about perfect information. In the real world, markets are not perfect. There are goods and services for which there are no markets at all, like the environment, for instance, where markets have to be created. They're imperfect markets because of lack of information, because of transaction costs, because of monopolies, and so on. And in all these cases you have to have some sort of public intervention to make markets function, or to simulate markets so that both buyers and sellers can work, can act as if markets were actually allocating resources in conditions of prices that represent scarcities.

On the other hand, markets are blind to social situations. If half your population doesn't have sufficient income to buy education, health, social security, the markets simply don't exist; [they] don't work. So in those cases, again, governments have to provide the conditions for improving the social condition of people who in fact have no access to free markets.

Let's talk of new liberal economists rather than the Chicago Boys. I think the spectrum is wider. I think that modern, well-trained, conventional economists on the whole tend to be too optimistic about the working of markets. It's a sort of ingrained, entrenched bias in the economists' profession because this is the way economics is taught. It's taught as if markets worked. And then the situations in which markets don't work are taught as if they were exceptions. I think exceptions are more frequent than perfect markets. One should teach economics as it really is, as it really works, with highly imperfect markets, and then naturally you would immediately ask,

"Okay, so what policies are necessary to make markets work? What policies are necessary to bring into the market people that are out of the market because their incomes are insufficient?" So I have a very basic criticism to new liberal economists, and not only to new liberal, [but] to economists in general -- except those who have this sort of view.

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The Role of the State in a Market Economy

INTERVIEWER: What's been the big shift for people with your outlook between 1950 and the year 2000?

OSVALDO SUNKEL: When I say "we" I'm thinking of economists, social scientists who in a loose sort of way have been related to the thinking of Prebisch and ECLA. It's a group of center-left intellectuals and social scientists in general. I think that we have probably lost some of our faith in government and government being the solution to every problem. I think everybody shared this view in the '50s or '60s. This was the same in the U.S. and Europe and everywhere: Governments would provide the solutions to the problems. I think we have become more skeptical about the ability of governments to function as efficiently as we would hope. And I think also that we have become more -- how can I put this? -- I think we have also come to accept the workings of the market as a fact of life. As in my classes, when I speak about this, I tell the people we have had the example of the Soviet type of economics, where [there is] no market, and of course what is clear is that having no markets is much worse than having markets.

Now, having markets doesn't solve everything. We also have to be skeptical about markets, but we have to accept the fact that markets had a decentralized system to make coherent multiple economic decisions by all sorts of factors. The fact of the working of the market is now being accepted. And on top of that, of course, these markets are now international markets because of globalization. We have to be competitive in world markets. In order to be that, we have to have functioning markets in our own economies, and this is part of the whole. Coming back to a point that you made earlier, I think you [questioned] what was one of the big shifts from import substitution to market-based. The policies of the Chicago Boys or new liberals, where the so-called Washington consensus is basically a series of policies to dismantle government interventions in markets. Opening the economy, the world economy, lowering tariffs, no discrimination through subsidies and loopholes and taxes -- in general, allowing the market to function. Through privatization of government firms and services, liberalization, opening up the economy, the work markets, this whole array of policies is what makes the big shift from state-centered to market-centered economies.

INTERVIEWER: What do you think is the correct role of the state in the new world in which we accept the existence of markets?

OSVALDO SUNKEL: As I said before, I don't believe that the state has to be reduced to a minimum. The whole discussion about big state or small state is the wrong discussion. The discussion should really be the role of the state. And I think the role of the state today is to correct the functioning of markets, to regulate the functioning of markets, to step in where markets don't work, which is the case of poverty, of income distribution, and also the case of long-term views. The macroeconomic policies and microeconomic policies of the present are very short-term. There is no vision. Where do you want to go with your growth? There's a whole emphasis on growth, and I would like to know what kind of growth. Growth for whom? Growth for what? This kind of discussion is just nonexistent.

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## Monopolies and Natural Resources: Imperfect Markets

INTERVIEWER: You've talked a couple of times now about where markets are imperfect, where the state does need to act. Can you give me some concrete examples to bring that home to people?

OSVALDO SUNKEL: I think there are perhaps two or three clear examples of imperfect markets. One case is the case of monopolies and their high protective barriers. You get industries built up without competition, without really being in a situation of having to compete. Say consumer durables, which was one of the big industries that was developed in this period -- cement industries, whatever -- where you have this big protection, you have no incentive to innovate, to introduce new technologies, or to invest. And you get big profits, and big profits are wasted on consumption or in other kinds of luxury activities instead of being reinvested to help these industries to become more modern, more competitive, and more innovative, and eventually to compete in world markets. This was probably one of the basic, serious failures.

Then there are markets that characteristically don't work. One of them is the provision of venture capital. In these countries there are practically no institutions which would provide venture capital to finance innovative ideas, to bring about this expansion of new activities, of competitive activities, incorporating new technologies, and so on. In the case of natural resources -- say, the fisheries -- there's overfishing, and you end up having more fishing boats than fish. There's no limit to exploiting the resource, and there are no signals that you have to have some sort of sustainable fishing policy to make it durable over a long period of time.

I don't know if these examples are sufficient, but the whole structure of the economy that was being built up was too uncompetitive, was too protected. It generated these firms where you get sufficient income without having to make any big effort or become more effective or more efficient [or] more competitive.

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## Civil Society and the State/Market Dilemma

INTERVIEWER: We've seen a couple of intellectual pendulums swinging generally toward the left in the '40s, '50s, and '60s with state intervention and central planning. Then they swung quite radically in the '70s, and certainly in the '80s. What's the new thinking from there? Where do you think things will go now?

OSVALDO SUNKEL: There's a lot of talk about this pendulum swinging from the left to the right -- state intervention in the '50s, '60s, '70s, and then over to the market in the '80s, '90s -- and there is now talk saying the pendulum has to shift back. I don't like that example, that image. I think we need something like a spiral. We don't have to go back to the old state. We have to bring about a new state because conditions have changed completely. Obviously the world has changed. We are much more globalized today. The policy instruments are now much more restricted -- monetary policy, fiscal policy, etc. There are fewer instruments available for governments to intervene in the economy.

And there's another thing which I think is very important, which is that civil society has become very active. There [are] a lot of demands coming from society itself, from local groups, from gender issues, environmental issues. In Latin America, the ethnic question is a very fundamental question, particularly for countries like Mexico, Guatemala, Bolivia, Ecuador. So society is demanding much more than before. And these demands have to be responded by society itself, organizing, associating, forming cooperatives and all kinds of community movements.

But the state has to be responsive to these demands. These are very poor people in general. Without some help from a government agency it will be very, very difficult for them to achieve their aims. So I think the nature of the government has to change. The government has to become much more of a supporter, of a helper for people to be able to organize the solutions of their own problems. That is the kind of state I have in mind.

As we have had a big discussion here on health policies, there's a big discussion in Chile going on precisely of this dilemma, which I call a false dilemma. We've moved from state-promoted health systems to market systems, and now they're going to bring it back to state. I don't think so. I think we need to reorganize, we have to transcend the dilemma state/market, and bring in society.

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## Globalization and Poverty

INTERVIEWER: Several people we've talked to in poorer countries say that the new global market is their way out of poverty. Do you see the new global market and world trade as helping the poorest countries and the poorest people in the poorest countries?

OSVALDO SUNKEL: No, I don't think so. I think quite the contrary. There is now sufficient and very, very consistent evidence that since the '80s, when the new development policies have been implemented more or less all over the world, income distribution has worsened, both within countries and among countries. This has been documented very, very seriously. The distances between the range of incomes, of various kinds of people within the country have also changed. The range of wages -- from the specialists and the communications industry and Internet and Silicon Valley and the low-paid people without any kind of social protection -- have widened tremendously. And this has been a worldwide phenomenon as well.

Poverty has increased substantially, sometimes as a proportion, but certainly as the number of people in poverty has increased very formidably. And the fact is that in global forums like the Davos forum and when the G7 meet and so on, there is a very great concern about increasing social injustice being the consequence of globalization.

INTERVIEWER: One answer to that would be that things like infant mortality, which is a good measure, have generally gone down. While the gap has got wider, the poor are less better off than they were, if that's the right answer. What do you think of that?

OSVALDO SUNKEL: There's no doubt that some indicators of quality of life have improved, like, for instance, infant mortality. But this is the consequence of a very long period of investing and developing new kinds of technologies and new kinds of medicines and health systems. But this is not the consequence of the last 10 years or so. This is the consequence of 50 years of improvement in health systems and technology and health.

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## Cardoso's Approach to Brazil's Economic Challenges

INTERVIEWER: Let me ask you about Fernando Henrique Cardoso [president of Brazil]. He starts off as a left-wing economist and ends up as a great privatizer. People who change their mind are always interesting. Did you change his mind?

OSVALDO SUNKEL: May I make one small correction? He really is a sociologist. He did study economics also afterwards, but his basic frame of mind and his main work as a professional person was in sociology. Obviously, he has changed somewhat; I think we all have. We used to be much more hopeful with respect to the achievements that the government could obtain and much more skeptical about markets. Now we are more reconciled with markets, and I think Cardoso has made this journey intellectually, probably moving a bit from the left more to the center. But the fact that in his own country, as minister of finance first, he was very successful [in stopping] inflation, and then as president he has adopted some of the reforms promoted by liberalism, like privatization and so on. I think these are, to a very large extent, pragmatic questions. They don't have to do very basically with

changes in conceptual and ideological terms. The ideological span has shrunk, has restricted to a much narrower limit, I mean from communism to Hayek, a tremendous array of possibilities. Now one moves much more closely between social democracy and Christian democracy or liberal parties and so on. We have all been moved into that narrower angle, and within that narrower angle I think one has also become much more pragmatic. What do you think about privatization? Well, let's see, perhaps in this case yes, perhaps in this case not, and so on. I think Cardoso, on the other hand, certainly continues to be very fundamentally worried with social progress. He personally -- and his wife -- is very much engaged in a very big program of social improvement in Brazil, so I don't think that he has basically changed very much in his basic outlook.

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The Outlook for Latin America

INTERVIEWER: How do you see Latin America doing in the new world economy? Is it going to prosper? Is it going back to square one? Is it going to go back to permanent second-class status?

OSVALDO SUNKEL: I am pretty skeptical. I don't think that the way things stand right now allow one to be very optimistic. We have regained to some extent a certain degree of growth, but the growth rate is half of what it used to be in the '50s and '60s. Investment rates are very low. They haven't recovered, and they are an indicator of what growth will be in the future. With low investment rates, growth of GDP will be low also in the future.

The international context is also not very favorable. The world economy is not growing as it used to grow in the past. We have continued to be -- in fact we have in some cases become more dependent in the last 20 years on raw material exports, on exports based on natural resources. And it has now become a policy in developed countries to try to reduce the natural resource content of the goods that are being produced there as part of the new efforts of sustainable development. This is a big menace for foreign markets of our products. Social conditions have worsened. The state has fewer resources to support the poor. A lot of these natural resources being exploited now are beginning to be threatened by overexploitation. So the outlook for Latin America under these kinds of policies is pretty dim. I believe personally that we need some very substantial changes in the present policies.

One can even add some other consequences. If you look at Latin America right now, you can also see that the negative social consequences of worsening income distribution, increasing poverty, and so on are beginning to have very serious political consequences. Many of the countries of Latin America have become unstable, with big scandals and big corruption and a lot of drugs and a lot of crime. It's very common everywhere, and this is to a very large extent the consequence of poverty. Then, if you have unstable governments as a consequence of that, then the

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international investors lose confidence in this country. It's a vicious circle that's beginning to appear. And the present Argentinean situation is disastrous.

INTERVIEWER: Do you see a backlash in Latin America against the free-market reforms that have been brought in over the last 20 years?

OSVALDO SUNKEL: Oh, yes, definitely. I think it's [going] to become clear as many people are beginning to become very, very critical. The trouble is that a lot of those that are critical of the market reforms tend to swing back to the early stage, which is now looked at as a very positive period, which it was, but [it] also had its flaws. And this is why I spoke earlier on: It's not so much a pendulum; it's the need to overcome both the negative experience of the import-substitution period and the negative experience of the market-based period and move into new directions.