Chile, in search of lost growth

Looking at China and India growing at 10% in annual rates in their quest for a developed status is certainly goods news, for their combined 2.500 million inhabitants and the rest of the world. Their per capita incomes, less than US$ 2.000, compared to US standards, over US$ 40.000, just reflect how important past policies were, good or bad in their respective cases, to determine present outcomes. In other words, once competitive policies and a certain efficient institutional base were put in place, a catching up exercise towards a US per capita income standard was triggered and got easily noticeable for its massiveness. What is also good news from a world viewpoint is that this US living standard has also been moving upwards at a fast pace: a leading US with healthy demographics has been showing a consistent strong growth, in the 3-4% range, contrary to expectations that erroneously took for granted a weakening growth process because “everything was already done”. In other words, the marginal productivity of their capital, which in the end is reflected in long term growth rates, has refused to drop.

This same convergence process is certainly valid for Chile. It has a per capita income of just US$ 8.000, and from that point of view, it is closer to China and India than it is to the US. In terms of institutional base and competitive policies, Chile started before the later ones the right path, but it has not kept the rhythm. The result: a self imposed economic growth rate near 5%, obviously not enough to rapidly converge to US income standards nor even to solve in the short term poverty conditions suffered by the less fortunate. In today´s dynamic world, a failure.

Let us agree that the process of economic growth is complex, but no one in the knowledge of worldwide economic evidence already existing could in good faith seriously question that competitive markets are essential to its success, and that a failure to that, especially in labor and capital markets, are clearly detrimental to it. And these factual results include the Central Government role in its size and efficiency. A corollary of the above would be that it is not sufficient to have various free trade agreements on “goods” but not on capital, labor or immigration “services”.

In the Chilean case, due to inflexible labor laws, unemployment rates continue hovering around 8% - including state temporary jobs - and employment participation rates resist to increase from around 50% - whereas they are 60% in the US -. Moreover, unjustifiable protections in capital markets result in consumer credit costs around 30% over risk free domestic Treasury Bonds, while in the US that spread is closer to 10%, making possible returns on equity consistently over American, European or even Latin-American financial counterparts. To make matters worse, Central Government expenditures do amount to an important 20% of GDP, excluding private pensions and local governments, and it still allocates its resources via non competitive ways, especially those in public education and health (1/3 of total budget). Furthermore, instead of returning transitory copper related fiscal surplus (8% of GDP last year) to its citizens and investing in highly socially profitable urban and infrastructure projects that could primer long term growth, Central Government sages determined that the best course of action was to continue saving in essentially US Treasury Bonds, at 5%

nominal rates of return, even after becoming a net creditor. Perhaps only companies like General Motors could be better examples in managing cash and destroying wealth.

One cannot expect good results out of these distortions and lack of common sense.

How then we change the course? First, by recognizing that present policies are deficient. Second, by opening all markets, especially labor, immigration and capital ones, to competition, going over all pressure groups. Third, by revaluing the Central Government role in terms of economic weight – it should decrease - and focusing it on efficient redistribution via vouchers in health, education and housing, relying on people decisions, not on bureaucrats ones. Fourth, by refocusing social budget on the less fortunate; the others protect for themselves. Fifth, by promoting family, not its failure. Sixth, in foreign policy, by aligning with the Anglo American partnership and the world they fight for, avoiding grand and outdated Latin American adventures. And seventh, by finally accepting that the objective is to maximize standards of living, not short term votes.

If done, Chile could again resemble India´s and China´s success; if not, Chile will slowly follow the sad historical and mediocre pattern of Latin America. If only poor people could see that their better standard of living is being postponed because of these policies; if only its leadership awoke up; if only history could redeem us.

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