

Corruption in Chile ? Of course, but of a different kind

Every time a new survey over corruption and transparency goes published, Chile is usually well placed, especially with respect to our Latin American neighbors. And every time this event happens, those that rejoice on the significance of it should be reminded about the other corruptive process that is not considered in those surveys: that of interest groups that silently goes on and which has, most of the times, far more destructive results.

Chile suffers, as every other country, from policies supported by different interest groups that clearly subordinate the interest of the nation to theirs, under a status quo that few people would dare to change. Just based on world economic evidence since 18th century, the standard any country should point to is competitive markets in every place – including the political arena –, and be very cautious when breakdowns of the markets are first ascertained and then tried to be solved via regulatory processes from ever prescient governmental entities. That standard is sometimes – and regrettably – bypassed, and it is the challenged country as a whole that suffers.

In Chile, beyond many imperfections like agriculture protections and unjustified sectorial subsidies, two vital markets do not operate efficiently because of these pressure groups: labor and capital markets. And as every undergraduate student would recognize from his or her first economics course, these production inputs along with the “technology factor – institutional efficiency” input are the main ingredients in the explanation of countries economic growth, or the lack of it.

Present and restrictive labor regulations are the main explanation for unnecessarily having close to 1,2 million people out of work, when we consider our 50 per cent employment rate of people aged over 16 years relative to a 62 per cent participation rate in the US, where far more flexible conditions are allowed in labor contracts. Young people, women and people aged over 65 years pay this artificial and unfair unemployment price. This figure should embarrass anyone with a real interest in the welfare of others, especially when considering total population in Chile is close to 16.1 million people and its present employed force is near 5,8 million people. An extremely valuable human capital resource at rest.

The other one, our domestic capital market, operates well only for those that do have alternatives in foreign financial markets, like big firms and the Treasury. But for the vast majority of Chileans, the price for life insurance is 3 times that available in the US, and the mortgage market rates are 250 basis points over local Treasury notes, whereas in the US that difference hovers around 80 basis points. In other words, Chileans are not able to apply to 30 per cent more valuable homes at the same US equivalent monthly payments and do not have life insurance for most of them because foreign financial firms are not allowed to operate directly with them from their own country financial markets, even through internet. Just examples of a general pattern that results in an unfair way to protect big firms, in any productive area, from smaller ones which have no access to financial markets at competitive conditions. A pretty effective barrier to entrepreneurship, for the sake of a few.

¿ Why do these imperfections persist ? The present left coalition mainly responds for the protection of labor and the right parties do so for the protection of capital. The left prefers to compensate directly through fiscal expenditure those consciously affected by their distortion; the right silently collaborates while keeping effective

protection alive for its own interest groups. ¿ Isn't this corruption, subtle but much more effective ?

The only way to stop this insanity is to bring into the game third parties, like our American or European commercial partners and enforce competitive rules everywhere, and presidential candidates that do not have to bow to any coalition and do appreciate this situation. It is only by disrupting this tacit but costly agreement that Chile would be able to grow fast enough to eliminate poverty, improve its income distribution and redefine the role of its central government, with relatively less resources and more balanced powers with respect to the rest of institutional foundations, than it is today.

As the system is functioning now, it is then intrinsically corrupt.

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