

## US Declaration of Independence and Chilean present times

The unanimous declaration of the thirteen United States of America, dated July 4th, 1776 has some remarkable elements that continue being applicable to our present times. At the beginning of it, it says: "We hold these truths to be self evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed. That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness. Prudence, indeed, will dictate that Governments long established should not be changed for light and transient causes; and accordingly all experience had shown that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security. Such has been the patient sufferance of these Colonies; and such is now the necessity which constrains them to alter their former Systems of Government."

These same arguments were rightly applicable to the 1973 Chilean reality and remain valid today, albeit under a less stringent scenario. This is to say, there is no question about the basic rights and duties, institutions and governance of our country that together perform with a reasonable degree of confidence. It is on the more subtle economic world where results are not proving in accordance with the principles that underlie this great declaration. It is, in other words, on the competitive rules issue where we are failing for the benefit of a few ones who, consciously or not, with their actions or lack of them, are gradually putting the whole system at risk. Our own Boston Tea Party activism should then illuminate the way back on track and challenge this anticompetitive status quo, regardless of which coalition is in power. If history is any guide, this will not happen easily and so a daily battle is before us.

We are supposed to have a competitive capital market but the fact is that almost 60% of US\$ 200 billion credit outstanding in the economy in loans, bonds and commercial paper is provided by domestic banks – three banks account for over half their market, undreamed of in the US -, whereas that figure is smaller than 20% in the US. Pension funds are dangerously close to banks with their excessive 30% deposit and bond exposure. Commercial credit from banks is concentrated on 1.5% of debtors with 85% of debt, with no corresponding GDP participation. Moreover, these last ones are basically the same entities also financed by pension funds, under a 24% publicly traded equity and debt exposure. The higher resulting prices for debt are obvious, particularly when alternatives are almost a formality, unable to affect them. If we just consider a direct cost – which is unequally distributed - of 1% higher than competitive debt costs, Chileans overpay US\$ 2 billion a year, or 1.25% of GDP. However, the indirect cost, which involves a smaller degree of effective competition in almost any area between those that have access to capital markets at competitive prices and those that do not, is probably much higher.

We are supposed to have a competitive labor market but the fact is that unemployed labor is over 1.2 million people, doubling the official figure, if we partially adjust employment population ratios in Chile, closer to 50%, to developed countries, closer to 60%. Labor regulations protect those already employed but constitute themselves into a huge barrier for those that want to be employed, particularly young, female and older people. If we just consider an excess of 600.000 unemployed people over a natural unemployment basis, and value their work at the average wage of approximately US\$ 700 per month, an annual US\$ 5 billion unaccounted loss is obtained, equivalent to over 3% of GDP.

We are supposed to have a competitive electric generation market but the fact is that recent bidding processes were almost prepackaged for the benefit of the main existing generation companies. The resulting higher than competitive prices will give birth, if unchecked, to a net transfer from consumers to generating companies of near US\$ 1.6 billion per year, or 1% of GDP, for the next 15 years.

We are supposed to have a competitive US\$ 35 billion retail market but the fact is that given the chance some firms have obstructed financial credit alternatives to favor their own ones, others have shut down competing TV distribution platforms with intimidating commercial practices, others have allegedly colluded fixing drugstore prices and yet some even tried to merge under conditions that would have been proved more than onerous to consumers – competition authorities halted this last one -.

We are supposed to have a competitive political market but the fact is that two coalitions do effectively control the process of allocating candidates and governmental officers to their districts and jobs. Either you are part of them or you are basically out.

Do we need to continue? What is surprising is the guilty unawareness that all these practices intimately destroy the system. What is amazing is that competitive structures do not persist unless under the eye of tribunals and authorities actively promoting them, with no rest. What is needed is a convincing attitude from all involved that competition is to prevail, for the benefit of the whole, so as not to create incentives for anyone to deviate from it because he and the system will pay a high cost for it. What is essential is that no exemptions are to be accepted. What is to be recognized is that to have a truly competitive environment, all costs have to be internalized when taking decisions or they will also disrupt prices and finally, results - for example, recent US overleveraged financial firms assuming an implicit government guarantee might have distorted risk premia, or new urban developments not taking into account externalities over others might have increased congestion more than economic activity -.

At the end of the day, the big difference in per capita incomes between Chile (US\$ 10.000) and the US (US\$ 45.000) most probably lies in competitive markets. Human capital and central government efficiencies – or inefficiencies – are of less importance than the gross functioning of the system.

We might not have Founding Fathers and their followers' spirit, but we can try their path. Let us just remember, as they long ago did, that ours is not just a right, but a duty to improve what we inherit.

Manuel Cruzat Valdes

Santiago, Chile  
May 11th, 2009