

Democracy and Development in Latin America with Ricardo Lagos

Class One

(transcribed by Korin Faurina, Jennifer Hirst, and transcribed and edited by Matt Werner)

HARLEY SHAIKEN: I know that you are all as excited as we are about being able to offer this special seminar this semester. The person who is the professor for the seminar, of course, needs no introduction. I will simply introduce Professor Ricardo Lagos. And he will take over from here.

RICARDO LAGOS: Thank you. Well, I'm not so sure you will all be as excited, but we will try. [*class laughs*] Let me tell you that I wish if it is possible to, in order to be in a similar position now that you know who I am, not the other way around, I have here [the class] list. I wish to know your name and department: graduate or undergraduate, just to have an idea.

[Students introduce themselves.]

[TK: 4:38] Well, as you know this is divided in four sessions, and the idea is that each session will be about some major argument. The four sections you know what they are about: the first one is going to be today about the 90s in Latin America and what was the meaning vis-à-vis the restore of democracy. And at the same time what happened with the economic policies and some of the elements right after the transition from most of the mid 70s. Then, there is going to be a second, for the next meeting, about what happened with the happy days were everybody thought we were in the right track and suddenly we

discovered that this was not the case. What happened with the Washington Consensus? Then the third is a little bit of advertising and we are going to talk about Chile. And then finally, what can we envision about the future from the point of view of Latin America? And I would like that at that time probably some future length maybe clear for all of us.

Nevertheless, before we start today, what do we think has been the 1990s? I think that probably it's essential, because not all of you are acquainted with Latin America, what has been the broad evolution of Latin American countries vis-à-vis before the 1990s? And to sum up what happened during the twentieth century. And I think that probably we can make a distinction vis-à-vis the twentieth century in at least three major states before the 1990s. The first one is that since beginning of the century until the Depression in 1930s, and the 1930s Depression is going to be very important point from the point of view of everything and then what you have from the 1930s up to the end of the 1960s, the early 1970s, something like that. Let's say 1965 to the 1970s. And then you have the military starting from the 1970s, more or less, to the 1990s, and then actual period. Okay?

Why do I say this? Because before the 1930s what you have was primarily a post colonial period, and there, most Latin American countries, you could say that they were democracy to some extent, some countries. But even in those countries like Chile that was suppose to be a democracy you used to have a reduced democracy, if you accept that word. Oligarchies, aristocracies, were the major elements in that democratic way. And therefore at the same time you have some other dictators for a long time, you have Porfirio Díaz in Mexico for about thirty years. You have Dr. Francia in Paraguay for

another thirty-five years, there is a funny history that people heard that Dr. Francia was already dead and everybody went to the street and celebrate, but Dr. Francia was still alive, and those who celebrated didn't have a good time after that.

The fact is that until finally Dr. Francia died everybody was in their house until they made sure that he died. History like that is why García Márquez says that it is so difficult to write novels in Latin America because reality there is always much stranger than the reality of another.

But anyhow, it is in these period after the 1930s what mainly what you have are countries exporting whatever they have. Exporting material, in the case of Chile: nitrates and copper. Exporting in the case of Argentina: meat and wheat, exporting some tropical products from Brazil like coffee. Exports in Central America was of course, bananas and if you see what about Bolivia its minerals, tin and some other things like that.

Now, why do I say that the 1930s are so important, because of the Depression and the Depression meant that because everybody was so happy from the exports you have a very reduced trade use from the point of view of the class system: upper class. And therefore those countries, most of them, taxation in those countries was just a taxation on export. And that's it. We used to have 20% tax over nitrate that was exported and then you had the natural mineral wealth. Chile used to have a much more sophisticated taxation system after the nitrate, then they forget about taxes and living from the taxes on nitrate. In other words, this kind of world came to an end with the Depression. And the Depression was

also extremely difficult from the point of view of economic policies. Why? Because in most Latin American countries, the rate of exchange was fixed on the gold standard, and therefore the idea is that if you have a deficit then the gold is going to be out, and since the gold is going to be out then the prices are going to be up, and then exports will start again.

Now, what happened with the 1930s? That because all of the countries were so close to the gold standard, then what happened was that most of the gold accumulated because the export came to an end. And suddenly the majority of Latin American countries lost huge amounts of gold that had been accumulated in the past, because they believed in the gold standard. When the gold standard was finished, the minister of finance had the not very interesting news to tell to the president that there is no more gold in the central bank (in those countries where central banks already existed, by the way). Central banks were established in Latin America in the 1920s in the major countries in Latin America: Brazil, Argentina, Chile, Colombia, and Mexico. They had central banks by the Depression.

Then what you have after the Depression. To understand what happened in this period is essential to understand what happened in history. Because in history after the Depression when you have a country, how they are going to live is because of the Depression things that you are supposed to export don't have a market anymore. Or if there is a market, prices are so low that it is not going to produce a difference to believe in. On the other hand, from the political point of view, why before the Depression countries beginning to

have an educational system that was expanding before the Depression. In most of the countries in Latin America, they established compulsory education before the 1930s.

In Chile compulsory education was established in 1919. After nineteen or twenty years of discussion. "Do you really think is necessary to have education?" That was the kind of debate that they had. And then, the idea was to have education every four years. During those happy days four years of education was thought to be necessary. And you have compulsory education in many Latin American countries at this time. Once you decided to have compulsory education then a different story started, because now you are going to have a growing, or not growing as you say, *emerging* middle class. Because before that, in the 19th century, either you have the landowners or the mineral owners, or you have the workers in that area. It was a very simple society. Classes almost did not exist: there were two classes, and that's it.

Once that you have then, in the early twentieth century, the fight for education then things become a little more different. True, you have some kind of labor movement, but the labor movement was always in those areas where you export some minerals. You had no labor movement in the areas of agricultural product. So what you have here is very simple from the point of view of classes. And a very simple economy in order to export. Import was mainly for the upper income group. A small amount. Now, what is important is what happened when you have the Depression? Because when you have the Depression, then it's the end of an era, in real terms. When you have the Depression, the major countries have to take the issue of taxation. What type of taxation? Where and

when am I going to get the money for government or fiscal expenditure if my taxes on export don't work anymore as they used to work? Second, what am I going to do in regard to the rate of exchange and my export and imports? If the amount of goods that I am going to export is very big, but the market value is too low; therefore it's going to be necessary to restrict the imports, if I am going to have a balance of payment that is balanced.

And then, you have what later on some economists called the era of import substitution. To substitute an import and to produce at home internally—everybody thought it was a very good idea. Otherwise what could they do? In other words, the 1930s are responsible for the era of import substitution. At the same time, the effect of the process of education meant that an emerging middle class was taking place. So in this era of import substitution, then you have also emerging middle class. On the other hand, from the point of view of the political arena, what do you have in the political arena? You have a broader middle class, trying to ask for participation, and then what you have there is urban education as social mobility, which is extremely important. Import substitution is the answer then for the fact that I have because of depression what they called a deterioration of the terms of trade.

What are the terms of trade? The terms of trade is a difficult word that likes to be used by economists, which is simple to mention, what is the value between the exports and the imports? And then, in this case all that you are talking about is what happened in the process of import substitution? And then in the process of import substitution what you

have is a lot of economic policies that never before have been applied. But where those economic policies were born out of the necessities of those countries, and it is extremely interesting there was no economic doctor that would recommend any policy, nevertheless, the major countries of the region used similar economic policies, no matter if you had Getúlio Vargas in Brazil or if you had different presidents of the Partido Revolucionario Institucional, the PRI party in Mexico. Or if you have a right wing politician like Arturo Fontaine in Chile or something like the radical party in Argentina or Belaúnde in Peru. What I am trying to say is this: all the countries up to the 30s, from the point of view of economic policies, they started the process of subsidizing imports. And in order to induce this, no matter if you are any of these politicians from different political times, all of them took necessary steps to strengthen the role of the state in order to encourage some kind of industrialization in those countries. It's very interesting that most of those countries then, started some kind of development corporation depending on the minister of trade, or the minister of economics, or whatever they had. At the same time, that means that it was going to be essential from the point of view of those countries to have what they called some kind of interventionist policies from the point of view of the government.

The laissez-faire before the 1930s came to an end because of necessity, not because of ideology. And this a question that is very interesting when you see the different economic policies in different countries and all of them have taken similar measures. And those measures then, reflect the needs for that particular country, and therefore they are going to be essential for what they can do.

Needless to say, that in the same way from the economic policy you are having import substitution, establishing tools to intervene in the economy—that was just one step to regulate the rate of exchange. How many pesos per dollar? And then there is going to be an official institution to regulate that. And the institution will regulate that according to how many dollars you have from the exports and then I will put a quota with regards to the imports. Otherwise, you are not going to have any more dollars to pay for that. I say this because I think that when you go to the next stage, everybody will say “How did they did they do all these things?” And somebody will say “Oh, the minister of finance was practitioner of Keynesian ideas.” But Keynes idea, as probably you know, came to be known at the end of the 1930s, so they were practitioners of Keynes without knowing who was Mr. Keynes.

But to some extent, this is out of the need of the particular country. But then, if you say, “I need to industrialize the country because I cannot afford to import manufactured goods from abroad, I will need to have some energy to produce that.” A little bit more electricity, more oil, a little bit et cetera. Where can I get that? And then in those periods, either you open the countries to have foreign investment in these particular areas—and this is the time when the major electrical companies from the US or the UK went down to Latin America—to expand the energy that was required for this industrial process. And the major investment and the other utilities like the phone companies: and Bell went to Chile, and Bell went to Argentina, Bell went to everywhere.

But if you are going to industrialize, then you are going to need some steel, and in most countries the steel companies were established owned totally or partially by the government. And again, this was done by governments with very different political ideologies. So it seems we can say then that there was an external factor that was the Depression of the 1930s that produced a tremendous change in the economic policies and at the same time in what's going on vis-à-vis the political sphere. Because once that you go for industrialization and you are going to manufacture your shoes, everything; then you are going to have a more sophisticated society. Then you will have workers, and some of them will decide to have a trade union. And then you are going to have an emerging trade union movement because of the process of industrialization that was induced because of you. You see there a society that is becoming more and more interdependent, but at the same time a society that is a little bit more sophisticated. And then you have a bigger number of players from the point of view of the public policy. Not only the businessman, not only the landowners or the owner of the mining (but normally the owner of the mining was some foreign investor). But now you have the emerging business entrepreneurial community and at the same time, you have the trade union, which is the other side of the coin. And all of these are under a growing state intervention, strengthening the role of the state.

Now, when by the end of the 1930s you have the Second World War, which was the second wave to war industrialization because it was much more difficult to get good and services in the middle of the war either coming from Europe or the U.S. (During those days nobody was talking about the Asian countries). But at the same time in the U.S., you

have the Roosevelt era—Franklin Deleanor, not Theodore—and then with Roosevelt, you have the way that Roosevelt faced the question of the Depression, with the state intervention with the Tennessee Valley Authority and things like that. And therefore, what they were doing in those countries in Latin America to some extent resembled what here in the U.S. Franklin Roosevelt was doing to take the country out of depression. And later on, they discovered that during those days some other unknown countries by Latin American standards like Sweden in that part of the world, far away were making similar economic policies.

[TK: the following 2 sentences are hard to decipher] Some young economies called middle used to advise in that sense. The same goes on later in America with the colored people, the blacks.

But what I am trying to say is that because of the Depression in the U.S., in Latin America, in the Scandinavian countries, because of necessity some economic policies emerged and these were implemented by the governments of different political times. It seems to me then that you have the textile industry, some other manufacturers, and the emergence of the labor market and the trade unions. Now, what is the outcome of this process of industrialization in Latin America? The outcome is usually in world affairs to have both things: changes in economic policies, you have industrialization but this industrialization means that you changed the social fabric of that particular society. Because now you have workers, you have businessman you have entrepreneurs, and what about politics?

Political parties then decided to represent the new interest of these new emerging people. And then you have some parties from the left. In most Latin American countries then you have the Socialist party and the influence from what's going on in other parts of the world, either in Peru, with the socialist party in Chile, Argentina, something like that, with differences of course. But the emergence of somebody like Lázaro Cárdenas, the president in Mexico, represents also even though the continuity of just one party in power, you know? When the revolution can be institutionalized, it's difficult to understand the revolution. [TK: indecipherable] But you had even in that institutional system somebody like Lázaro Cárdenas that represented movement towards the left.

And then I could say that the Second World War also represented an important change, in the economic policy in this country, in the U.S. When you John Kenneth Galbraith, a young economist coming from Canada, working in the Department of the War, you had to put some price control to some items; it was out of necessity, you had to produce for the war. And demand was bigger than supply, prices were going up, and you had to make prices stable. Why do I say this? Because here then, beginning in this period, and especially after the period after the Second World War, then most Latin American countries would have price control because it was very difficult to get goods even if you had the money from abroad. When you had control in prices, then you decided also to put control in the prices of the foreign money, which is controlling the rate of exchange, and you have a special institution to do that. And then in addition to that, you had the development of corporations that were able to help to establish some industries. So, when

you are talking about what happened with those societies, you have now a rise in middle class and at the same time that the rise in middle class would like to have a bigger and better standard of living, and demand a bigger and better standard of living. And here then, right after the world war you have that the war is over, but then what happened with the imports from abroad? But in that time then you have the rise in expectations and then the big issue how can a society work when you have rise in expectations: the lower classes now have trade unions. The middle classes also have unions: teacher's union, health professional unions, as well as expanding the role of the state. And then you have the political parties of course.

So what I am trying to say is that after the war, in many cases what you have was the rise in expectations and if it is possible to meet those expectations and have very rapid economic growth and what do you do to increase economic growth? That is the time that I would say, from the intellectual point of view, a whole new literature emerged in terms of economic development. You have to go to the classics like Alfredo Marshall, to see what I mean. But, economics at that time was far away from being considered a science. Nevertheless, the idea that it was possible to understand why some countries are on this particular level and why some others are on this particular level: what happened? What happened in the industrial revolution? What happened, and why it started?

It is my impression that at the end of the Second World War, in Latin America a new economic literature emerged. How can we be able to have a growth rate much bigger than the rate that we were used to have? Because rise in expectations are very high. Is this

going to be a government responsibility or is it up to the market? During those days, it was government responsibility. And then of course, you have the state of the earth. During the 1960s what was the state of the earth when you had together what's going on in Latin America, the process of decolonization of the major powers in the world, and you have to grant independence to India, to most African countries during the 1960s, the process of independence from former colonial powers like Holland and Indonesia, et cetera.

Again those newly created countries represent a tremendous amount of rise in expectations. It is difficult to imagine what the expectation was in 1776 when this country became independent. When countries in Latin America became independent, the major demand was free trade because of the colony would only be able to have commerce with the Spanish. And free trade then was very profitable. It's a funny story—the question of trade. But then why I am talking about this? Because from the point of view of, how could I say, the intellectual point of view [TK: Matt stopped editing here at 36:31 on Wed. 10/18/06] Mankind thought that after the Second World War optimism is everywhere. It was possible to have a faster growth abroad, and then you have an economic professor that says that there are stages of economic growth, and once that you reach a particular amount of investment above the product, then you are going to have a very rapid economic growth. And then you have the take off. A country will take off whenever you reach that minimum target with regards to investment. A beautiful work. And then all the question was, how are we going to be able to have that take off? And then Simon Kuznets a well known Nobel Prize winner in economics in the famous article

in 1961 demonstrated that at the beginning of growth you are going to have an increase in inequality in the distribution of income, but later on the internal forces—the trade union, political demand, democratic parties—are going to represent a trend in the other direction and you are going to have a country with more equality. It's a beautiful work, you see: you have growth, later on you will have more equality, and for those of us in the political science department all of them know that Simon Kuznets was an important figure and leads them to demonstrate that democracy will emerge stronger whenever you have a bigger per capita income. So now you know how the countries are going to have growth rates faster, how we are going to have more equality, and finally because of all that: democracy in the country.

When I came to study in America in those days, I thought that we had discovered then the recipe to solve all the problems. But later on as the President, I discovered that things are a little bit more difficult [*class laughs*]. But this question of import substitution all the horror stories that I have yet mentioned, didn't have in Latin America a happy end. [TK: the following sentence is hard to decipher] Because it seems to me for them to have this is very important ...that explains the demonstration effect and the ... And the fact that you consume not according to what is your earning, but you want to consume according to what is your neighbor consuming. The demonstration effect means then that normally you have a trend to consume not according to your income, but what is the demonstration of the similar people to you. Why do I mention this? Because the demonstration effect of the media is extremely important. When we were talking about before the 1930s, very few people in Latin America knew how people were living in England. Right after the

Depression, then you had the radio, but no more than that, and with the radio you don't *see* how the people are living. But the demonstration affect, when you had the TV—that's really a demonstration.

In other words, the question of the rise in expectations is becoming extremely important to explain what happened in Latin America when all of these profits of import substitution were coming to an end. Normally you substituted those items that are much easier to produce. Obviously, textiles are much easier than producing a car. And therefore, the questions is that if you are unable to keep pace in the process of import substitution, to keep the economy going, or if the market is rather small and you need to produce for larger states. Or I haven't say anything yet vis-à-vis what happened in the rural areas of Latin America because up to now, what we see in the early 1950s, early 1960s is the beginning of the process by which in the rural areas peasants are also becoming more and more upset over what are their living conditions. Should you incorporate suddenly those that are expecting more—quite a substantial part of the population—because most of the Latin American population during the 1950s and 1960s—the major block of the labor force—was employed in rural areas in agriculture. And therefore, it is the question of the emerging of what's going on in rural areas, and then the answer some people say is, what about land reform? Like for instance with President Kennedy and the Alliance of Progress. They emphasized they need to have some structural reforms in the region. And then it's very interesting what happened, and you see why is it that by the end of the 1960s or early 1970s you were in the middle of the Cold War and quite a number of these rises in expectations were taken [TK: taken or

mistaken?] for different ideologies. I haven't talked about ideologies up to now. Have you discovered that? I haven't said the left or the right, no. Because all these policies, no matter where they were with differences of course from country to country; it's very difficult to country to make a general theory about Latin America, but in general you had this case; all the governments with this were pretty much the same. And that's when you up the input of the rural population, increasing demands.

Well, in most of the literature they will tell you that here came to an end this particular period of time and when you have then, after the 1970s, reveals a question of the Cold War and to what extent is the example of Cuba—it is very important. To what extent do you have a mixture then, the Cold War and one hand and Cuba on the other, as a tactical example that it was possible to have a “revolution” in the region. And therefore if you take the case of Argentina; in Argentine when you have there mainly, the Peronist party, but with the Peronist party you have right wing Peronists, left wing Peronists, you have everything. Or in the case of Chile, well you have of course the socialist party and the Christian Democrats as the major forces that tend to organize with each other.

And why do I mention the Cold War? Because then, what you have is something very important in terms of the armed forces. When they see these kind of parties trying to solve the issue of the rise in expectations demanding more from the state and the ability to pay for that, then in most Latin American countries at the end you had the military taking power and in one particular moment of time in this period after the 1970s in most Latin American countries you had dictatorships. In other words, the question to solve rise

in expectations was to eliminate the expectations. I am saying that in a very brutal way, but this is exactly what happened during that period.

So at the end of the 1960s, most of the model was exhausted: economy growth was insufficient to be able to face the increasing demand. And then what you have, you have inflation because most governments then decided to ask money to the central bank, and they printed the money. They borrowed from the central bank, but normally they didn't pay back the central bank. And then you have countries with 1000% inflation per year. This was not new in economics around the world; before the war in Germany you have that kind inflation, before Hitler came to power. What you have was that the military took over in 1964 in Brazil, in 1968 in Uruguay, in Chile in 1973, Argentina in 1976, [TK: Matt stopped editing here at 46:43 on 10-20-06] Bolivia in 1971, with one exception: Venezuela with the oil. The oil allowed [Venezuela] to meet the rise in expectations. And you have then the political democratic party scene in Venezuela, the COPEI, which is the Christian Democrats, the Social Democrats of Adecos and there was a combination of Adecos now, COPEI later then Adecos then COPEI, etc. And oil was able to meet those rises in expectations; that was probably the one exception that you have.

I am not talking about Colombia because during these days, Colombia was already in the middle of the question of the guerilla warfare and it's a little bit different. But in the rest of the countries, what you have was like Peru in 1975, and this I think was an extremely important issue. When I say Peru 1975, I am saying that there was a change between the militaries [TK? and the way they operate]. And then what happened with the military

regimes? All of them faced similar problems. No matter how different it was from one country to the next one, the fact is that all of them had to face the question of organized labor, and what to do with organized labor: trying to destroy labor unions. When you have a political parties—some of them decided to eliminate political parties for the time being—or some others had political parties being able to work under particular conditions. Many of these measures were taken because the Cold War justified the so called question of the national security doctrine. So you see that if the demands are so high that the demands at the end are going to subvert the order, and therefore it is better than to repress demands in order to have a country that is quiet. And then the national security doctrine was also an input in order for the military to be able to do what they were supposed to do.

And then what you have was a [TK: Adolno Jato (he names the professor)] the political scientist from Argentina, a professor at Notre Dame, [TK] ... argues that the bureaucratic authoritarian states, bureaucratic in the sense that the government was in control: it was a bureaucracy in control of the demand, and authoritarian because all the power was theirs. It's true that at the same time, because you have so many regulations, so many big state interventions from the 1930s to the 1970s, then there was also a more market-oriented approach that was very important. And most of those countries decided that the time had come to try to be a little bit more open, and then I got the impression that what you have then after that: What about from the point of view from state intervention? Well there was withdrawal of the state in some particular areas. In some of the areas, of course, it was very in control, but in most areas of the dictatorship, there was a withdrawal of the

state. If it is possible to finish price control, if it is possible to finish the control of the rate of exchange, if it is possible then to not give so much emphasis to the process of industrialization, because the economies were making this transition very difficult. Now, of course industrialization in a huge country like Brazil or Mexico is going to quite different from the rather small country like Chile or Uruguay. And the economies of [TK?] have nothing to do with it. If you have a country like Brazil that is almost a continent, the possibility to industrialize that country is going to bigger than when you have a smaller country with a smaller market. But we will see a little bit of this later.

So what you have was a dismantling of regulation, from the point of view of the state. And then, you start in the 1980s, something that later on was called "the lost decade." Lost decade, in a sense that because you were in the process of dismantling what happened before, and because you had some international crisis in 1981/1982, then you had international tariffs, plus dismantling most of the state. Then, what are you going to have? A decrease in the growth rate. And during most of the 1980s, in general, Latin American almost had no growth at all. When you decided to dismantle, among other things, the trade barriers; in the process of import substitution, I want to produce a shirt, so I raise the tariff to import the shirt. When I say now the time has come to reduce the tariff, [TK?] with a reduced tariff, I will import some shirts: what happened with the shirt that has been produced in that country?

In Chile, remember, we used to have 170,000 textile workers. 170,000. With the reduction of tariff, they were reduced to 30,000. From 170 to thirty. What about the trade

union movement about the textile factory? And imagine what happened to that trade union.

What I'm trying to say is, on the other hand, what about the rise in demands in the 1930s to the 1960s? Some kind of social security, some kind of—I wouldn't say welfare state like the European—but some kind of social security was necessary to dismantle. Or, to recognize that things had changed. Social security would start not when males and females have thirty years of work, because if you start working at twenty, at the age of fifty, you can retire. Or women at twenty-five, you can retire if you're a woman at fifty-five. And the decision was then, from the point of view of social security, that social security retirement benefits would be, in the case of males at fifty-five, in the case of women, at fifty. This is just one example in the ways that during this process of the military period, in the case of [TK?], to reduce the burden of quite a lot of numbers of social benefits simply because it was not possible for the country to do that. Now, at the same time in the military process that you were doing with the trade union movements, etc., political parties, you have some other institutions rising very rapidly precisely because of the dictatorship.

It's a big chapter to be written yet, what was the role of the Church? Because it was so different in different countries. In some countries, because of human rights violations, the Church played a very important role to avoid that. In some other cases, the role of the Church was just to do nothing. But then, if the political parties are abolished, if the trade unions are in not very good shape, if the Church is not doing anything, then the NGOs

that were emerging from the developed world, emerged much stronger in those countries. And here in the nongovernmental organizations there is something very interesting: that many answers that in the past, political parties used to provide, now are going to be provided by some other things. Let me put it this way: political parties are supposed to be the answer to different social problems in particular societies. Political parties are supposed to be an organization of people that think alike, with some kind of ideology, and with this ideology, I can solve most of the social problems with how society is going to be built. And I have an answer then, from my point of view, from my political party vis-à-vis many things: wages, salaries, environment, organizations, everything; “you name it, I’ll give you the answer.”

But what happened is that society is much more difficult, and suddenly society is such by which I think that I wouldn’t like to be involved in politics, in the public sphere, but I want to be involved in trying to save my neighborhood. And I don’t want that the highway is going to be built here in my neighborhood. And the political parties A, B, or C are not going solve that problem. And I go to organize my neighbors not to build here the highway. Or try to build a new airport in any capital in Latin America, in any capital in the world, lets say, it’s almost impossible—nobody wanted to have the airport in his backyard. Trying to solve where are you going to make a disposal of the garbage, “in the next county, in the next community, not in mine, please.” [*class laughs*]

In other words, what I’m trying to say is that in the same way that you had this military here trying to repress trade unions or political parties, then you see the emergence of

nongovernmental organizations with some of the issues like gender—gender equality— and ethnic groups that've been excluded. What I'm trying to say is that it's very interesting when you have democracy again, political parties have to share part of that power; the monopolies that you had in the past, here in this period [pointing to the board], with the new emerging social actors.

It's true that now you may have a Green Party trying to answer the question of environment. At the end when you, go see to see what's going on in Europe, you see the difference. At the end, the Green Party had to make a coalition with some other groups. During this period, when you're talking about the military regimes in the region, the military regimes in the region have to tackle economic issues, political issues, and social issues in such a way. Of course, I don't need to talk about human rights violations, because we will talk about that later. But the big question is that because of military rule, some nongovernmental actors emerged stronger than in normal democracies that exist today. In those countries where the Church was essential in order to avoid more human rights violations, when the Church was able to speak louder, when the Church was able to speak, [TK: Matt stopped transcribing here at 1:00:35 on 10/23/06] as they like to say, in the names of those who are voiceless, then the Church is a very important actor in those countries today, because of what they did in the difficult period.

I was an opponent to Pinochet, and during those days, during the 1980s, most of my meetings took place under the Church. And therefore, the voice of the Church after that, after democracy, it's an important voice. It's a new actor, much more powerful than

before. In some other cases—you go to Argentina and it's quite a different story. The Church in Argentina didn't want to be involved in this issue. "Look to heaven," no more than that. [*class laughs*]

But some bishops in Brazil: Hélder Câmara was a tremendous moral voice in Brazil. And in today's Brazil, when the Church in speaks, everybody will listen. On the other hand with regard to nongovernmental organizations, NGOs were extremely important in that period of time. Intellectuals, the universities: normally the university doesn't go very well with government, less with military government, since it was very difficult to make research in universities, you have quite a number of nongovernmental organizations where discussions and research were being done. Civil society is tied to the military dictatorship, and therefore, after democracy was recovered, in the process of transition, then what you have is a different way to understand what was going on.

It seems to me that it was necessary from the point of view of the military to make some economic adjustments that were extremely strong in terms of the population. And when the militaries came to an end for different reasons, in most cases—not all—but in most cases, this was because of the severity of adjustment in economic policies. More open to the market, the market will decide how to use social benefits, and that's part of the adjustment that they have to make. It's my impression that when you came to this point, then the process of the population, because of the severity of adjustment, is probably the most important issue of what happens later. It's true, that in some cases there were tremendous mistakes. Argentina, under military, decided because they had too many

internal problems; well this is not only for the military, many politicians decide that you go to foreign policy, you have internal problems, why don't you declare war to your neighbor and then everybody's behind you. [*class laughs*] You have the flag behind, and everybody's there.

They decided in the case of the Falkland Islands, the [TK? Malgrina] and the war, the military lost the war and that was it, democracy returned. In some other cases, it was different. In some other cases, what you had was that the economic conditions were very tight, and look what happened. It was the case of Chile, it was the case of Uruguay, it was the case of...Brazil, you know, is different always. Because I like Brazil. They decided to have independence, and they sent the Emperor back to Portugal, and that was their independence [*class laughs*] It's a wonderful country like that—packing the emperor and sending him back. It was a much more smooth transition. The military decided, well now we will see how can we do a transition here, and they did a transition. Good.

The process of transition from the military, also here, right before the 1990s, what happened in the world? What happened here at the world level? [*Lagos points to the late 1980s on the chalkboard*]. It's very important.

STUDENT: The end of the Cold War.

RICARDO LAGOS: The end of the Cold War. Remember the Berlin Wall coming down. And then that means that this rationality for many of those dictatorships that were for

security, well the question of security—the national security doctrine came to an end.

1989 is extremely important not because it was the end of the Cold War, in practical terms, but because it's the beginning of a new era in the area of international relations.

During the last 350 years, in international politics, it was a policy of equilibrium between nations. You have to go back to Westphalia in 1642, the Congress of Westphalia, to end the war between the European powers—for that matter the world during those days—they decided to have an equilibrium between nations. And since the Treaty of Westphalia in 1648 until 1989, you could say that the Cold War was the last stage during this period where you had equilibrium among nations. And equilibrium among nations means that no nation was powerful enough to be the only military and political power. And every country has to learn how to live with this new reality, which is not an easy reality, I can tell you.

During the First World War, Chile, like other Latin American countries, was neutral.

“The war is far away, who am I going fight with, the Germans, the Swedish and the French?” Who knows? “Lets be neutral.”—That's part of your foreign policy when you are small.

The Second World War. I said this once to President Bush, I said, “You know, Chile was neutral.” [Bush:] “How's that? Why?” [Lagos:] “After 1943—1943—two years after Pearl Harbor, Chile was neutral. *Then*, we declared war to Germany and Italy.” And

President Bush asked me, "And what about Japan?" "Oh no, Mr. President, we are very careful, we declared war to Japan right after Hiroshima and Nagasaki." [*class laughs*]

That's why I say to you that 1989 is extremely important because all of us have to learn how to make foreign policy. Also the number one. Because when you're the sole military and political power, what you say and what you do is going to be different. And the same with us. That is what we will talk about in the last session. What about the international world where we're living in now? And what that means from the point of view, if you want to see the future of Latin America, what that means to be living in that world.

But to go back to where we were at, one of the justifications of military rule across Latin America was the Cold War. You have to find these Communists and guerrillas and things like that. And you have that in most of the Central American countries, the question was very difficult. And what happened there is a history that is still being recalled. And therefore, when you have that, when you have the countries in the Southern cone of Latin America, then the end of those military dictatorships represent then the beginning of a new era.

And this is what I will say is the question of democracy on the one hand, with all of the political implications of that, and at the same time, it's a question of what kind of economic policies do we use for this new process of democratization? And what to do with those factors that came because the previous the previous period was a military regime? What I mean is how much we have learned in the area of human rights: what can

we do with that? These were questions in many countries nobody questioned before. “I was born in a country where human rights were accepted, and I didn’t give a thought to the problems of human rights; I knew that in some countries human rights were violated, but it was not my problem, really.” This is like air pollution. When there is no pollution, you are not talking with yourself everyday about how happy you are because you’re living in the country or city where there is no air pollution at all. No. We take it for granted. It’s when you have pollution, then that’s a problem. What should I do? There are so many things human beings take for granted, and only when those things disappear then you miss them.

So, when you have the process of democratization, and you start then in this period, to 1990 to 2005, then the problem is not only what kind of political problems you have, what kind of economic policies—and this is the so-called Washington Consensus—that what you do with the other issues that emerge because you have here the question of human rights and many other things related to the military rule.

At this point we can stop for about ten minutes. I am quite surprised because you’re still quiet, [*class laughs*] and I hope in the second part that some questions will be raised.

HARLEY SHAIKEN: You will treasure this quiet a little later in the seminar.

RICARDO LAGOS: [*jokingly*] Well things get difficult, then we can go back to the military rule. [*class laughs*]

[TK: First half of lecture 1 stops at 1:14:30]

[TK: Second half of lecture 1 starts on Class 1 Part II audio file]

Well you know that during the last year I was not teaching any class, so I forgot a few things. I forgot to tell you that the office hours are going to be the next day, Wednesday from 9:30 - 12:00. I think that the best way would be to use the system of the barber. So first arrival, first attempt. I explained to some of you and they say "yes sir," but with one condition that you have good magazines in the meanwhile. So I wonder if in the Center [for Latin American Studies] there's going to be good magazines for that. Now if this doesn't work because there are crowds of people going there to talk, which I doubt, then we can establish hours so that you don't have to wait...[*Professor Lagos and Professor Harley Shaiken go over class logistics*]. The second is that there are some reading lists which are here... After what we have said. It may be, now this is part of the marketing, that some of the things may change later, based on a book that was published in English from President Lagos. [*class laughs*]

Well, I think that we can start in the process of democratization. The first thing that I would like to say is that it seems to me that the process of democratization has to do with the problems to keep military regimes, particularly in the world after 1989. Democratic credentials are becoming essential in today's world. You cannot walk around this world unless you have these kinds of credentials. And this I think that, nobody has said that nobody has established that, but this is part of the new rules of the game.

Second, it's true, as I said yesterday [at the September 18, 2006 speech on "Challenges for Latin America" in UC Berkeley's Sibley Auditorium], that since the 1990s more than sixteen different presidents have been unable in Latin America to end his or her term, because of some protests in the streets, which I will say is not a very democratic system to dismiss the president, but is the way of the public. But the big difference with the past is that in all—all these cases—the new president, either because he or she was the vice president, so was entitled in the case of the president not being able, or was appointed by congress in those cases where the congress is entitled to this. Or some of the cases go even up to the supreme court. President Rodriguez, from Bolivia was a president of the supreme court. So whether you have a president, the vice president who went to the president of the congress, the president of the congress said "no," you end up with the president of the supreme court. I say this because this explains a new mood in the region. I mean in none of those situations—and I have been able to follow some of those very closely—has there been any temptation from the military to intervene again. Because again, from the point of view of the military, they know that if they do that they are not going to be accepted by the international community. You can have many questions about Mercosur, but I can tell you that no military people coming from the coup d'état would be seated in the Mercosur.

Nevertheless, I think that the process of democratization of course is different in every country. But the process of democratization, to some extent, it was possible because of the internal discontent, in many cases because of the economy policy that they were following by the military, because of the end of the Cold War era brought a revitalization

[of countries] to be democracies. The role of the U.S. and Europe saying that the role of democracy is essential in today's world. And yes, you have this process in Chile, in Brazil, in Argentina, in Peru, in Bolivia. In Colombia it's a little bit different because you have the question of guerillas. So sets their case apart.

But at the same time, I think that you have some difference with the past. First, political parties: as I said before, now political parties have to compete with some kind of NGOs, a personal expression of civil society. In other words political parties have no monopolies over representation. Political parties are extremely important in democracies—there's no question of that. But in the past, political parties were here is the president, here is parliament, here is the municipality, the city council, and the political parties were almost the only way to be connected with the people. Now it's different; you have many different ways. That's one point that is important to keep in mind.

There are some other institutions because of the military regime. What about the human rights organizations? Either the organizations of those that profit off the violation of human rights, or organizations that we have formed in order to protect human rights. And they play an important role in the process of the new democratic era that you have in the region. The trade unions are reborn, but the landscape has changed. Because when you have the process of industrialization, in almost every industry, in almost every firm, you have a trade union. But now in this new process, you have a lot of outsourcing. You have a lot of information technologies that allow you to work at home. You have a lot of labor that is done by a firm outside the firm. The retail stores—the *huge* retail stores—I'm not

sure what is the case here in the states, but the equivalent to the Wal-Mart in Chile you don't find anybody leaving the table of work. You see what I mean? To provide for me. Those that are going to be working in this part of the store, on the other part of the store, and the other part of the store; what are the chances of them to have the trade union, to form a trade union? Or what about when you are moving, in the terminology of [TK?:Colleen Clark], from the secondary sector of manufacturing to the tertiary sector?

I mean, the traditional working class, working in a steel factory, in numbers, given the devaluation, the economic conditions of a country, is becoming less important in numbers—in the numbers of the percentage of the working population. When joining a call center, you can answer the call center from your house, you can be part of the call center in your house.

So, what I'm trying to say—and this is a big discussion—to what extent in the new economy that is emerging, what's going to happen with the labor movement? If it is possible for them to have unity around something and fight for their rights, no? But that's an open question. But needless to say, this is part of the story. On the other hand, what about the trade unions and information technologies, which is a different story?

When you have a banking system, and the back office of the banking system, is not in the country where the bank is—the back office is in some other country. I became involved because there's quite a number of banks in the region, put their regional office, their back office in Chile, because that means a lot of jobs and a little bit more [money]. Think that

you're talking with your manager and your manager is in some other country. It's not only a question of keeping your account, and the balance of your check account; it's more than that. And that's going to be a new world, and that's going to be part of it.

In the past what did they do? Can you imagine a very important international bank making a bid for consultancy; who's going to do the economic report of that bank for Latin America? And you think that the economic report of that bank is made by the best professional working in that bank. No, they decided to make a bid and to hire some consultancy. You see it's a different world. In the past, the professional people working in that bank could have a trade union, and now it's outsourcing. In Latin America of course, as in Chile, others might know then that the consultancy is employing about more than fifty professionals to do the report, but that's a new world. So you're not going to be employed by the bank, you're going to be employed by the consultancy. So what about the trade unions? Now you can have a trade union in the consultancy, but that's a different story.

So there it is something to do with the new economy emerging and the class movement, this is role is what I would like to say. There's a different labor movement, than the movement that you used to have is left behind, in the 1930s, the 1940s or the 1950s, when you had steel, you had electricity. Then, this is what we were talking about—the emergence of the new NGOs in human rights, gender, ethnic groups. In each of these, you have important political actors, and you factor out having more and more influence in what you do. You going to make decisions about energy, they're going to say

something because of the environment, “because of yes, because no, because this, because that.”

You have in Chile an ethnic legislation, indigenous legislation. Chile has no energy on our own, other than hydroelectric. Hydroelectric is very clean, “yes sir it’s very clean.” It’s very clean when you are in the position to take the water and put it to produce electricity, it’s quite clean. But if you are going to have a reservoir, that’s a different story. What’s going to happen with the land? Are you going to be underwater? And your family is in that land so you’re going to complain. So something that is so clean, at the end, is a question of discussion. And if the land that is going to be underwater belongs to some ethnic community—in our case the Mapuches—it took me the first two years of my government to solve that issue.

Twice I went up to the mountains, to talk with two major families, to convince them. Because if you say “well, this is a part of progress,” but you cannot explain that what is progress for the country, is it better for you? “Why me?” Why can’t you build that plant in some other spot? And you have good reasons: your ancestors are buried in the same land that is going to be covered by water. This is a question. And then you have all the ethnic communities in Chile, those are the questions were I think that I think that in the past, political parties represented the interest of the ethnic community or the majority of the Chilean population because it is very simple, if we don’t have that plant, then prices of energy are going to be up. So you see here you have environment, they’re going to cover the land with water, ethnic group, they’re owners of that land.

I was Minister of Public Works for irrigation, not for electricity. In another part of Chile which is special, we built another huge reservoir. And when I was the minister to announce such an important advance, there were about fifty people assembled with flags against the whole thing. Because they were in a small, a really small town. No more than twenty-five houses that were to be under the water. Tremendous discussion, “yes, yes, no, yes.” Finally the agreement. Two things are going to be removed, are going to be transported up in the mountains. The church, and more important, their railway station. And I said but look what is the meaning of the railway station if the railroad didn’t exist here during the last thirty years? “Well it’s part of our culture.” [*class laughs*] I could understand the church, but the other thing you know to.... Now if you go up there to the new town, you will see the new town—[TK?:need town name] because they kept the name—and the church and the railroad station. [*class laughs*]

We were building a highway in the south of Chile. I was in the ministry and the engineers—always the engineers had everything ready. And they said that it was very easy to go “from here, to here, to here, [*Lagos draws map on chalkboard*] here is the town, here is the river, the station.” And of course the road now goes this way in the middle of the town and the decision was to do it this way. You have to cut the river here, and here. [*Lagos points at a serpentine drawing of a river*] The only problem here is that all the indigenous communities live here. There was at the end eighteen different [TK? marks], and the number eighteen was accepted by everybody. Now of course the figures were from thirty to fifty million dollars to do the bypass. Thirty million dollars to keep

things supplied. What is that? A bad use of resources? Or trying to make a democracy public for everybody? Those are the practical things, but let's go back.

The question is that, you have these new roles of these new roles of these new entities, and then you have the other question which is essential, which is the political system of a particular country. Because either you have a presidential system or you have a parliamentary system. Most European countries have the parliamentary system. Here in America you have the presidential system. In Canada you have the parliamentary system, from the British.

Why do I mention this? Because normally, the big issue in Latin America is what happens when the president doesn't have majority in parliament, like here. Because the president is an institution separate from parliament, you can have a majority here and a different majority there. When you have a parliamentary system this is not possible because the prime minister is going to be elected by the majority of members of parliament. Automatically a prime minister has the majority, and if the prime minister loses the support of the majority, he's finished. And why do I say this is important? Because in theory, the president can't rule the country without a majority, it's not the best way to rule. And when you have many political parties, then you need to have coalitions. Now to have a coalition in the presidential system is extremely difficult. To have a coalition in a parliamentary system is much easier. In a parliamentary system first you vote for the party A, B, C, and D. How many votes and how many members in

parliament: you have party A, party B, party C, and then you have a coalition. If one party has the majority—excellent—that party's going to rule the country.

Why do I say this? Because one of the problems in Latin America, because you have presidential systems, is that you need broad coalitions, big coalitions. But in a presidential system, first you elect the president—No, first you have a coalition and the coalition has to elect a number one. Who's going to be the president? But then it's up to the president to see what kind of government, what kind of cabinet he's going to form. So, "I am the candidate and my party gets only 10% of the vote. And the parties of my coalition have 20% and 25%." What can I do with my cabinet? Of course I have to elect the best people, that's all. But what can I do? Most of my cabinet members will have to be from the other parties of my coalition, not from my own party because my own party is only 10% and the other's have 20%, 25%. That's politics. But this is up to the president, because he's the president, he can have all the cabinet from his own party. Then I want to see what's going to happen in congress.

What I'm trying to explain to you, is that the question of the political system is extremely important in terms of what they call here governance. Governance: what's the ability of different political parties to make the country able to have a good government that everybody will accept, everybody will respect? And government then means that also it's necessary to have some basic elements vis-à-vis the opposition where everybody agrees: like foreign policy, like defense, or some other areas that may be extremely important. If you're going to deal with issues like human rights violations, it's very important that

everybody will agree. But those are minimum ethical and moral standards that have to be accepted by everybody.

When I'm talking about political systems in Latin America, I will say first, in Latin America there are not parliamentary systems. Two, they are [TK? poor] because you have a presidential system. It's quite different for a political party to agree in advance who is going to be the president. Before the primary of each political party. Number three, this also has to do with the electoral system and to what extent the electoral system reflects what is the proportional system of each political party when you have several political parties, which is normally the case in Latin America. When you have two major parties and no more, this is because of the electoral system, like here. You elect only one person in each district, what are the chances to have five political parties? Very small. So to some extent the electoral system—oh I'm not going to talk more because there are so many political scientists here, [*class laughs*] they know more than me about this issue. To what extent, given the electoral system that in each district, you are going to elect one, then you have two major parties, all the others disappear.

Let's assume that you have 15% [support] all over the country, in this system you will never be elected, not even once. So there is a correlation between the electoral system, the political system, how many political parties you have, and then the presidential and parliamentary system. So I will say that when you see in Latin America, coalitions, that are [TK:? lost in time], many here are almost normal. And you switch coalitions from this to there. [TK: Matt stopped editing here at 28:28 on class 1, part II on Wed. 10/25/06]

And therefore, the strength of the return of democracy in a particular country, how strong is the democratic system will depend vis-à-vis the remaining power of the military and on the other hand what political system you have.

I remember once, Felipe González told me, that the first rule in order to make sure that the military will obey you is to hire a minister of defense that will remain as minister of defense longer than the commander in chief. Because if you change, according to constitution, according to local mandates, every few years, and [TK: Narsisela?] was Minister of Defense during ten years. This is a different subject. But you see that the third commander in chief, the way to relate with the minister of defense was “yes sir, as you say sir.” It’s a difference. It’s very proper. Anyhow, what I’m trying to say is that the way to democracy, how strong is the democracy will depend in each transition.

I was reading a book today about Latin American politics that put Chile in the condition of—I don’t remember the words, but it was something like—under the umbrella of the military; we are still not independent, because of the constitution. And I will say this is not true anymore. Though, this was true in the first five years [after Pinochet], in the first ten years. It’s true in the first five years that the president wanted to dismiss the commander in chief, and the commander in chief said “I am not going to submit my resignation,” and given the Chilean constitution in those days he remained power. But that’s segment of the armed forces and then later that even though the president has more power than them. [TK: next year’s party you know?] [*class laughs*]

But at the same time, I will say that in this period [1970s-1980s] some people were talking about the end of history, the end of ideology, and therefore in many Latin American countries there were similar economic policies, and those similar economic policies were to some extent, because of what happened here in the period with the military. But at the same time because of the importance of quite a number of international institutions that are located in Washington and a professor [John Williamson] who wrote this famous article, in a not very well known magazine, and he said that this was the Washington Consensus. And the Washington Consensus for him was a number of ten tools. And these ten tools had to do with the area of economic policy.

Now before going into that, I would like to conclude the political part first with human rights and the problem vis-à-vis human rights violations because in all different countries in all the processes of transition, this was a new item in the agenda. It's true the new item in the agenda, is more or less important dependent on the view of time; depending on what kind of human rights violation took place before. How long has that been? And how was the transfer of power from the military to democracy? In most Latin American countries there was some kind of institutional building to know the truth of what's happening. In several of them, Argentina was the Sabato Commission [CONADEP], where Sabato, a well known writer and moral figure in Argentina, would produce a report about what happened mainly with regard to human rights violations. In Chile, President Aylwin took up a special Presidential Commission just to deal with two issues: the issues of those that disappeared, and the issues of those that have been executed for political

reasons. And the decision was made, one of the first measures taken by president Aylwin, the decision was made not to go beyond these two human rights violations Because if you wanted to go beyond that, then the commission work is going to be extremely difficult. The key of this commission was to be able to find members of that commission that represent the different political ambitions, political parties of the country, which is not easy. You can have different persons from the church, from other moral institutions, etc. And then it's a very interesting resolution because once the commission produced the report, and Aylwin went to address the country informing this, the three armed forces objected the commission report, saying that this was not true, that this was not the whole story, etc., etc.

Then four years later, President Frei decided to establish what they call the mesa de dialogo, some sort of a working group. Members of the armed forces were the first part. Members of the civil society, human rights organizations, moral entities of the Church, and some renowned lawyers from different parts of the political spectrum. To talk and to discover what happened, primarily with those who disappeared because the Rettig Commission, [The National Commission for Truth and Reconciliation Report] said this person disappeared under those circumstances, but you never knew where they were. The commission, issued a statement, a two page statement, recognizing for the first time from the side of military, what had happened. The commission began with some representative of the human rights organizations whose father had disappeared. And the general that was in front of her, raised his hand and she said, "I will not give my hand to you sir, 'til the end of the work." Strong don't you think so? And when they did the recognition, they

shook hands... They shake hands, but the report of the commission didn't produce a result that conducts us to where are those that disappeared. Because those that disappeared were buried in a particular place and then they were removed to some other place. So all the report that we got [detailed] was the first place but not the second. It's different.

And then the question is, some of the bodies, everybody knows now, are in the ocean. But then the big question is that they say is "the following bodies are in the ocean," and then they discovered that one of them was not in the ocean and was discovered on land, and this produced a tremendous uproar in saying that the commission didn't work very well, but that the military so to say didn't want to say where they are.

I was president at the time of that part of the commission and the general asked me to say, "Should we say that they are in the ocean?" I said, "Yes." And then I asked him, "What did you throw upon the ocean, bodies or human beings?" And he told me "bodies." So you see it was very strong for them to recognize more than 200 bodies in the ocean, but the problem was that when they did a mistake, with regard to this one person. And that person was the lady that didn't want to shake hands. That's the other part of the story, you see. But on the other hand I think it's very difficult for the country if they don't face the question of human rights. It's very difficult to say "This doesn't exist, I'll put it under the rug." You know? And this is something that I'm proud in Chile of what we did.

There was of course the other report, about the political torture and the political prisoners [the Valech Report or officially, The National Commission on Political Imprisonment

and Torture Report]. And we started a commission and 35,000 people went to make a statement either in Chile or abroad, for those that are in exile. And the commission recognized 29,000. I know this a very difficult question. And we decided to make a distinction, not because of what has been said abroad, 'in order to protect the military.'

[TK: Matt stopped here on Thurs. 10/26/06 at 41:51]

What we said is that the report is going to remain there, the report is going to recognize those who have been tortured and were political prisoners, but it's up to each particular person if they want to go to a tribunal to find who's responsible for that violation. It's not a question for the commission, because in that case the commission would be taking the role of the judiciary power, of a tribunal. So I said, "Look, you're going to go to the commission and you make your statement and your statement will remain in the commission. If you think that the finished statement has to be taken to a tribunal, it's up to you. And the tribunal will decide what to do, and who they are going to call to answer those charges that you are going to be making." You see it's an essential part of the whole story, because many people wanted to tell the story, but didn't want to do the other part.

And I decided that the statements before the commission are going to remain private during thirty years, because many people said, "I do not want anybody to know that I was tortured in this way." I said thirty years, and a woman went to see me. And she said, "Look, I was raped several times. I was sixteen years old, thirty years is too little time, I'm going to be alive, and I don't want that my grandchildren know that." Strong. And

then I decided fifty years. And I have read in many journals that I did this in order to protect the military. This is not true. There are so many cases in Chile, where the military have been prosecuted for human rights violations, but it is up to the tribunal, not to the commission. Why do I say this? Because I think that it's essential in order to be able to have an agenda for the future, to be able to settle things with the past in areas that are essential from the point of view of ethical and moral values. And I think that we have been able to do that, as far as I know, I do not know of any reports in that case.

I remember once [TK? Bill Clinton] went down to Chile and we talked about this, and he said it's incredible, I showed him the report. In the report you have the houses where torture was produced, the addresses, the methods, everything; and of course the statements of the people. "In these houses: this was the typical torture, and the others, it was different. This was torture for women, this was torture for men." It's an amazing report. But then the big question is that how is it possible that a particular society that has been so proud of itself like the Chileans were able to do that? But on the other hand, if the country is going to remain linked to the past, then the country has no future. So you have to know the past to be able to read your future. But then you have to be able to take a step forward. I say this because it seems to me that the question of human rights violations—many people lecture us on what to do, and I understand, but many of those people that lecture us didn't do anything in those [TK: sentence is unclear in audio: countries after they...and in the Second World War occupied those countries.] It's very difficult. Many people don't want to make a statement, don't want to repeat what happened, etc., etc. But I think that this report—I mentioned this because I do not know of any other country that

has been able to go with the issue of political prisoners and torture in this way. Then you have the other pragmatic way, that once the people discovered that those who have been tortured were going to have some indemnity from the state, then, quite a number of people asked [if they could] open up. And I said no because we make a lot of campaigns for people to go make a statement to the commission. But anyhow, I think that the question of... I wonder if you want to make some comments on this issue because I know that it is very sensitive.

STUDENT QUESTION: Why couldn't the commission not publicize or make public the declaration to the people without making public their names? Why not provide the content of the testimony earlier without releasing their names? Wouldn't that solve the issue of privacy?

RICARDO LAGOS: Because the commission, in order that the people make a statement they say, "Look, what you're going to tell us is going to remain private." So they're open. Nobody likes to say that under torture he denounced a friend. Or nobody wants to be recognized as somebody that was violated or raped. Nevertheless, what we have in the commission report was a statement: "May 28th, from that part, from that region of the country," and then the statement quote and quote of what he declared, what was his statement. In order to be able to illustrate what were the methods of torture? Where was that? What was the process: you were blinded, not blinded, etc.? But the question was that if you know that your statement is going to be made public, then your statement is not going to be as natural as we thought it was necessary to have. Now, it's a different story,

that if you want to make this appeal, this statement to be heard under a tribunal. Because the question was what does the tribunal do after the statement has been made to the commission? Because there's a question. If today I go and say to a public officer "I was violated yesterday, my human rights have been violated yesterday." That is a crime that has to be punished. Therefore, if you're a public servant—no matter what is your position—you have to say to the guy, "Look Mr. Lagos came here and told me that yesterday there had been some violation done to him." Otherwise, you are part of the crime, you are covering up the crime. So the question is very difficult. If I say, "Look this happened to me." How can we go further?

STUDENT QUESTION: Did you work with South Africa, or were there discussions with South Africa about their [Truth and Reconciliation Commission].

RICARDO LAGOS: Yes. Well in fact the South Africans established their commission in 1994 and three persons that worked in the Truth and Reconciliation Commission in Chile went to South Africa and talked with them. They used a little bit different process because [in South Africa] they also produced some incentives so that those that committed crimes—if they make a statement to the commission—they would receive a smaller punishment. We thought that it was very difficult for us to do that. Yes, but we worked very much together.

STUDENT QUESTION: Is there a reason why the individuals liked the military tribunal rather than the state judiciary?

RICARDO LAGOS: Oh, that was a good question. Now they go to the state judiciary not to the military tribunal. Yes. But that was a good discussion, thanks for the question.

Well let's go back to the question that, one that you have democracy restored, then we go back to the question of economic policy, because there's no question that in today's world, the economic policy reflects what are the major interests of a particular society. Here, I would say, that probably what happened is that in many other cases, during the 1980's and early 1990's, there was a lot of talking about what are the "right" policies.

And what happened then was, that to some extent, either because most Latin American countries and some other emerging countries had to go to the international institutions, the monetary international institutions were established in Bretton Woods in 1944. That was the International Monetary Fund and the World Bank. The World Bank was not the title of the bank, it was the International Bank for Reconstruction and Development. The bank, the origin of the bank was because of the war, and the money was for the reconstruction of Europe. And at the very end of the discussions, people said, "Could you put also the word 'Development?'" And today's World Bank is mostly devoted to development and not to reconstruction.

But the question is that, plus the other regional institutions like the Inter-American Development Bank and the African Development Bank, and the Asian Development Bank. What they had been discussing was, what kind of policy reform has to be

introduced into these new democratic regimes? And more than policy reform, what they were talking about was what kind of policy *instrument* are you going to use?

And in this so-called Washington Consensus in this article, Professor Williamson was able to put ten instruments of the so-called Washington Consensus that every country was supposed to use. And the first one was to say fiscal discipline. This is not exactly that you need to have a balanced budget. Under some conditions, the budget may be unbalanced, but for only very short periods of time and depending on various specific circumstances, but in the long run you cannot have a deficit. Remember in the old days, before the military coup, the question of the deficit when the country has the rise in expectations, then you went to the central bank and borrowed money. So the issue was you need to have a balanced budget. I will talk about this later.

Number two, if you don't have a balanced budget then what do you do? Either you will use expenditures or you increase taxes. Because you don't have a balance budget you are spending too much that you have a deficit. And Washington's institutions tend to look better when you decided to reduce expenditures. And then the question is where? In what part of the budget? Now of course everybody will say military expenditures. In some cases this is difficult to implement and that will depend on the transition, you see? If you see a budget, most of the budgets are salaries: wage money for the health, judiciary system, the army. Let me tell you, it's very difficult to reduce wages if you have too many people. So at the end when you put in the budget, reducing expenditures, then, what is much easier? What about social programs? What about infrastructure? The areas

where you're going to reduce, unless you have political will, unless you know what you want to do.

In the middle of the military regime when there were restrictive rates and reductions, they decided to make a reduction of 10% in the pensions. You have a pension, you are not working, if you are not working, you cannot strike, so it's much easier to reduce 10% of pensions. But then you see, it's a very important point here where you say, I want you then to reduce," but the space for reduction is very small, unless you are making some huge reforms. And this will depend also, on what is the amount of reduction and on how much the country is growing? You cannot keep talking everyday that the countries going well under my fine and brilliant leadership, the country's growing, and at the same time saying "I'm going to reduce this, that, and that." So the question of when you see what happened with expenditure priorities in many countries during the 1990's, it was a rather very difficult equation. "Here democracy arrived, and because democracy arrived, I had to take these very strong measures." It doesn't work very well for democracy.

Now the other solution is to increase taxes, and then the question is, "What kind of taxes? How are you going to increase taxes, in what areas, etc." What are the incentives for new taxes? Are you going to change the whole thing? Or would you like to see again everybody paying their actual taxes? On the other issue in Latin America, the evasion or the elusion, the evasion because there is a legal loophole. When you have those two things together, there are countries where you find 40%, 45% of evasion and elusion. So it's a question of increasing taxes, or making sure that everybody pays taxes. Just to have

an idea: with Europeans the level of evasion is about 9%—this is the European Union. In the U.S., it's about 11%. Now the reason of this difference is mainly because of the income tax elusion. You can go to countries like Israel: 6%. And that's a question Fatherland, war, there's several reasons. Latin America, as they say, in some cases is 40%. In Chile it was 25% and it was reduced to 18% in six years—that's part of my advertising. *[class laughs]*

STUDENT QUESTION: The elusion of the high end contributors with the legal loophole. Was the legal influence only by the great contributors? So at the end the state is not financed by these firms?

RICARDO LAGOS: Yes. I'll give you an example. One of the issues that affected the military period was the privatization. Quite a number of the huge state firms built during the process of import substitution here *[points to pre-1930s on the board]* were privatized here *[points to 1970s-1980s]*. It's true that these have also been privatized when democracy returned. Now in one of these processes for instance, in Chile, there was a decision to introduce popular capitalism. And you could get them if you buy some stock of firms that are going to be privatized; the dividends paid by those shares that you are going to buy are going to be free of taxes. Every time that we try to eliminate that advantage, that benefit we were defeated. And that's a difficult case—you know—it's legal. You bought shares because you are not going to pay taxes on the profit made on that share, and since you have about ten years to pay the share, in most cases with the dividend you pay share, it's a bit of wealth. But then the question is, who are the owners

of those shares? Because nobody could buy more than some percentage of shares. But those that normally needed a little bit of money used to go sell the shares. You have many cases of elusion, it's maybe a question of discussion.

The other point is that you need to have some, in addition to tax reform, the interest rate, and the idea of the interest rate was to make the market to put the price of money. Which is very obvious, you know? What is the interest rate other than the price that you pay for money? It's not possible that using money was independent of the interest rate.

Then there was another one about the exchange rate, that the exchange rate should be competitive. Again this is big discussion: what is competitive? Trade policy: the need to have a more open market; trade should be much more open, much more free. And there is going to be a reduction in tariff, liberalization in imports, etc, etc. With only two exceptions they say: with regard to infant industries, industries that are just beginning and I want to protect those industries and then with the import industry to have some protection in tariffs. And the idea was going to be, what about the timings of the reductions? That we're not going to reduce at once from say 50% tariffs to zero because that would be a tremendous bankruptcy in many firms in the country. So what timing are you going to have? But in the long run, free trade was part of the ten measures to be taken.

Then there was the foreign policy, foreign direct bank investment, how you going to answer this question. This was the time of the so-called "swaps." The swaps—somebody

established this—that since you are in the process of privatization, why don't you buy part of the options of that firm? The bonds of the country, the country is too much in debt, the bonds of the price is to sell it low because the country's risk is rather high. So the stock during that period, was in the 1980s and the 1990s, the swap was an operation by which you bought the bonds of that country and the country would receive the bonds not at the market value, but at the nominal value and those bonds with the nominal value were good to pay for the firm that was going to be privatized. Understand this? And the swap then was the system in the 1980s and the 1990s.

So you have the foreign investment and everybody was going to be happy because the country now reduces the foreign debt and at the same time you have foreign investment. And this had to do with the process of privatization; that the process of privatization didn't stop here with the military but continued during the 1990s. Now it's a different story what kind of privatization, what areas are you going to pay etc., but the process was continued and was extremely important during all these periods. And of course the swap as a system was also important.

Now, utilities, energy, the steel company, the major companies have been privatized in most Latin American countries. There are differences between some or others. Some companies regarding energy like oil, remains in public hands in Chile, in Brazil, in Venezuela, and in Mexico. In Argentina it is in private hands: oil. But anyhow, I see what we had was a trend toward privatization. And the other thing that was very important was deregulation. There were a lot of regulations that were coming during this period. Then

the military established a lot of processes of deregulation, and the same was later on. And finally something that is very important in the U.S.—property rights. The question of property rights, was extremely important in all of these ten issues.

So now we are ready for the next seminar because now we have the process of democratization. Now we have, what have been the economic policies and some other policies like human rights and things. We have the political system, and after fifteen years, then we discovered that things are not as right as we thought that they were going to be. So in our next seminar, we may discuss the issue of what happened with the democratic process, politics and parliamentary system, and what happened with particularly the question of economic reforms. Because in all what we have talked about today, the question of social policies, income distribution, inequality, have not been touched, and after all these are an essential part of the equation, and you can say perhaps that because it is part of the equation, it was not in the so-called [Washington] Consensus then this is the reason why you have the picture that you have today. But we can see that in the next class. [*applause from class*]

[TK: audio END at 1:08:17 on Class 1, part 2]

[END of Class 1.]