

CHILE LOOKING TOWARDS THE FUTURE:

GROWING WITH SOCIAL EQUITY

Speech before the Wall Street Journal's

Conference of the Americas

New York City

October 1st, 1999

Ricardo Lagos

Thank you very much for your kind invitation. I am honored to address this selected audience as the official candidate of the Concertacion, the coalition that led Chile in its struggle for democracy and that earned in the ballot box the right to rule the country for the last ten years.

During the last decade I have served my country as a Minister to Presidents Aylwin and Frei. Now I intend to serve it as the next President. Since I know the interest that the Chilean experience often generates abroad, I would like to share with you my vision on our current challenges and how they can be addressed as we enter the 21st century.

Despite being a small country, Chile has earned itself a place in the globalized world. We have done this not because of wealth, geopolitics or power, but on the basis of innovative ideas and a rich experience of reforms that have called the attention of many in the outside world. Due to the particular features of our economic and political history, we have been confronted with problems that reached other countries only years later. Chile

was forced to seek answers to questions before they were even raised in many parts of the world.

We can say today that we have been able to live up to the challenge. Although we have gone through very difficult --sometimes traumatic-- times, by and large we have succeeded in taking major steps towards the transformation of our country into a modern and secure place to live.

We have progressed much in the last ten years. Today we can speak confidently about the future precisely because we have our "house in order." But, our problem is not to continue growing with stability, which we know we can do very well. Our true challenge is to make the fruits of progress enter the homes of all Chileans. To grow with social equity is the main task ahead.

But before telling you how I envisage addressing this challenge, let me briefly reflect on what we have learned over the past.

Some lessons from our recent past

Chileans have long cherished social equity and justice and pioneered developments in many areas. But our long-standing goals of building an egalitarian society were increasingly facing the obstacles implied by a relatively low growth performance. The inward-oriented strategy that Chile had been pursuing for decades, as most economies in the region, was incapable to produce the economic dynamism that was needed to spread the fruits of progress to the majority of the population and safeguard the

integrity of the more vulnerable sectors. I recognize the pioneering efforts that were launched in the seventies and eighties to integrate Chile into the world economy. The efforts displayed at the time to back the internationalization effort through prudent macroeconomic policies are also worth of recognition. Our small economic size determines that our present and future prosperity hinges on our capability to compete in the world markets. That is our vocation and will remain one of our main challenges.

The integration to the world markets, a process that has continued and strengthened throughout the nineties, constitutes one of the cornerstones of the high economic growth the Chilean economy has enjoyed since the mid-eighties. But the ability to compete in the world economy requires far more accomplishments than just reducing the level of trade tariffs, or simply deregulating prices or interest rates. It requires solid structural underpinnings. And many of the reforms undertaken during the 70s and early 80s attempted to attain a “quick fix”, the “easy way forward”. Deregulation of product markets was implemented without the necessary regulations to protect the rights of consumers; privatization of public enterprises was not a transparent process and implied many times the enrichment of a few former government bureaucrats; labor markets were liberalized without the necessary protection of labor rights.

Since the recovery of democracy in Chile in 1990 an overarching effort of modernization, encompassing most aspects of economic and social life has been displayed. The Concertacion governments have driven wisely and safely the economy along the decade, gradually building on past reforms but overcoming a good deal of the pending challenges.

The achievements at the macroeconomic level have been indeed impressive.
The economy doubled its gross domestic product in one decade, with the highest growth rate it has achieved in modern history. The financial systems pending problems were solved and it stands today among one of the healthiest ones within the emerging economies. Inflation was reduced from 27% at the beginning of the decade to around 3% this year. The economy successfully integrated into the global capital markets, as attested, for example, by the sizable levels of FDI and other inflows the economy continues to receive as well as the free outflows from domestic pension funds and other institutional investors that keep diversifying their portfolios. Government and corporate bonds denominated in foreign exchange are internationally traded at one of the lowest spreads among emerging economies. After three quarters of slightly negative growth, as a result of the severe terms of trade shock that the economy faced after the recent global turmoil, the economy is beginning already to show signs of recovery.
Growth prospects for the year 2000 are good.

But perhaps the most important achievement has been the legitimacy of the process. Through elected authorities and representatives, Chileans have decided to preserve and persevere in their efforts to safeguard macroeconomic stability, fight inflation, maintain the independence of the monetary authority, deepen the leading role of the private sector in the production of goods and services, and continue the process of privatization.

The two Concertacion governments have, through an encompassing effort of institutional and political reforms, lay the foundations for a sustainable, fair and competitive modern economy. But much remains to be done.

My commitments with Chile

Growth is hard to win and even harder to sustain. It requires persistence, discipline and trust. Chileans know this very well. This is why we will overcome the international financial crisis with our economic fundamentals unscathed and strengthened. The Chilean economy will return to its growth path of 7% per annum on the basis of high domestic savings and a prudent fiscal policy. And yet we know that growth is not enough. To bring real and enduring progress, growth must be accompanied by social equity.

The belief that social equity is essential to development is no longer the monopoly of left-wing idealists. Speaking before the Board of Governors of the World Bank only a few days ago, James Wolfensohn put it plainly: *“We have learned that development is possible but not inevitable. That growth is necessary but not sufficient to ensure poverty reduction”* Even the International Monetary Fund, traditionally concentrated on macroeconomic issues now speaks of “humanizing globalization”, stating that it is its task *“(...) to try continuously to help governments to be responsive to the cries of the poor.”*

The World Bank, the IMF and the G-7 now seek a way beyond the so-called “Washington consensus” because growth-oriented reforms, albeit necessary, have not delivered a significant and enduring improvement in the living

conditions of the poor and are not likely to do so in the near future. Latin America is a living example of this. No region in the world has worked harder in the last decade in developing market mechanisms, opening up its economies and disciplining public finances. We recovered growth and brought down inflation to historic lows, and yet Latin America remains as the least equitable region in the world. In fact, the World Bank has just indicated that social inequality is main economic problem of Latin America.

Chile does not escape from this inequity pattern. In 1998, the poorest 20% of the population claimed only 4.1% of the income. Chile has rightly proud itself of being a fast-growing economy within the group of upper middle income countries yet while the average income of individuals belonging to the richest 10% equals that of Switzerland, the average income of the poorest 10% approaches that of the poorest countries in our region. Social equity is our main challenge ahead because it is both a moral imperative and a necessary condition for sustained growth in the long run.

Social equity is a moral imperative of our times. In this globalized world, poverty and injustice cannot be hidden anymore. We cannot seek to reduce uncertainty to business while at the same time leaving the poor unprotected from the most basic contingencies of life: sickness, unemployment, old age and death. We cannot reform justice systems to preserve property rights without recognizing the lack of protection of basic citizen's rights. We cannot celebrate the economic and technical progress of this century and turn a blind eye on the millions that cannot satisfy elementary needs.

But equity is also a condition for further, sustained growth. Michel Camdessus two days ago stressed that *“A vital interrelationship exists between growth and social development. (...) The best route out of poverty is strong, sustainable high-quality growth. Strong social policies that address poverty at its roots lay the foundation for sustained economic growth”*

Equity is an economic as much as a moral imperative because unbearable social inequities threaten the very foundations of any market economy: efficiency, stability and competition.

Social inequity means that a large share of the population will never have a true opportunity to deploy and develop its capabilities, that good ideas and projects will never be given a try. Inequity is a huge waste of the most valuable resource of a country: its people.

Social inequity exacerbates social and political conflict, stimulates populist adventures and economic experiments. Social inequity thus increases the volatility of policies and macroeconomic stability.

In a highly unequal economy, markets remain incomplete and underdeveloped, as competition is limited to those that have the means to exercise their rights as producers, consumers or workers. Highly unequal countries will never be able to provide the leveled playing field that any market economy requires to flourish.

This is why Chile needs to match growth with social equity. Indeed, we have already taken some steps in this direction. Chile has been during the past

few years, the Latin American country with the best index of human development according to the UNDP.

But much more needs to be done. The latest World Competitiveness Report indicates that comparatively low levels of skills development, math and science education and excessive centralization still remain as important liabilities for the country. We need to embark ourselves in an enduring struggle to turn Chile into a country where everyone has an opportunity to participate in the market economy. We need to move social equity into the mainstream of public policies and to turn it into a solid foundation for long-term growth. We have to think strategically, identifying key areas for action and building solid alliances with civil society, private business, foreign investors. We have to continue our insertion in the global economy, emphasizing regional integration.

Chile carried out first generation reforms in the 1970s, opening up and deregulating its economy and promoting private business. A second generation reforms followed in the 1990s, generating ownership and social legitimacy of the development process. Now we are ready to set in motion a crucial third generation of reforms: those that tackle the issue of social equity. This is my commitment.

① I believe that the first and foremost lever of social equity is education. In the early 1990s I set in motion a vast process of education reform in Chile. Now it is the time to consolidate these efforts and to make a major leap forward in education development in Chile. My endeavor is to ensure all children in Chile the possibility of early schooling, quality primary and secondary

education and access to information and knowledge. Talent and not money should be what determines how far our children can progress.

② Social equity can only be sustained if a structure of civil and economic rights protects all individuals from abuse, either as consumers, entrepreneurs, workers, beneficiaries of public programs and citizens. Democracies and market economies require checks and balances to work. My government will carry out an unprecedented effort to build these rights as well as the institutions to enforce them. The rule of law is an essential component of social equity.

③ The main expression of social inequity is insecurity. Poor families are exposed to uncontrollable events without the tools to defend themselves. A major task in building an equitable society is to develop the safety nets that protect the most vulnerable from the vagaries of the business cycle and personal misfortune. Chile pioneered progress in Latin America on social insurance and my government will build on this tradition. To this we have a pragmatic approach: social insurance is a major responsibility of the state, but we now have many means within our reach to perform this responsibility. Instead of the fiscally expensive systems of unemployment insurance in most of the developed world, we are now discussing proposals based on the principle of individual capitalization funds, with subsidiary support from the state. This is a matter of justice as well as an economic efficiency since such a system will further increase domestic savings.

④ We must improve the quality of life in our cities, affected by pollution and traffic congestion. We have to reclaim our neighborhoods, our parks, and

our streets, making them safer and friendlier to the people. Economic growth will have to be compatible with the protection of our environment, with perfecting the preservation of our native forests, our marine resources, as well as controlling toxic residues.

5 Quality health should not be only a privilege of those who can afford it, but of all Chileans. I will strive forcefully in this direction, by strengthening primary care and family health, and defining health rights that can be guaranteed universally through public-private cooperation. I support the private pension system, but it can be improved, particularly by increasing the options through which people save for the future, and by continuing to reduce administrative costs, thus providing just and adequate pensions for all Chileans.

Leadership for development

Growth with social equity. What a challenging equation! We have learned that the right policies can deliver progress on both ends. But to put them into practice is not easy. Countries require a long-term vision, leadership and governance.

I am the candidate of a coalition that unites the best traditions in Chilean politics. I am supported by those that made primary education compulsory, that struggled for the right of women to vote, that set off industrialization and integrated slum dwellers and peasants into society. I am the candidate of the coalition that defeated dictatorship and then led the country with

responsibility, providing legitimacy to decentralization, the market economy, public-private partnerships.

I can offer governance because I am accompanied by a team that knows how to make decisions in a democratic environment, that has made reforms not with the protection of guns but of their ideas. I am supported by a coalition that has a majority in Congress. But above all, I can deliver on my commitments because I am prepared to build on the solid basis generated by the openness of the economy, the development of market mechanisms and the development of effective institutions.

In this perspective, I believe that foreign investors will know that it worth assigning a premium to the solid economic performance of our country and to my commitment to continue it. I trust that investors will continue to bet on Chile. Betting on Chile is both part of the solution to our problems and a good business opportunity. More investment in Chile means more jobs. Your business expansion in Chile is also our development.

In sum, I will not choose between growth and social development, but conjugate both into a better future for the Chilean people, hopefully contributing to more democratic, egalitarian and prosperous societies in Latin America.