Inauguration of the “Fernando Fajnzylber” Conference Room and presentation of CEPAL Review No. 50

Ceremony effected at ECLAC Headquarters on 2 September 1993, with the participation of Gert Rosenthal, Executive Secretary of ECLAC, and Alejandro Foxley, Minister of Finance of Chile

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Address by Gert Rosenthal, Executive Secretary of ECLAC

Today, we are celebrating three important events at the same time.

The first of these is that issue No. 50 of CEPAL Review has just come out, thus marking 19 years of uninterrupted publication. We are justly proud of the high level attained by this Review, which first appeared under the direction of Raúl Prebisch and later continued under the leadership of Aníbal Pinto, ably seconded first of all by Adolfo Gurrieri and now by Eugenio Lahera. I should like to express my thanks to all of them and to say how pleased I am that the Review is now considered one of the most serious technical publications in the field of Latin American and Caribbean development.

The second event is that we have expanded the physical infrastructure of ECLAC precisely at a time when the demand for conference halls and meeting rooms is growing day by day. The new facilities harmonize with the rest of the building and are also extremely functional and comfortable. We thus have at our disposal as from today this modern conference hall and its attached meeting room.

Thirdly, in naming this hall the “Fernando Fajnzylber Conference Room” we are taking advantage of a fresh opportunity to pay tribute to one of our dearest friends and colleagues. We are honoured today by the presence of Ms Alicia Barrios, Fernando’s widow, and her children, to whom we wish to express our appreciation once again. By placing Fernando’s name on the plate at the entrance
to this hall, we are placing on permanent record the respect and appreciation we feel in ECLAC for a person whose legacy to the institution will long endure.

In fact, however, the various important events we are celebrating today are accompanied by a fourth noteworthy event: the participation of Alejandro Foxley, Minister of Finance of Chile, who will inaugurate this hall for the purposes for which it was designed with an important address on the present and future of the Chilean economy. Alejandro is no stranger to this institution, of course. He already did us the honour of being with us, as the main speaker, at the United Nations Day ceremony in 1991, and also during our twenty-fourth session in April 1992. He has been one of the most outstanding members of the Chilean Cabinet, as well as among the Ministers of Finance of Latin America as a whole. We are delighted to have him here with us as an outstanding professional and public servant, as a colleague, and as a friend, and we wish to thank him most sincerely for having agreed to accompany us once again today.

Address by Alejandro Foxley,
Minister of Finance of Chile

I should like to thank Gert Rosenthal for giving me the privilege of taking part in a ceremony which has a significance for all of us, and especially for me, which goes far beyond the importance of the physical facilities we are inaugurating, although of course they are imbued with the characteristic spirit of the person to whom we are paying tribute today, that is to say, with a high level of quality, albeit accompanied by great modesty, and a sense of the future.

I have been wanting for some time to have the chance to say a few words about our dear friend Fernando Fajnzylber. I am very happy to see Alicia and her family here today, and I should like them to know that I am proud to be here at this ceremony, because just as Gert said that many references have been made in ECLAC to the contribution that Fernando made to that institution, I too would like to say now that what we have managed to achieve in these four years of government by the Concertation –the union of parties for democracy– has been very closely connected with the work of a few persons like him, who, although not in the government, helped us enormously for many years to get a clearer picture of what we ought to do; people with whom we learnt to exchange and compare ideas at a very demanding level, in order later to put them to the test; people we met with, at moments of desperation and loneliness in Mexico and other places in Latin America, to give us mutual encouragement in the long struggle to restore democracy, but above all to endow that renewed democracy with the qualities and significance of excellence, modernity, and the capacity to solve the people’s problems and build up a strong, stable system of harmonious relations.

For those of us who have formed part of this government, it was Fernando Fajnzylber who had the clearest ideas, and he exerted a very important and significant influence on all of us. Indeed, I must confess to Gert that we tried to convince Fernando that he ought to come into the government with us, in some position that would undoubtedly have been a very important one. But there we are:
we have been working away for nearly four years, and we feel that Fernando and ourselves had always been working, and would continue to work, towards the same objectives.

When one tries to give a brief account of what this experience of government may have been, I think that we are really talking about a project that we carried through in conjunction with those who work in this institution, mutually exchanging ideas all the time, and also with those who were scattered over many parts of the world during 17 years, seeking the roots of the problems to be tackled in order to further our development, our harmonious coexistence and our political system.

After nearly four years, here we are.

If one had to summarize the results of our economic policy on the basis of two or three indicators that illustrate the relative success of that policy, then we should look at what has happened during those years, and especially more recently, as regards the processes of investment in this country. A few days ago, the President of the Central Bank presented the Press with the latest National Accounts of Chile. Those figures show that during the four years of democratic government the rate of investment in Chile rose on average to almost 25% of GDP, compared with 19.8% in the previous five years. Also a few days ago, the investment figures for the first half of 1993 were announced: they register growth of 24%, and that at a moment only four or five months before a Presidential election!

In this democratic government, we are going to register an overall average economic growth rate of between 6.3% and 6.4% per year. I think the employment figures speak for themselves: those for July 1993 show a 6% increase in employment in the space of a year: that is to say, over 270 000 new jobs. I believe, therefore, that we have good reason to be satisfied with democracy and what democracy has been able to achieve in the very area where we were supposed to be weakest: the capacity to secure economic growth with efficiency at a higher rate than in the past. Naturally, we are engaged in a daily struggle to make things work, and we are much more keenly aware of the imperfections in our work, the goals we failed to reach, and even sometimes absolute setbacks. All the same, those viewing our country from abroad have a clear picture in their minds and maintain without exception that Chile is today in the same class as a group of countries which, to tell the truth, were never specifically our models: I refer to the South-East Asian countries (although who knows if they were in fact a model for one of the most far-sighted among us, Fernando Fajnzylber, when he began, with that eagerness and energy that were so characteristic of him, to study the experience of those newly-industrialized nations). I think it is interesting to note that both studies of international competitiveness and other indicators—such as the rate of investment—are beginning to place not only Chile but also some other Latin American countries in a class of parameters similar to those of the successful Asian experiences.

Naturally, in these respects we are being judged in terms of efficiency and growth, but it goes without saying that the main content of our statements over the last 20 years has been connected above all with questions of equity and social justice and with the idea that an economic growth process cannot be sustainable over time unless it is accompanied by very marked and significant expansion of the opportunities open to the poorest sectors.

I think it would be both useful and interesting to recall something that we already know: that between 1987 and 1992 the percentage of poor people in the
population went down from almost 45% to 32.7%, while the monetary income of the poorest 20% of the population rose by 26% between 1990 and 1992, whereas between 1987 and 1990 it had increased by only 4.6%. In order not to tire you with a long list of statistics, it could be concluded, then, that in this phase too there has been very marked progress in the reduction of poverty and the provision of more equal opportunities.

Instead of going into more detail on the shortcomings still evident in this task, I think it might be more interesting to exchange a few ideas on something which many people are asking themselves: can the good results obtained in this period be maintained in the future? I would say that, from the point of view of growth, the main question which is in the air—and often also in the Press—is whether we now have greater capacity to cope with the external circumstances which previously tended to condition very directly—and sometimes dramatically—our national growth potential and the living conditions of the population. Is the economy more or less vulnerable today from the point of view of the external sector? Instead of boring you by reciting a whole set of indicators which Roberto Zahler, President of the Central Bank, could explain to you much better than I—indicators on the basic, structural situation of the external sector, which I may say I consider to be extremely sound—I would merely like to note that whereas in 1980 34% of the total saving which this country needed to finance its investments came from abroad, that proportion has now gone down to 5%. Looking at it from another angle, whereas in 1985 Chile had a national saving rate of 7.8%, during our government this rate has averaged 21%. I believe this is an element which can be seen as allowing us to view the future with confidence and tranquility.

Can the growth rate and the increased investment be maintained in the future? The answer will depend on many factors, but I would like to say that we are concerned to create suitable conditions for ensuring the continuation of the current extraordinary buoyancy of investment (the fixed capital investment rate will be between 27% and 27.5% of the product this year). Yesterday, for example, I spent the day in Congress, where we have been simultaneously formulating, discussing and voting on three Bills on matters which, in my opinion, directly affect the possibilities of increasing investment in the future: modernization of the capital market, the proposed tax reforms (fundamentally involving stabilization of the tax structure for the next four years), and the proposals for modernizing the banking system and reducing the outstanding debts of certain banks.

I am optimistic in this area too: the country will continue to have a stable economic policy, basically along the same lines we are following now. I believe these reforms will provide a sounder base for channeling savings towards investment, and I therefore think the fundamental problem will reside in the capacity to manage the fiscal budget and, above all, in the capacity to ensure that the largest possible proportion of fiscal resources go to investment rather than current expenditure. Of course we are aware that there will be certain problems here, because control of the State's current expenditure will undoubtedly become increasingly difficult, partly because of the seriously deprived situation of public employees such as teachers, health workers, etc., and the fact that those sectors have quite powerful trade union organizations which negotiate on a centralized basis and are rapidly becoming areas of political conflict. I think some queries are arising over the best way to deal with these conflicts and situations in the context of modernization of the State.
Can this effort be kept up in the future?

I think it is important that we should understand what phase of development we are in, because in Latin America we have often become accustomed to considering ourselves as part of a world far removed from the development possibilities the industrialized countries have enjoyed.

A few days ago, I saw some figures which have not been given much attention in the public debate. They were published by the International Monetary Fund as part of a very lengthy study, lasting many years, to try to measure the relative purchasing power of different countries and thus correct the measurement of per capita income in line with the real purchasing power of that income in each country. The results, projected to 1992 and expressed in U.S. dollars of that year, take as their benchmark the projected purchasing power in the United States economy. According to these figures, the equivalent per capita income for a group of Latin American countries comprising Venezuela, Chile, Uruguay and Mexico would be US$6 000 - 7 000, US$5 000 for Argentina, and around US$4 800 for Brazil. Using the same element of comparison, we see that in East Asia the purchasing power for a country like Korea amounts to US$7 200, while for Thailand the figure is US$4 600. In Southern Europe, Spain's purchasing power amounts to US$8 000, that of Greece to US$7 300, and that of Portugal to US$6 700.

I know that all these figures can have differing degrees of reliability or acceptability, but I believe they do mean that it is very important, for diagnosing the situation we are really facing in Latin America in general and Chile in particular (and also for determining the nature of the problems we are going to have to face in the future), to understand that in reality we are in the category of middle-income countries, and not as low as we thought. This means that our countries are beginning to raise problems that go beyond, and are much more complex than, the fundamental task of meeting the basic needs of the poorest citizens and setting in motion economies which are not growing at all.

Therefore, in this list of outstanding problems, I have avoided stressing once again the most obvious issues, such as the struggle against poverty, but would like to refer briefly instead to the new problems, typical of middle-income countries, which severely affect the middle-income sectors and are going to have a lot of influence on the political sustainability of the processes of consolidation of democracy, opening-up of the economy, modernization and rapid growth which are to be observed in the region.

After a period of rapid but very disorderly growth, our countries are beginning to develop problems such as the quality of public services or the difficult access to them by certain sectors of the population. In the most orthodox neoliberal approaches which have been in vogue, the problem is diagnosed as inadequate quantity and quality of these services, and the recipe recommended has been their privatization.

I believe this approach represents an over-simplification of the problem, however. Only yesterday the Press published the results of a survey of the population of Santiago regarding the way they viewed and rated nearly 25 public services provided by the public and private sectors, and the services which came last in this survey in terms of the rating given to them by the public were FONASA, the public medicare agency, and the ISAPRES, its privately-run equivalent. This comes as a surprise in the case of the ISAPRES, a private health system which, on the face of
it, has all the virtues of the neoliberal solution: multiple choices for the consumer, free access, and a seemingly competitive position in the market.

What this survey reveals is a reality which is beginning to become more and more evident, is occurring in other countries with similar levels of income, and is reaching a state of crisis in the high-income countries (the big debate in the last electoral campaign in the United States was over the crisis in a private health system which is no longer working: a system that does not offer a standardized product giving the consumer a real free choice, that does not allow the consumer to know the cost in advance, that is giving rise to growing dissatisfaction among the population, and from which whole population groups, such as older people, are almost automatically excluded).

Something similar is also taking place with the privatized sector of social security. There has recently been a heated debate in Chile over the system of life annuities, which are private insurance policies taken out by those about to retire, after having built up savings in a private pension fund management scheme. The debate is centered on the lack of transparency and the shortcomings of this insurance market, on the excessive costs involved for those about to retire, and the lack of information available to users. Thus, improving the quality and quantity of these services calls not only for the long-recognized task of modernizing and decentralizing the State-run service, which it is generally agreed suffers from enormous shortcomings, but also, and increasingly, to ensure that the privately-run sector of the system is suitably regulated, really does respect the rights of the consumer, and does not provide opportunities for oligopolistic rents.

I think that in some middle-income countries which have registered very rapid but rather chaotic economic growth, an over-optimistic view has been taken that the market, if allowed to operate freely, could solve these problems of disorderly growth. We repeatedly see in our everyday life the tremendous shortcomings for which the market is responsible. The growing urban chaos in the main cities of Latin America, especially in a country like Chile, shows the shortcomings of the approach we have taken so far to these matters. The prevailing chaos in urban construction programmes and in the management of public open spaces and recreational areas, together with urban road congestion, is causing a deterioration in the quality of life of all sectors and is particularly irritating to the middle sectors, who see how their income is rising but their collective living conditions are very sharply deteriorating. I will make no mention here of the even more widely known aspects of pollution or the destruction of the rural environment observed in many cases.

I am mentioning these kinds of problems—and only a few of them, although the range of problems could be greatly extended—because I think that we are beginning to be faced with an old issue in a new form. The old issue is that of determining the right mix between the public and private sectors, between the State and the market. I think that the trends and problems we are facing point unmistakably to the need to strike a better balance, with a State endowed with increased capacity to regulate the market in such areas as urban land use, public transport, standardization of public services and their prices, infrastructure, privatized monopoly services, etc. I believe that this better balance between the market and regulation should also be accompanied by a new balance in society—through the educational system—in order to offset the excessively individualistic approach of the private sector by giving greater weight to collective action in solving the problems of social life.
I believe, therefore, that this set of new problems (I refer only to problems of a sociological nature, rather than to structural problems of the economy, which are the concern of ECLAC) means that we must get away from these extreme, narrow-minded, simplistic approaches and replace them with a new attitude, free of complexes and, I would venture to say, ideologically more clearly defined in the direction of a State which does what it has to do in order to ensure that in the development process increased income is accompanied by a better real quality of life of the population.

Among all these new and old problems—and I would even go so far as to suggest that this is perhaps the crux of the matter—is the political dimension. It may seem strange to us economists, after having been in charge of the economic and financial management of the State for nearly four years, should now come to such an apparently surprising conclusion about the preponderance, as a key element, of the level of performance reached in political life: that is to say, the importance of politics as the fundamental factor determining the feasibility of everything else.

After the almost euphoric sensation we experienced a few months ago because of the smooth and efficient running of the economy, the exemplary functioning of the government coalition, the very good relations between the government and a substantial part of the Opposition, and the outstanding relations it has been possible to establish with the labour sector and even, although with a little more difficulty, with the business world, a feeling is beginning to grow up in the corridors of power that the truth is that we have enjoyed an exceptional political situation because we have been going through an exceptional period in the country's history: seventeen years of dictatorship did not take place in vain, the way the country and its people suffered for so long was not a useless sacrifice, and the people of Chile finally learnt their lessons, drew their own conclusions, and were thus able to give this government the breathing space, time and goodwill needed in order to permit such "exceptional" policies. Now, however, the idea is beginning to take root that this stage is now over and that there are scattered symptoms of acceptance of the fact—which would in no way be unusual—that the time has come to return to politics in the sense that politics was always understood in Chile.

I believe that may well be the heart of the matter. I think that the distinctive factor and the main comparative advantage that this country has had, which has permitted it to achieve this performance that we did not think was possible (these rates of growth and investment, this increase in employment, the fact that the struggle against poverty was carried out at the same time as heavy investments in education, health and housing), has been the preponderance of politics, but good politics, during this period. I think, then, that one of the great topics for future reflection is how to maintain this approach and keep up our efforts, how to create the institutional and structural conditions to make this kind of politics possible, how to ensure that a development process which must be sustained for several generations is given a suitable framework of democratic and political institutions.

This is a matter on which Latin American political experts have long reflected, but unfortunately this message has not yet got through to the political class itself. Here in Chile, we are reaching definitions at this very moment on some very fundamental aspects—such as the nature of the Presidential system, the length
of the President's term of office, and the role of Congress— which will have a
decisive influence on this country's capacity to continue basing its politics on
cooperation rather than conflict.

I was keen to make these brief comments, which are perhaps not very much
in keeping with ECLAC's traditional line, in the presence of Aníbal Pinto, Director
of CEPAL Review, whose fiftieth issue we are celebrating today. Aníbal
Pinto is one of the people who have had the biggest influence on the intellectual,
professional and personal development of all of us: we have been reading his
works with the greatest interest for many years, and his ideas perhaps come
closest to what we might be hearing if Fernando Fajnzylber were here with us
today, for when we listened to Fernando, when we saw how he got to the root
of problems in a couple of well-chosen phrases, when we marvelled at the
fluidity of his style, the warmth of his human contact, the feeling he gave us that
we were part of an ambitious group of Latin Americans who did not give up
because things were going badly or very badly and did not accept mediocrity as
the norm in public activities or settle for the absence of originality in intellectual
work or the formulation of ideas, we got the impression that there was a kind of
intellectual brotherhood between that great Latin American economic thinker
Aníbal Pinto and that great human being Fernando Fajnzylber.