



Hernán Büchi:

“Governments must create game rules that allow society to develop on its own”

Seven months ahead of the next presidential elections, we talked to Hernán Büchi, founder and member of the board of Libertad & Desarrollo, in order to know his opinion about the current political and economic scenario, and the challenges for the upcoming government.

Why is there a certain generalized uneasiness in Chilean society, in spite of the fact that the country is growing at good rates, that there is almost full employment and that wages have also increased?

First, we have to clarify that this phenomenon is a typical behavior of citizens who, as a result of higher standards of living, are trying to express themselves and participate of the benefits of development. This is neither abnormal nor does it indicate a generalized uneasiness; on the contrary, there is information available indicating that people are happier today. The expressions of dissatisfaction—which will always exist—should respect certain rules. In my opinion, two things are unacceptable: first, exceeding the limits of harmonious cohabitation and public order, and second, letting ourselves become confused and allowing ourselves to feel that our institutions are illegitimate. Petitions should be channeled through the voting process, since now this does not even require a registration formality.

Furthermore, the proposals that are being made today are very similar to those of the 60s, which should lead us to consider carefully whether we want to consent to them. There’s nothing new, not even creative solutions to the problems, thus we should not let ourselves be unthinkingly driven by slogans without thoroughly analyzing the consequences of these requests.

I had the chance to watch the protest demonstrations in Wall Street, and they did not disturb other inhabitants of the city nor did they pretend to alter the institutions. Basically, we have to listen and try to understand the motivations behind the different demonstrations, but we must never surrender to pressures that stand outside our institutional framework—the use of violence is especially serious.

And, in your opinion, what are the reasons that explain the healthy performance of Chilean macro-economy today?

We observe a great recovery after the 2009 crisis, supported by better trade terms. At the same time, we should mention the current government's actions tending to foster entrepreneurship and the goal of creating new jobs. We are close to recovering the 4% growth rate that we had since 2000. In spite of the fact that this trend is still low for people's expectations, there's the feeling that we have nevertheless improved, due to the impact of the higher price of copper. During the administration of former president Lagos, the average copper price was US\$ 1; it strongly increased to US\$ 3 during Bachelet's government, and now it is at US\$ 3.6.

The setback of the GDP in 2006 is compensated by these three positive years, but there are no indications that this will remain so in the long run, because we have not yet seen a strong push of investment as needed, nor a significant increase in productivity. After falling for some time, there's been a certain recovery in productivity, but there is no turning point that allows it to steadily grow at a 6% rate in the next decade, as some people have indicated. What we have achieved is good, but still insufficient.

Could a tax reform, in the terms proposed by the opposition in view of the presidential programs, eventually serve to solve the inequality problems in Chile?

The tax issue has reappeared today when talking about inequality, when we know that what matters in order to have a greater collection is for the country to keep growing. If we want Chile to develop faster, the way to achieve this is through growth and not taxes.

The current government opened the door to the tax issue, thereby hoping that it would pacify it, but instead it opened Pandora's Box. Additional expenditures can be dealt with through higher growth. If I accept somebody else's argument, the one supporting that the only way is to increase taxes, we fall into a mistaken view. I would like the debate to consider that the tax structure prior to the rise sequence has allowed more Chileans to come out of poverty than ever before. We should not put this at risk.

Some critics have said that, in certain respects, the current government has gone beyond the *Concertación* coalition, by proposing bonuses and undermining business activity with its criticism. What do you think of this statement?

In general, the current government has shown good management, but it made a strategic error in its speech, which was to say that "if we take somebody else's battle cry, we are going to get more support and we are going to win the upcoming election more easily". This idea did not entail more popularity. Moreover, it endangered one of Chile's assets, which is that common sense was present in all political parties. I believe that being a good politician means to put the right subject in what politicians call "the agenda". If I do not do this, and I adhere to the opponent's agenda, he beats me. The paradox here is that this government's great asset has been good economic management and the creation of employment—not its handout policies.

Do you think it is right to raise the minimum wage in Chile? What mechanism should be adopted?

The existence of a minimum wage presupposes a tremendous asymmetry in the labor market that forces the government to interfere, which is not necessarily real.

Furthermore, it presupposes that the government is capable of determining the “right price” for less qualified work, assuming the existence of those asymmetries. But, considering that the mechanism is already established—and I do not think it is possible to eliminate minimum wage—the most reasonable idea seems to be an adjustment mechanism based on parameters, such as for example, productivity growth, which was proposed by the expert panel summoned a few years ago, in order to reduce the uncertainty of the annual adjustment process, and moreover to make light of the media discussion regarding the adjustment, which does not seem to contribute much.

PRESIDENTIAL ELECTIONS 2013

We are on the verge of a new presidential election in Chile. Regardless of the governing political coalition, what are the main challenges you see for the next administration?

One challenge is to keep satisfying the increasing demands of the population, and I think that the only way to achieve this is by growing and improving productivity. Therefore, it is necessary to make production, investment and employment easier, and more convenient. Chile has many good assets in this sense: it is an open economy, and cheap machinery can be imported, but we must allow somebody to bring it, install it, hire people, and not make his life unbearable.

What do you think is at stake in the upcoming presidential elections?

In the upcoming elections, the foundations of Chile’s development are at risk. If the paradigm is changed, from the valuable nature of creating, producing and employing, to another one based on taking away from some to give to others, the truth is that the development of the country, and especially of the poorest, will be at stake.

Do you expect the candidates of the center-right coalition to make a difference so as not to lose the paradigm you just mentioned?

I hope that both candidates are capable of defending these ideas properly. On the one hand, a person with renowned political background, throughout which we have seen him develop, has been presented to voters of the sector and, on the other hand, there is a person coming from the business world, who has gradually developed empathy with the population.

Both options are reliable and positive, and they are working with people whom I trust very much: for example, José Ramón Valente is working with Golborne, and Juan Andrés Fontaine, with Allamand.