

## **We the People or We the State**

Last January Chileans elected a center right government, primarily out of tiredness with left coalition governments that tried to solve too many things on people's behalf. The winning idea was to empower people and help those that could not afford for a decent standard of living for themselves.

After the February quake, it has sometimes seemed that the new government has been tilting on the same old and already defeated political track. What an extemporaneous mistake that would be, and more so when it would be erroneously based on a bigger economic impact – almost double its real figure - than what the quake has really been in terms of net physical capital destruction and lost GDP growth in the short term.

It might just be the case that once any coalition is in power, the temptation to solve almost everything proves irresistible. The idea of devolving power to people would get more difficult to put into practice and there would be a sort of inertia in how we govern ourselves. Furthermore, the limitations for a genuine good government from a centrally planned perspective would be harder to recognize, even after witnessing numerous cases where comparative advantages remain neglected again and again for the sake of aggrandizement. Power love is power love after all. Nonetheless, we expect more of this new government and the first step is to stand up to this "government mirage". Examples abound.

The quake destroyed public hospitals. Instead of replacing them under old state property and administration structures, why not overtly promote private hospitals under a competitive environment to offer those services, now across the whole country? What we need is health services, not necessarily state provided health services. Let us just settle on a minimum health service level available for everybody.

The quake destroyed public schools. Instead of continuing working on a failed public school system that is losing its best students, why not openly guarantee access to private education under competitive conditions across Chile? Again, what we need is good education, not necessarily provided by the state.

The quake destroyed road infrastructure and it will be basically repaired within the private toll way system. Lots of roads that were not part of this system should be made so. If the public sector is not able to efficiently connect the whole country, let the private sector do so and if a subsidy is needed, allocate the toll way contract to the minimum subsidy bidder.

In other words, engage the private sector, blame it when it fails and recognize its achievements when it succeeds. The state is not sacrosanct and neither is the private sector, but this last one holds the essential vitality a healthy growing economic system needs. The message should be "minimum standards privately provided under competition". We, the People, would settle for those minimum standards; the state would just verify its completion and make for the income difference when so required for the poor ones.

How do we proceed given the private sector does not like competition? Well, that takes a real government. High seas fishermen want extraction quotas extended with no bidding mechanism? Sorry, the country just needs a global quota and anyone willing to fish will be allowed to bid for a portion of it, with no discretionary allocation anymore. Banks want to continue tying products, lobbying for decreasing direct foreign competition and informing misguided prices? Sorry, the market will be opened to all, correct product information will be required and tying prohibited, among others. Electric utilities want to have long term contracts? If obtained under an effective competitive environment, fine; if prices turn out to be much higher than other competing countries for no good reason, that is not fine and contracts will have to be reviewed and eventually corrected by antitrust authorities, or competitively bid again. Foreign companies want to invest in Chile taking effective control of publicly traded companies without saying so and under vague "consensus" agreements with others? Sorry, this is a serious country and regulators and private parties will be vigilant so that our securities laws are abided by all and their complying does not make a mockery of them, in order to improve our capital markets. Real estate developers want their lots of land approved? Of course, for anyone solving the externalities involved, particularly transportation. Labor laws to be competitive and flexible in all sectors? Certainly, allowing people and firms to negotiate under fair conditions, taking care of the forgotten unemployed ones and not only of the privileged ones already with jobs. All these distortions and others amount to "private taxes" that worsen living standards, specially the most vulnerable ones, for which many times the state itself reimburses in a futile attempt to compensate for them. In other words, a more competitive economy without these "private taxes" saves a lot of money to the state itself, besides improving GDP growth prospects.

It is under this scenario of effective and reinforced competitive attitude over all markets that we could then argue for the minimum standards of human capital services and the cost to provide them, along with some net income redistribution, considering the full effect of taxes and expenditures. It is then, and only then, when we could agree on the economic weight of the state. Raising taxes before facing these interests groups stressing competition to all of them serves no purpose and just evades the more difficult choices a real government has to make. Making taxes and government expenditures more efficient should always be an objective; increasing or decreasing them on a global basis is a more serious question that should not be dependent on a quake dust.

We, the People or We, the State is a hard and perpetual choice, indeed. But it makes a huge difference from where we start. What voters said this time was We, the People. Let us not forget this.

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