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“Genuine democratic revolution” Ignacio Álvarez | “The paradoxes of growth” Leonidas Montes

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**SEBASTIÁN EDWARDS:**

“OF COURSE IT MATTERS WHO THE NEXT PRESIDENT WILL BE”

The economist, and shrewd observer of Chilean affairs, sticks with Rodrigo Vergara and states that “it does indeed matter who the next president will be”, adding that Piñera’s economic program seeks to restart growth. He continues to endorse the work of Rodrigo Valdés, though he believes that leaving Chile with a drop in its credit rating “is not a legacy of which to be proud”.

**BY SANDRA BURGOS PHOTOS: PATRICIO FUENTES / ANDRÉS PÉREZ**

He will not be voting in the Chilean presidential elections. But since he is a registered voter in Chile, the economist Sebastián Edwards will follow the results over the internet from his home in California. “First I’ll watch the final of the FIFA Confederations Cup, then I’ll read the La Tercera reports and listen to some radio programs. And then I’m going to torment some friends by WhatsApp who will be on the losing side”, he warns.

He doubts whether the outcome will bring any big surprises and that a candidate other than the favorite in the polls will win. What he does see as possible is that Sebastián Piñera will receive less votes than expected. “I also reckon that the Frente Amplio (Broad Front, a left-wing coalition) results will be a lot closer than suggested by the polls. Alberto Mayol’s platform proved very effective amongst the left-wing voters. A platform that is irresponsibly reactionary in its leanings, but makes a strong impact”, he feels.

As the first round of the presidential elections plays out, Edwards finds time to analyze the current political and economic state of affairs.

It is indeed important who governs
I’ll give you three options: a) Mario Marcel: “The elections in themselves represent no risk for the Chilean economy”; b) Rodrigo Vergara: “For Chile to start growing again it is important who becomes the next president” and c) Rodrigo Valdés: “Chile’s very existence is not at stake in these elections”. Which of the three opinions do you share?

Of course it matters who the next president will be. In spite of the good intentions of this government, most of its policies—practically all its reforms and its rhetoric—have suffered the consequences of being underfunded and unimplemented. A president that proposes to continue down the same path, with no political opposition or alternative, will be. In spite of the good intentions of this government, most of its policies—practically all its reforms and its rhetoric—have suffered the consequences of being underfunded and unimplemented. A president that proposes to continue down the same path, with no political opposition or alternative, will be.

Piñera 1.0 was a good government; without being remarkable, it was a competent government. Piñera 2.0 should be more inclusive and have a long-term, modern vision. Greatness is needed. He needs to have a more diverse team, shedding off his dependence on a small and uniform group and surrounding himself with faces that represent the real Chile. Profound changes need to be made to the constitution to bring political stability to the country—six-year presidential terms—and legitimacy to the system. Nonetheless, what is most important is that he appoint Felipe Kast as senior minister of social welfare and keep him there for the four-year term. Of course, that means taking on the social policies espoused by Kast. He must be made a senior minister with a seat in the cabinet. If Piñera is elected president, Rodrigo Vergara’s name is being bandied about as Minister Finance. Do you think he would be the right man for the job? What can we expect from his term in office?

Rodrigo Vergara is an excellent economist. He had a marvellous job as governor of the Central Bank. He would be a great minister. We have worked together in several Central American countries, advising governments and central banks. His theoretical soundness and analytical ability are impressive.

In his latest interviews and appearance, Rodrigo Vergara has revealed a political side we had not seen before, how do you think he will cope in the world of politics?

It came as no surprise his entrance into front-line politics. Indeed, he has always demonstrated a vocation for public service. I reckon he would handle himself magnificently in the political milieu. Let’s not forget he was educated by the Jesuits. If Guillier is elected president, who do you think should form part of his economic team? Who do you think is the one with all the cards to the finance portfolio?

Manuel Marfán is without a doubt the best economist on the left. He would make an excellent minister. Though I don’t know whether he has been approached. Nonetheless, if DC (the Christian Democratic Party) backs Guillier in the second round, the name of José De Gregorio would come up, a boon in every sense of the word. A debate between Vergara and De Gregorio would be momentous.

What you think of the main principles of Alejandro Guillier’s program and the fact that bringing an end of floating exchange rate has managed to “slip in”? We’ll never know if it just slipped in inadvertently or was a deliberate policy change, which was later regretted. The government project will not be facing up to these issues. It is, as it would seem (since we are not familiar with all the details) another bad reform. Nonetheless, it is true that some of his statements can be interpreted as a personal criticism of the government’s project. Why is he expressing these criticisms now? One reason might be that he wanted to make the most of his last opportunity to speak about the issue while away from Chile, but surrounded by fellow Chileans. It should be noted, though, that his statements point to the acceptance of the idea that politics must take priority over purely technical questions.

**VALDÉS AND HIS DEFENSE OF THE AFPS**

What are your thoughts on the statements of the minister, Rodrigo Valdés, about the AFPS (Pension Fund Administrators) calling their level of acceptance as “somewhat unfair”? What Rodrigo Valdés said about the AFPS is right. The criticisms made of them are clearly absurd and unfair. Pensions are low for other reasons, the AFPS are not to blame. Enormous labor gaps, the increase in life expectancy over the last 25 years and a care system which, though efficient, leaves a lot of needy people out, are the main causes. Unfortunately, the announcements made by the minister in London would suggest that the
truth is, however, that there are some people who believe that Chile must “industrialize itself” and add value to exports by means of a high stable exchange rate. Very much a 20th century notion, it is one that has been discarded by most economists in recent years. Having a “managed” exchange rate, an independent monetary policy and free capital movement is just not possible in modern economies. Indeed, such a position is known as the “impossible Trinity”. Modern countries have opted for the floating exchange, monetary policy and capital mobility solution.

What other ideas worry you that Guillier might implement in his program? There is a rather naive belief in the program that all the country’s problems can be sorted out through the state’s bureaucratic system. Moreover, there are no clear measures to right the mistakes made in the last four years. As far as labor policy is concerned, this is pretty serious. When it comes to writing the history of Bachelet 2.0, the most important verdict will be that this government lost a great opportunity to make real progress with respect to modernizing labor relations. Instead of understanding that automation, artificial intelligence, algorithms, and smart machines are the future, the labor reform that came into force a few months ago has cast us back into the 20th century, an age prior to the smartphone, the computer, the tablet and social networks. Complete and utter nostalgia!

Tax reform: “The sooner, the better” Once again the subject of taxes takes over the electoral debate. Vergara claims that one of Piñera’s first measures—if he is elected president—should be to return corporate tax rates in keeping with the OECD average, around 25%, and to integrate the tax system. Guillier is also proposing a review of the tax system. Do you think it’s the best way to go to boost growth?…

The issue is this: to grow more, we need to invest more, and a lower corporate tax stimulates investment. In that sense, Vergara is right. However, there are several technical considerations that also need to be addressed in the debate. Firstly, apples must not be compared to oranges, and most OECD countries do not have an integrated system. In Chile, the system is semi-integrated, thus any comparison is a complex matter. I think it would be a good idea to simplify and lower the rate a little. Exactly how much would need to be studied. In my opinion, 25% seems a reasonable figure around which to start the debate.

In government circles, both Alejandro Micco and Rodrigo Valdés are of the opinion that at least a couple of years need to pass to introduce substantial changes… I think the tax reform was a bad one. I said so in an interview in La Tercera only three years ago, in the course of which I claimed, among other things, that it was not going to result in the expected revenue. The sooner the adjustments and corrections are made, the better. Admit mistakes, change direction and forge ahead. That is the right way to do things.

Under-secretary Micco pointed out that the Piñera reform will impact the GDP by 0.6% leading to less revenue, but with the current growth level in the latest Income Tax campaign figures a fall-off was seen in first category tax returns (-0.8% for the year). So, which comes first, the chicken or the egg? The chicken, of course! The economy is a complex ecosystem, in which one sector feeds back on another, a phenomenon we economists call “general equilibrium”. However, I reckon that after four lean years, the priority must be to restart growth.

How would a possible drop in its credit rating affect Chile? A drop in the credit rating would be extremely negative. It is a reflection of how the world sees us. The problem is that this is not just the point of view of a nobody, some fashionable guru, or a foreign lecturer on the lecture circuit for the money. Rather, it represents the opinion of professional entities that work exclusively on analyzing every country in the world, assessing their strengths and weaknesses and studying their respective outlooks. They are the examiners with the greatest comparative knowledge in the whole world and they are saying to us: “You are going the wrong way”. A drop in the credit rating would generate widespread anxiety in the Republic. What is going to do more harm to Valdés, having grown less than 2% in these four years, not having recovered confidence or the drop in credit rating?

Without a doubt, the drop in the credit rating. This is really serious. In my opinion, it’s not a legacy of which to be proud, nor even unconsidered. Has the Chilean tax system lost credibility? Definitely, it’s no longer looked up to as before. I remember back in 2010, when New Zealand studied our tax system holding it up as a good example of what to do. This doesn’t happen any more. It is seen as something that went away.

What other things have gone wrong in Chile? It seems to me that we have lost our capacity to dream. There is no shared, long-term vision, the sanguine sense that we are all working towards a goal, each in his own way and at his own pace. This came about as follows: the left, with its absurd reactionary rhetoric did not want to (or could not) acknowledge the fact that the Chilean model had been extremely successful and had transformed a gray, average country into the indisputable leader of Latin America. The right, on the other hand, was not prepared to recognize that the model, as it had been applied since 2010, to put a date on it, needed to be readjusted to move forward into a new, more inclusive stage, and one more in keeping with the international experience of a country with a thriving middle class. What should be done? What needs to be done now is to return to a shared vision (or at least a partially shared one); a vision that must once again lead us to that much scorned idea of “agreements”, which will enable us to take a big step forward. As far as the vision itself is concerned, for some years now I have been saying that it would be a good idea if we firmly set our goal of catching up with New Zealand over the course of the next generation. Of course, this must necessarily be in due proportion, observing cultural and ancestral differences. Nonetheless, that is a country that not so long ago had one of the lowest incomes per capita in the OECD, but which is now a leader in practically every area worldwide.

CREDIT RATING: “A DROP WOULD BE EXTREMELY NEGATIVE”
That depends on the creation of more and new jobs and an increase in wages. More growth means a bigger tax base and thus increased revenue.

What in your opinion is the recipe for Chile to extricate itself from this economic lethargy?

In 1936, the great English economist, John M. Keynes, clearly stated in his book, *The General Theory of Employment, Interest and Money*. The "animal spirits" of investors and business people alike must be unleashed. If there is confidence and optimism as regards the future, investors will be prepared to take on new, massive projects, which will cause a virtuous circle. However, this also requires that there be a modern and coherent economic policy in place. One that encourages efficiency and productivity, which promotes technological development and a spirit of enterprise, which ensures that the robot revolution is going to shake our very foundations; one that promotes social inclusion by means of efficient and effective programs that will benefit those with the greatest needs. We haven't seen a lot of this in recent years.

And looking at the political scenario, do you see anyone capable of leading us along these lines, who thinks in the fourth industrial revolution, not someone who sees it merely pass by, but someone who will guide Chile to getting on that train? There are several people in the private sector and the NGOs that are thinking and working along these lines. University people, people in small enterprising laboratories, some even in the provinces. Any one of these could well lead such a project. Indeed, you could even envisage recruiting someone for their technical and management skills, regardless of their political stance. Someone who readily comes to mind given his recent work is Maximo Pacheco. He was at the head of one of the most important international companies and a person who has progressed most in thinking about the subject of automation and its effect on the social fabric of the company.

Valdés: Holding him accountable for the slowdown “is unfair”

What should Minister Valdés have done to change direction?… Did he lack the courage or the political know-how to impose his ideas? Rodrigo Valdés has been a good Minister of Finance. Holding him accountable for the slowdown is absurd and unfair. The Program of the New Majority was the policy followed. This is an awful program which, moreover — and this is absolutely true — not all of the members of the first cabinet had even read (several of them admitted as much to me). What needs to be asked is where would we be without Valdés. Much worse off is the answer.

In the course of an interview at the beginning of the year you said that without Minister Valdés we would most likely be “skin and bones”, but today growth is low and we are about to see or credit rating lowered… Did Minister Valdés get it wrong?

What I said about being “skin and bones” was true and I stick to it. I would ask the reader to imagine some other Minister of Finance in the context of this government. Where would we be now if Mr. Arenas had been replaced by a “reactionary” sympathizer? A lot worse off. To use the mud metaphor that became so popular during the primaries, perhaps we’d be rolling around in it.

To go back to the growth issue, who do you think has been most lacking in self-criticism: Valdés with his idea that the weakness in growth is owing to structural and export reasons, or Vergara who insists that there was a delay in lowering interest rates?

Both are excellent economists. Each one is highlighting a part of the story. That being said, there is a need to recognize the following: the “reactionary” rhetoric is not coming from the outside, the nostalgic labor reform is no external shock, the tax reform is not foreign intervention. All these are domestic or national factors with respect to which the Chilean government exercises control. Indeed, they are all factors that have contributed to our recent mediocrity. As Vergara says, countries are the masters of their own destinies in the medium and long term.

“Piñera should appoint Felipe Kast as a senior minister for social welfare and keep him there for the four-year term, with a seat in the cabinet”

“Piñera's program is reasonable, but the same cannot be said of Guillier’s 128 pages. And Frente Amplio supports approaches that would set Chile back”