

**A CONFERENCE ORGANIZED BY
THE CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE
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THE RONALD COASE INSTITUTE**

**PROMOTING INSTITUTIONAL REFORMS IN
LATIN AMERICA**

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DAY TWO**

[TRANSCRIPT PREPARED FROM TAPE RECORDINGS.]

Mr. ZEMKO: Cristian, you are on.

MR. LARROULET: I am going to say only two very short ideas for the session this afternoon.

First, many people said in the case of Chile and the example of Chile, but the point--and it is related to the topic of this seminar--is that the main reason why Chile has had that success is because we made tort reforms in a coherent way, in a much more radical way, in a profound way, and third, with the introduction of the institutions.

It seems to me that the key element in the case of Chile is also the introduction of institutions--and not only in the economic area, but also in the social policies and in politics.

I am going to give you only one example. Perhaps one of the key elements of success in the case of Chile is that we changed the electoral law, introducing a majoritarian system to elect the people in Congress. We have a system in which we call it "binomial," but what is important is when you have a majoritarian rule, you introduce the incentives to have two political blocks in the country, and the effect of that is to reduce the transaction costs in politics. Then it is much easier to arrive at agreement between the members of the coalition, and also you put incentives in the direction of the median voter and then the person who is much more moderate in terms of the ideological terms.

That is an example of an institution that is a key element of our success.

The second point that I want to make for this evening is around for the agenda. It seems to me first the topics of the agenda, we already

agree, we already discuss, we already know. There are some new opportunities around that. I always said that for me in economic terms, the key element is free trade. I have said this for many years. And now we have a new opportunity--this concept of ALCA [phonetic]. The authorization for bilateral free trade agreements given to President Bush is a new opportunity. And then we have to introduce a movement in that direction.

Recently, President Bush asked the Congress for authorization to have a free trade agreement with Peru and with Colombia. That is excellent news in terms that we have to say in different countries, "Why not us?" There is a process that we have to use.

A second key idea about topics is, again, reduction [inaudible]. We need a social agenda, and we know the policies for that. I am not going to talk about that, but we need in parallel with the economic agenda to have a social agenda.

And third, of course, is the agenda of institution.

But the most important thing I want to say today is more about strategy. I am thinking of think tanks, I am thinking of business associations and other civil institutions that want to promote our ideas. It seems to me there are three key elements, thinking in a strategic way.

The first one is vision. We need to maintain vision, our ideas, the ideas of a limited state, a democratic country, a market economy. Those ideas, we have to all the time maintain and promote and make advocacy around them.

But that is not sufficient. There is a second element, and that second element is that we need in all of these institutions or through alliances to be the best in the technical capacity of the interaction of public policy. We

need the technical capacity. The lawyer in corporate governance, the economist in the introduction of our new tax system, or the sociologist in the study of corruption--we have to construct and invest in human capital for work in the details, have the capacity of work in the details in each of these public policies. Then, vision; second, technical capacity for public policy.

The third element is what we call in [inaudible], loyalty. Perhaps another word is having the capacity to construct networks, but with loyalty. Why? Because our vision and our technical propositions need somebody to create a law, implement a public policy, propose that idea in the press, and then, what we call "loyalty" is the loyalty we need, the relationship we need to have with people in government, with people in the Congress, Senators, Deputies, with people in the press, and with people in the business community.

Then, let me summarize. It seems to me that those three elements are key for the future--vision, technical capacity around public policy, and loyalty. I want to give you two examples, one related with the business community.

The business leaders in the country started one year ago the idea of the agenda for growth. Under the leadership of the President [inaudible], and then he arrived at an agreement with the government in trying to push that agenda. What we did--we worked with them privately to organize the technical teams for trying to push that agenda.

In the end, if you ask me which was the most important reform, some are reasonable, but others are what we call "damage control."

[TAPE MESA F-5, SIDE B]

Mr. LARROULET [continuing]: The second example is that you know we had a big crisis at the beginning of this year related to corruption in government. Well, thanks to that crisis, we introduced one of the most radical reforms in the public sector in any country in the world, following the New Zealand example--perhaps some of you are familiar with the New Zealand example.

Well, we had 3,000 high officials in the public service who were appointed for political reasons by the President. Now we have reduced that number to only 600, and the others are going to be appointed by a system in which merit and capacity is a much more important element.

Then, a final word in the same direction of Roberto. It seems to me that we were in the last three, four years or more in difficult times in our ideas in Latin America--but don't forget that during the nineties, we introduced a lot of reforms that permitted some advances, and for that reason, I am also optimistic about the future. We are living today in much better conditions in comparison with what was the case in the seventies or the eighties.

Of course, as Douglass North said yesterday, this is a dynamic world. It never ends. We are not going to arrive at a better position, and our sons are going to be--no, it never ends. It is a battle that is permanent. But in any case, because of the work we have done, thanks to CIPE and many other institutions in the last decade, I am much more optimistic about the future.

Thanks.

[Applause.]