

ISSUE BRIEF

No. 4853 | MAY 9, 2018

Chile's Economic Freedom Slumped Under Socialism— President Piñera's Plan Will Revitalize It

James M. Roberts

Chile's economic freedom score of 75.2 (of a maximum 100) in The Heritage Foundation's *2018 Index of Economic Freedom*¹ reflects an overall score decrease of 1.3 points. Chile's ranking in 2018, 20th of 180 countries measured, has also fallen from a high of 79 points and seventh place (of 177 countries) five years ago in the 2013 *Index*.² It is no coincidence that the high-water mark for economic freedom in Chile was established then, during conservative President Sebastián Piñera's first term in office.

The intervening five years saw a return to power of socialist President Michelle Bachelet for her second non-consecutive term. During that second term, Bachelet—whose ruling coalition included the Communist Party—abandoned the more moderate policies of her first term when she had largely supported Chile's successful market-based institutions. Some critics accused the second Bachelet government of waging war against free-market capitalism.

Bachelet's public approval ratings dropped just as precipitously as Chile's economic freedom scores, fueled by voter discontent over public-sector and private-sector corruption and the country's lackluster economic performance. The result was a larger-than-expected victory of Piñera's center-right *Chile Vamos* (Let's go, Chile) coalition in the November 2017 elections.

The Path Back to Prosperity

The challenge confronting Piñera, who re-took office in March 2018, is to restart Chile's historically high economic growth rates and to return Chile to the top ranks of economically free countries.

To achieve those goals, the new president has put together an impressive economic team led by Finance Minister Felipe Larrain, a savvy and trusted veteran of Piñera's first-term cabinet. Larrain has outlined plans to revamp tax reform measures enacted by Bachelet so as to re-emphasize and incentivize investment (in part by crafting government concession tenders to attract foreign investors for major public investments) and gradually to reduce the corporate tax rate to the Organization of Economic Cooperation and Development (OECD) average as economic growth rebounds. During Piñera's first term, Chile became the first South American nation to join the OECD.

In a recent *Wall Street Journal* interview, Minister of Economy José Ramón Valente—another star in Santiago's conservative economic policymaking firmament who is working alongside Larrain to restore economic freedom in Chile—put his finger on the cause of slow economic growth during Bachelet's second term: A “total disregard for what it takes to create 5 percent growth. They thought they could do and say whatever they wanted and could treat business however they wanted and, because Chilean businesses are so greedy, they would still produce the same as before.”³

Piñera's Economic Plan—By the Numbers

In addition to the goal of annual investment increases of 6 percent to 7 percent to spur economic growth and job creation, Minister Valente laid out

This paper, in its entirety, can be found at <http://report.heritage.org/ib4853>

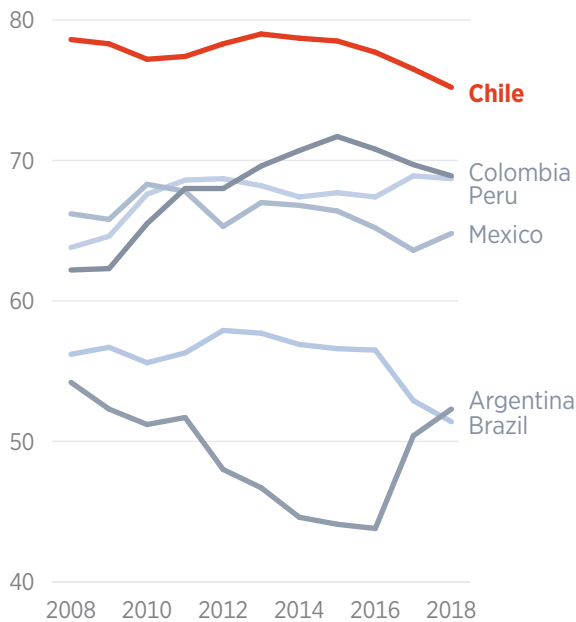
The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

CHART 1

Economic Freedom in Latin America

OVERALL SCORE IN THE INDEX OF ECONOMIC FREEDOM



SOURCE: Terry Miller, Anthony B. Kim, and James M. Roberts, *2018 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2018), <http://www.heritage.org/index>.

IB4853 heritage.org

other elements of his government's forward-looking plan during a recent presentation at the U.S. Chamber of Commerce in Washington:⁴

- Remove obstacles to business investment and reduce red tape to facilitate a doubling of eco-

nomical growth in Chile, the world largest copper exporter. In 2017, Chile's economy is estimated to have expanded around 1.6 percent, one of the lowest figures since the 2009 global financial crisis.⁵

- Raise Chile's scores in the Heritage 2018 *Index* for government integrity, fiscal health, and labor freedom by balancing the budget by 2024 and stabilizing government debt by 2021, as well as improving the labor code to increase flexibility for workers and managers. Chile's fiscal deficit deteriorated sharply under Bachelet; Pinera's goal will be to regain Chile's AA investment-grade sovereign credit rating.
- Reinforce and strengthen Chile's openness to global trade and investment as its transparent regulatory environment and strong rule of law continue to provide a solid basis for economic dynamism. Valente said that his country's 35+ free trade agreements already cover 85 percent of global gross domestic product, but access will be even greater through Chilean membership in the new multilateral Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- Continue to promote growth of Chile's non-copper sectors (such as tourism and already substantial exports of seafood, fruit, wood products, and wine) and development of solar power and battery industries in Chile's lithium-rich northern Atacama desert—parts of which have not had rain for 400 years, making it the highest radiation area in the world.

Conclusion: Rich Man, Poor Man

To counter the false promises of socialism and encourage public support for his government's program,

1. Terry Miller, Anthony B. Kim, and James M. Roberts, *2018 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2018), <https://www.heritage.org/index/country/chile>.

2. Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2013), https://www.heritage.org/index/pdf/2013/book/index_2013.pdf.

3. Mary Anastasia O'Grady, "Fast Chilean Growth Can Happen Again," *The Wall Street Journal*, March 11, 2018, <https://www.wsj.com/articles/fast-chilean-growth-can-happen-again-1520800001> (accessed May 4, 2018).

4. Author's notes from the event: "Roundtable Discussion with Chilean Minister of Economy José Ramón Valente," U.S. Chamber of Commerce, Washington, DC, April 20, 2018.

5. "Chile President-Elect Seeks Annual Investment Increase of Up to 7 Pct," Reuters, February 20, 2018, <https://www.nasdaq.com/article/chile-presidentelect-seeks-annual-investment-increase-of-up-to-7-pct-20180220-01218> (accessed May 6, 2018).

Minister Valente frequently cites Harvard Kennedy School Professor Dani Rodrik's famous (and accurate) observation that "a poor person in a rich country is *three times* better off than a rich person in a poor country."⁶

Chile is already the wealthiest country per capita in Latin America, having leapt into the lead from the middle of the pack in just 30 years. If President Piñera succeeds in jump-starting economic growth and freedom—in part through a positive message exhorting his country's citizens to stop fighting each other and focus on competing with economic rivals elsewhere in the world—many more poor Chileans can look forward to a better life in a richer Chile.

—*James M. Roberts is Research Fellow for Economic Freedom and Growth in the Center for International Trade and Economics, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*

6. Dani Rodrik's weblog, "And the Winner Is..." May 5, 2007, http://rodrik.typepad.com/dani_rodriks_weblog/2007/05/and_the_winner_.html (accessed May 6, 2018).