

As finance minister in Chile's first civilian government after Gen. Pinochet's 17-year reign, Alejandro Foxley—one of the architects of the "Chilean miracle"—coupled an emphasis on human rights with economic growth in an attempt to narrow the gap between Chile's rich and poor.

The noted economist discusses Chile's past under Pinochet and his country's growing emphasis on human rights, democracy, and a thriving economy.

Foxley's Personal History

INTERVIEWER: What were your personal feelings at the time of the military coup [in Chile] in 1973?

ALEJANDRO FOXLEY: I was in Britain, a visiting fellow at the University of Sussex, and I turned on the TV. I saw on the BBC military people burning books in the streets, and I decided that I would go back and I would fight for intellectual freedom in my country. So I started an independent think tank, which became the main reference point for people who wanted to think about the future beyond the Pinochet years.

Chicago-Boy Reforms

INTERVIEWER: What were your key criticisms of what we might call "Chicago-Boy economics"?

ALEJANDRO FOXLEY: When Pinochet finished his 17-year term, almost one half of the families in Chile were living below the poverty line—to be more precise, 44 percent—and that's not a very good record.

INTERVIEWER: What was your basic economic criticism of the Chicago Boys?

ALEJANDRO FOXLEY: They were starting a very deep process of transformation of the economy without any regard for what would happen to the people, and we ended up at one point in time with a 30 percent unemployment rate. I don't think that's a very nice way of opening up an economy to world markets.

INTERVIEWER: You've mentioned unemployment. In what other ways were the Chicago-Boy reforms very harsh on people?

ALEJANDRO FOXLEY: These days [the Chicago Boys] would be asked, "Didn't you know about human rights abuses?" They said that every time [they] asked this question of somebody in the political side of the government, [the response would be], "Don't ask any questions; you pay attention to the economy." If I were in their position, I wouldn't quite have accepted that answer.

INTERVIEWER: You are morally critical of the Chicago Boys for collaborating with the Pinochet regime?

ALEJANDRO FOXLEY: It's such a personal decision. I couldn't have collaborated with that government for a single minute, because I believe in human freedom and in the dignity of people and democracy. None of those things was accomplished during the 17 years of Pinochet.

The Market and Society

INTERVIEWER: Did your own intellectual position change slightly? In the early 1970s, were you a Keynesian? Did you believe in a large state role in the economy?

ALEJANDRO FOXLEY: No. I was critical of Allende's economic policies because they were ill-conceived, and they produced chaotic economic results in the end. But that didn't mean that you had to go all the way to a very naive version of free markets which created a lot of social problems and imbalances in the economy.

INTERVIEWER: Is it fair to say that you came to have a greater faith in the role that the market can play in an economy?

ALEJANDRO FOXLEY: We have all learned during these years that it's only a very strong person who, when he sees that the world is changing very fast, doesn't adjust his own views to the changes that he's seeing in the world. Today we appreciate the strength and the power of the market much more as a force that will allow an economy to grow fast.

INTERVIEWER: Isn't that a point in the Chicago Boys' favor, though? Isn't that what they were saying back in 1974 and '75?

ALEJANDRO FOXLEY: Well, let me answer that question in the following way: If you compare the performance of the economy in the best Pinochet years of the economy with the performance of the economy in 10 years of democracy, I challenge you to find one single economic or social indicator in which democracy hasn't performed much better. And that, I think, is a point that has to be made. Democracy can be more efficient in terms of growth, in terms of income distribution, in terms of solving the problem.

INTERVIEWER: What's the reason for that?

ALEJANDRO FOXLEY: You listen to people. You're not stubborn. You try and make it compatible, the need to modernize the productive structure of the country with a deliberate effort on the part of the government to improve the lot of the very poor. You must develop some kind of social protection for those who are left out of the process of globalization.

Democracy in Chile

INTERVIEWER: When democracy was restored to Chile, were there a lot of people who wanted to jettison overboard what Pinochet and his people had done?

ALEJANDRO FOXLEY: Of course. I was in charge of the economy at the time. I was minister of finance from 1990 to '94. We always said that the main thing we had to do was to make sure that there was an equilibrium between change and continuity. The mature countries are countries that don't always start from scratch. We had to recognize that in the previous government, the foundations had been established for a more modern market economy, and we would start from there, restoring a balance between economic development and social development. And that's what we did. After the first four years of economic transition in Chile, everybody was saying, "These guys who are coming to power with democracy, they will mess it up." After four years the economy had grown an average of 8.2 percent a year, and the poverty was reduced by half. So I have a lot of confidence in democracy because of these results.

The Verdict on the Pinochet Years

INTERVIEWER: What do you mean when you talk about the competent state, and can you contrast that with a dictatorship?

ALEJANDRO FOXLEY: Some people believe that the invisible hand will take care of everything. Well, I can tell you it doesn't. The invisible hand can do very bad things, not only in terms of inequalities, but it can also ignore the benefits of growth of the very large number of small firms that do not initially have a comparative advantage to participate in the global economy. Somebody has to produce the incentives for those firms to be able to participate in the economy.

INTERVIEWER: What would be your final verdict on the Pinochet years in terms of economy?

ALEJANDRO FOXLEY: It's a very mixed performance. The average growth rate in the 17 years of Pinochet was a mediocre 3.5 percent. That's an average. In 10 years of democracy, we doubled our rate [to] 7 percent a year. So in that respect, I don't think they have much to show. But having said that, in terms of the deeper transformation of the economy, they certainly were able to anticipate what became a global trend afterwards. They were able to start a process of deregulating the markets, opening up the economy, and allowing everybody to have a share in world markets, to be able to compete, and the need to increase productivity. All of those things later became a global trend. That was their contribution. They were able to anticipate a global trend, and Chile has benefited from them.

INTERVIEWER: But at a terrible price?

ALEJANDRO FOXLEY: At a very high price. Believe me, at a very high human price.

Towards a New Development Strategy

INTERVIEWER: Tell me about the people you got to know in Boston [in the early '80s], and what outlook you shared.

ALEJANDRO FOXLEY: Well, I was at MIT at the time, as a visiting fellow. I got to know Domingo Cavallo and Pedro Aspe very well. Pedro Aspe became the minister of finance in

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Mexico when I was the minister of finance in Chile, and Cavallo in Argentina. And we developed a view that wasn't as rigid as the one the Chicago Boys had developed, in terms of development strategy. And I think that it shows. If you look at what Cavallo is doing in Argentina today, you will certainly see a much more pragmatic type of economist, someone who believes, as Jeffrey Sachs does, that development is an effort that you have to, in some way, conduct, that you have to awaken the creative forces, and just freeing up the markets will not always do that job for you.