

Currently the president of Chile, Socialist Party leader Ricardo Lagos began his career as an economist and lawyer. He strongly denounced Gen. Pinochet's regime, and has served as minister of education and minister of public works.

Lagos discusses Chile's transition from dictatorship to democracy, globalization, and the need for new, global "rules of the game."

Chile's Closed Economy of the 1960s

INTERVIEWER: A few personal questions. You decided to study economics. Why did you make that decision?

RICARDO LAGOS: It's funny, you know. While in the last school, there were some courses in economics, and then I discovered that it was much better to study economics and to see how many houses can you build instead of deciding who is the owner of the house when you have a legal procedure. I thought that it was much more useful to have some economics rather than a legal background, so that's the reason why, even though I have a law degree in Chile. In the '60s it was much easier to convince an American university to accept somebody with a law background.

INTERVIEWER: And what ideas were floating around back when you were a student? What sort of things were being taught to you, and how did they affect your thinking?

RICARDO LAGOS: Living in a very closed world in this country meant that whiskey, Scotch whiskey, not to mention bourbon—nobody knew bourbon—but Scotch whiskey was something almost impossible to find here in Chile. Only a foreigner can afford to do that when you have a very closed economy. Then what you have is the sense that you can build your own economy in the way that you want, and this is the reason why, during the '60s in Chile, there were extreme political procedures in the area of economic policies, and these economic policies represented more market-oriented policies like Mr. Alessandri or some middle-of-the-road Christian solidarity based on the independent party based on progressive Christian principles founded by President Frei. And then later on there are also these policies of President Allende. But Chile to some extent became a country where all those policies were experimented with, and why was that? Because if you have a very closed country, a closed economy, then it's

possible to think in some of those areas—and this is the question—why, with regards to copper, our major resource... Well, there was a big discussion, and finally all political parties of all the spectrum agreed on the nationalization of copper. That gives you an idea in a way of what is the meaning of living in a very closed economy.

INTERVIEWER: Talk to me a bit about how your thinking has evolved. In the '60s, what did you embrace, and how has that thinking changed over the years?

RICARDO LAGOS: Well, the change is the following: When you are living in a closed economy, then you have natural monopolies in the country in many areas. For a small economy like Chile, 15 million people is not many; therefore, with one or two beer factories, then you have almost a monopoly. Therefore, how are you going to combat that? How are you going to battle against monopoly? It's quite different when you have an open economy and you are asking for a very high price in beer. Well, you are going to import some beer, and today you go to the supermarket and you find foreign beers all over Santiago, all over Chile. Now, that's the big difference. So when you are living in that society, then regulations are going to be extremely important....

Chile's Transition from Dictatorship to Democracy

INTERVIEWER: I'll ask you more about that in a bit, but going back to history—of course you knew Salvador Allende. Will you describe that relationship you had with him?

RICARDO LAGOS: Well, I was designated by Allende to be ambassador in Moscow. I never reached Moscow. I think that Allende was what you can call today a Social Democrat. He was member of Congress here. In more than 25 years, Allende tried to introduce changes in the economic policies in Chile and economic structure of Chile. He nationalized not only copper but quite a number of industries that were in the private domain, and therefore all Chilean society became extremely polarized. It's true. It was polarized before Allende, but during Allende's period, society was extremely polarized. At the same time, it seemed to me that, from the point of view of the economic policy as such, Allende did commit some mistakes. We have a tremendous inflation and, therefore, I think that this was something that put us in very difficult times. His government nevertheless was elected by 56 percent of the vote. Allende did an election for Parliament. He was able to increase this majority vote—called "majority" but

only 36 to 43 percent—but in that time the country was too polarized. Now it's true that Allende was a democrat. It seems to me that he knew that it was very difficult to introduce the changes that he was trying to introduce, but also the political system of Chile was such that it was possible, even though you have one-third of the electoral vote, to be elected president. This is what happened with some other cases.

INTERVIEWER: In the famous words of Milton Friedman, free markets bring freedom. [But] then there was Pinochet, who brought free markets, but he may not have brought freedom. Can you comment on that?

RICARDO LAGOS: Well, it's a little bit funny, because you have a dictatorship after [Allende], and it was possible to impose some kinds of economic policies without regard for what Congress may say. Now, what you had in Chile was the following, if you allow me to use this in the area of a market economy or in the area of economy. We were citizens over 21 years old, so we had a full command in the area of political rights. It was necessary to take some steps, you know. You had a constitution with a lot of [stipulations] in order to take care that citizens did not to go too much beyond what the people that controlled the constitution said it was possible to do. As somebody says, in the area of cultural ideas [there is a small clique that] has to tell you what are you supposed to see, what you are supposed to read, and [imposes] some sort of censorship. This is not exactly the case, but to some extent there has been some feeling in this connection. In other words, Milton Friedman's ideas, they came to Chile through the Chicago School, and the Chicago School was working in Chile with the Catholic University during the '60s and the '70s. It's my impression that they were able to provide to the military government some sort of ideas that fit to each other. There was a program there, and they took the program.

Now, what happened lately is that together with the period of Pinochet, particularly in the '80s, the world as we knew it was coming to an end. The world polarized between the Soviet Union and the U.S. The Iron Curtain of which Mr. Churchill used to talk about was vanishing. It's amazing. At the worst stage the Berlin Wall was coming down, and at the same time, in the case of Chile, Pinochet was being defeated. Now, what happened with this was that, while you have this case, at the same time the economy was opening, and therefore the changes introduced by the Chicago School according to Friedman's theories were changes that came at

a time when the world was also changing, and therefore when democracy was recovered. Then what you had after democracy was recovered—how are you going to take those measures, or those policies, implemented under the Pinochet regime and change those policies in such a way to have a more humanitarian face?

At the same time it seems to me people sometimes are amazed at the way the Chileans did their transition. It's true the transition from an authoritarian regime to a democracy is the major interest. How are you going to go from dictator to a president that is elected by the people? However, I guess it's much more difficult the other transition—to go from those economic policies taken under the dictator regime when you don't care about opinion polls, you don't care what's going to happen in Congress because you don't have Congress; you don't care about anything. But when you go to democracy, then I think that the coalition that was able to perform this transition—I was minister of education during those days—has a tremendous challenge. How are we going to explain that there are some structural policies that have to be maintained? But at the same time we have to take care that the more humanitarian face is introduced. In other words, because the world changed, you couldn't go back to the policies of the '60s or '70s. It was necessary to go to the policies of the future....

As I say, it seems to me that it's extremely dangerous to have a general who likes to have a coup, but probably it's more dangerous to have a finance minister that is a populist and probably then we are going to end up with a mess in economic policies, [which is] what happened in some countries in the region. In other words, I do believe really that to have sound economic policies is not something of the right-wing or the left-wing parties. It's simply sound economic policies now took some time to learn.

INTERVIEWER: How did you learn that lesson?

RICARDO LAGOS: Chile was one of the last countries to have this transition. The transition was done first in Argentina, after the defeat in the British Falkland Islands, or the Malvinas. After that defeat it was very clear that the military people couldn't command Argentina anymore, and you had a transition to President Alfonsín. And the military in Brazil was going down, and then there was an opening also in Brazil, etc. But at the same time, you know, it was a trend in those countries to go back. In the case of Argentina it was very difficult at the

end for President Alfonsín, because of the economic policy, to be able to end his term, and he just transferred to the new president, Menem, six months in advance. In other words, I would say you have to realize that the first question is to have order in your own economic and fiscal policies; second, to have growth; and then after you have growth, then we are going to discuss how are we going to distribute the outcome of that growth, and not the other way around—first talking about distribution, then about growth, and finally about how we are going get the economy in good shape.

Pinochet's Economic Legacy

INTERVIEWER: How do you think the legacy of Pinochet has shaped the economy in Chile?

RICARDO LAGOS: I think that there are two questions in this. The first one I think is a cultural one, the first time in Chilean history when you have 10,000, 20,000, 30,000, 40,000 Chileans going abroad to New York, Washington, Stockholm, Rome, Paris, to the Eastern European countries. Either you are a leader because you are a trade union leader, or because you are a politician, or because you are a cultural figure. Many writers, painters, people were expelled, so what happened when so many Chileans suddenly start looking at Chile from abroad, the most important thing I would say is [they gain] some sort of cosmopolitan point of view of what's going on. I remember going to a congress of the Socialist Party in Bordeaux, a congress of those Socialists living abroad. They wanted to be together in Bordeaux to discuss what can we do with Mr. Pinochet and so on and so forth. So I went to Bordeaux. I was living in Chile. Everybody was coming from [all over]. We used to say those living here command tremendous respect because you were on the spot here. There was a very funny discussion, and if you had been in Bordeaux you could say this chap came from Germany, this one from Italy, this one from the U.S., in the sense that their politics had the [influence] of a Nordic country; the more sophisticated, renaissance political modelling in Italy; or the tougher one of the German friends, to say nothing about the French.... I mean, this is the reason why people start talking about some renewal in the thinking of socialism. To a big extent this renewal has to do with the way that the left-wing intelligentsia and the left-wing leadership were able [to come together]. So the [influence] of the European and American countries, that's a tremendous impact from the cultural point of view.

After that, then let's go to the second point of your question: What happened with Mr. Pinochet and the economic policies? The way to understand the legacy is after those people that were abroad perceived the functioning of the U.S., the functioning of the Nordic countries, the Socialists and the left wing had some sort of disdain for these Nordic countries, to say nothing about Social Democrats. Mr Mitterrand came to Chile in 1971. Nobody cared about him. The only one that cared about him was President Allende, who received him in the presidential palace and gave a dinner for him. In other words, what I'm trying to say is that the legacy of Pinochet I think is important in terms of making the necessary changes in the economic policy in Chile to open the economy. We used to have 170,000 textile workers, and you open the economy, and now you can import textiles from all over the world. Our industry came down from 170,000 to 30,000. It's a tremendous impact, but once you do that, now our industry is important ... [to] the U.S. so we [can] say, "Look, we already have paid the price of opening the economy, and we are in a small country; therefore we want to benefit from trade." So I would say that the legacy of Pinochet was that through the changes in economic policies, Chile was able to be prepared for a world that is going to be much more open.... I would say was that we were ready for what happened during the '90s after the fall of the Berlin Wall and after the changes in the global economy.

On Social Services and Public Goods

INTERVIEWER: This documentary is about a battle of ideas. It seems like the world over embraced free-market reform, and it seems like even you had certain ideas as a Social Democrat and now have embraced a lot of free-market reform. How do you view yourself within that battle?

RICARDO LAGOS: I don't agree much with that statement. Let me explain this way: It's very funny that with economics and with Mrs. Thatcher, even though they were extremely successful during the '80s, they never were able to catch the idea of social justice. The idea of social justice remains either closer to Democrats or to Labor in England.... What I say is this, because it seems to me that those market-oriented economies normally used to think that it is possible to solve problems through market solutions. This is not true. Let me explain. Since man lives in a community, there are some social services that have to be provided for the community. The first service, of course, is defense. Someone has to defend us from foreigners that attack us. Then you have social services, or public services, if you prefer, or public goods.

In Chile there was a big discussion, like in the rest of Latin America, about education, and after 20 years, in 1920, we decided that every Chilean kid has to go to school at least four years. It was a tremendous effort for Chilean society. Four years of schooling—that was a political decision taken by the citizens represented in Parliament, and they decided, look, we are going to have four years of compulsory schooling. Then another president says six years, another one says eight years, and now at the end of my term I will say 12 years. It means that we have an economy that can sustain 12 years of compulsory education for everybody. That's fine; that is a market decision. No, it's a citizen decision.

I was minister of public works, and as such I had to provide water in rural communities. Water in all communities is very easy: You have a company, and the company will charge you, and you have water. But what about rural areas? And what about in poor rural areas? To sum up that program, at least the state, the government, has to have spent something around \$2,000 to \$5,000 per family in order to provide them with drinkable water. Why is that? That is a citizen decision, not a market decision. This morning I had a radio interview. Normally about once a month I talk through the radio, and I got a question from somebody [in the audience from a city] in the Southern part of Chile. And she says, "Why in the hospital we don't have scanners?" She thinks that she is entitled to have a scanner in the same way that everyone thinks they are entitled to have an X-ray. If a physician says you have to take an X-ray, then you will have your X-ray. And what if he says you have to have a scanner, and the answer is "Sorry, madam, we don't have a scanner in this hospital"? So either you go to the Northern part of Chile, or you do not have a scanner. When are you going to make a decision that you are entitled to a scanner? And therefore to have a scanner is also a public good. You see what I mean? And that is a political decision. Why is there this long speech because I say look, when we decided 12 years of schooling, drinkable water in rural areas, or to have a scanner in a faraway hospital, citizens are making a decision? Water and services are going to be public and therefore have to be provided for everybody. Either you're going to pay for that, and if you're unable to pay you're going to receive a scholarship in the case of education, or you're going to receive a subsidy. Now, what is the real change? In the past, when you say four years schooling, the state built the schools; the state taught the professionals, trained the professors. The state did everything. In other words, to say "I want to have a public good" was equivalent to saying "I need the state to be able to provide the good itself." Do you see what I mean? ... Today you can have public and private schools, but I can give the subsidy for

the private schools as we do in Chile. In Chile, 62 percent of all the students go to public schools; the others go to private. But of those private schools, the state pays subsidies so that the kids can go to school if it is private and you prefer to send your kid to a private school. But a decision that everybody has to be in school is a citizen decision. What is the difference? That I want to have a society defined by citizens. I don't want to have a society defined in the market by the consumers. All citizens are equal, one vote. All of us are consumers, but our voting capacity as consumers is quite different according to our income. Therefore, if we build a market society, we will have an unequal society. If we built a citizen society, I think that we can go in the direction more to a more egalitarian society.

Now after saying this, let me say this: It's one thing to say, "Look, we have a market economy." It's a different story to say, "I don't want to have a market society." I think it is really the big issue today in the world. It's true we are living in a global world where the market is allocating resources, but where to allocate resources in the area of public goods and services is something that remains in the domain of the citizen. Nobody will discuss that in connection with defense. It is not a question. Defense is a government decision. It's a government domain. And you see that, whenever you have some difficult questions in this area, the states are growing and growing and growing.... I think in the long run citizens are going to shape the societies where they want to live.

Public Services and the Role of the Market

INTERVIEWER: Do you believe that the term "socialist" used to describe you is an adequate term or a bad term?

RICARDO LAGOS: I think it's adequate. I mean, what "socialist" means is the very old aim of mankind to live in a world where you have some kind of social justice, where everybody has equal opportunities. Now, 200 or 300 years ago, the differences between the haves and the have-nots occurred over the ownership of land. One hundred and fifty years ago, the difference was what Mr. Marx used to say was the ownership of the means of production. How can you explain today the difference between the haves and the have-nots when you have a Mr. Bill Gates? Apparently today what explains the difference mostly is education, creativity. In other words, if you want to be socialist today, I would say that education is the most important. We have a tremendous challenge. All of our kids go to school, but the difference in

quality in those schools is closely related to where they live, if they live in poor areas, middle-income areas, upper-income. And therefore, if you want to have equal opportunities in education, a socialist point of view is to give more resources to those areas where they lack resources. Let me give you a small example. I was in a campaign, and I went up to a small town where most of the people work in the fisheries. You know, we export salmon and things like that. And I told them: "Look, I have a grandson, and my grandson gets to my house and says, 'Hi, abuelo,' and then goes to play with the computer. And I wonder how many of your kids, when they go to see their grandfather, say, 'Hi there, abuelo,' and go to the computer." They look at each other and say, "None of us have a father with a computer." And I say: "Well, that is the difference. Because none of you has a computer in your house, we need to have a computer in your school; otherwise your kids are going to be not as well prepared as my grandson." This ... is not a market decision, that's all.

INTERVIEWER: So what role does the market play nowadays?

RICARDO LAGOS: The market would allocate resources. The market can—this is very important—the market also can provide those public services that society defines, and probably the market's more efficient to provide those. Let me give you an example. As the minister of public works, I had a tremendous challenge trying to build highways in Chile, and I discovered with the public money it was impossible to do, so I defined what kind of highways I wanted—the design for a speed of so many miles per hour, etc. I did the whole thing, and then I said I'm going to charge tolls for the highway, and therefore, private money is welcome. And I built a business in Chile [to raise money for the highways and got] about US\$6 billion. For Chile that's a lot of money [for] building highways, and now we have a change in our infrastructure, and we are using it. And many people say, "But how can you, a socialist, put private money in public roads?" And I say precisely because I am in a hurry. I need to build many highways if I want to get benefits of a Chile that is improving. But to do that, you know, I am using something that belongs to the financial and to the market area, but the service is public.

Dependency Theory as Applied to Chile

INTERVIEWER: Let's go back a bit in time. I understand that you had a chance to be with Fernando Henrique Cardoso [president of Brazil since 1995], and in those days there was a lot of talk of dependency theory. How do you view that theory after 30 years?

RICARDO LAGOS: Yes, we were good friends with Cardoso in the '60s. Cardoso came to Chile as a political exile from Brazil, and he was working at the Economic Commission for Latin America [ECLA] in the United Nations, and we used to work together in quite a number of areas. Now, the dependency theory was to some extent an explanation of the world as it was during those days, where you were "dependent" because you were providing primarily raw materials and you imported manufacturing goods, and then your terms of trade were very uneven vis-a-vis those countries that were purchasing the raw materials. The dependency theory plays a role, because to some extent, the economic policy that you can get from those [conditions] in theory was you have to build economic barriers very high; you have to protect yourself, not have a chain with the rest of the world. In other words, the dependency theory was an [outcome of] a particular stage of the world after the second world war when most of the trade concentrated between the Atlantic Ocean, the U.S., and continental Europe, and therefore most of the growth economy took place in another part of the hemisphere. And therefore we were "dependent" of what was going on in some other parts of the world, and we couldn't profit from the benefits of the technological changes because technological change was taking place there.

And here we were dependent also in another area. Let me put it this way: The U.S. economy, Japan, and Europe were complete economies in the sense that they produced consumer goods and capital goods, and the capital goods that they produced were capital goods produced for the factors of production that they have. They wanted to say they were doing this for productivity, and when we had to import this capital, we were dependent on the technology that was provided for the Northern part of the world and not for the Southern part. In other words, I would prefer to have a capital good more intensive in labor because I have too much labor, and in the North they wanted to have a capital goods intensive in capital and not in labor because the factors of production were very different. In that sense, we also were dependent because we were unable to produce our own capital goods. The difference is, I would say, that because we had a closed economy, we were in a situation to produce almost

everything, which is nonsense. I mean, today I say, well, this is nonsense. When is Chile going to produce a car of our own? Never, because of the amount of [resources] you need to produce. You can produce cars if you're going to export, but not for the 15 million Chileans. We are going to have our own car; therefore, the dependency theory to a big extent had to deal with a world that doesn't exist anymore.

INTERVIEWER: Does that mean, for an audience that doesn't always handle these economic issues, that it meant that each country had to produce each product? Could you expand on that a bit?

RICARDO LAGOS: Oh, I don't think so. I don't think that each country had to produce each product. I think each country has to produce those products where they have a comparative advantage, and therefore, when you are living in a closed economy, then every country has to produce every product. When we are living in a more interconnected world, then we are going to produce wines, we are going to produce fish, we are going to export our fruits and some copper, and in addition to that we would like to provide some services, and if Chile has the consent of Latin America in Santiago we are happy with that. We are, because we are producing services for the rest of the Latin American countries, over the rest of the world. You see what I mean? Now the difference is that 30 years ago, because the theory was that you had to produce almost everything, and because the terms of trade were different between the more developed countries and the underdeveloped countries, then the question was, how are you going to change this? In other words, with one ton of copper I was able to buy two shirts. Later on, with one ton of copper I was able to buy only one shirt. So this means, you see, that even though the copper is exactly the same ton, the terms of trade change from one to two to one to one—that's it.

The Advantages and Challenges of Free Markets

INTERVIEWER: Why did dependency theory go bankrupt? Why don't we hold on to that theory today in Latin America? Why did we move on?

RICARDO LAGOS: I think that primarily because the world changed in the sense that the we discovered that it was possible to have our own areas of export, if we do the things in the right way, to the rest of the world; that it's not going to be necessary to produce here in Chile

products in every area, but we can export some, and we can import the others. And if we were to import, if we were going to have really free trade, we were going to improve our standard of living, and therefore it's cheaper for Chile to import a car from abroad provided that we are able to produce and to export with wine. The question is to discover what are the major areas where you have a more comparative advantage, and it seems to me this is what really makes a difference today. I'll give you a small example: I went to see a factory, and they were exporting fish, canned fish, to Malaysia and to England. In the case of Malaysia they have to add tomato with extremely hot chili. In the case of England the tomato was without chili but a little bit of oil, and somebody from England came every six months just to make sure that that can was done in the right way, according to the British taste. Our ocean changed, and suddenly the fish that we were able to can and export abroad began to disappear, and this entrepreneur decided then to import this fish from Ecuador. [But] we were not only exporting fish, but also the know-how: How are you going to export the fish that is right for the taste of the British or the Malaysian friends?

Second example: We produce the coho salmon... and I discovered that we were able to export the coho where you put it in ice and you take out the red part of the coho to sell to the Japanese friends. They think its red parts do some important effect on the human body, and they sell to the Japanese, and the rest of the coho is sent to Paris. The thing is that the moment you take the coho from the ocean till the moment that it is in the French restaurant in Paris has to take no more than 30 hours, and we do that, and our workers start taking out the red part of the salmon according to the flight of our friends from Santiago to Paris. Okay, what are you exporting, coho salmon, or you are exporting the know-how for being able to send all things in 30 hours? I wonder if I can say this, but the salmon that we produce is different if the salmon is going to America or if the salmon is going to Japan. And we feed the salmon with different ingredients in order to have a more orange or pink Oriental salmon or a more yellow salmon according to the taste of the consumer. [That allows us] to say: "Look, if we are able to do that, then this means that we profit from trade and we increase our standard of living. If we are able to sell our salmon to our friends in Paris ... then we may import some [items] from Paris, okay?" And that, I think, is the new world that is facing us in the 21st century.

And now the question is once the country's growing, how are we going to make sure that that growth ... improves the standard of living of the worker ... who is doing his job in the Southern part of Chile to export the salmon? And this means then that we need to have unemployment insurance. It means that we need to have some social security, to have some kind of pension system, etc. This is a tremendous fight, because not everybody will agree with that. Somebody will say the market will take care, and I say that's not my point of view. I'm in favor of the market in order to export coho, but I also want to know that worker has unemployment insurance. In a modern world you need to have flexible legislation in the area of labor. I think that some kind of unemployment compensation is essential, and this is really the difference between those that think that the market is going to solve everything and those that think that some kind of social security is going to be essential. Now of course I understand the discussion of what's happening in social security in Europe, that in Europe the flexible legislation is not much higher than the U.S., etc. But some middle of the road has to be found if we are going to live in a better society.

Bridging the Income Gap Through Education

INTERVIEWER: And with that very argument there are so many people who say that yes, free markets have improved the standard of life for everybody, but yet inequality is as large as it's always been. So the rich got richer and the poor got richer, but the gap hasn't been closed.

RICARDO LAGOS: I think that the only way in the long run is education. That's what really makes the difference. It seems to me that the correlation between education and income is very high. Therefore, what normally you have is that in the short run—I mean short run, 10 years—you are going to have a more uneven distribution of income. ... What I am trying to say is look, it seems to me that you can improve distribution of income through taxes and expenditures; that's very easy. I tax the higher income, and I provide goods to the poor. You can do that up to a point. After that you have to do the hard work, and the hard work is education, to invest in human capital, and that's the only way. And the differences in income are going to be much smaller when you go to Scandinavian countries than when you go to some other countries in Europe, but this is primarily because of education, and also because of the old discussion that you had in the first part of this interview of who is going to make a decision about public goods and services, because if you have public goods, and public goods will provide you at least a minimum that is provided and guaranteed, then it's much easier to

discuss the position of income after you know that you have education for your kids, you have health for the mum and dad, you are old and you have a good pension when you are going to retire. And this is essential in a modern society. If you don't have those things, the position of income is going to be not only uneven but extremely unjust. Now, always you will have differences in income; that's normal. Fortunately not all of us are the same—we are different as human beings.

Globalization Without Governance

INTERVIEWER: What do you think people are protesting about outside of Seattle? Can you understand that?

RICARDO LAGOS: That's another fascinating story, because up to now, we have been talking about our internal economies in our own countries, and we have not said anything about the global world. I mean, let me put it this way: International relations far away in Europe was a process of equilibrium of nations, and the Cold War was the last part of that equilibrium. You have equilibrium between Russia and the British, and the British and France, etc. Then you have the U.S. and the Soviet Union, another kind of equilibrium. Small countries like Chile used to do some equilibrium. In the first world war we were neutral; in the second world war we were neutral up to 1943, and we declared war on Japan after Hiroshima and Nagasaki. Today we are living in a world where, after 300 years, there is only one military power. This is a tremendous change. In the conference in Quebec I had the opportunity to talk on the issue with President [George W.] Bush, and I said: "You are the first president that has the tremendous responsibility of being the head of a country that is the only military power." Now you have at least three major economic areas of the world: Europe, America, and Asia. Okay, that's fine. And ... you have a tremendous amount of financial capital going from one part to another. Who regulates that? Nobody. You have some control, but not all. In other words, we are moving to a global world, but we have been unable to provide in that global world some kind of rules about how are we going to manage in that world. After the second world war we had the United Nations. There was a tremendous discussion in San Francisco, but in San Francisco you had 50 countries. Twenty of those 50 countries were Latin Americans. We have a different voice, don't you think so? ... What happened 50 years later, you have one military power, but in addition to that, where are we going to discuss economic matters? In Chile, more than 50 percent of our gross domestic products are represented by export and import.

This is really an open economy. Therefore, it is essential for us, what's going to be the growth of Europe or America or Japan. Depending if they decide to have growth instead of inflation, then we are going to have growth also. I remember reading the memoirs of President Carter saying that one of the first times that he went to a G7 meeting, there was a tremendous discussion between Valéry Giscard d'Estaing, the president of France, and Chancellor Helmut Schmidt from Germany, and what they were fighting about was that France complained that because the Germans decided to fight inflation, they decided not to have growth and Giscard d'Estaing said, "If you don't have growth, I [can't] export [my goods], and If I can't export my economy's going down." And he didn't add, "If my economy's going down I may lose the next presidential election." So there the things are.

And at the other level, where are we going to discuss what's going on on the global stage? What can I do as a president of a small country with an open economy? Well, [I can] read every day the *Financial Times* or the *Herald* or the *Wall Street Journal*—that's it—to see what's going on. ... If we are going to be in a global world, it is going to be essential to have either the UN or some other areas to discuss these real issues, because now the only way to discuss those issues is in the G7, which is fine, but the decisions of the G7 are the decisions being taken by the more developed countries, the more rich countries, the more important countries from the economic point of view. But mankind has a six billion people. How many of those six billion people are represented in the G7? And the decisions that they take may produce a tremendous impact in the standards of living of the rest, and therefore, here I think is something extremely important in the way that we are going to build the international institutions in this 21st century. The United Nations was a tremendous advance, but ... what's there going to be ... for a global world now? What happened in Seattle is very important. The people that complained in Seattle finally accept that they are connected through the Internet; they are globalized also. The question is not to be or not to be globalized; the question is, how are we going to shape this global world, or is it going to be only through market mechanism or probably the political will of those superpowers? This is really the question. And it's my impression that this is a long road that we have to walk. We are in just the beginning of the discussion.

Establishing Rules of the Game for Globalization

INTERVIEWER: We were just talking about the choice that the world faces, and where there's no globalization. Where do you see the pendulum swinging? Is the world going to embrace more free markets, or are we going to go to a bit more state control?

RICARDO LAGOS: It seems to me that on the global stage now you have only markets, and therefore some kind of rules will have to be applied. ... You have a successful country, then all the financial money would go there. But because you have so much money, the rate of exchange is going to be down, and because the rate of exchange is going to be down, then the country's going to lose competitiveness, and probably the money is going to be taken out. Then you have a crisis. And who is going to define during a crisis? Some people in Wall Street, some risk analyst that said, "This country is very good; put your money here," and you're on the upturn. And then they'll say, "That country is not very good now"; then there's the downturn.

I can't resist telling you a small anecdote. President Gonzalez [Spanish prime minister and president Felipe Gonzalez] told me that once the peseta was going down, and he called the Central Bank as he didn't know what was the explanation. The next day he has to go to Germany, and he went to Germany, and he gave the orders to defend the peseta, and the Central Bank was selling dollars, dollars, dollars to defend the peseta. On the plane from Madrid to Bonn, half a billion was lost by the Central Bank; late in the afternoon, another half a billion. Finally he has to talk with Karl-Otto Pohl [president of the Bundesbank, 1980-1991], and then the Bundesbank went to defend the peseta.

In short, more than \$4 billion were used to defend the peseta. He arrived in Madrid; nobody had an explanation what happened with the peseta. He was very mad. Finally somebody arrives and says, "Mr. President, I have an explanation—but do you know anything about economics?" "Yes, but I know a little bit about the real world. A woman in Hong Kong decided that probably the peseta was going to be devalued, and therefore she recommended if you have friends to sell pesetas, and after she decided this, well, the selling of the peseta was taking place over and over." The question is, she has the right to sell the pesetas on advice from that, but some kind of institutionality has to exist. Look what happened with some friends in Argentina or in Turkey or in Russia or in Mexico in '95.

Well, who is going to make the judgment? Because it's very difficult. Let me give you an example of my country. We are suffering because now the terms of trade are against us. Copper is going down, paper is going down—that's it. "I'm sorry; that's the market." "Okay, that's the market."

Two, what happened with foreign investment? Well, foreign investment is going down because the measured markets are not very good these days. Therefore, the investment is coming down.

Three, what about the financial money coming down? Well, financial money also is not coming in the amount it used to come. Now it's true—the market makes a differentiation; I cannot complain. We are able to [trade] in New York, one week, one month, after September 11, that's fine. But all that I'm trying to say is it's going to be very difficult to think it is possible to have a global world without some kind of rules about how that world is going to behave, either in terms of foreign investment, double taxation. I mean, all the rules of the game that normally have to be applied within the country now will have to be at the world stage.

What else is the last discussion of the World Trade Association? What else is the discussion of the International Monetary Fund? What else is the discussion of the World Bank? And I think that the time has come to have a global discussion on all these issues—on trade, on investment, on taxation, on financial flows going from one country to another. It's a simple question of are we going to be able to have some kind of orientation, or are we going to be simply taken for what the market makes a decision? And the market does not always make the right decision, as the example of Mr. Gonzalez explains.

INTERVIEWER: So in a new globalized world, we also need new rules of the game?

RICARDO LAGOS: That's right. I think we need new rules of the game. Now, there is an effort to produce those rules by the year 2007. ... It may be that some areas of common ground have to be established. We try to do our task, and I think that Chile has been doing our task, and we have our economy in order. What we can perceive around the region is not very good from the point of view of the region. And therefore, we are for trying to take some measures, you know, what to implement and not to have a crisis in the way that we have now. It's

possible to prevent those crises if some kind of rules or some kind of regulations are established.

Toward Greater World Integration

INTERVIEWER: So is capitalism in crisis?

RICARDO LAGOS: I wouldn't say that it's in crisis. I would say that capitalism is going through another stage, from the country level to the global level. And when you go through one step to the next one, then you will need to have some kind of institutionality according to that. What is the meaning of the discussion between Boeing and Airbus, between the United States and Europe? About what kind of industry are you going to have in the area of air carriers, of the new planes that are going to be built? Can you imagine Europeans saying no to a merger between two American firms? That is the best explanation of a global world. The Europeans can say that. Can we? And a small country, 50 million people. ...

All that I'm trying to say is this: Look, there are some particular areas where some kind of coordination is going to be essential in this new world. In the same way, let's go back to the Middle Ages. Before you have the national state, before you have France or you have England, what do you have? Dukes? Counts? The feudal system. And when you have the state, then you need to have rules. Before that each feudal state owed money. It was easier to have one single currency. Look what the Europeans did with the euro. Are we going to have just one single money? Probably it's too far away to think that. But there's a tremendous advantage for a country to have the money that is the only international money that you have in the world. Don't you think so? When you have a deficit or a surplus in your budget, that is a tremendous advantage to know what happened with that.

And I do think that some kind of discussion in this area is going to take place in the near future. Informally, there has been a discussion on these issues that is beginning now. Where is the discussion going to take place? In Bretton Woods. Bretton Woods set the agreements for the world in 1944, with Mr. Keynes and Mr. White [Harry Dexter-White, assistant secretary of the Treasury under FDR]. And today many people probably hearing of the missions will say probably Mr. Keynes was right, but Mr. White was much more important because he represented the U.S. All that I'm trying to say is, are we in a position now to go to Bretton

Woods, and who is going to participate in this new Bretton Woods? One hundred and eight countries. How realistic is that? Or probably the major countries, and the major countries plus some other countries. This is going to be like the discussion in Seattle in the World Trade Organization that, at the end, you know, you have a group of 10 to 15 countries making the discussion on behalf of the different areas of the world. Something of that sort has to be thought of if we want to be able to live in a world that is going to be much better.

Technology is introducing us to new areas that we never saw before, and therefore I think that if we do the right thing, we can defeat the famine. We can defeat those things, and protect human rights but also understand that we need to live in a world that is much more secure. And secure means not only to fight against terrorism. Secure means to fight against unemployment, fight against diseases, fight against etc. And it seems to me that some consensus now is emerging, some consensus in terms of how we are going to keep our environment. Can we introduce some rules about the environment at the international level? And these more and more are going to be areas of international talk in a world economy, and this is new.

INTERVIEWER: So even within globalization there's tremendous inequality. I mean, how does it affect a country like Chile? Do you feel left out from the process?

RICARDO LAGOS: I wouldn't say left out, because we participate in the process. In a sense we are part of the world. More than 50 percent of our product has to do with either our export or our import, so from that point of view we feel comfortable. The question is not to be against or in favor of globalization. Globalization is a fact. The question is that I wouldn't like that, because of that fact, some countries perceive that they are—how can you say in English?—[passive]. There are those that globalize and those that have to accept the fact that they are going to be globalized. This, I think, will be very, very bad. And I think that globalization represents an opportunity for everybody. And I think that globalization has arrived and is going to stay, and we are going to be living in a global world.

INTERVIEWER: So what do you say to the demonstrators?

RICARDO LAGOS: That they are right in a sense; that they are asking for rules. At the beginning the demonstrators were against globalization. Now they are not against; they realize that that it's a fact. They are asking for some rules, and I think that they are right. I mean, some rules have to be established.

The Argentine Crisis

INTERVIEWER: What do you say to those that say that what happened in Argentina shows that market reforms just don't work?

RICARDO LAGOS: I'm not sure that the situation in Argentina is only an economic one. I think that to some extent there is also some kind of political inability of the political leaders to agree in what are the major areas of concern, from the point of view of Argentina. They have a federal republic, and as such then, this state has also a position to have their own budget and therefore go abroad and ask for credit. And this is a little bit different in our countries. If you don't have a central economy that will authorize the credit from the public sector of the economy, not only the central government but also the other, the provincial governments. But more important, it seems to me that in the case of Argentina, it's also a question that, if the [International Monetary] Fund keeps saying always "You have to adjust, adjust, adjust," and that's the only answer, that I guess is not going to be the right answer at the end.

When we were talking about who is going to classify the risk of the country, the deficit of Argentina is not bigger than the deficit of some European countries. And what happened in Europe, they have confidence. What happened in Argentina is they do not, and therefore it's not only an economic problem. I would say it's more today a political problem.

INTERVIEWER: So what happened there was that they didn't implement enough reforms? There was no willpower?

RICARDO LAGOS: No, I think that it's not a question of implementing reform. I guess it's a question of trying to live according to your means. I mean, it's like a family, you know. If you earn \$3,000 per month and you want to live like you have \$5,000, at the end we're going to have some problems. It seems to me that that's really part of the story of Argentina.

Defeating Gen. Pinochet

INTERVIEWER: What happened to you while Pinochet was the president of Chile? Give me that stage.

RICARDO LAGOS: Well, I went abroad. I got a nice offer from the University of North Carolina, and I spent one year in Chapel Hill. Then I went to work with the United Nations on a project about a postgraduate training, social sciences in Latin America. I was very much in academia rather than in politics. And finally I returned to Chile in 1978 with the United Nations. But at the same time I realized that I was fortunate enough to be allowed to return to Chile. I was never on that list of those that were prevented, and I have a sense of responsibility of what to do.

And then in 1983 there was the beginning of the protest against the regime. There was some political formation of the Christian Democrats and the Socialists. Historically, Socialists and Christian Democrats fought each other very much, and I thought that the time had come to work together in order to recover democracy. And this was very difficult to explain to the socialist world in Chile. Finally, they understood, I think, and we were able to form a political coalition in order to restore democracy. At the time I had to leave, of course, the United Nations, and I went to the political arena. Well, it was difficult, because political parties were not recognized in Chile.

I remember that in the press Juan Gabriel Valdes, the leader of the Christian Democrats, was mentioned as the "former Foreign Minister Valdes," and I was presented as the "economist Mr. Lagos"—never, never a reference to political views. But anyhow, I mean, then we decided that it's necessary to have some kind of opposition to Pinochet. Well, the question of who is going to make opposition is difficult to say. But at least they don't understand that. They put me in jail once, but that was for a short period of time. Then ... we defeated Pinochet, and so on and so forth.

After that then, we supposed that this was going to be a short-term coalition, just for the transition. But in the process of ruling the country with the Christian Democrats, we discovered, as I said at the beginning, that more important than the transition from dictatorship to democracy was the transition of a backward to a more modern country and to

a more just country. And therefore they would keep together the coalition, and we were able to introduce the changes that are essential to live in a better world.

Now, 17 years of dictatorship is quite a number, and therefore Chile was extremely divided during those days. Violation of human rights existed, and to some extent, Pinochet became a symbol of many things in the world stage. And it seemed to me that we had been fortunate enough to demonstrate to the world that it was possible, also in Chile, to judge Gen. Pinochet, and this is what our tribunals did.

Some friends abroad on many occasions told me, "But don't you think that you're going to be unable to do that?" And therefore we had to do it. And I say, if that is the case, our democracy is not working. And I think that the fact that now I have been in a position to nominate a woman, a Socialist and a daughter of a general that was tortured by Gen. Pinochet, as the head of the armed forces demonstrates to the world that things in Chile have changed.

INTERVIEWER: Have you had a chance to speak to Pinochet over the years and tell him what you think about him?

RICARDO LAGOS: Yes, to the first part, not to the second part. And let me say, when I was minister, he was commander in chief, and therefore on two or three occasions, social occasions, we had an opportunity to talk. I was introduced to him by President Aylwin when I was minister of education. We talked about normal things that you talk about in a social circuit, but we never had a chance to have a more profound talk.

INTERVIEWER: What would you say to him if you could tell him more of your thoughts?

RICARDO LAGOS: Well, I think that he knows what I think. I had an opportunity once to talk to him through the TV, as a typical type of a political discussion, you know—how to use TV for a political discussion.

INTERVIEWER: So once upon a time on PBS you told Pinochet what you thought. Could you give me that anecdote?

RICARDO LAGOS: ... What happened was that I said straight to the camera, to Gen. Pinochet, what I thought that it was necessary to say—you know, not to continue the violation of human rights. I did it with more strength and force than what I'm saying now to you. But I think that was an important part in terms of making people sure that it was possible to register, to vote. And therefore it was possible to defeat him.

When you are living under a dictatorship, normally the sense that it is impossible to defeat those that are in power is very important. And I think that we thought it was essential to defeat with a pencil, saying "no" in a vote. And we succeeded in that. And I think that was the most important part in our transition, that with a pencil we defeated the general.

The Need for Evolving Economic Theories

INTERVIEWER: You were an economist, and now you're a president. What economist has had the greatest influence on you?

RICARDO LAGOS: Well, it's difficult to say.... Some liberal economists have been of some influence. But at the same time you have to learn that since the world changes, then new economic theories have to evolve. And therefore it seems to me there has to be written yet the economic theory of a global economy. Up to now what we have is an economic theory that applies to a particular country, and what is the meaning of a monetary theory, about the rate of interest, if you're living in a global economy? Is the rate of interest that the president of the Central Bank of Chile fixes more important, or is the rate of interest of [another economy] more important? What is more important? In the past, I would say those in Chile.

... I remember once Keynes said never, never the Bank of England; that what is the most important demonstration of economy of a country is to establish the rate of interest. I remember the last time that I was in England I talked with the president of the Bank of England, and I said, "Do you remember the sentence of Mr. Keynes?" He said, 'Yes, I remember.' "What do you think now that it's an old sentence?" That's it—it's part of history, not of the new world.

What It Means to Be from the Left in Chile Today

INTERVIEWER: Being from the left is also part of what's different. What does it mean to be from the left now? What is different?

RICARDO LAGOS: The difference with regard to the right? With regard to the right, the major differences are, how are we going to define public services? Who is going to provide for that? And how are we going to finance those things? And the answer for them will be that the market will take care and trickle down. Once you have growth, the trickle-down will go to all sectors in the economy. For me, the trickle-down, if it works, is going to work in so many centuries, but I would like to be in a better world now and not wait for the trickle-down.