HL

Chile

19 October 1981

The Prime Minister has asked me to thank you for your letter to her of 18 October and to say that she looks forward to reading the enclosures.

MICHAEL ALEXANDER

Sir James Goldsmith

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James GOLDSMITH

Cavenham House,
Millington Road,
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Middx.

16th October 1981

(4)

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London SW1

Prime Minister
I have asked.
FCO. Rind.
Rind.

Dear Prime Minister,

Of course you have little time available for reading extraneous matter. Nonetheless I enclose three documents which I have just been sent by a Chilean Minister with whom I am dining tonight. They demonstrate the remarkable economic achievements that have gone hand in hand with the extension indeed, the re-establishment, of fundamental liberties in that country.

As a token of my respect for you, I enclose a statement I made to the annual dinner of the Harvard Business School Club in New York.

Yours sincerely
James Goldsmith

James Goldsmith

Encs.

ADDRESS BY MR. JOSE PIÑERA, MINISTER OF MINING OF CHILE, AT THE ANNUAL DINNER OF THE LONDON METAL EXCHANGE (GROSVENOR HOUSE, LONDON, 13th. OCTOBER, 1981)

An extraordinary event is taking place in Chile. After decades of sluggish economic growth in the midst of a booming world economy, our GNP has grown in the last five years at an average annual rate of 7,2%. The backbone of our future development is precisely in the mining sector.

Chile is a small country, with extensive natural resources, whether in mining, agriculture, fisheries and forestry, possesing ample, relatively skilled manpower, and with an insufficient capital stock. One of the fundamental conclusions of economics is that a country with these characteristics derives enormous advantages by opening its frontiers to international trade, finance and investment.

Chilean economic policy over the last forty years ignored this basic fact and through all sorts of protectionist devices promoted the artificial establishment of industries with costs much higher than international levels. The adequate development of our vast mining resources was impeded by this inward-looking strategy and by an attitude hostile to foreign investment.

A drastic shift in policies during the last 8 years has transformed our economy into one of truly free trade. We have eliminated all import restrictions and non tariff barriers to trade, and change our tariff system from one having highly varied import duties averaging 94% in 1973 to one having a single uniform 10% rate. The current economic model seeks to link the national economy to international markets; it is an outward-looking trade policy which makes it possible to reap the benefits of the specialization and exchange that can be provided by the world economy.

Our new foreign investment policy is based on three main principles: equal treatment for both foreign and local investors; free access for foreign investors to various markets and economic sectors; and free remittance of profits.

But the foreign trade and investment policies are not isolated features; they are merely a part of a new economic scheme which rests on two key principles.

As opposite to the creeping state control which has characterized our past development, we begin by being convinced that only an economy based on private property and individual initiative can generate the incentive system needed for a development take-off.

As opposite to indiscriminate State intervention in economic life, we believe that a competitive market with free prices, wages and interest rates is the best system to allocate adequately the country's scarce resources.

This economic scheme has corrected the fundamental imbalances characterising the Chilean economy in 1973. A then galloping inflation of one thousand percent a year has been reduced to roughly 12% this year. A fiscal budget with a deficit equal to 55% of expenditure has been brought into balance. In 1973 the State owned 450 companies; through public sales we have reduced that number to only 25.

In addition to the foregoing, structural reforms have been carried out to pave the way for sustained, accelerated growth in the national output. The results are eloquent. In the last five years, the GNP's growth rate has more than doubled the historic one of only 3.5%. If this trend is maintained, Chilean income per head will double not in 41 years as it was the trend, but in less than 12 years.

NEW SOCIAL SCHEME

One of the factors that will contribute more decisively to the stability of the Chilean society is the overall consistency of the economic and social schemes. In fact, far-reaching reforms have taken place in labour and social security legislation in order to integrate workers fully into the benefits and the rationale of a free economy. The ultimate goal is to create a non-socialist social scheme, that is not only a policy designed explicitly to favour workers and the poor but one that, complementing the allocation of government resources, uses the efficiency of private enterprise, the indicators of market mechanisms and the vitality of individual free choice to achieve its aims.

A fundamental reform in this direction was the Labour Plan. This is a unique piece of legislation designed to reconcile the right of unionized workers to have collective bargaining with the right of the rest of the society not to be damaged by this process through higher inflation or unemployment. The crucial concept is that we believe that income re-distribution must be achieved through the tax system and the allocation of public expenditure, and that wages should reflect productivity levels as valued by the market.

Moreover, a radical transformation in the social security system, previously entirely runned by the State, is taking place by getting the government out of the pension business. Chilean workers have been given the choice to transfer their individual vested state benefits to pension funds managed by private financial institutions closely regulated by the authorities. In the new system, the pension, above a minimun guaranted by the State, has a direct relationship to the amount each worker has saved for this purpose during his life. In just four months of operation, more than half of the labour force have "voted" with their pension capital and moved over to the new system. It seems that workers, when allowed an individual and direct choice, come to the same conclusion as we have reached: that the private sector generally produces goods and services much more efficiently than state agencies or enterprises.

At the same time, the percentage of the public budget spent on social programmes such as public education, health and nutrition has increased from 27% in 1973 to more than 50% in 1980.

Our ultimate goal is to decentralize drastically economic and social power, not only because this is more efficient, but also because in that way we enhance personal freedom and contribute to the overall stability of society.

MINING POLICY

In this general context a new mining policy has been introduced to develop our natural resources within the framework of a free market economy open to international trade, finance and investment.

Chile is the world's third largest producer of copper, preceded only by the U.S. and the U.S.S.R. Furthermore, it has the largest share - around 25% - of the world's known copper reserves.

Chilean annual production of copper exceeds one million metric tons annually, amounting to 17% of world production.

It is very important to emphasize that our copper mines have the lowest over-all production costs, giving us a clear comparative advantage in this activity.

Chile is also a major producer of gold, silver, iron and molybdemun, the world's second largest producer of elemental iodine and owner of 40% of the world's known reserves of lithium.

Mining is probably the field of greatest potential wealth which Chile possesses. Its increased growth is fundamental so that the country can maintain its goal of doubling the historic rate of growth of the GNP.

There are those who advance with much emphasis the argument that countries rich in natural resources should keep their wealth for the future. We on the contrary believe that a country which has mining resources of a major kind should exploit them rapidly for various reasons. In the first place economic science teaches us that, everything else being equal, the value of resources developed today is greater than those exploited tomorrow. If the discount rate is 7%, the value of money may be divided approximately by half every 10 years simply by the effect of time. Given the value of time in every economic process, one basic responsability for any Government is to make sure that available economic resources are used to increase the rythm of the country's development.

In the second place, minerals have no value of their own unless there is some possibility of their being used. That aspect is decided by the technological and economic situation which may exist. As such a situation is basically a dynamic one, whatever resources may be "reserved" for the future run the risk of losing their economic value, for instance by being substituted in either production or consuption. In historical perspective there is evidence of such natural resources becoming obsolete, as is shown by the case of our nitrate.

Thirdly, we consider it is only fair to transform our natural resources into the only wealth which retains its permanent value for certain, that is human capital, which grows basically as a result of investment in education, health and proper nurishment. We must use the taxes and wages generated by the exploitation of our natural resources to eliminate poverty and raise the educational level of our people.

This process of faster development in the mining sector will be advanced by means of state and private enterprises subject to common rules. On one side, CODELCO, the greatest copper producer in the world, will remain in the hands of the State. On the other, we believe that exploration and exploitation relating to new mineral concessions should be undertaken by private enterprise.

It is a poor sort of nationalism to maintain that the alleged characteristic of non renewability of mineral resources requires that only the State should take over its production. Of course, a resource may be exhausted whether exploited by a state or private enterprise.

Moreover, the effect of reserving mineral production exclusively to the State generally prevents the development of the resource, even at a time of maximum advantage. Lack of political agreement, the existence of other projects which may be more profitable in terms of votes, and a scarcity of capital investment frequently have the combined effect of allowing the opportunity for exploitation to pass.

It must be emphasized that the State can legitimately share in the profits involved in mineral development in a much more efficient and less risky way by adequate taxation rather than by undertaking direct State participation in production.

Should it be of interest to the State to handle any given product for strategic reasons, for example uranium, the most efficient and responsible way of doing so is not to reserve it to the State but to establish the right of the State to have the first option to buy the product at the market price. In this way, those interested would be free to explore and exploit these resources - which would provide an incentive for the discovery and extraction of these minerals - with the sole restriction that once they reach a certain processing stage, they may be acquired by the State.

This new policy will be translated into a legislation which will eventually produce a remarkable development in the mining field during the 1980s. We believe that by the end of the decade we shall be able to produce two million tons of copper, thus doubling our present level of copper production.

The mining sector may be transformed and actually turned to be the greatest area of dynamism in the development of the national economy, thus contributing decisively to the gigantic effort of the Government to bring Chile out of its present state of underdevelopment.

In conclusion, I would like to end my remarks emphasizing the change of mentality that is taking place in Chile. Decades of poverty and frustration had bred a deep-seated public scepticism in the country's ability to provide its citizens with a proper standard of living. And yet, Chile has undeniable great, untapped natural wealth in a world which is becoming ever more anxious about the depletion of raw materials. Chile is also fortunate to possess a relatively skilled labour force and a talented managerial class.

One of the main achievements of our Government is that it has revived the people's faith in the country's potential. With the dynamics and efficiency of a free market economy and with the stability and fairness derived from a social policy respectful of individual freedom, my country is moving decisively towards greater prosperity for each and every one of its citizens.

December 1980.

THE CHILEAN SOCIAL SECURITY REFORM

1. INTRODUCTION. In November 1980, the Government promulgated the social security reform. The reform consists mainly in the establishment of a completely new system of individually capitalized pension funds administered by the private sector. The new system greatly promotes the social-economic philosophy of government economic policy makers. In the long run, the pension reform, designed to give every Chilean a personal stake in the country's economic performance, could have substantial economic, political and social impact. In the short run, the elimination of employer contributions to social security will strongly stimulate employment.

2. BACKGROUND. For many years, Chile has had one of the most complex social security systems in the world. Besides pension coverage, benefits expanded to include supplemental family allowances, medical care and protection against a wide range of income threatening risks to the individual or family, such as unemployment, death or disability.

   The system grew in an extremely fragmented fashion. Some three dozen public and semi-public institutions, each administering multiple social security programs with rather different levels of benefits, emerged over the years. Basic levels of benefits were set legislatively. Over time the evolution of these programmes came to reflect, in varying degrees, the political fortunes of vested interest groups.

   In addition to variable and discriminatory levels of benefits, the investment of social security funds was legislatively determined, so that the requirements of the system and its financial capacity to meet them, were economically inconsistent. In the end, just to maintain benefits - let alone to capitalize the future claims on the system - the government had to raise substantially social security taxes and increasingly subsidize the system out of general revenues.

   The deficiencies of the Chilean social security system have been recognized and studied for at least twenty years, but vested interest groups repeatedly thwarted efforts at fundamental reform. It appeared that only a government not having to respond to the numerous interest groups could bring about the basic restructuring of the system.

3. THE NEW SYSTEM. The social security reform has to be viewed in parts. In several important areas: health benefits, family income supplements, minimum pension provisions and unemployment coverage, there will be no major changes in benefits, but the government has moved to expand coverage to all the population and to fund directly these benefits through general tax revenues, as opposed to indirectly through a tax on the hiring of labour. Many extra-ordinary social security benefits offered by the various plans have been reduced or even eliminated.

In the most substantial function of social security, namely pension provision and related disability and survivor benefits, a major change is in process. The government's pension plan reform basically amounts to the creation of a fully capitalized pension system. The abiding principle is individual capitalization. Thus, every annuitant's pension benefits will depend directly on individual contributions over a working life. (Disability and survivor benefits are different, of course, but they too are to have an actuarial basis).

Another major feature of the change is the transfer of the pension system to the private sector. Privatization of pension funds is the most essential part of the reform. The reduction of the government role in the economy has been a bed-rock principle of the economic team. Privatizing the social security system is perhaps the largest single step taken to date in this direction. Nevertheless, there will be an essential oversight role for the government under the new system. The privatization of the pension system will undoubtedly result in a more efficient allocation of the capital resources invested in the pension funds. Private control over pension funds represents a considerable devolution of financial power to the private sector. Combined with the principle of individual capitalization, it would seem to militate against the possibility of politically powerful vested interest groups improving their pension benefits at the expense of the rest of society

4. SOME MECHANICS OF THE SYSTEM. Under the new system, each worker has to put 10% of his income, as a minimum, in a pension saving account. He can voluntarily increase his savings up to 20% of his income, and all these savings are deducted from taxable income. Private corporations can be established to accept and manage pension funds. The minimum capital requirement for establishing such private pension funds administrators (Administradores de Fondos de Pensiones

is approximately half a million dollars. The Government believes that this modest capital requirement together with the stipulation that the Administradora be an entirely new corporate entity, will promote great competition for management of pension funds. Individual worker-contributors will be free to select the Administradora to which their retirement deductions will be allocated. The worker can change from an Administradora at will, with thirty days notice.

A newly established Superintendencia de Fondos Previsionales will exercise close surveillance over the Administradoras. Additionally, the Administradoras will be required to maintain a diversified portfolio in a limited category of low risk financial instruments (debentures of public and private enterprises, mortgage bonds, government bonds, bank deposits). Within specified limits, the Central Bank will determine the guidelines for diversification of funds among financial instruments. Further diversification in the investment of the pension funds will be required by the limitations on exposure to individual enterprises issuing the acceptable financial instruments. There is no requirement to invest any part of the funds in government financial securities. A portion can be invested in government securities but, aşide from a 5% reserve deposit requirement with the Central Bank, upon which interest will be paid, it is not mandatory. Even though initiallly the portfolio does not include shares and foreign financial assets, the objective of the Government is to introduce gradually this possibility, of course within certain limits.

The Administrator of each fund will be required to provide a certain minimum rate of return to its contributors in relation to the average return of all the funds in the system. In this way, contributors would be assured that the return on their pension funds would parallel the progress of the economy. Moreover, by virtue of its surveillance over the activity and solvency of the Administrators, the government will be able to guarantee the individual accounts against capital losses attributable to administrative faults. Accounts would not, however, be guaranteed against losses resulting from poor economic performance, since it is the Government objective to link workers' fortune to the performance of the economy.

5. Besides the choice as to with which Administradora to affiliate, each participant in the new plan will also have to decide the manner in

which to receive a pension upon retirement. This could be either (a) a series of programmed withdrawals of the capital value of the account, or (b) the purchase, with the funds in the account, of an annuity from a private insurance company. In the former case the assets belong to the estate of the participant, to be passed on to heirs if not fully depleted. The withdrawal in the former case or the annuity in the latter could never fall below the minimum pension guaranteed by the government. This minimum pension (around US$ 100 per month) is guaranteed to all participants upon reaching the legal age of retirement(65 for males and 60 for females if they have contributed during twenty years at least, irrespective of whether their pension capital is sufficient to cover it. Rough calculations indicate that a 3% real rate of return on contributions over a 45 year working life would afford an individual 12 years of retirement (the life expectancy in Chile for a male of 65) at around 70% of the last income.

The government has provided another extremely important element of choice: the introduction of the new system on a voluntary basis to those already in the labor force. New entrants to the labor force, however, must enter the new system. Participants in the present social security system will have five years, from the inauguration of the new system (May 1, 1981), to make a choice. To those who opt for the new system, the government will issue bonds in recognition of past contributions or claims on the system. By issuing non-transferable bonds, paid on retirement, the government will limit the short term impact on the budget of accepting the obligation to capitalize partially the system by as much as $6 billion, depending on the portion of the eligible choosing to leave the old system.

7.. Among other changes, employers will no longer be required to contribute to social security on behalf of employees, whether they select the new system or not. Employer social security contributions represent a considerable portion of the cost of labor (27% of the salary).

The present government had already lowered employer contributions to social security (from more than 50%) and compensated by increasing funding out of general revenues, and has now fulfilled its intention to eliminate what it considers to be a substantial disincentive to hiring and an inducement to tax evasion. Hope for reducing unemployment hinges in this change, which will eventually reduce labor costs by about 10% in a typical case. The net cost reduction for employers is only a portion of their former social security contributions. The bulk of the savings must be provided to employees, as an increase in salaries against which their own social security contributions will be levied. Given the new social security rates, which will differ among the old and the new system, the mandated salary increases will actually increase take-home pay only for those workers moving to the new system.

Roughly, the situation is as follows. Present social security contributions: 37% (10% the employee and 27% the employer), divided in 20% for pensions and 17% for other benefits (health, family allowances, unemployment subsidies, etc.) New system contributions 10% for the saving account, 3% for the disability and life insuranc and 4% for health (that is 17% paid by the employee). Two months before the worker can opt for the new system, that is in March, there will be two changes brought about by law: a general gross wage increase of 17% (so now the worker pays 27% in social security contributions, but his net wage is exactly the same as before: and the elimination of employers social security contributions (the net result is a 10% decrease in the cost of labor: 27% of former contributions minus the 17% increase in gross wages). On May 1, th worker that changes to the new system, has a net wage increase of 10% (he keeps his gross wage but instead of contributing 27%, now contributes 17%).

8. The individual capitalization principle will reduce the problem of social security tax evasion, endemic to the old system in which contributions had no direct relationship to eventual benefit. Unde the new system, a participant would be encouraged to limit contributions only to the extent that he would otherwise settle for the minimum pension guaranteed by the government upon reaching the legal retirement age. A business employer would now be discouraged from facilitating evasion understating his employer's wages, since he would no longer be reducing his contribution to social security, and he would stand to lose on his own income tax calculations by understating labor costs.

9. The reform will have tremendous social, economic and political impact. In social terms, it will eliminate the pensioners' nightmare of low, and decreasing with inflation, retirement benefits, since the new system will provide better and inflation-proof pensions. Also the elimination of the virtual tax in the hiring of labor will have a significant impact on the demand of labor, reducing unemployment and increasing wages.

In economic terms, the pension funds will advance strongly the development of the domestic private capital market, reducing long-term interest rates and thus stimulating labor-intensive and socially desirable activities such as housing and infrastructure. Moreover, it will increase domestic savings and the quality of investments.

In political terms, the reform increases drastically the freedom to choose of the Chilean worker, thus increasing his knowledge and support of a free and open society. It also eliminates the arbitrary power of the State to grant economic benefits, and thus the possibility of demagoguery and the incentive to politization. Finally, the reform sets up a massive programme of popular capitalism intended to grant every Chilean a personal, more visible stake in the economic system.

ADDRESS BY MR. JOSE PIÑERA, MINISTER OF LABOR AND SOCIAL SECURITY OF CHILE, AT THE 16th. ANNUAL MEETING OF THE COUNCIL OF THE AMERICAS.

(New York, December 5th., 1980)

Chile is a country with extensive natural resources, possesing an abundant and relatively skilled manpower, and a well-prepared entrepreneurial class.

But Chile is still an underdeveloped country. Why? Because chilean economic policy over the last forty years ignored two basic facts : first, that only an economy based on private property and individual initiative can generate the incentive system needed for a thriving economy; and second, that a competitive free market is the best signalling system for the allocation of a country's scarce resources.

From 1973, our free market economic policy has achieved two major objectives. First, it has corrected the fundamental imbalances characterising the Chilean economy in 1973. Despite the international crisis, which has hit our country hard, we have reduced the devastating inflation of around 1,000% a year to roughly 30% this year. A budget with a deficit equal to 55% of expenditure has been brought into balance. Instead of negative net international reserves of US$ 250 million, the country now has US$ 1,300 million.

In addition to the foregoing, far-reaching reforms have been carried out to pave the way for sustained, accelerated growth in the national output. The figures speak for themselves. During the last three years, the annual growth rate of GNP has been around 8%. This means that the average growth rate over the past 40 years -3.5% annually- has been more than doubled. If this is maintained, Chilean per cap income will double, not in 41 years as previously, but in less than 12 years.

One of the factors that has contributed most to the success of this policy has been its stability, and the overall consistency of its economic and social aspects.

A new approach to social policy.

We believe that if the economic model is to maintain its stability in the future, it is necessary to pursue a vigorous social policy to eliminate poverty, give every person equal opportunities, and ensure that workers obtain a fair share of the benefits of economic growth in economic life. But again a radical departure from the past. We have a new approach to social policy. We believe we can build a non-socialist social policy: a social policy based on individual freedom, market mechanisms, private enterprise, and a minimum but well designed State role.

Labor laws.

My commentary today will examine one example of this new approach to social policy, our new labor laws.

One of the greatest challenges nearly all countries face is the problem of combining trade unionism, a free labor market, and a policy of economic efficiency, making simultaneous material and social progress possible.

In order to appreciate this dilemma, it is necessary to take a brief look at the labour legislation in force in Chile in recent decades. Badly designed collective bargaining mechanisms and legislation led to inefficiencies and injustice.

Collective bargaining enabled well organized groups with considerable leverage to secure wages far in excess of their contribution to production.

This raises a question : who paid for these benefits? Not only the employers concerned, since they were able to pass on these higher wages by raising prices, being protected by an economy which was shielded against outside competition.

This constant increase in prices, which was made possible by an expansionist monetary policy, led to inflation. The benefits achieved by some were therefore directly at the expense of the consumers, who bore the burden of chronic inflation caused by excessive wage increases.

The second group to suffer directly from this were the unemployed, because experience has demonstrated, not once but scores of times, that when earnings rise above market levels, unemployment rises, and does so for a very simple reason. If wages do not correspond to workers' real contribution, employers prefer to introduce more mechanized production tecniques and cut down on recruitment, or to direct investment into less labour-intensive projects.

Lastly, excessively high wages for small groups of unionized workers had to be paid for by the non-union workers, who accounted for 75 per cent of the Chilean labour force. Another inexorable economic law is that whenever a group achieves an increase in its income in excess of its contribution to the expansion of the product, another group is compelled to accept less than its due share. And the latter includes non-unionized workers and members of unions with weak political leverage.

The former means that traditional economic and labour policy enabled few unionized workers to profit at the expense of four main social groups comprising the great majority of the Chilean population : consumers o could not protect themselves against inflation, unemployed whose joblessness financed the excessively high wages of others, non-unionized workers whose earnings prospects were reduced, and trade unions with insufficient power to enforce their demands. Is it possible to imagine a more unfair system than this?

Equally serious was the fact that this system hampered economic progress and condemned the country to remain under-developed. In fact, therefore, even the gains achieved by these minorities were more apparent than real, since they merely involved sharing out the poverty.

A year ago, we carried out a sweeping reform of our labour legislation with a two-fold aim :

- Economic efficiency. Through free wage bargaining between workers and employers, wages are also incorporated to the general system of free prices and market allocation of resources governing the remainder of the Chilean economy.
- Freedom and justice. Workers are granted complete freedom of association combined with a bargaining system relating wages to workers' contribution to output.

To achieve these ends, collective bargaining must adapt itself instead of trying to supplant the economic realities reflected in the labour market. This approach has a number of implications.

Adjustment of collective bargaining to the laws of the market amounts to recognizing the fact that it is not an efficient or fair method for the indiscriminate redistribution of income. In other words, collective bargaining should not be a device whereby unionized workers, through higher wages than those deriving from a non distortionated market, could deprive other productive factors incomes generated by them. We have already referred to the [e]rical evidence that such higher wages have in fact an adverse effect on unemployment.

It is precisely when wages are not in line with workers' contribution to output when the traditional incompatibility between inflation and unemployment arises. Failure to respect the labour market laws often places a country's economic authorities in the difficult position of having to choose between higher inflation or higher unemployment. There is ample empirical evidence of the inefficiencies that result from refusal to recognise the underlying forces at work in the labour market.

Apart from this argument based on economic efficiency, collective bargaining as a method of redistribution can be questioned on grounds of effectiveness. The problem of the fair distribution of incomes -which is particularly relevant to countries such as ours where extreme poverty is still prevalent in some sectors of the population- is a problem of the distribution of income among persons and not of the functional distribution of income between capital and labour. There can be no doubt that there are many poor workers. But poverty is not confined to any single occupational group. There are many workers who are not poor, just as there are many poor who are not workers, who do not draw wages and who do not take part in collective bargaining. Any approach to the problem of poverty through collective bargaining is thus inefficient in economic as well as social terms.

We believe that redistribution must be achieved through a progressive tax system and fairness in the allocation of public expenditure. In recent years, a steadily increasing proportion of Chile's public expenditure has been devoted to redistributive purposes. Last year, this share amounted to 53% of the fiscal budget. Against the minimum wage proposition we foster the minimum income scheme; that is, state support to ensure reasonable levels of income; and the market to ensure that earnings are related to workers' productivity. In this way, economic efficiency can be combined with redistributive justice.

In addition to these conceptual arguments concerning the inefficiency of collective bargaining for redistributive purposes, there is the empirical evidence. Studies carried out in several countries have shown that trade unions bargaining has not had any perceptible effect on the level of real wages in the economy, or on the share of the national income going to labour and capital respectively. On the other hand, there is evidence that trade unions have succeeded in raising wages those industries they can influence or control. The only logical conclusion that can be drawn from this, is that such gains have been achieved primarily at the expense of the non-unionized workers.

This evidence confirms the need for a new approach towards the concept of fairness in modern labour law. It is usually assumed that trade union law should confine itself to ensuring a fair settlement of conflicts of interest between unionized workers and their employers. This is not sufficient. Nowadays, we have all seen how trade union activities, especially strikes, can frequently infringe the legitimate rights of the remainder of society. The real challenge in labour legislation lies in reconciling the rights of the trade unions with those of the rest of the community, Such rights are not only not independent of each other but sometimes are mutually incompatible. Our new collective bargaining legislation sets out to reconcile the rights of trade unionists with the right of other workers to freedom of access to employment, and the right of consumers and the community at large not to pay higher prices or inflationary costs.

The key provisions designed to implement these principles are as follows First, State intervention in collective bargaining is forbidden.

Chilean experience shows that State intervention in such cases, far from promoting the social interest, has favoured small groups of employers and workers and created enormous distortions. This is the generally underlying truth of major national negotiations at where trade unionists, employers and representatives of the State are brought together at the bargaining table. The State, under the pressure of political and electoral circumstances, usually gives way to the demands of the pressure groups represented by the leading nation-wide organizations, and the cost of these arguments is borne by the rest of the community.

Secondly, the law stipulates that collective bargaining must be carried out at the firm level. If the bargaining is going to be one which relates wages with productivity, it is natural that this bargaining should be carried out where this productivity is achieved and evaluated, namely the enterprise. Moreover, bargaining at the enterprise level avoids the trends towards monopoly and State intervention inherent in nation or industry-wide bargaining.

The third key provision concerns the forms of pressure that can be used during bargaining. The basic principle is that pressure power of workers for achieving agreements according to their wishes and needs must be related to the productive capacity of the workers concerned.

In other words, strikes are regarded as a refusal to work rather than as a forced stoppage of the enterprise. The right to strike cannot restrict the employer's right to run his enterprise. To this end, he is also allowed to hire other workers to maintain production during the strike, and to order a lock-out. The latter is essential in order to ensure that a small, strategically placed group of workers in inter-dependent production processes, as is often the case nowadays, cannot exercise pressure through other workers' production capacity as well as their own. However, strikers can keep their jobs for 60 days from the start of a strike, and the law ensures that they can negotiate for real increases in earnings. In other words, a strike involves risks for both parties and they must bear the brunt of the cost of any stoppage.

Although the general rule is that workers have the right to strike, in only 30 firms, most of them public utilities whose stoppage would create serious damage to the country, the strike is not allowed. When no direct agreement between the union and management is achieved such conflict should be dealt by arbitrage. The arbiter is chosen by the parties involved from a list of independent and highly qualified people, and the law requires them to decide either for the last offer of the firm or for the last demand of the union; he cannot divide the difference. This system of last-offer arbitrage encourages reasonable positions and thus direct agreements, and because of it automatically minimizes the need for it.

I would like to make a brief reference to the results achieved by this legislation. In the last 14 months, there have been 3000 cases of collective bargaining. Only in 65 of these 3000 cases was there a strike, while more than 97% of them ended in direct agreement. The wage increases have been substantial: around 7% in real terms. That can be afforded by an economy which for three years in a row has achieved a growth rate of about 8% per year.

The second key principle of our new labour legislation concerns trade union organization. The main challenge facing labour law in this matter is how to reconcile the workers' right to organize with the freedom to work of the remaining members of the community.

requently, trade union activities amount to artificial restrictions on job opportunities which operate to the detriment of non-trade unionists.

Another major objective is to keep the trade union movement out of politics. In Chile, the unions were frequently manouvered by small minorities into political action. This was partly due to the active role the State played in collective bargaining, which thereby became a participant and responsible for what happened in the labour field. The introduction of a system of collective bargaining that does not require State intervention has eliminated one of the causes of union politization.

However, trade union legislation must also ensure that a politicized minority cannot ignore the true interests of the membership. The law contains two provisions to this end. First, a worker is completely free to join or not to join a trade union. It is a fundamental purpose of the law to ensure that nobody in Chile is deprived of his right to work by being compelled to join a trade union in order to find employment.

The second provision is the democratization of trade union decision-making. No major decision closely affecting trade union members may be taken by the leaders without a prior free, democratic and secret vote. This includes any decision involving affiliation to a federation or confederation, or the calling to strike. Democratization at the shop-floor level, which did not exist in the past, is one of the key measures designed to de-politicize the Chilean trade union movement. The new labour legislation ensures that trade union leaders cannot adopt policies unrelated to strictly trade union matters without the effective approval of the membership.

In conclusion, I should like to refer to the change of mentality that is taking place in Chile. Decades of poverty and frustration had bred deep-seated skepticism on the country's ability to give its people a proper standard of living.

And yet, Chile has great, untapped natural wealth in a world which is becoming anxious about the exhaustion of its raw materials, as well as possessing a labour force and managerial class of remarkable quality, of course by underdeveloped countries standards.

One of the main achievements of the present economic and social policy is that it has revived faith in the country's potential.

With the dynamism and efficiency of a free market economy and with the stability and fairness derived from a social policy based on individual freedom and minimum State intervention, my country is moving decisively towards greater prosperity for each and every one of its citizens.

Thank you.