



A SPECIAL MEETING

THE MONT PELERIN SOCIETY

1980 | 2020

JANUARY 15–17, 2020

**FROM THE PAST TO THE FUTURE:
IDEAS AND ACTIONS FOR A FREE SOCIETY**

CHAPTER THIRTY-ONE

WHAT HAPPENED IN CHILE? PART 3

ARNOLD HARBERGER



Introduction on “What Happened in Chile?”

For a very long time, many have been talking about the amazing economic performance in Chile following the economic reforms. In recent months, however, there has been a big change—a reversal. And people are asking, what happened, why, and what can be done? These questions are paramount to the “taking ideas into action” theme of this Mont Pelerin Society meeting.

These questions and others are addressed in this session by Axel Kaiser, Executive Director of the Foundation for Progress in Chile; Ernesto Silva, Former President of the Independent Democratic Union Party in Chile; and Arnold Harberger, professor at Chicago and UCLA, one of the famous Chicago Boys, affectionately called Alito, who helped bring reforms to Chile.

Presentation on “What Happened in Chile?”

Arnold Harberger

Well, first of all, I want to thank Axel Kaiser and Ernesto Silva who have set the stage extremely well for any remarks that I might make. I would like to start with the precipitating factor, which is the bombing of many metro stations simultaneously. That, as Axel said, is something that did not happen by the spontaneous actions of unhappy liberal students. This was something organized and planned and financed and supplied from somewhere. And I think in Chile it is utterly essential that those people who actually did that be identified, found, tried, and imprisoned. And that is one side of the story.

Now, how? And Axel tells me it was a couple weeks later that this rioting took place. Whatever spurred that? Who was involved with that? It was far too many people to have been organized by the cabal that bombed the subway stations. And I think all of us were taken aback by learning about that and what had happened. One of my former students said, “You know, some of those rioters were sons of students of mine.” And that bothered me. What are their gripes, I think? People have different problems, but one key feature is that real standards of living have gone up a lot. And certain kinds of benefits, certain kinds of things have not gone up as much, maybe have not gone up at all. Let’s suppose that in the United States, our social security system had provided the benefits today per family that it provided when Social Security started and I was a kid in the 1930s? People would have been very happy with that in the 1930s, but by today they would be wanting to demonstrate against the level of poverty to which this condemned them. And you can’t say there’s any fault in that. Every system should be fully indexed, or something like that. This is just a factual fallout of a country that has had enormous growth and there were some areas where it lagged behind. Recipients of old, traditional social security come into this play and the newer system, which we all like, of individual accounts, there are some people in the individual account system that feel very unhappy. And they tend to be the people who went in and out of the labor force over the years, that weren’t contributing all the time. So when they weren’t contributing, they weren’t getting. And we can tell them, “Look, you’re getting the same rate of return” or something like that. But that doesn’t help their dinner table. So there’s that kind of a problem.

Then, there’s another kind of a problem, that somewhere along the line I was told actually it took place in the socialist government, that it became easy for for-profit universities to start. And some of these for-profit universities were like our University of Phoenix and ITT. I hope some of you know the scandal of that, that these are universities that provide a D- or F+ education and charge an A- or B+ tuition, most of which is paid by the government. But people who come out of that kind of inferior educational system can’t get jobs, and they have every good reason to feel they have been put upon. So, they have to be part of the story. So, all of that is there.

Yet, there is also an element that has been called attention in a paper that was sent to me, about the sort of elitism in Chilean society. And I have my own little private story to tell. With the Chicago program with Catholic University didn’t come at our initiative or at the head of Catholic

University. It came at the initiative of the director of what is now US foreign aid in Chile. He had been visited by our chairman, TW Schultz, a very great economist. They had had a long dinner, and Schultz had been expounding on his views about Chile, Latin America, etc. And Patterson, who was this head guy, was just blown away. He said, "This is the kind of economics that this country needs." So he wrote letters to the University of Chile and the Universidad Catolica, and at the University of Chile there was a big deanship fight going on, and so the letter remained unopened on the desk of the absent dean, and the Catholic University responded the next day to the effect that it was just delighted. And we four of us, T.W. Schultz, Earl Hamilton, Simon Rottenberg, and myself went down as a committee of Chicago people to examine, see if it was worthwhile for us and under what terms to enter into this arrangement with the Catholic University. And we did. Well, in the course of our ten day or so stay there, we were taken to factories, to dams, to the coast, to ports, to this to that and many times we had lunch in what is called their Union Club, right next to the stock market in the center of town. And I, being very proud all the time of how people have risen from Abraham Lincoln to the current generation – no, no, the current president doesn't fit into this category, but certainly Clinton, Reagan, came out of the bottom of society. And I'm so proud that my country was able to do that. So here I am at the Union Club, and we're talking about the farm workers, so-called *inquilinos*. And I ask, how many *inquilinos*, how many children of *inquilinos*, are members of this club? Well, it would be no surprise if every single member of the club sitting around that table fell so far back in his chair that it fell on the floor. Just utterly unthinkable! 1955. July.

So, I am an impish person at heart, and I happened to be invited to the Union Club around 2005. And so what did I say? I'm going to try it again. I tried it again. Same result. Not an iota of difference in 50 years. And I say, "That is an unfortunate situation." If you don't want to call it a problem, don't call it a problem. It is an unfortunate situation that a country that is so vital and so much growth and so much dynamism should be in that kind of a situation. And I think that as we proceed, more serious effort has to be made to integrate people coming from lower down in the hierarchy. Chile is wonderful at integrating immigrants from Europe. We have had Chilean presidents who were children of immigrants from Europe who came penniless. So, it isn't that Chile doesn't know how to integrate. But there is kind of a... perhaps racial type perhaps traditional type distinction that really holds down people at the bottom.

And another story that I myself, that my students are largely from the top tiers of Chilean society, and I've always found them to be very open, very humane, very generous, very having a depth of spirit that I like very much. One of them, Miguel Costa, organized the whole program for emphasis on alleviating extreme poverty in the early days of the military government. They're okay. But I get news from people who are on boards of directors in Chile, that the average board of directors will just laugh if somebody mentions adding a woman to the board of directors, for example. They make jokes about it. So, there are that kind of problems in the situation.

So, I keep my fingers crossed. I am hopeful for the future of Chile. I'm still extremely puzzled by what has happened, and I hope and pray that they find a good way out.

TABLE OF CONTENTS

PAST AS PROLOGUE TO THE FUTURE

An Opening Conversation

Chapter 1. Why Choose Economic Freedom?.....	6
<i>George P. Shultz and John B. Taylor</i>	

Free to Choose: 1980 to 2020 and the Network

Chapter 2. Introduction to Free to Choose 1980 to 2020 and the Network.....	14
<i>Robert Chatfield</i>	
Chapter 3. Milton, Rose, me and Poetry.....	16
<i>Robert Chitester</i>	

Removing Obstacles on the Road to Economic Freedom: 1947 to 1980

Chapter 4. Removing Obstacles on the Road to Economic Freedom.....	24
<i>Eamonn Butler</i>	
Chapter 5. Milton Friedman: The Early Years.....	26
<i>Jennifer Burns</i>	
Chapter 6. Mont Pelerin 1947.....	32
<i>Bruce Caldwell</i>	
Chapter 7. The Road Not Taken of “Nuovo liberalismo”.....	85
<i>Alberto Mingardi</i>	

Spread of Free-Market Ideas in the 1980s

Chapter 8. The Reception of Free to Choose and the Problem of Tacit Presuppositions of Political Economy.....	102
<i>Peter Boettke</i>	
Chapter 9. The Spread of Free-Market Ideas in the 1980s (With a Nod to the Late 1970s).....	131
<i>David Henderson</i>	
Chapter 10. Ideas of Freedom and Their Role in Active Policymaking.....	142
<i>Condoleezza Rice</i>	

TABLE OF CONTENTS

Lessons Learned from History for the Future of Freedom

Chapter 11. Assaults on Freedom and Citizenship.....	147
<i>Victor Davis Hanson</i>	
Chapter 12. Fed Chair Agonistes.....	152
<i>Amity Shlaes</i>	
Chapter 13. Keynes v Hayek: The Four Buts.....	160
<i>Robert Skidelsky</i>	

IDEAS FOR A FREE SOCIETY

The Role of Law as Protector of Liberty

Chapter 14. Capitalism, Socialism and Nationalism: Lessons from History.....	168
<i>Niall Ferguson</i>	
Chapter 15. Magna Carta, the rule of law, and the limits on government.....	200
<i>Jesús Fernández-Villaverde</i>	
Chapter 16. The Commerce Clause, the Takings Clause, and Due Process.....	208
<i>Douglas Ginsburg</i>	

How to Deal with the Reemergence of Socialism

Chapter 17. The rise and fall of environmental socialism: Smashing the watermelon.....	221
<i>Jeff Bennett</i>	
Chapter 18. Understanding the left.....	226
<i>John Cochrane</i>	
Chapter 19. Economic systems between socialism and liberalism and the new threats of neo-interventionism.....	233
<i>Lars Peder Nordbakken</i>	

Measures of Economic Freedom

Chapter 20. Economic Freedom Matters & Charts.....	248
<i>Anthony Kim</i>	

TABLE OF CONTENTS

Chapter 21. Economic Freedom: Objective, Transparent Measurement.....	279
<i>Fred McMahon</i>	

Chapter 22. The World Bank's Doing Business Indicators.....	310
<i>Valeria Perotti</i>	

Restraining Expansions of Government

Chapter 23. Common Sense Approach to Addressing America's Entitlement Challenge.....	318
<i>John Cogan</i>	

Chapter 24. Key Milestones in Regulation.....	339
<i>Susan Dudley</i>	

Chapter 25. A Quest for Fiscal Rules.....	343
<i>Lars Feld</i>	

ACTIONS FOR A FREE SOCIETY

Taking Ideas to Action around the World

Chapter 26. Turning Freedom into Action: Some Reflections on Reforming Higher Education.....	371
<i>Ayaan Hirsi Ali</i>	

Chapter 27. Culture and the Free Society.....	380
<i>Samuel Gregg</i>	

Chapter 28. Taking Ideas to Action Around the World.....	394
<i>Bridgett Wagner</i>	

What Happened in Chile?

Introduction.....	402
-------------------	-----

Chapter 29. Presentation I.....	403
<i>Axel Kaiser</i>	

Chapter 30. Presentation II.....	406
<i>Ernesto Silva</i>	

Chapter 31. Presentation III.....	409
<i>Arnold Harberger</i>	

TABLE OF CONTENTS

Taking Ideas to Action: Making the Case for Freedom

Chapter 32. Restoring Liberty for American Indians.....	411
<i>Terry Anderson</i>	
Chapter 33. The Effect of Economic Freedom on Labor Market Efficiency and Performance.....	434
<i>Lee Ohanian</i>	
Chapter 34. Making the Case for Liberty.....	466
<i>Russell Roberts</i>	

Taking Ideas to Action in the Private Sector

Chapter 35. Brexit: Taking a Good Idea into Action.....	473
<i>Jamie Borwick</i>	
Chapter 36. Taking Ideas to Action in Central Governments—The US Case.....	476
<i>Tyler Goodspeed</i>	
Chapter 37. Ideas and Actions for a Free Society.....	487
<i>Ruth Richardson</i>	

Taking Ideas to Action in the Private Sector

Chapter 38. Public Policy, Private Actor.....	491
<i>Dominique Lazanski</i>	
Chapter 39. Libertarianism is Dysfunctional but Liberty is Great.....	508
<i>Joe Lonsdale</i>	
Chapter 40. The False Promise of Medicare for All.....	514
<i>Sally Pipes</i>	

A Closing Conversation

Chapter 41. China, Globalization, Capitalism, Silicon Valley, Political Correctness, and Exceptionalism.....	527
<i>Peter Thiel and Peter Robinson</i>	