



A SPECIAL MEETING

# THE MONT PELERIN SOCIETY

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

CHAPTER TWENTY-NINE

### WHAT HAPPENED IN CHILE? PART 1

AXEL KAISER



## **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?”

Axel Kaiser

I have to go a little bit into my background, because a lot of you don't know this. I predicted this would happen. Ten years ago, 2009, I published a book that was called *The Fatal Ignorance*. I said that if Hayek claimed that the socialist problem was arrogance, well, the center right problem – the center right at least in Chile – was is ignorance. And I predicted in very great detail that at some point we would have a government that would try to destroy the free market system that we had inherited from the Chicago boys, and the only thing I had to do for predicting that was to read what the left was saying at the time.

So, I became sort of the face of the Chicago School in Chile. I have been engaging with all the major leftwing intellectuals, also politicians, at universities, on television, and so on and so forth. As a result, I have a percentage of people who don't like me very much.

But we managed to create a movement, we started six years ago what is arguably the most the most influential free market think tank in the whole of Latin America, because some businesspeople were willing to support it.

I thought this would be interesting for you to know. I have been threatened which is why I have been away from Chile for a while. And I think no one, even Aliste, if he would come down to Chile right now, it would be a risk for you. So be careful.

So what happened? Chile is a clear case where narrative and storytelling destroyed reality. I've been arguing with my friends the Chicago boys about this, and the problem with the Chicago boys is that they didn't leave a legacy. I mean by that, they did not have disciples who kept on the fight defending the ideas of freedom. There is nothing between my generation and the generation of Sergio de Castro, José Piñera, and all these people. Nothing. Thirty years without doing the advocacy. Well, there were some public policy debates, of course. But not saving the soul of classical liberalism like many people were saying in the previous session.

So let me tell you three events that marked the end of the Chilean economic miracle, because I think it's the end. I'm very pessimistic. And remember, I wrote two books predicting this would happen. I'm not saying this because I'm bragging about it, but I don't want to be the general after the battle.

First of all, the election of Ricardo Lagos, the first socialist president who came to La Moneda after Salvador Allende. Why was this so important, even though he did not make socialist reforms? Because he reintroduced into the public debate the concept of inequality. His slogan when he ran as a president was “growth with equality”. He said okay, we have brought down poverty but the really important issue is inequality, income inequality. And when he was elected, the University of Chile, the most emblematic institution in the nation, along with the Chilean Ministry of Planification, issued a report saying that this was the opportunity to get rid of the neoliberal system. This was in the year 2000. They were already speaking about this.



In 2005 one of the most emblematic businessmen in the country, who owned Revista Capital, which is like a Forbes magazine in Chile, organized for the first time a seminar for the whole of the business community and the political community with the title “Inequality of Opportunity: Chile’s Greatest Shame”. And on these panels, everyone agreed that the problem in Chile – we were not a developed country, we are still not a developed country – was inequality. And from then on, the debate started, also among business elites, to be about inequality. They felt very guilty, because they had made a lot of money, and it looked like they didn’t really understand that they lifted up a lot of people from poverty because they had made a lot of money. So, they started saying, “Yes, we have to admit we have a problem. We owe society, because we have so much, and the others don’t have so much.” That was the majoritarian position among the business elite – I wouldn’t say everyone, because that wouldn’t be fair.

And then the third event. Five of the leading nation’s intellectuals, all trained in the United States and the UK wrote a book called *The Other Model, El Otro Modelo*. Meaning, we have to get rid of the neoliberal model, in order to introduce sort of a welfare state collectivist model. On the cover, you saw five workers destroying a brick. Now “the brick” was the name given to the book that the Chicago boys wrote in order to make the reforms in Chile. And who presented “The Other Model” in 2013? Michelle Bachelet, who later, the year after that, became the president of Chile, saying that we had to make dramatic changes to the neoliberal system, because it was so unfair. The facts didn’t matter. This is not about facts. It’s about storytelling and narrative. And what did she do? Exactly that. She won a majority in the parliament, and she made a massive tax reform, labor reform, educational reform. Public spending went up through the roof. Public debt increased, and so on and so forth. As a result of that, we had stagnation. Average GDP growth fell from 5.3% under the previous administration to less than 2% under her administration. And for the first time since the 1960s, we had four consecutive years of collapsing private investment in the country.

Now Piñera came back to government and said, “We are going to bring back better times.” That was his campaign slogan: better times. He miserably failed. Why? Because he lacked the conviction. It is true that he didn’t have a majority in the parliament but he lacked the conviction to use his political capital. He won by more than 10 percentage points difference over the socialist candidate. And he didn’t use it to push for reforms. Something similar to what happened to Macri in Argentina.

Now let me go to the bottom of this, because I’m getting close to the finish here. In Chile what happened was that the economists and policymakers, the public policy experts, lost the debate to the lawyers and the philosophers. That’s what happened. And I’m amazed by my friends who studied economics at universities in the US, how little they know about philosophy and political philosophy, and about how important the fight for a sense of fairness is in order to win this debate. And the intellectuals on the left were working on the sense of fairness of the population. They were basically saying, “Inequality is the big issue. We have a lot of abuse. We have to get rid of the system if we want a society that’s more fair.”

I would caution you with something. I disagree with Condoleezza Rice. She said the other day, “It’s about equality of opportunity.” No. It’s not about equality of opportunity. Because I never

met a socialist in Chile or anywhere else in Latin America – I’ve been debating this all over Latin America and Spain – who told me, “We want equality of result.” Never. What they say is, “We want equality of opportunity.” What they mean by that is that no one can get a better education – or healthcare, pensions, etc.,- than anyone else. And that was the argument Bachelet used in order to put an end to the voucher system in Chile. Because you had a copayment, so parents who had higher income could pay more for the education of their children, and that created inequality of opportunity. If you have inequality of results, you will have inequality of opportunities. That’s why I like to speak about improving opportunities for everyone. It doesn’t matter what’s the difference in between the opportunities, in between people in general.

And so, what we are facing now in my opinion is a dramatic shift that started to take place 20 years ago in the political economy of the country. We are going to seriously damage the economic system. There is no question in my mind. If you take a look at the measures that were recently announced by President Piñera, especially regarding the pension system, this is going to be very harmful. Now we are going back to a pay-as-you-go system partially. And this will only be the beginning.

So, in 20 years – I close with this – unless something happens and we really engage in the battle of ideas that... we arrive too late, unfortunately, Chile will be much closer to Argentina, not Venezuela, because our armed forces are not Marxists. I don’t believe that. But Chile will resemble more Argentina than what it used to be, a role model for the developing world. I’m already reading Norman Klein and other people saying, “See? Neoliberalism doesn’t work. See? Hayek and Friedman were wrong. The poster boy, Chile, failed.” So, we can’t go down that path. I believe that Chile is the epicenter in this worldwide ideological battle. It’s strange that such a small and irrelevant country became somehow so important in this struggle for freedom. And I believe that if we don’t manage to get the message across, the whole classical liberal cause – I don’t like the term neoliberalism, but we can debate that another time – will be discredited. The story will be “the people rebelled against the technicians” because the people didn’t want this abusive system. So, with that, I’ll be happy to take some questions, and I also wanted to thank Hoover for having me this time that I’m not very welcome in my own country.

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