



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

WHAT HAPPENED IN CHILE? PART 2

ERNESTO SILVA



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?”

Ernesto Silva

I first want to share a personal note. I am proud of my country. I am also proud of what a generation of leaders leading my country. My father, he passed away nine years ago. He was one of the Chicago boys. He was a student of Allende and many others. And so I think that I feel proud of what we have been doing, and we need to keep fighting. That's at least my attitude for the future. Axel provided a great perspective on the battle of ideas, or maybe the lack of battle of ideas. And I just want to provide some information for the conversation of this discussion.

And I think the question here is this going to be a bump in our path towards development, or do we risk losing what we've been doing in the past? And the answer is not clear now. I will make five points.

The first, the context. Chile has been doing great in any measure that you want to take. As Axel mentioned, even in income inequality, we have been reducing inequality. We have been increasing wealth opportunities. Everything has been doing great. That generated a new middle class, and that new middle class is posing new challenges in terms of the democratic process, in terms of how to promote free market policies, how to engage in the conversation. And one of my points is that we have not been well prepared for that discussion.

Second, the facts. What happened in October? There was an increase of less than five cents in the metro fare in mid-October. Less than five cents. And so civil disobedience started when some people decided not to pay the metro fare. It started that way. And the night of October 18, more than a dozen metro stations were attacked simultaneously. They were burned, on fire. That was a criminal or terrorist attack. Organized. It was impossible that it was something not organized. But we still don't know who did that. After that, the reaction of a group of the population was to support violence as a way of promoting change. And that's really bad for the country. And that's really bad. A week after that, 1.2 million people went to the street to protest in Santiago, and 800,000 in the rest of the country. As you can imagine, different requests were on the street, some people asking for pension reforms, healthcare, so there was no one demand – different demands. But the left was very effective in trying to politicize that movement towards some ideas.

So, they were able to organize, in my view, those ideas into four issues. Number one: social issues such as pension reform, healthcare, minimum income. Number two: a new constitution, and I will go to that later. Number three: to fight against human rights abuses by the police and the military. They were trying to keep the city in order. But there was an organization to denounce violations of human rights. And finally, number four: the idea – and you mentioned this Axel – four, the idea of abuse. Business and government are abusing. We need to change the model.

Point number three: my explanation to what happened? I don't have a very good explanation, and we have been talking about this during the week, but some ideas. Number one: a problem of

expectation for the middle class. The economy, as Axel mentioned, has been growing less in the last period – five years or six years – than expected, and the citizens expected more income for their families in order to move forward. So that gap of expectations, I think, had an impact. Number two: the lack of defense – and I won't go into more details, because Axel spent time on that today – the lack of defense and promotion of free market ideas. I would say that elites feel guilty for what they have been doing in Chile, and it should be the opposite. They should not feel proud, but they should keep looking for new opportunities of change, freedom, and improvement. Third: the agenda of Michelle Bachelet in her second government – taxes, constitution, and fighting inequality. Number four: I think that there was a change in the political system in 2000... I don't remember... fifteen? But it started working in 2017. We have a presidential system, and we have a congress with two chambers: the House and the Senate. And we used to have a system to elect a member of Congress for the House in 60 districts, two seats per district. That generated an environment of negotiation and moderated coalitions. But we changed that for the election of 2017 towards a proportional system. So, that was a mistake. I didn't mention this, but my background, I spent a year here at Hoover, but I was trained as a political scientist, but my life was in politics. I spent a decade in Congress and as president of my political party, which used to be the party closest to the Chicago boys. And we voted against, but we lost. And I think that generated a fragmentation in the political system that we're suffering now. Five – and not many people are talking about this: government failure. In a middle-income country, the role of government today, you like it or not, in providing healthcare, education, transportation, and security in neighborhoods, it's really important. And our government is not delivering as it should. So, it's more a crisis of the government than from markets, in my view.

And I think maybe, being critical with myself, I think we didn't promote or keep promoting new changes to foster markets, competition and ideas as we should. Maybe we thought that the job was already completed. And I think that's a challenge now – how to move forward.

And two special concerns that I want to share. The same happens in the US, but there is a huge generational gap in terms of how young generations think about free market ideas and also what they think about violence. More than 50% of the people between 18 and 30 are supporting violence as a way to promote change. And I will just stay in that concern.

So, where are we now? This is point number four. First, we are rewriting the constitution. The constitution has 39 years. It was written during the military government, approved by a referendum. Then, 40 great reforms changed that constitution in more than 200 amendments. So, it has been evolving over time, and improving, I think. But it was written during the Pinochet government, and they decided to fight against that in terms of origin. And second, the left feels that the current constitution limits the role of the government, and I'm happy it is, and they want to change that. So, there was an agreement the night of November 15th, to rewrite the constitution, and Chile will face a critical date on April 26th, because on that day is going to take place a referendum where the population will say if they want or not a new constitution. The polls three days ago were 80% in favor of rewriting the constitution, in a blank slate. We need to change that, and we have only 100 days. Then we will have a constitutional convention. It can be 100% elected or 50% elected and 50% members from Congress, it depends on the vote on the

ballot in April. And we will have the election of the members of the convention in October. Just for the Mont Pelerin Society to think about this, imagine the campaign of the candidates for the convention. I want free higher education. I want healthcare. No one's going to say, or it's going to be difficult to say, "I want a limited government. I want to promote free initiative of individuals." It's going to be challenging. We are facing a very challenging year. And then, there's going to be one year of writing the constitution.

So, there's also a package of reforms in the [inaudible], including pension reform, as you mentioned before, a healthcare reform, a minimum income reform, and a reform to the Chilean police. As you can imagine, that is expensive. And we're not growing enough. So we're running more deficit, we're getting more debt, and we have to be careful. I end this fourth point saying that there is a huge crisis of leadership. Mr. Henderson mentioned yesterday this idea quoting Alito When Alito was saying in the past that a small group of leaders can make a difference. The leadership today? The President's approval yesterday in the SEP survey, the most reputed survey, quarterly survey in Chile, six percent approval of the President – the lowest in our history. Congress: three percent. Political parties: two percent. So it's not a problem of the government; today we have a problem in the political system.

In order to finish this ten minutes, a couple of final comments. I think we have enough reasons to be pessimistic. But we need to fight. We need to fight. And here are some grounds for the fight, or ideas to keep in mind. First, middle class values are consistent with free market ideas and freedom, and we have a large middle class. But we need to connect – and I go to the previous panel – to common sense and good proposals and ideas. Number two: we are a small country, only 17 or 18 million. We are not yet sure of the amount, but a small country. You can make a difference in a small country. Number three: a small group of leaders already did that in the seventies and eighties, so we know that's possible. We know that's possible. Finally, for the Mont Pelerin Society, I want to mention that the international community should play a role keeping an eye on Chile, being connected. And also to keep the job that many of you do in different places all around the world training people, providing ideas, generating a good network, and keeping the support for universities and think tanks.

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
Fred McMahon

Chapter 22. The World Bank’s Doing Business Indicators.....310
Valeria Perotti

Restraining Expansions of Government

Chapter 23. Common Sense Approach to Addressing America’s Entitlement Challenge.....318
John Cogan

Chapter 24. Key Milestones in Regulation.....339
Susan Dudley

Chapter 25. A Quest for Fiscal Rules.....343
Lars Feld

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
Ayaan Hirsi Ali

Chapter 27. Culture and the Free Society.....380
Samuel Gregg

Chapter 28. Taking Ideas to Action Around the World.....394
Bridgett Wagner

What Happened in Chile?

Introduction.....402

Chapter 29. Presentation I.....403
Axel Kaiser

Chapter 30. Presentation II.....406
Ernesto Silva

Chapter 31. Presentation III.....409
Arnold Harberger

TABLE OF CONTENTS

Taking Ideas to Action: Making the Case for Freedom

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

Taking Ideas to Action in the Private Sector

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

Taking Ideas to Action in the Private Sector

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

A Closing Conversation

- Chapter 41. China, Globalization, Capitalism, Silicon Valley, Political Correctness,
and Exceptionalism.....527
Peter Thiel and Peter Robinson