Latin America Owes a Lot to Its "Chicago Boys"

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On my first visit to South America in the early 1980s, I heard a candidate in the Colombian presidential elections attack the ``Chicago boys." These were not remnants of Al Capone's gang, but Latin American economists educated in the department of economics of the University of Chicago. I was impressed that our former students were important enough to be discussed in a presidential election--and shocked that they were then apparently so unpopular.

Chicago boys generally advocated widespread deregulation, privatizations, and other free-market policies for closely controlled economies. They rose to fame as leaders of the early reforms initiated in Chile during the rule of General Augusto Pinochet. Chicagoans were attacked partly because central planning and government controls were still advocated by economists in that region.

The Chicago boys took a lot of heat for agreeing to work for Pinochet. Like most generals who seize power, he initially ran the economy as a centrally directed, military-type system. Only after this approach failed did he, in desperation, turn to the free-market policies advocated by the Chicagoans. In retrospect, their willingness to work for a cruel dictator and start a different economic approach was one of the best things that happened to Chile.

PARIAH NATION. In the past, Chile and other Latin nations did not have competitive capitalism, but a cozy system of monopoly capitalism, where high tariffs kept out more efficient foreign competition and where domestic companies received subsidized government loans and other favors. Unions liked the system, too, since they had rigid job-protection legislation and often controlled medical-insurance premiums and other profitable programs. The elderly received generous retirement and health benefits financed by heavy taxes on younger workers.

This system of providing political favors to powerful interest groups was highly inefficient and produced stagnant economies. After a bad start, the revolutionary economic reforms initiated in Chile caused that economy to boom beyond the wildest expectations even of their teachers at Chicago. Chile's annual growth in per capita real income from 1985-96 averaged a remarkable 5%, far above the rest of Latin America.

Chile went from a pariah nation controlled by a dictator to an economic role model for the whole undeveloped world. Chile's performance then became still more impressive when the government was transformed into a democracy.

Other nations began to believe that free-market reforms could also help them. Chile's success especially grated on its large rival, Argentina. Decades of abysmal economic

policies had reduced Argentina from among the top 10 nations in per capita income at the start of this century to about 75th.

ROCKY ROAD. In 1989, Argentina elected the Peronist Carlos SaPound l Menem, and he continued the interventionist policies that nation had so long endured. But Menem quickly realized that these, too, were failing and asked Domingo Cavallo, a Harvard University-educated economist sympathetic to Chicago-style policies, to initiate a radical freeing of Argentina's economy. This ended the long period of stagnation, and the nation began to grow rapidly, even weathering the sharp recession in 1992 caused by Mexico's financial troubles. Cavallo was recently replaced by a Chicago graduate, Roque Fernandez, who continued the reform, which has generated violence in the provinces where unemployment is high.

Chile and Argentina were soon followed down the path of free-market policies by Mexico, Peru, Bolivia, and Colombia. Although the road has occasionally been rocky, these nations generally reversed their economic stagnation, began to grow more rapidly, raised living standards, and sharply increased exports. Meanwhile, countries like Brazil and Venezuela that have been slow to introduce reform experienced greater difficulties and grew more slowly.

Free-market reforms have not solved all the problems of Latin American societies. For example, a recent World Bank study documents that this region has greater economic inequality than other regions of the world, in good part because schooling and other human capital investments in the very poor have been inadequate.

Although unions and older business families accustomed to special privileges stand ready to promote the old mercantilist policies should Latin economies falter, the changes initiated by the Chicago boys in Chile have spurred an economic and political revolution in Latin America that is unlikely to be reversed. Their teachers are proud of their richly deserved glory.