

## How the power of ideas can transform a country

By José Piñera

Whenever I explain the Chilean Social Security Reform in my travels around the world, invariably the first questions I am asked are: How could such a pioneering reform happen in an emerging country like Chile? How was it done?

It all began in 1956 when the Faculty of Economic Sciences of the Catholic University of Chile signed a three-year agreement of cooperation with the Department of Economics of the University of Chicago. The agreement was strongly promoted by Albion Patterson, the visionary representative in Chile of the US aid program, and was renewed twice, for a total of nine years.

The two deans, Julio Chana of the Catholic University and Theodore W. Shultz of Chicago University, showed remarkable courage, and professor Arnold Harberger devoted his life to bring about this so-called "Chile Project". The extraordinary transfer of ideas that took then place created the best economics faculty in Latin America. In the 1960s hundreds of students such as myself were learning rigorous economics and discovering public policy ideas based on individual freedom and private enterprise.

Soon there was a critical mass of free market economists, with a common diagnosis of the country's economic problems and similar views on the needed solutions. Since ideas have consequences, this group began to influence the public debate and began to be referred to as the "Chicago Boys."

When I got my economics degree in Chile in 1970, I decided that after four years of intensive and rewarding study in a faculty that, from an intellectual point of view, was a "wholly owned subsidiary" of The University of Chicago, it would be enriching to go to another university for my postgraduate studies. So, breaking tradition, I went to Harvard University for my M.A. and Ph.D in economics. Years later, when already a Secretary, some newspapers began calling me a "Chicago Boy," but a "Harvard Man." I am really proud of being both.

In my four years in Cambridge, not only did I deepen my knowledge of economics and other social sciences, but I immersed myself in the exhilarating climate of freedom of American society. In search of the ultimate causes of the success of America, I became a passionate admirer of the Founding Fathers, and their two great legacies to all the world: the Declaration of Independence and the Constitution of the Republic. I also found great inspiration in the works of thinkers of liberty such as John Locke, Adam Smith, Frederic Bastiat, Friedrich Hayek, Karl Popper, Ludwig von Mises, and Milton

Friedman (in whose 1962 book, *Capitalism and Freedom*, I first read about the idea of privatizing Social Security). During those years, not only I develop the strongest possible attachment to the great country where I was studying (an American born son included), but also a passionate dream: to contribute to the deliverance of my own economic and political reforms based on individual freedom.

In the meantime, the communist takeover of Cuba in 1959 and its government efforts to create, in the words of Che Guevara, "multiple Vietnams" in Latin America, led first to violence and terrorism in Chile, and ultimately to the breakdown of a political system that couldn't defend itself against those who made no secret of their contempt for what they called "bourgeois democracy". Soon after, the new military Junta, that was called for by the historic agreement of August 22, 1973 of the Chamber of Deputies after denouncing twenty specific constitutional and legal violations by the marxist government, decided to invite the "Chicago Boys" to help reconstruct a destroyed economy and the real revolution began in Chile: a radical, comprehensive, and sustained move toward free markets.

I missed that drama in my country, but at the end of 1974, I faced a very difficult choice: to remain in Boston enjoying the academic life I loved so much, or to go back to help found a new country, dedicated to liberty, from the ashes of the old one. When I went back, I knew the road ahead was full of dangers and risks. Almost immediately, I became very active in promoting the ideas of liberty in public debate.

Two years later, in May 1977, I gave a public speech where I described a possible future for the country should we choose to make a dash for economic and political freedom. The next day, I was invited by the President, general Pinochet, whom I had never met before, to repeat the speech to him and the full cabinet, and in December 1978, I became Chile's Secretary of Labor and Social Security with two big goals: creating a new social security system and reforming the rigid and anti-employment labor law of my country.

My ideas for social security reform were then part of an overall vision of a free market and a free society in Chile. At the Ministry, I assembled an excellent team to help me in designing not only the new system, but also a transition strategy. For decades in Chile, those striving for social security reform had failed, because their plans were partial and flawed. I decided that we should "take the bull by the horns." My motto was that we needed a "radical reform with a conservative execution."

I remember often reiterating to my team that there was nothing as satisfying in life as to do something others deem impossible. We were bound together by our faith in the power of ideas and by the conviction that we could make a difference for millions of Chilean workers.

During those two years in the Ministry, I divided my seven-day workweek equally between excruciating work with my team, perfecting every detail of the reform project, and educating people on the values and logic of these ideas. I had countless meetings with workers across the country, and I began a weekly, three-minute explanation of the reform on one of the prime time TV news programs. Those TV appearances, promoting the Reform in the most simple and truthful terms, were crucial to building the popularity of pension reform among the nation's workers. On November 4, 1980, the Social Security reform creating fully funded personal retirement accounts was finally approved.

The law gave the pension fund companies six months to start up, which would have set May 4 as the date. An idea suddenly hit me: to move the inauguration date up to May 1, the international Labor Day. It is a date that historically has had a special meaning for workers, and that regrettably had been turned into an occasion for protest fueled by the rhetoric of class warfare. But for Chile in the future, I foresaw that day as being one of celebration of a reform that gave freedom and dignity to our nation's workers. So it has been that way for the last 21 years, and with an average annual, above inflation, rate of return of 10% of their accounts, workers indeed have had enough to celebrate every May Day.

The "silver bullet" for the political acceptance of this revolutionary reform was to give every worker already in the labor force a completely free choice of either staying in the government system or opting out (with a recognition bond of past contributions) for the new system. The results are eloquent: 95% of workers are today in the system of private retirement accounts. So only 5% of them either were too old to move or are genetically socialist (no problem as long as they are socialist with their own money, and not that of the rest).

The rest is history. This "Chilean Revolution" doubled Chile's historic rate of economic growth (to an average of 7 percent a year from 1984 to 1998), drastically reduced the proportion of people living in poverty, and unleashed the forces that brought liberal democracy and the rule of law.

Chile's economic and social reforms are now deeply entrenched because they have transformed the mentality of the people, thus creating the most successful Latin economy and a stable democracy.

Fifty years after the establishment of that exchange program between an American and a Chilean university, another transcendental agreement is signed between these two countries: the Free Trade Agreement. Hopefully, a first step towards a full fledged "American Community" of nations.