



Jonathan T. Wright — *Liaison*

How President Augusto Pinochet Saved Chile

BY FREEING THE MARKET

Gary Allen is author of *None Dare Call It Conspiracy*; *The Rockefeller File*; *Kissinger*; *Jimmy Carter/Jimmy Carter*; *Tax Target: Washington*; and, *Ted Kennedy: In Over His Head*. He is an **AMERICAN OPINION** Contributing Editor.

■ ONE OF THE most impressive economic success stories of our time has been the phenomenal recovery and continuing progress of Chile since it ousted the Marxist regime of Salvador Allende in 1973 and embarked on a course of Free Enterprise. President Augusto Pinochet and Finance Minister Sergio de Castro have led their country out of

the devastating chaos of the Allende years into a new era of capitalist progress and prosperity.

Dramatic policy changes were implemented. Government spending was drastically slashed and the national Budget put into balance. As a result, production increased substantially, while inflation was reduced from the highest rate in the world to

President Augusto Pinochet (talking to workers) set out to rid Chile of socialism and free the economy. Government spending was slashed by one-quarter and the Budget balanced, bringing the increase in the Wholesale Price Index down to 0.4 percent from 1,147 percent. Productivity is climbing dramatically.

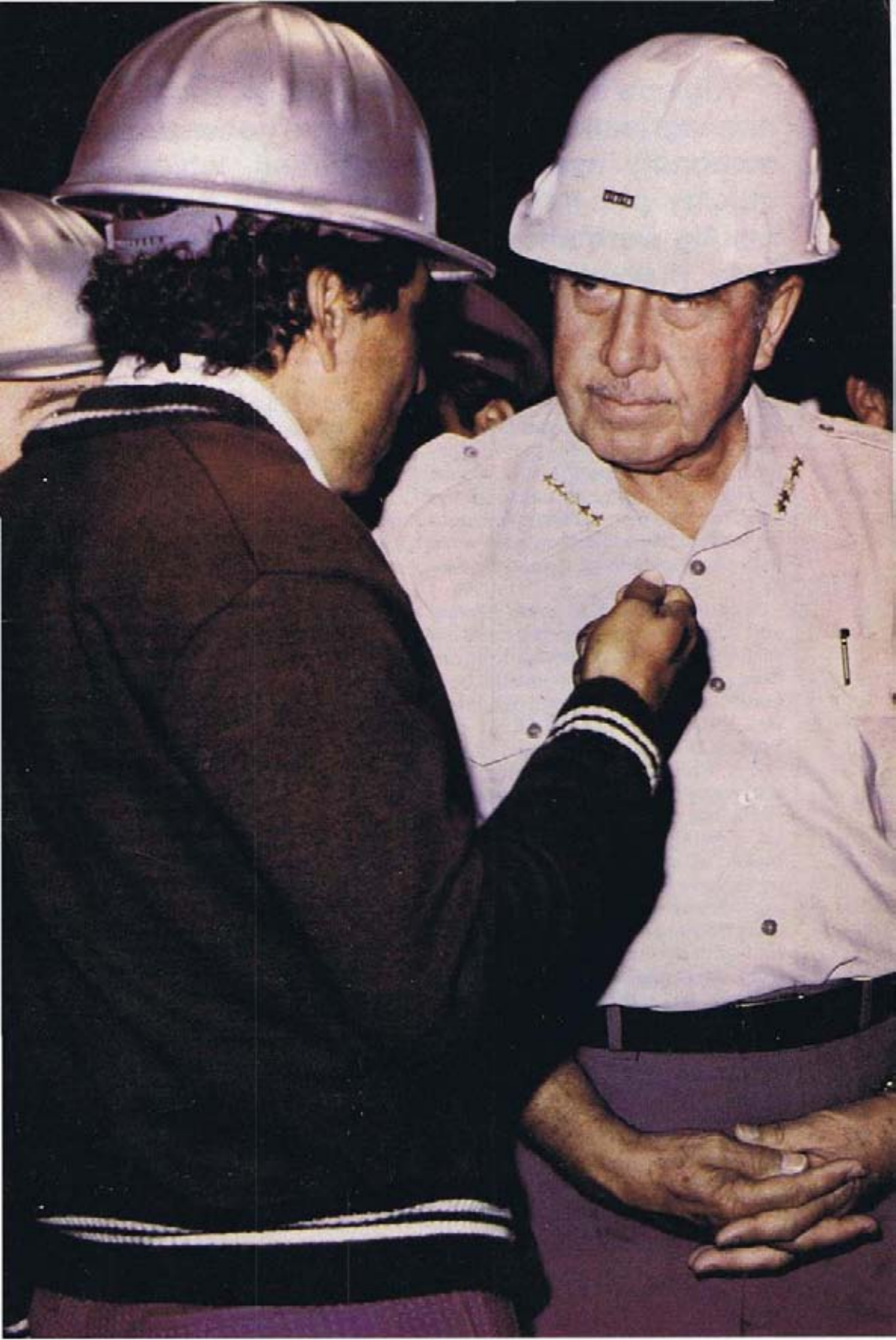
the lowest. Chile has since adopted a policy of free trade, and a great variety of imported goods is improving the quality of life there. In addition, the economy has been freed from the stranglehold of politically organized labor unions, and Chile's version of Social Security has been put on a voluntary basis. The marketplace in Chile is now free to serve the interests of the people, and is doing so.

Over the past four years, Gross National Product has grown at an average of eight percent annually after inflation. This is one of the highest rates of growth in the world today. As one observer summed up Chile's fine performance: "The new government has managed to take a chaotic economy on the brink of hyperinflation and effectively in default of its foreign debts, and reorganize it. It has re-established its creditworthiness, controlled inflation, and set the foundation for an efficient system which will at least double historic rates of growth and per capita income for its citizens. All this in spite of worldwide economic recession and the legacy of an economy in shambles. After 40 years, Chileans are becoming convinced of the merits of their newly discovered 'free market' system."

As a result, unemployment in

Chile has steadily fallen in the last five years; it is now about 8.5 percent — almost one-third of its peak of twenty-two percent in early 1976. In fact the total number of people working at private-sector jobs is now higher there than it has ever been. But it is Chile's success in reducing inflation that has the world's economists talking to themselves. Retail price inflation as measured by the Gross Domestic Product Deflator is down from a peak of 652 percent under Allende to less than twelve percent today. Another measure of rising prices is the Wholesale Price Index, which in the twelve months preceding December 1973 had risen by a staggering 1,147 percent! This meant that wholesale prices were approximately *doubling every month!* By contrast, in the first six months of 1981, wholesale prices *fell* by 0.4 of one percent. Obviously, the Chileans are doing something right.

This transformation has been guided by those whom the Chileans call the "Chicago Boys," a group of economists and officials headed up by Finance Minister Sergio de Castro, Planning Minister Miguel Kast, and Central Bank president Alvaro Bardón. All hold graduate degrees in economics from the University of Chicago, where they were students of Milton Friedman and Arnold Harber-



Allende's Marxists almost destroyed Chile's rich agriculture by giving the government a monopoly over food distribution, which was quickly put into the hands of the Reds. The results were shortages and hunger. Under the Free Market policies of President Pinochet, Chile is again producing large food surpluses.

ger. Like most Chileans, the Chicago Boys were fervent opponents of the Allende regime. In 1975 the military junta led by Augusto Pinochet picked these Free Market economists for top jobs in the new Government and gave them broad authority to cope with the problems of a ruined economy.

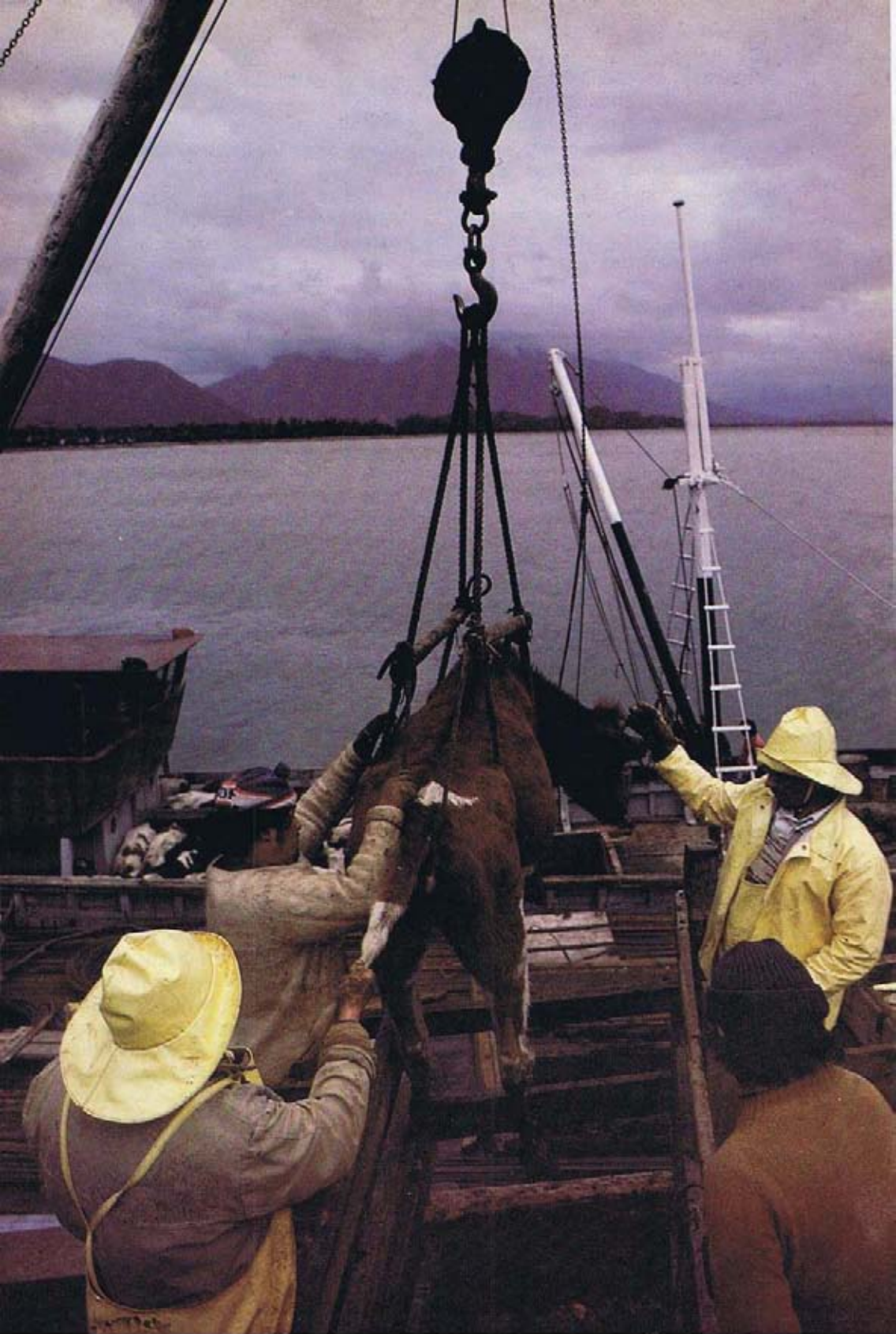
The background to these reforms and the creative experimentation with Free Market principles that has been going on in Chile should be a matter of great international interest. But, until recently, little was written or said in the news media about Chile's astounding economic achievements. The Government of Chile has of course committed the sin of being anti-Communist, so the media of our "Liberal" Establishment have restricted their "reporting" almost entirely to alleged violations of human rights while ignoring the undeniable progress resulting from the explosion of economic freedom since the overthrow of Allende.

Now, however, Chile's success has become too obvious to be ignored. Much as they hate to admit it, even "Liberals" have had to acknowledge Chile's accomplishments. As a former U.S. State Department official grudgingly observes, "Chile is a case-book study in sound economic man-

agement." Indeed it is. Which is why some articles on this theme are at last beginning to appear in surprising places. Such as the analysis by Peter Dworkin in the November 2, 1981, issue of *Fortune*. As Dworkin puts it, "Any country that knocks down its inflation rate from high triple digits to the low teens is bound to attract attention."

The *Los Angeles Herald-Examiner* of September 27, 1981, also carried an enthusiastic article on Chile. The author, Tim Congdon, observed: "Chile has been portrayed as a small, remote, and unhappy country where a terrified population submits reluctantly to a grisly military dictatorship. The pariah image has been made easier to convey by its economic policies, which are deemed, rightly or wrongly, to be more monetarist than anywhere else in the world. Chile is therefore an ideal target for the numerous polemical bullies of the liberal establishment."

"But, as it happens, news of the Chilean economy has begun to filter through into publications like controlled-circulation magazines for international bankers. It is not the sort of news that liberals like to hear. The glossy July issue of *International Investor* quoted one banker who thought Chile was 'the jewel of Latin America from a performance stand-



point' and another who judged: 'It's difficult to find anything done wrong by their economic team.' Economists like John Kenneth Galbraith would no doubt scoff at both the publication and the bankers. After all, they have only money at stake."

To appreciate the remarkable progress that this South American nation has made, one must know something of the condition in which the Marxists left the economy when they were deposed, and the background which led to the rise and fall of the Allende regime. Salvador Allende was only the last and worst of a long series of collectivist leaders to have abused this country, one hundred miles wide, which runs for twenty-six hundred miles along the west coast of South America.

The collapse of commodity prices during the Great Depression of the 1930s, for instance, had a terrible impact on Chile because it was almost totally dependent on copper exports for its basic income. Export markets disappeared and foreign exchange earnings dwindled drastically. Instead of trying to free their economy and thus make it more flexible in dealing with such traumas, Chile's leaders persisted in efforts to make their country "self-sufficient." To this end, the political leaders of Chile pursued programs of state intervention aimed at "forced industrialization." Administrations came and went, but this uneconomic strategy remained unchallenged for more than forty years.

Exchange rates were meanwhile maintained at artificially low levels. Import bans and high tariffs were erected on a long list of products produced more efficiently by other nations. Price controls were imposed on a wide assortment of goods, especially agricultural products. The government also regulated interest rates

and occasionally imposed wage controls. An expensive and inefficient Welfare program added a further staggering burden to the Chilean economy.

All of this in time strangled the early potential that Chile had shown as controls led to more controls and the system of state intervention grew ever more intrusive. In the 1960s the economy was steadily deteriorating. President Eduardo Frei, the Kerevsky-like predecessor of Allende, expanded the role of the state, nationalizing the copper mines. By the year 1970 the economy was smothered by controls and regulations and potentially rich Chile was a basket case. Gerrit P. Vander Ende, an expert on Chilean investment opportunities, describes the state of affairs on the eve of the formation of the Marxist Government under Salvador Allende:

"Gradually stagnated by a galaxy of controls, the entrepreneurial spirit of her business community had been muted. Economic growth (GNP) had increased on the average only 3.7 percent annually between 1940 and 1970 — a rate of growth that meant only 1.7 percent per capita per annum due to a high birth rate. Inflation, a result of excessive government deficit financing, became endemic. By 1970 most Chileans were angered. Their economy was performing poorly. Located in a corner of the planet that enjoys abundant resources of wide variety, they were aware of failure. Well-educated by conventional standards, and historically a people with a large and influential middle class, the average Chilean felt restive. Living standards should have been comparable to countries such as the United States, Canada, and Western Europe. The historic reasons for this failure, however, had eluded them.

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CHILE: THE MARKET

Backed by the bias of the educational system, many Chileans came to believe that more state intervention in the economy, not less, would bring improvement.

"Frustrated with slow growth, inflation, and inequitable distribution of wealth, Chileans elected Allende in 1970. Capitalism was judged a failure and blamed, where in fact state intervention in the economy had played a major role in slow economic growth. Most Chileans believed that they lived under a capitalist system and were disappointed by its poor performance. Fuzzy appreciation for the realities of the system led to mistaken conclusions and misdirected efforts at reform."

It is characteristic of the Marxist enemies of capitalism that they denounce it for evils which are actually the result of political interventionism in the economy. One commonly heard line of socialist propaganda has it that industrially underdeveloped nations are not suited for a Free Market economy because their primitive level of development requires socialism. The irony is that some of these same socialist propagandists also claim that economic freedom is too old-fashioned for a highly developed industrial civilization — that, indeed, the more complex an economy is, the more government controls and "planning" are needed. Thus, they argue that a country should not be permitted to have economic freedom because it is undeveloped, and at the same time that a country should not have economic freedom because it is highly developed! Both of these crude fallacies have been passed on to students by "Liberal" college professors and other faddists who have never grasped what makes a

progressive industrial civilization possible.

Carefully propagandized by such anti-capitalist bias and economic confusion, enough of the Chilean people turned to Marxism in desperation to put Allende in power. Elected with less than thirty-six percent of the vote, Salvador Allende formed a coalition Government of Marxist parties.

Comrade Allende expanded Chile's interventionist system to the extreme. Copper had already been nationalized by Allende's predecessor, the C.I.A.-backed socialist Eduardo Frei. Allende tightened that control even more, and nationalized further sectors including banking. Other businesses were "intervened" rather than formally confiscated. This meant that even though the stockholders still "owned" a company, the government appointed a bureaucrat called an "intervenor" to manage the company.

Then there were the *tomas*, or radical seizures of private property from its rightful owners by radicals and thugs. This was encouraged by the new Marxist regime. In November of 1974 AMERICAN OPINION magazine published a report by Dr. Susan Huck on a visit to Chile which she and other anti-Communists from the United States had made the month before at the invitation of President Pinochet. Dr. Huck reported of the *tomas*:

"We spoke to many people who had been afraid to go away from home, even for a few days, because a group of Government-protected thugs might simply invade their house (as had happened to so many others) and declare the place public property. This charming policy was followed with respect to factories and farms, as well, with disastrous results for the country. It was used to

despoil, to reduce to beggary, if possible, entire *classes* of people — not merely political opponents but whole categories of perfectly innocent, hard-working, apolitical persons defined by the Marxists as somehow undesirable.

"Within *one month* of taking office, the Allende Government had permitted the illegal seizure of 5,700 dwelling units. By July 1, 1971, the Carabineros dutifully reported that which they had been forbidden to prevent — the illegal 'taking' of 339 industries, 658 farms, 218 pieces of urban land, and 154 educational establishments."

In other words, Marxist looters and ordinary criminals had been sent out in packs to beggar the middle class. Dr. Huck continued:

"In the industrial realm a choice was sometimes offered: eventual bankruptcy or immediate bankruptcy, eventual takeover or immediate takeover. Sometimes the choice wasn't offered. All 'basic industries' were soon seized, along with such others as offered special advantages or easy targets. Losses were inflicted immediately; stocks looted, equipment and machinery damaged, records pawed through, carted off, or destroyed. Labor discipline disappeared, and barely half of the work week was devoted to working, the rest of the time being given over to such Marxist pleasures as mass meetings, training of the militia or guerrillas, slogan painting, and the like.

"The 'socialized' industries suffered losses of about *five billion dollars* in 1973 alone. (This in a country of ten million people.) Naturally, supplies faltered and were exhausted. Totally unreal prices, set by those wonderful United Nations 'economic experts' who were running things, led to such idiotic distortions as a flour sack (empty) being priced

higher than a sack of flour! When the price of bread was at one point set at 1.3 cents a pound, bread simply disappeared because no one could afford to produce it."

The United Nations "experts" referred to above were a gang of Marxists imported to staff the radical programs of the Allende regime. As Professor Huck remarks, "They quickly showed their true color — screaming red — and pursued their true objective — total political and economic power, at whatever human and economic cost."

Robert Moss provided some details at the time about the extent of U.N. involvement in the takeover of Chile and the smashing of what was left of its economy. He observed: "It is significant that the *majority* of the members of Chile's new class of Marxist technocrats — headed by Pedro Vuskovic [*Minister of Economics*], Jacques Chonchol [*Minister of Agriculture*], Alfonso Inostroza, who became the President of the Central Bank, and Gonzalo Martner, who took over the state planning agency, ODEPLAN — had all worked for the [*United Nations*] Economic Commission on Latin America, or the Food and Agriculture Organization, or some other of the U.N.'s technical agencies. Their common approach to economic planning reflected their common experience."

Yes, they had shared a common experience. These career United Nations officials had been prepared by the international Left in Cuba to seize control. As Dr. Huck pointed out: "Many had been sent to Castro's Cuba (as salaried U.N. employees supported by the United States) in order to aid Castro in his conversion of Cuba into an impoverished Communist slave state."

There can be no doubt that these U.N. bureaucrats were motivated by

Marxist ideology and the usual lust for total power. As Moss put it: "The role of economic planning was in their eyes not confined to raising production, redistributing income, or improving the general standard of living. It was part of the process of creating a socialist revolution. Within this perspective, they were willing to shrug off the appalling economic consequences of their program. . . . It became . . . clear that their whole economic strategy was concerned with power, not with productivity, efficiency, or even any novel experiment in socialism."

Allende and his U.N. Marxists purposely wrecked Chile's agriculture in order to create food shortages and hunger. The Allende Government gave itself a monopoly over food distribution so that it could channel control of even bare subsistence to itself and its Comrades. Professor Huck explains:

"A monopoly of food distribution meant that the *Marxist Government itself* controlled the black market. While legitimate storekeepers were forced to sell at ludicrous prices (or had nothing to sell), the Marxists could charge whatever the traffic would bear with their own, protected black market operations. This provided yet another opportunity to clean out the hated middle class.

"Food shortages also create a 'demand' for rationing. Marxists simply *dream* of situations in which the people can't even buy food without government permission. And so the United Nations planners brought rationing to Chile, and of course placed it under the exclusive control of Communists. The Communists, in order to find out who had what, and who needed what, were naturally empowered to invade anyone's home or store to ascertain these facts. Had you 'hoarded' five pounds of flour?

Sorry, friend, we're taking it with us."

Incidentally, during the entire Allende regime, not one land title was given to any landless peasant. Socialism is not a movement of the down-trodden masses; it is a movement by power-seeking elites to gain and consolidate political power in order to gain monopolistic control over resources owned by others. What could be more monopolistic than socialism? No competition is allowed, the government owns or controls industries and resources — and the members of the clique control the government which, for them, serves as a legal holding company. Allende was bringing this system to Chile.

Part of the scheme involved an enormous and deliberate expansion of the money supply. By the end of the Allende period, the national deficit was twenty-two percent of total domestic output, and fifty-three percent of government spending was being financed on a deficit basis! In 1969, the year before Allende came to power, the government deficit had been only 1.5 percent of total output and seven percent of total government expenditures.

To further isolate Chile from the world economy, Allende purposely sought to reduce imports even more than previously by raising the already high tariffs to even higher levels. Consequently, few consumer goods came into Chile, and what goods did enter were immediately purchased at very high prices.

Unlike many South American nations, Chile had a long tradition of stable, elected Governments. But conditions under Allende became so terrible that whatever enchantment he had at first held for the population turned to despair and anger at the Marxists. The military was nonetheless extremely reluctant to move,

and did so only after the situation had become very grave indeed. Walter H. Heitmann, Chile's Ambassador to the United States under the new Pinochet Government, describes the situation for Americans:

"It would take three years to explain the facts, because in three years the previous government destroyed our country. Unless you have knowledge of the former conditions, you will not be able to understand the reasons why the military, breaking a long tradition in our country, intervened; and why the majority of Chileans are supporting the new Government. It would be necessary for the American people to see how our women formed long lines just to get some food, and remained standing for hours well into the night. They were forced, with this system, to leave their children alone, risking their health and lives in order to get food. The food was distributed only to those who were members of the Marxist political parties. Citizens who did not belong to those parties could not even get the basic necessities to support life, but were forced to buy them in the 'black market' [controlled by the Marxists] . . . Basically, the military was asked by the people to intervene to put an end to this situation. For three years, the population had been nourished with lies, with promises that were never accomplished. They grew sick and tired of demagoguery. The unions went on strike, especially the truckers' unions. And the university students too. Even the housewives went into the street demanding the resignation of Allende.

"The country was paralyzed, production was almost non-existent — everything was a matter of politics. The police force was called out to repress the peoples' protest, and police officers quickly became sick of

misuse of authority. Finally, however, the leaders of the military could no longer remain deaf to the demands of the people for the resignation of Allende. They asked him to leave the country, and offered him safe passage to the nation of his preference, even Russia, with full assurance that he might take with him whomever he wished. When he did not accept this offer, the Armed Forces moved to overthrow him by force."

As the military was closing in to make him an offer he couldn't refuse, Allende committed suicide on September 11, 1973, with a machine-gun that had been given to him by his friend Fidel Castro. A gold-plated inscription on the weapon in Allende's hands read, "To my friend and comrade-in-arms, [from] Fidel Castro." Naturally, U.S. "Liberals" flew into paroxysms of fury when one of their international pets was overthrown. Only the overtly Communist press was more vituperative.

Never mind that it was soon discovered that Allende and his gang had planned their own *coup* in order to consolidate their dictatorship and turn Chile into a typical Communist fiefdom. Ambassador Heitman reports:

"If the Army had not stepped in, the government would have started its own revolution. It had organized popular militias, it had weapons, organization, guerrilla-training camps, with people coming in from Cuba, [North] Korea, and other countries. Chile was invaded by foreigners who were ready to lead the *coup* that the Allende Government was preparing for the seventeenth of September, one day before our National Day. They had a detailed plan for that day, which was found in the safe of the Minister of the Interior. It was known as 'Plan Z.' There is no

doubt that Allende knew about this plot because some of the documents were found in his house, where he kept an arsenal — guns made in Russia, East Germany, and Czechoslovakia. There are some pictures of his practicing with machine guns in the gardens of one of his several houses."

Had the popularly backed military not acted when it did, Chile would now be a Communist dictatorship controlling the west coast of South America. We were lucky. Fortunately, too, the shrieks of the Left prevented the "Liberals" running our C.I.A. from rushing to "support" Pinochet and pushing him out in favor of some approved socialist.

But the destruction of the Chilean economy was so complete that reconstruction was widely viewed as being more difficult than what would be required in a country totally devastated by war. Like West Germany after World War II, however, Chile has in eight years made remarkable progress under a freer economy.

On the first anniversary of the overthrow of the Marxist tyrant Allende, at the personal invitation of President Pinochet, a group of leading American Conservatives — members of The John Birch Society — made a visit to Chile to observe, advise, and return to the U.S. with an objective report of what had happened. This group included Dr. Susan Huck of AMERICAN OPINION, Mr. and Mrs. S.J. Agnew, businessman Floyd Paxton, and economic advisor Sherman Unkefer. Their advice was to free the economy, to dismantle the bureaucracy, to balance the Budget, and to discard not only the "land reform" and other policies initiated under Allende but also to rid Chile of those policies of political intervention which had since 1930 discouraged production there. Indeed,

Mr. Unkefer presented a copy of *Human Action* to President Pinochet's chief economic advisor to make available to him the sound Free Market wisdom of the late Ludwig von Mises. By 1975, Dr. Milton Friedman and other Free Market economists of the Chicago School were making a well-publicized lecture tour in Chile and advising the Pinochet Government.

Especially involved in the rebuilding of the Chilean economy has been Chicago University economics professor Arnold C. Harberger, a close associate of Friedman. Professor Harberger, whose wife comes from Chile, has more than thirty years of association with that South American country and makes regular trips there to lecture and consult on economic policy. He was interviewed by Norman Gall for an article in *Forbes* of March 31, 1980. Gall commented on the role of the Free Market economists in Chile's miraculous recovery:

"Many writers have credited monetarist economics for the Chilean economic recovery. Professor Harberger has a surprise: It was not monetary policy but fiscal policy that slowed Chilean inflation and got the economy growing again. It wasn't what the central bank did but what the administrators did. They took a meat axe to government spending, virtually eliminating the massive, inflation-producing deficits. By slashing tariffs, they brought down the cost of consumer goods and restored competition to the overprotected Chilean economy. By cutting taxes they restored incentives."

In the *Forbes* interview, Professor Harberger stated: "I'm trying to make clear that a label of [mere] monetarist restraint has been placed on that process, and that label simply doesn't fit." Indeed, Professor Arthur Laffer and others view the

Chilean success as an illustration of what supply-side incentives can do.

Harberger also notes that an important factor in the Chilean success has been the consistency and coherency of economic policies — working together rather than at cross-purposes — that resulted from having a Free Market economic team whose members think pretty much alike on the major problems and approaches to their solution. Backed by President Pinochet, the Chicago Boys were able to work wonders in moving Chile away from socialism and interventionism. The common element of these successful policies has been ever less government meddling in production and trade. But let us examine some of the specific reforms that have gone into making Chile's economy a showcase of progress.

Real Spending Cuts: As we have noted, the national Budget was severely cut by the new Government. In 1975, when the Chicago-trained Chilean economists were moved into positions of government policymaking, they immediately began to swing Budgetary axes in a way that would have awed even David Stockman: Spending was slashed twenty-five percent, the public-sector bureaucracy was reduced accordingly, state-owned businesses were auctioned off to the highest bidders, and the "intervened" businesses were returned to the control of their owners. These efforts not only increased production but eventually put the Budget into balance.

That's right! Chile has eliminated its Budget deficit and now has a Budget surplus! It no longer has to resort to inflation to fund excess spending. In fact, it is now unconstitutional for the government to borrow from the central bank. Thus, monetary policy is no longer linked to fiscal policy and the central bank

has piled up significant reserves of U.S. dollars, other foreign currencies, and gold. These resources have permitted Chile to establish and maintain a fixed exchange rate between the peso and the Yankee dollar.

While this, unfortunately, means that the fate of the Chilean peso is linked to that of the dollar — and the base level of Chilean inflation will tend to follow that of the U.S. — it is incomparably better as a strategy than the runaway inflation rates that Santiago experienced before. Whether the Chileans will eventually attempt to move to a gold standard remains to be seen. The point is that this stabilizing of monetary policies — even given the continued existence of a central bank — was made possible by spending cuts and the achievement of a balanced Budget. That is assuredly a lesson for America.

The Freeing Of Trade: Historically, Chile had been one of the most tariff-protected economies in the world. Under Salvador Allende, import restrictions were made even more formidable, with some tariff rates going over one thousand percent. Imported bicycles suffered an effective tariff of 555 percent; textiles, 492 percent. Now, the tariff level has been dropped dramatically, down to a flat rate of ten percent, which — compared to most other countries — is practically free trade.

As a result, the lifestyles of the people have been greatly improved by a great variety of relatively inexpensive foreign products. This has allowed the Chilean economy to find its natural "comparative advantage" — those industries in which it is most competitive in world trade. Whereas the copper industry was once responsible for more than eighty percent of Chile's exports, it now represents less than fifty percent as Chile has di-

versified its exports to the world. Taking advantage of the fact that its seasons are the opposite of those north of the equator, for example, it now exports boatloads of summer fruit and vegetables to winter markets in Europe and the Mideast.

This from a country that suffered food lines only a few years ago under the Marxists! According to Chilean economist Manuel Labra, non-traditional exports (non-copper) have grown sixteen-fold — from an annual total of \$100 million in 1974 to more than \$1.6 billion in 1980. And this growth in trade will increase even more dramatically with the removal of the shameful trade sanctions against Chile imposed from the U.S. by previous Allende-approving Administrations.

Stripped of the artificial protection of high tariffs, and faced with the discontinuation of price controls and subsidies to favored businesses, the Chilean economy had to go through an adjustment period. Many pampered companies — in electronics, textiles, and metal-working — went out of business. They were not efficient enough to compete in world markets. As a result, resources have shifted to companies which specialize in products upon which Chile has a competitive advantage in international trade. The consequence is a higher standard of living which promises to get better as more trade relations are established. Santiago has never looked better. Consumer goods from all over the world are readily available at inexpensive prices, putting them within reach of many, many people. There is no readily transportable consumer good that you cannot now obtain in Chile.

Foreign Investment Encouraged:

Chile now has a policy of non-discriminatory treatment for foreign-owned as well as Chilean enterprises.

As a result, 657 new foreign or jointly owned businesses have been initiated, representing over \$4.2 billion in investment capital. Given the stability of the Government and the pro-business environment it has created, capital is flowing out of collectivist countries further to brighten Chile's future.

The Right To Work: Chile has also adopted a new labor policy, moving to depoliticize the unions and establish a fairer balance of influence between unionized and non-unionized workers. José Pinera, Minister of Labor and Social Security in Chile, puts it this way: "We have concluded that a much reduced role for government, to essentially a technical and legal function, will be decisive in reducing the political content of labor negotiations." That has resulted in limiting collective bargaining to the level of the individual firm whose workers are involved — rather than having labor disputes become political and national in scope and do harm to those parts of the population not directly involved in the negotiations.

This has had several advantages. Minister Pinera comments about one of them: "Collective bargaining, centered at the firm level, breaks the Marxist notion — deeply embedded in Chilean social and economic thinking — that there is a supposedly irreconcilable confrontation between the working and the capitalist classes. The concept of class hatred is morally wrong, intellectually obsolete, and clearly untrue to perceived reality. Nevertheless it gains new life through labor conflicts at the national or industrial level. This doctrine is much more difficult to spread, however, among workers who know their employer on a personal basis."

There is complete freedom to form and belong to labor unions, but

the special privileges formerly enjoyed by the labor bosses have been significantly decreased through the depoliticizing process. Consequently, labor negotiations are now directly related to productivity of the workers as a basis for wage settlements rather than to political issues that have little or nothing to do with labor. The old labor system contributed greatly to poor performance and to low economic growth that was averaging less than three percent annually. In the last four years, on the other hand, you will remember that the growth rate has averaged about eight percent annually. According to Minister Pinnera, "At the current rate we will double our per capita income in eleven years instead of forty-one years, as would have been the case under the old system." Thus, Chile has essentially solved the problem of political labor unions which once held a stranglehold over the economy.

Social Security Saved: Another important reform which Minister Pinnera masterminded is the new plan for saving Chile's bankrupt Social Security system by turning it over to private management. All workers are required to invest at least ten percent of their salaries in the individual retirement or savings account of their choice within the private sector. They may choose to invest ten percent more, with both contributions tax-exempt under the new law. Under the old bankrupt system both employers and employees were forced to contribute and the workers had to put a crippling forty percent of their take-home pay into a system that invested in worthless government bonds.

Today, competition among private-sector pension companies provides compelling alternatives for Chileans planning for retirement while making available huge sums of capital for creating jobs and increas-

ing production. Begun in November of 1980, the new system is both popular and successful. Although the program still has some government guidelines, it is headed in the right direction. At a time when President Reagan is trying to keep our own Social Security pyramid scheme from running out of cash within a year, Chile has already moved to create "a non-socialist social policy" of which the new *private* pension program is an important part.

* * *

ALL OF the above policy reforms, aimed at getting government out from behind the wheel of the nation's economic affairs, have helped to create the new surge of growth and success in Chile. While it must be pointed out that the country does not yet have a pure *laissez-faire* system of capitalism — for example, the major copper mines are still under state control — it is nevertheless a basically Free Enterprise nation moving rapidly in a progressive direction. Chile has been, and will continue to be, attacked by the reactionaries of the Far Left, but it has a bright future under a new Government which received a sixty-two percent voter approval in a national referendum in 1980.

What is necessary for the development of a thriving economy is for government to be restricted to its proper function of protecting equally the rights of its citizens to their persons and properties, and to leave peaceful people alone to pursue their own economic goals. As Professor Arnold C. Harberger sums up the Chilean experiment with Free Market economics: "After having one of the most mismanaged economies in the world, Chile is now a place where the lessons of economics are being applied with both ingenuity and sophistication." To which we are happy to say, Bravo! ■ ■