

Meeting with Milton Friedman

By Carlos Gómez

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On May 1st 1996, at 3:30 pm, José Piñera and I arrived to Milton Friedman penthouse located in the 20th floor of a building at the famous Nob Hill in San Francisco at the intersection of Jones St. and Clay St. We rang the bell and to our surprise he himself opened the door leaning on his canes. He was 84 years old and suffering an illness that prevented him from walking without the canes. He greeted us with great enthusiasm and showed us the spectacular view he enjoyed of the San Francisco Bay. That day the Personal Retirement Accounts Revolution in Chile was in his 15th birthday. Such was the setting of the next two hours of discussion with a brilliant mind and an extraordinary human person.

He enthusiastically praised the Chilean pension system not just because of its extraordinary returns but because it protected effectively the individual freedom from the voracious appetite of the state. In chapter XI of his famous book “Capitalism and Freedom”, published in 1962, he wrote about the freedom that people should have to save and invest for their future pensions as opposed to the socialist pay-as-you-go system.

The Professor was happy. He had in front of him the very person who revolutionised the Chilean pension system. He knew that José was exporting the system to all over the world and that he has just recently been appointed Co Chairman of the “Social Security Choice Project” at the CATO Institute to introduce Personal Retirement Accounts in the USA. Milton Friedman congratulated José for his audacity and encouraged him to persevere in this titanic task.

We talked about a new educational model, as revolutionary as the Personal Retirement Accounts: For each son or daughter at school, the state finances a monthly check to Chilean families with freedom to choose the school. In this way, schools will compete to get students and eventually improve the quality of education. It's the voucher system about which he wrote in chapter VI of his book.

We also talked about reducing taxes to give citizens the freedom to create and invest in their own future, decreasing the power of the state in the economy.

He also pointed out his opinion on the economic disaster originated in Chile as a result of fixing the exchange rate between 1979 and 1982, statements that he wrote about in his memoirs (“Two Lucky People”): *“In the euphoria of the rapid decline in inflation and rise in economic growth, the authorities decided in 1979 to peg the exchange rate of the Chilean peso to the U.S. dollar. The rate of inflation in the U.S. at the time was in the low double digits –high for the United States but lower than inflation in Chile. By pegging, the Chilean authorities hoped to bring the Chilean rate of inflation to the U.S. rate. They got*

more than they bargained for, thanks to the economic policy introduced by President Reagan in 1981, which brought inflation down sharply in the U.S. and led to a sharp appreciation in the U.S. dollar. The peg imposed strong deflationary pressure on Chile, resulting in severe recession. Gross domestic product fell by 13 percent in 1982 and by 3.5 percent in 1983. The architect of the peg, Finance Minister Sergio de Castro, was relieved of his post in April 1982, and the peg was abandoned...Once the peg was dropped and the exchange rate allowed to adjust, rapid real growth resumed. The sharp recession left its mark and undoubtedly was one reason why a plebiscite in October 1988 on the Pinochet government yielded a different result than that in 1980."

As the sun was setting in he dedicated to me his "Capitalism and Freedom" book which I cherish as an inexhaustible source of timeless ideas. Ideas from a sage with deep human sense of economics as a tool to eliminate extreme poverty and develop countries based on freedom and respect for people.

Milton Friedman got up from his chair, walked slowly supported by his canes and by us and with a luminous smile said good bye at the door of his apartment.

Back on the street we walked with increased enthusiasm to continue the fight to apply in Chile public policies based on less state and more individual freedom that might convert us in a developed country. At the moment we thought 2010 to achieve that goal. Now we do not lose hope for 2018 year in which on February 12 we celebrate 200 years of Chile's Declaration of Independence.