



Chile, where freedom nurtures success

BY RICHARD W. RAHN

THE WISDOM OF LIMITED GOVERNMENT CAN BE TOLD IN HIGH DEFINITION

Santiago, Chile — Why have Chile, Hong Kong, Singapore, South Korea, Estonia and the Cayman Islands all become relatively prosperous in recent decades while other countries have lagged? The answer is not a mystery, but is often ignored or even suppressed by the political and media classes in many places throughout the world because many of them believe the truth will diminish their own political power. Countries that have the rule of law (including honest and competent judges), protect private property, have free markets and free trade, have relatively low tax rates and government spending, avoid destructive economic regulation, and have sound money tend to grow at much faster rates than those countries that don't.

For years, many economists, including yours truly, have been doing studies that prove the above assertions and have been writing about these basic factors of success. Yet most Americans, Europeans and many of those in other parts of the world have little understanding of which policies result in successful economies. Given that we are now in an age in which people receive more of their information from videos, including movies and TV programs, than they do from reading, we thought it might be valuable to produce an informative and entertaining series of one-hour programs for TV networks, which show a number of success stories from around the world.

We began our filming in Chile this week. You may be asking: Why Chile? Chile was ranked as a poor country 35 years ago, and now the World Bank ranks it as a "developed country." Argentina had the highest per capita income in South America until 1983, with almost twice the per capita income of Chile at that time. Yet by 2002 Chile had overtaken Argentina on a per-income basis, and Chile continues to grow faster than Argentina. Venezuela also was wealthy because of its enormous oil production and reserves, but the socialist governments of recent years have squandered and destroyed the wealth, and incomes are now falling rapidly.

But it gets worse. The corrupt leaders of Venezuela and Argentina have long been suspected of serving as conduits for Iranian interests and agents. Several years ago, Venezuela bought Argentine government bonds when others refused to after Argentina had defaulted on an earlier bond issuance, and still owed foreign investors billions. It has just been uncovered that the reason an Argentine federal prosecutor, Alberto Nisman, may have been murdered in January is that he apparently was about to reveal that the Iranians funded the Venezuelan Argentine bond purchase, in exchange for Argentina providing the Iranians with information of how heavy water nuclear reactors (in which Argentina has considerable experience) could be used to create plutonium for nuclear bombs.

It is easy to understand why countries and individuals are poor, and why the destructive behaviors of Venezuela and Argentina make them or keep them poor. What is harder to understand is how countries and individuals become wealthy (without stealing from others). Good policies and practices are often hard to see. The actions of corrupt government officials fill our news programs, movies and books, and it is understood how the corrupt hurt individuals and businesses. However, the overall effect of corruption on economic growth and job creation is less well understood.

One major reason for Chile's success in recent decades is that it has the least amount of corruption in Latin America.

Thus, unlike Argentina and Venezuela, foreign investors are not fearful of having their investments stolen by corrupt judges or government officials. Hence, Chile has received considerable foreign investment and its resulting job creation.

The climate in much of Chile is like that of California, but being in the Southern hemisphere, the growing seasons are reversed. Chile has had a free-trade agreement with the United States since 2004, and that, coupled with low-cost, high-speed transportation (air freighters and fast ships), enables Americans to have fresh berries and grapes during our winters. Chile has one of the freest trade regimes in the world and continues to negotiate free-trade agreements.

Chile has also been a stable democracy since 1990 with governments shifting back and forth between the moderate right and left. None of these governments, to date, have undone the basic economic reforms put in place three decades ago, including the world's first privatized and most successful social security system, now adopted by 30 other countries. Chile still benefits from a low level of debt and relatively low levels of taxes, regulations and government spending. One simple thing that Chile could do to further enhance its economic image is to knock several decimal points off its currency so that the peso is worth more than one dollar.

Chile, being a 2,000-mile long, but only a 100-mile wide ribbon along the South Pacific, with many Andean snow-capped peaks rising over 20,000 feet, provides tourists with some of the best scenery on the planet and endless opportunities for adventure along with all the conveniences of a very modern, prosperous economy. Chile is likely to continue its success as the shining star of Latin America.

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