

Economic Reform, Human Capital and Leadership in Chile, 1920-1980

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Overview:

- We study the role of human capital and technocratic leadership in the process of economic reform. Specifically, we follow Adam Smith and his insights on the importance of persuasion (in TMS, WN and LJ).
- We stress the importance of human capital formation of what we label “policy entrepreneurs” in the process of economic reform.
- We consider specific episodes of the economic history of Chile between 1920-1980 as our case-study. This is a period where we find both failed and successful economic reform programs.

What we know:

- The importance of human capital in the theoretical literature on economic growth is well-known since Lucas (1988).
- Some of the episodes (and related problems on economic reform) we will be dealing with have been considered before in the literature on economic reform in Chile: e.g., Hirschman (1963), Montecinos (1998), Silva (2010); also Williamson (1994).
- Our approach most closely follows Couyoumdjian & Larroulet (2011).
- As noted, as a novelty we follow a Smithian argument on the role of human capital in the process of successful economic reform.

On successful (economic) policy reform:

“[S]uccessful economic policy in developing countries is very far from being the product of pure forces of history -something that happens when it happens because its time has come. Far from it, in every case about which I have close knowledge, the policy would in all likelihood have failed (or never got started) but for the efforts of a key group of individuals, and within that group, one or two outstanding leaders.” (Harberger, 1993, p. 343)

On this, recall Adam Smith: “the desire of persuading, of leading and directing other people, seems to be one of the strongest of all our natural desires” (TMS, VII.IV.25) + a sympathetic understanding of the constraints political leaders face.

Chile 1920s-1950s:

LA MISION KEMMERER EN FUNCIONES



(Sentados, de izquierda a derecha): señores J. T. Byrne, Perito en contabilidad; Ministro de Hacienda, señor Magallanes; Mr. E. P. Kemmerer; H. M. West, Secretario General; señor Illanes, Secretario chileno; señores W. J. Benwick, Perito aduanero; H. L. Lutz, Profesor de Ciencias Económicas; H. Jefferson, Perito bancario.—(De pie): señores Kemmerer, hijo; F. W. Fetter, Secretario particular de Mr. Kemmerer y José Avilés, Secretario de Mr. Benwick.

Misión Klein con el General Ibáñez



El Presidente de la República recibió ayer la visita de los miembros de la Misión Klein-Sacks que se encuentran en Santiago que llegaron a la Moneda acompañados del Ministro de Economía, señor Oscar Herrera Palacios. En la foto, S. E. con los señores Prescott Carter, I. Werner Knoke, Robert Carlyle Beyer, William Schmelzle, Thomas H. Lockett y el señor Herrera.

A timeline of the episodes we consider...

- Pablo Ramírez (Minister of Finance, 1927-1929) and the institutional legacies of the Kemmerer Mission (1925)
- CORFO (1939), economic policymaking and a new economic model
- Carlos Ibáñez (President, 1952-1958) and the Klein-Saks Mission (1955-1958)
- Eduardo Frei, Eduardo García and ODEPLAN (1965-)
- The aftermath of the military coup (1973), and Raúl Sáez's involvement in government (1974-1975)
- The “Chicago Boys”, macroeconomic adjustment and economic reform, and the role of Jorge Cauas and Sergio de Castro (and ODEPLAN is influential again)

“Los cabros de Pablo Ramírez” (Silva, 2010; Ibáñez, 1983):

“El punto de vista en que el gobierno se coloca es tan sólido porque está basado en la técnica, la experiencia, la legislación universal, los informes presentados por la Comisión Kemmerer...” (Ramírez, quoted by Silva, p. 87).

Some of Ramirez’s “boys”:

- Rodolfo Jaramillo, Contralor General de la República
- Raúl Simón, Director de la Oficina del Presupuesto
- Guillermo del Pedregal, Superintendente de Seguros
- Javier Herreros Vergara, Superintendente de Aduanas
- Carlos Ramírez Figueroa, Director de Impuestos Internos
- Jorge Poblete Manterola, Director de la Oficina de Aprovechamiento del Estado
- Marcos Orrego Puelma, Jefe del Departamento de Industrias Fabriles del Ministerio de Fomento
- Desiderio Garcia Ahumada, Jefe del Departamento de Comercio del M. de Fomento
- And “los ingenieros” in CORFO...

Others? Julio Philippi, Guillermo Subercaseaux and Walter van Deusen

Increasing inflation and economic frustration:

The Central Bank post-Great Depression and the management of economic policy...

INFLACION EN 12 MESES (VAR %): ENE.1952-DIC.1958



Fuente: Banco Central de Chile



Fuente: Topaze No. 1246 (31 de Agosto, 1956)

The Klein-Saks Mission (Couyoumdjian, 2011; Hirschman, 1963):

Led by Julius Klein, a former US government official:

“Nuestra recomendación en el sentido de buscar un acercamiento mutuamente satisfactorio con los partidos políticos que han estado cooperando con el Gobierno en su programa anti-inflacionario desde el principio, es de una importancia primordial. ... Gran parte de las dificultades tienen su origen ... en una sensación en el país de vacilaciones en la política económica y una falta de sobriedad en los gastos fiscales.” (Klein Saks -signature illegible- to President Carlos Ibáñez, October 30, 1956)

But around this same time, Aníbal Pinto would claim that “la llamada ‘misión’ Klein-Saks no es tal” (Panorama Económico 150, August 3, 1956)...

Similarities with “El Ladrillo? YES! (Lüders, 2011).

Influences? NO! (Interviews by Lüders et al.)

ODEPLAN (and a program with the MIT):

ODEPLAN was established in 1965, and given the lack of local human capital initially it relied on engineers from CORFO (García, 1989). Soon it established an agreement with the MIT in order to train local economists on planning techniques. This led to work with Paul Rosenstein-Rodan (e.g.: Eckaus and Rosenstein-Rodan, 1973).

But:

“So they were making a short-run model of the Chilean economy, a medium run model of the Chilean economy, a long-run model of the Chilean economy. And what message were they trying to derive from this? Well, it didn’t matter for our message. They had the model.... What did they not do? They did not at any point analyze the huge tariffs that they had on international trade, the other main restrictions they had on international trade. ... They never studied any of that. Where this was the most obvious thing that was wrong with the Chilean economy.” (Harberger, 2016, p. 173)

The socialist experiment and its tragic aftermath (Larraín & Meller, 1990; CEP, 1997):

Macroeconomic Variables
1970-1973

	1970	1971	1972	1973
GDP Growth	3.6	8.0	-0.1	-4.3
Inflation	36.1	22.1	260.5	605.1
Unemployment	5.7	3.8	3.1	4.8
Real Wages (growth)	8.5	22.3	-11.3	-38.6



Economic reform, 1973-1980:

Immediately after the fall of the UP government in 1973, as Harberger notes “the commissars were ... replaced by colonels” (2016, p. 193), and the economic situation in the country did not improve (and inflation continued to be a problem).

- Raúl Sáez (one of the nine “wise men” of the Alliance for Progress, former director of CORFO) was summoned as Advisor to the Junta in 1974, but he was not able to influence policy (as sponsored by the “Chicago Boys”)

The background to the “Chicago Boys”: The US AID – University of Chicago – PUC agreement of 1956 (and the intellectual influence of T. W. Schultz).

- This has been labelled the beginning of “good economics” coming to Latin America (Harberger, 1996; Larroulet & Domper, 2014)

The main figures: Sergio de Castro at the Ministry of the Economy (1975-76) and of Finance (1976-82), and the role of ODEPLAN in recruiting professionals to work in government (where Miguel Kast is the crucial figure):

“De Castro, whom I met nearly 40 years ago, is unique among the policymakers I have known for the almost magical quality of his leadership. A man without the slightest political ambitions of his own, he worked unstintingly, starting in the early 1960’s, to implement a vision of a modern, open, competitive Chilean economy. (...) I do not think it an exaggeration to say that the studies and debates leading up to El Ladrillo played for the subsequent revolution in Chilean economic policy a role not unlike that of the Federalist Papers in shaping the constitutional framework of the United States. It was this vision, too, that De Castro used to inspire and assemble the formidable team of young technocrats that in the end actually turned it into reality.” (Harberger 1993, p. 345)

Ministers of Finance in Chile:

Longest-lasting, 1920-1980

Nombre	Profesión	Asume en...	Duración (días)
232 Sergio de Castro Spikula	Economist	Diciembre de 1976	1.938
186 Gustavo Ross Santa María	Stockbroker	Diciembre de 1932	1.556
222 Sergio Molina Silva	Economist	Noviembre de 1964	1.199
221 Luis Mackenna Shiehl	Lawyer	Octubre de 1961	1.112
170 Pablo Ramírez Rodríguez	Lawyer	Febrero de 1927	927
201 Jorge Alessandri Rodríguez	Engineer	Agosto de 1947	920
224 Andrés Zaldívar Larraín	Lawyer	Mayo de 1968	915
231 Jorge Cauas Lama	Engineer/Economist	Julio de 1974	904
215 Eduardo Urzúa Merino	Lawyer	Agosto de 1956	798
187 Francisco Garcés Gana	Lawyer	Marzo de 1937	635
225 Américo Zorrilla Rojas	Politician	Noviembre de 1970	592
196 Pablo Ramírez Rodríguez	Lawyer	Mayo de 1945	457
218 Roberto Vergara Herrera	Engineer	Julio de 1959	419
205 Germán Picó Cañas	Lawyer	Junio de 1951	410
194 Arturo Matte Larraín	Lawyer	Septiembre de 1943	401
188 Roberto Wachholtz Araya	Engineer	Diciembre de 1938	367
171 Rodolfo Jaramillo Bruce	Engineer	Agosto de 1929	347

1952-1958

Asume en...	Nombre
03-nov-52	J. Bautista Rossetti Colombino
25-jun-53	Felipe Herrera Lane
14-oct-53	Guillermo del Pedregal Herrera
05-jun-54	Jorge Prat Echaurren
06-ene-55	Francisco Cuevas Mackenna
21-feb-55	Sergio Recabarren Valenzuela
30-may-55	Abraham Pérez Lizana
04-oct-55	Oscar Herrera Palacios
27-ago-56	Eduardo Urzúa Merino

In closing: The importance of human capital (a return to a 19th century experience?)

We offered a “Smithean perspective” on how human capital matters: Leadership and persuasion in policy reform (we label these agents “policy entrepreneurs”).

We consider policy entrepreneurs who: (i) lead technically strong teams, (ii) that take over key positions throughout government and, (iii) have intellectual support in the public arena. The Klein-Saks Mission failed because it did not have these types of leaders.

Consistent with this argument, something similar happened in the 19th century (1820-1910), when Chile was the fastest growing country in Latin America. The role of Andrés Bello and Jean Gustave Courcelle-Seneuil was fundamental as policy entrepreneurs during this period (Couyoumdjian & Larroulet, forthcoming, JOIE). As in the case of the Chicago “boys” they formed teams and disciples in the academia, and also in government, which is something Pablo Ramírez’s “boys” also did.

THANK YOU / GRACIAS

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