

Chile's Lessons in Leadership

By JEFFREY D. SACHS

SANTIAGO, CHILE — The thrilling rescue of the 33 Chilean miners showed a can-do country in action. It was Chile's second back-to-back crisis after the mega-earthquake that hit the south of the country in February, and in both cases the nation united behind a quick and effective response.

Chile is on a generation-long upswing after an era of disaster, showing again that countries can, on occasion, learn from their tragic blunders. Consider, for example, how Germany maintains a standard of fiscal prudence 87 years after its infamous hyperinflation.

On a recent visit to Santiago, I saw firsthand how Chile has learned some deep lessons of moderation, cooperation and innovation after a disastrous era of political extremism and military dictatorship in the 1970s and 1980s.

Chile matters. It is Latin America's most competitive economy, ranking highest in the World Economic Forum's annual competitiveness ranking (30th globally this year, far ahead of any neighbor). It is one of the region's richest economies, with per capita income ahead of Argentina and Brazil. It is a pacesetter of reforms, and will likely become a major economic, trade and financial bridge between China and Latin America.

Of course, any trip from the United States to an emerging market these days is bound to be uplifting. American politics is more depressing than ever, filled with mediocrities parroting inanities about tax cuts as the economy sinks deeper into debt.

My trip to Chile, however, was a special pleasure on three counts.

The first is personal: to accept an invitation from a prized former classmate, President Sebastián Piñera, and a star former student and co-author, Finance Minister Felipe Larraín.

The second is to see an economy that works. Despite the devastating earthquake in February, one of the most powerful in history, and a steep downturn following the 2008 Wall Street financial crisis, Chile's economy is now growing rapidly, and looks set to sustain at least 6 percent growth per year during the coming decade.

The third, however, is equally exciting: To see a political system that works once again after a devastating collapse.

Chile went through the deadly agony of Augusto Pinochet's brutal military coup in 1973, in a society that had been pulled asunder by the extremisms of the left and right. Seventeen years of hard military dictatorship followed. The economic improvements during the final years of military rule could not by themselves heal the deeply scarred and divided society.

What Chileans of all parts of society recognized after 1990 is the irreplaceable social value of moderation, trust, respect for expertise, and the pursuit of truth in public management. In America, by contrast, political propaganda becomes increasingly extreme. The right-wing demonization of Barack Obama as a foreign-born, Islamic, socialist cynically toys with the fires of hatred. Chileans know now that such is the path to ruin.

There have been five presidents in Chile since Pinochet: Patricio Aylwin, Eduardo Frei, Ricardo Lagos, Michelle Bachelet and Piñera. All are enormously talented and moderate, and all are over-brimming with integrity.

Chile has been free not only of rancorous division for two decades, but also of any significant corruption scandal. In this year's World Economic Forum Global Competitiveness Survey, Chile ranks well ahead of the U.S. in the quality of political institutions, such as freedom from political favoritism and bribes.

These world-class leaders have been repeatedly called to global duty. Ricardo Lagos serves as global envoy on climate change for U.N. Secretary General Ban Ki-moon. Bachelet has just become the new head of U.N. Women, the new organization to promote women's rights.

Spending a couple of intensive days exploring Chile's economic options is to view modern policymaking at its finest. The government operates with a long-term view of fiscal sustainability. Rather than dabble in open-ended "stimulus" and unaffordable budget cuts, as in the U.S., Chile operates according to a budget rule that enforces balance over the business cycle. The budget moves into surplus in boom times in order to finance the deficits during busts. Internal investors reward Chile by demanding a lower-risk premium on the government's debt than on the bonds of many European governments.

Such policy rules are the result of careful study and deliberation. The Piñera administration has set up several commissions to study complex challenges in economic policy, drawing on leading

former officials and academic experts from all political persuasions. Thoughtful reports turn into highly astute and consensus-based policies.

When the February earthquake struck, Finance Minister Larrain was able to form a broad political consensus on a bold and responsible plan for financing reconstruction. This was a crucial and elegant feat for a disaster that has cost an estimated 18 percent of G.D.P. in economic losses. The equivalent loss would be about \$2 trillion in the U.S. economy.

The country has roared back. The fast-growing BRICs (Brazil, Russia, India and China) should really be the BRICCs, with Chile running right alongside China. China has become Chile's leading trade partner, displacing the United States, and also the key to Chile's booming copper exports. Chile, in turn, is likely to become China's hub for business operations through much of South America.

In intensive discussions with Piñera, Larrain and their skilled teams, Chile's leaders looked relentlessly forward, asking questions and proposing solutions to quality education, affordable health care, sustainable energy and technology innovation. Chile will reap the benefits of this deep investment in its future. And perhaps today's heatedly divided societies will learn from Chile before they have to learn the hard and tragic way from their own errors.

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