**President Clinton and the Chilean Model**

**BY JOSÉ PIÑERA**

It's 12:30 or 1 at night, and Bill Clinton asks me and Dottie: 'What do you know about the Chilean social-security system?' recounted Richard Lamm, the three-term former governor of Colorado. It was March 1995, and Lamm and his wife were staying that weekend in the Lincoln Bedroom of the White House.

I read about this surprising midnight conversation in a *NewswEEK* article by Jonathan Alter (May 13, 1996), as I was waiting at Dulles International Airport for a flight to Europe. The article also said that early the next morning, before he left to go jogging, President Bill Clinton arranged for a special report about the Chilean reform produced by his staff to be slipped under Lamm's door.

That news piqued my interest, so as soon as I came back to the United States, I went to visit Richard Lamm. I wanted to know the exact circumstances in which the president of the world's superpower engages a fellow former governor in a Saturday night exchange about the system I had implemented 15 years earlier.

Lamm and I shared a coffee on the terrace of his house in Denver. He not only was a most genial host to this curious Chilean, but he also proved to be deeply motivated by the issues surrounding aging and the future of America. So we had an engaging conversation. At the conclusion, I ventured to ask him for a copy of the report that Clinton had given him. He agreed to give it to me on the condition that I not make it public while Clinton was president. He also gave me a copy of the handwritten note on White House stationery, dated 3-21-95, which accompanied the report slipped under his door. It read:

Dick,

Sorry I missed you this morning.

It was great to have you and Dottie here.

Here's the stuff on Chile I mentioned.

Best,

Bill

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Soon I became Secretary of Labor and Social funded system of personal retirement accounts. Its destroyed economy and democracy along my position as a teaching University, I took on the most difficult decision in my life: to go back to help my country rebuild. When President Clinton was having midnight conversations about the Chilean Model, I received an extraordinary invitation that would greatly help my fight for America. José, Without doubt, the reform of Chiles pension system has been a critical contributing factor—some have called it the mother of all reforms—to Chiles ongoing economic success.

While studying for a masters and a PhD in economics at Harvard University, I became enamored with Americas unique experiment in liberty and limited government. In 1835 Alexis de Toqueville wrote the first volume of Democracy in America, hoping that many of the salutary aspects of American society might be exported to his native France. I dreamed of exporting them to my native Chile.

So, upon finishing my PhD in 1974 and while fully enjoying my position as a teaching fellow at Harvard and a professor at Boston University, I took on the most difficult decision in my life: to go back to help my country rebuild its destroyed economy and democracy along the lines of the principles and institutions created in America by the Founding Fathers. Soon I became Secretary of Labor and Social Security, and in 1980 I was able to create a fully funded system of personal retirement accounts. Historian Niall Ferguson wrote in The Ascent of Money that this reform was “the most profound challenge to the welfare state in a generation. Thatcher and Reagan came later. The backlash against welfare started in Chile.”

Unfortunately, at some point during the 20th century, the culture of self reliance and individual responsibility that had made America a great and free nation was diluted by the creation of an entitlement state, reminiscent of the increasingly failed European welfare state. What America needed was a return to basics, to the founding tenets of limited government and personal responsibility.

In a way, the principles America helped export so successfully to Chile through a group of free-market economists needed to be reaffirmed in their home country through an emblematic reform. I felt that the Chilean solution to the impending Social Security crisis could be applied in the United States. Once my country had finished its transition to democracy and once I had done everything possible to ensure the stability of its free market model and its structural reforms, including my own “educational” presidential campaign in 1993, I decided to dedicate my life to sharing the Chilean Model around the world.

At the same time, at the beginning of 1995, when President Clinton was having midnight conversations about the Chilean Model, I received an extraordinary invitation that would greatly help my fight for America. Ed Crane, co-founder and president of the libertarian Cato Institute, invited me to become a distinguished senior fellow and co-chairman of its Social Security Choice Project. I accepted immediately. Cato had been publishing books and studies on Social Security and private accounts since 1979 and was then gearing up for a new push. In the following years I traveled around the United States sharing the Chilean experience in conferences, town hall meetings, congressional hearings, and media interviews. The audiences were extremely receptive and interested, but what Milton Friedman called “the tyranny of the status quo” made it difficult for political leaders to embrace such a new solution to the growing Social Security problem.

However, in January 1996, Mack McLarty, President Clintons special envoy to the Americas and former chief of staff, traveled to Chile and wanted to know firsthand about the success of the first private personal accounts system in the world. We met for hours and he quizzed me about both the principles and the details of the system. A few weeks later, I received a letter from him with an enthusiastic message:

A LETTER TO THE PRESIDENT OF THE UNITED STATES

Then, in his January 1998 State of the Union address, President Clinton warned the nation of the coming Social Security crisis and called for an open debate on the needed reforms: “We will hold a White House conference on Social Security in December. And one year from now, I will convene the leaders of Congress to craft historic bipartisan legislation to achieve a landmark for our generation, a Social Security system that is strong in the 21st century.”

On the heels of this speech, I realized that

“Chile’s pension system has been a critical contributing factor—some have called it the mother of all reforms—to Chile’s ongoing economic success.”
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keen awareness of the moment:

I think the political realities are that 1999, as an off-election year with a Democratic president in his second term, and a year of focus on Social Security that we have had, offers a unique opportunity to address this, and also with having the strong fiscal situation that we’re in. So I think, in a practical, political sense, one does have to worry that if we do not get Social Security reform done this year, we do not have a good effort, that one does not know when another opportunity will come that is as opportune as this.

While I was both honored and humbled to be invited, especially given the fact that I was the only speaker who didn’t possess an American passport, I was at the same time sobered by the inherent challenges of such an address. In just a few minutes, I would need to introduce my prior involvement with social security reform in Chile, outline the technical details of the system, and explain why a 1980 economic restructuring in a small, distant nation had relevance to the American way of life.

As the C-SPAN cameras rolled, I delivered the message I had wanted so long to give.

Every Chilean worker has a pension passbook—I always carry one of them. The worker has his money put here in the passbook and they know every month how much money they have. And they accumulate money during all their working life, and in this way we have allowed the working poor to benefit from that extraordinary force of compound interest . . .

We gave every worker the choice to stay in the old system if they didn’t like this very small element of market risk and preferred the demographic or political risk. Or, they could move to the new system with recognition bonds recognizing their past contributions. Ninety-three percent of Chilean workers have chosen the system of the passbook, rather than the pay-as-you-go system . . .

So, the reform was not about savings or about macroeconomic equilibrium. It was about workers’ dignity, workers’ freedom, workers’ choice, and workers’ empowerment. I believe this can be done in America.

In Chile, no one was investing in stocks 18 years ago. In your country, you have 40 percent that are already investing in stocks. You have the best capital markets in the world that can diminish risk to a tolerable level. The technological revolution is allowing individuals to manage millions of accounts at negligible costs. And finally, you are such an open-minded country that you have invited a Chilean to be here.

So, I have enormous hope for this country that I love. And I would like my son, who was born in Boston and carries an American passport, to also be able to someday have a pension retirement passbook like this.

SEX AND SOCIAL SECURITY

Two months later, President Clinton said in his January 1999 State of the Union address:

Our fiscal discipline gives us an unsurpassed opportunity to address a remark-
Clinton’s failure to reform Social Security can be explained in terms of his tragic flaw

Senate and thus allowed to remain in office, the ordeal exhausted both his political capital and his resolve to tackle major reforms. Clinton would not spearhead any major legislation during the remainder of his term. The Social Security time bomb would be passed along to a successor. A vital opportunity had been squandered.

In his 2002 book The Natural: The Misunderstood Presidency of Bill Clinton, Joe Klein, after many hours of conversations with the former president, drew the following conclusion:

The Lewinsky scandal had a powerful, if usually overlooked, impact on the substance of Clinton’s last two years in office as well. When I asked the President what he might have accomplished absent the scandal, he said that he wasn’t sure. When pressed, Clinton acknowledged that he might have been able to reform the Social Security and Medicare systems if the Republicans—and the media—hadn’t been provided with an alternative form of diversion in 1998 and 1999. In fact, Clinton was poised, at the moment he delivered his “Save Social Security First” challenge in the 1998 State of the Union message, to do something few presidents ever had: to end his second term with a valedictory surge of significant accomplishments. He had tamed the Republican Congress. There were huge budget surpluses to play with. “Both parties were behind the curve on the big issues,” said Bruce Reed, Clinton’s domestic policy advisor. “We could have added a private-investment option on to Social Security benefits.”

As one journalist stated, Clinton sacrificed “an enduring legacy when he had an affair with Lewinsky, the young White House intern. Liberal Democrats were opposed to his pension changes, so to get their support to avoid impeachment, Clinton postponed the package of reforms.”

Three Clinton advisers—Douglas W. Elmendorf, Jeffrey B. Liebman, and David W. Wilcox—would later write a paper confirming that the possibility existed and that the impeachment destroyed it. As Glenn Kessler summarized it in the Washington Post: “In 1998 President Clinton and his economic advisers spent 18 months secretly discussing the elements of a plan to add individual investment accounts to Social Security, but abandoned it when it became clear the president would be impeached, according to a paper by three former administration officials that will be presented today at a Harvard conference.”

As in a Greek tragedy, Clinton’s failure to reform Social Security can be explained in terms of his tragic flaw. Clinton was undoubtedly an extremely gifted politician and a very intelligent man, but regrettably he was not a statesman willing to sacrifice earthly pleasures for a lasting legacy. It was proven that he did not belong, in the immortal words of Lincoln, “to the family of the lion, or the tribe of the eagle.”

It is astounding how our human imperfections can have unintended consequences of enormous importance. As I traveled back all night to my country in those early months of 1999, knowing full well that though the seed had been planted the flower would not bloom during the Clinton presidency, I kept coming back to the achingly beautiful words that Shakespeare gave Hamlet:

_Blest are those_:
_W hose blood and judgment are so well commingled,
That they are not a pipe for fortune’s finger
To sound what stop she please. Give me that man
That is not passion’s slave, and I will wear him
In my heart’s core, ay, in my heart of heart..._