Interview with Arnold C. Harberger

Catherine Mansell-Carstens*

Introductory Note

One of the world's authorities on public finance, project evaluation, international economics, and economic development, Arnold C. Harberger is the Gustavus F. and Ann M. Swift Distinguished Service Professor Emeritus of Economics at University of Chicago and currently serves on the faculty of the UCLA Department of Economics. He has also consulted for corporations, international organizations, and governments as varied as Bolivia, Chile, China, Indian, and Mexico. Among the many now classic works he has published are: “On the Use of Distributional Weights in Social Cost-Benefit Analysis”, “Three Basic Postulates for Applied Welfare Economics: An Interpretive Essay”, “The Measurement of Waste (in Principles of Efficiency)”, and “Using the Resources at Hand More Effectively” (see references).

On February 14 and 15, 2003, UCLA’s Department of Economics held a special conference, “Fifty Years of Teaching Economics: A Celebration of Arnold Harberger.” It was a celebration indeed, but not for a career entirely past: Professor Harberger — fondly known as “Alito” to his Latin American students — is still going strong.

This interview was originally intended to form part of a collection focusing on the education and role of the economist. Alas, the project was not realized, and this fascinating interview, in which Harberger touches on the “Chicago School”; the role of the economist as diagnostician, as policy practitioner, and forecaster; Harberger’s own education; and his views on the controversial Chilean crisis, has never before been published.

* Catherine Mansell-Carstens holds a BA and MA in economics from the University of Chicago. For many years a professor of economics at the Instituto Tecnológico Autónomo de México, she is the author of Las finanzas internacionales en México and Las finanzas populares en México. Since 1995 she has been an independent consultant.
Saturday afternoon, February 19th, 1994, by the swimming pool at the Hotel de los Tesoros, Álamos, Sonora, after speaking at the “Alamos Alliance” conference that morning.

**Catherine Mansell-Carstens (CM):** I was going over the speech you gave at the American Economic Association last January, “The Search for Relevance”, where you talked about what is it that economists as “policy practitioners” do. Applied welfare economics, projections, diagnostics...

**Arnold Harberger (AH):** I think that the big problem in the world is diagnosing. That’s what we economists know least about, and it’s an area where humility more than anything else is called for. It seems to me that we have too many people in the profession who give patent medicine-style solutions. They are very quick to diagnose and then the remedies they have... a few bottles are always just exactly right in their own minds. These people don’t really advance the cause of anything very much. And when I see them getting into positions of power and responsibility I shudder. And most of the time it turns out to be correct that I did shudder.

**CM:** A lot of people who are not familiar, intimately, with the University of Chicago often think of us that way.

**AH:** Oh, I agree that many people think that way, but on the whole they are wrong. I think there are three main points that define the “Chicago School”. The first is the idea that you cannot approach a super complex reality without a structure with which to think about it. The difference between good theory and bad theory is that with the good theory you can really do things that are helpful, while with bad theory it’s like burning witches. It doesn’t get at the heart of a problem. You’re not really capturing, you’re not correctly synthesizing a complex reality.

The second point that defines Chicago people is a great respect for empirical evidence. They prefer theories that are simple and robust —theories that can be juxtaposed to the evidence, and they learn from the interplay between the evidence and the theory.

The third point is a deep and fundamental respect for the workings of markets. Chicago people are not like the Hayekians, for whom
market solutions are always best, always beneficent. In contrast, I like to say that markets are tough and cruel, like the winds and the tides. He who tries to fight them has himself one hell of a battle. Our big challenge is to understand market forces, so that we can take advantage of them, rather than find ourselves standing in front of the tidal wave when it appears.

I think, too, that diagnosing is something that many Chicago economists do better than people of any other stripe. There are other good diagnosticians who didn’t come from Chicago, but who has produced a greater mass of diagnosticians than Chicago?

I would give a lot of credit to the Ag Workshop [the workshop in Agricultural Economics] at Chicago. T.W. Schultz was a profound diagnostician for his entire career. From the very beginning, he emphasized that we shouldn’t try to preserve the family farm at whatever cost. Schultz saw that it was inevitable that economic development would take people off the farm and he felt that policy should try to help and lubricate this process, so as to make that transition less painful and more positive.

In Spain in the sixties the government actually paid whole families to move to Barcelona from backward areas like Extremadura. They paid their rent for about three or four or five months; they gave them subsistence payments; they helped them find a job. By doing this, they speeded up a process which the economy was naturally calling for. They were alleviating poverty in Extremadura, and at the same time they were satisfying a need for increased labor in the Barcelona area. This is the kind of thing that if you are alert you will see. Observation plus a correct understanding of the problem will help you to find a sensible solution. Observational diagnostics is one of the big pillars of good policy economics.

CM: Another thing economists do is projections. There’s this sort of shamanistic aspect to making projections, and yet it seems not to be a very big part of what many economists actually do.

AH: Very good discipline. Tremendous discipline to work at that.

CM: To do projections.
AH: Yes! Because, you know, if you take them seriously, you look back to see how well you have done and you ask where you made mistakes. You look at what people are actually doing, you get a sense of what an economy is. The basic theorems of economics are purely qualitative and not terribly relevant. You know, demand increases, price goes up, supply increases, price goes down. That kind of thing. To make projections, you need to assess the orders of magnitude of different forces. How important is NAFTA vis à vis all the other swirling events that are happening? I say it’s going to be a huge event, it is a huge event right now in terms of capital flows. But it’s a tiny event in movement of people from Mexico to the United States. Now, I’m sticking my neck out there. At least I think I’m sticking my neck out. I’m not waffling around. No, I really will turn out to be wrong if the flow of people to the United States is cut to a third, just in the natural course of events involved in NAFTA. I say it just can’t be. But the way a lot of people talk, they act as if it’s the most natural thing.

So projections involve a sense of proportion which has to do with parameters in a way, but you don’t have a complete model. One thinks in terms of reduced forms. This disturbance applied to this system will produce things of roughly this shape and magnitude. And that’s where the art of the economist lies. Some of this simply uses common sense, some of it comes from a lot of observational experience, some of it comes from practice. I’m sure there’s ability involved. Some people are better filters, and just like the economy is its own computer, so is the human brain. And some people’s brains work right for certain kinds of things and not for others.

Getting a quantitative sense of how an economy is going to react to something has all of these elements in it. But it’s certainly something that we ought to pay more attention to in the way we train people. I think it’s a shame that the art of making projections is so in the background. Part of the reason, of course, is that not many of us had it in our training.

CM: Another aspect of being a policy practitioner that you talked about is having to face political reality, having to sell your ideas to noneconomists.
AH: I really am with McCloskey on the issue of rhetoric in economics.\textsuperscript{1} Economics has to be a science per se, all the way. But in important parts of the world, the people we have to persuade are not economists. That’s our challenge. And there are some economists — and even noneconomists — who are good at this. They can take an economic problem and analyze it in such a way that they can present it to noneconomists and get them to see and understand it and react on it. But always there are arguments, the debating aspect of the thing. For example, with protectionism. Michael Walker [Canadian journalist with the Fraser Institute who spoke on the panel that morning], didn’t put it exactly my way, but he said all tariffs end up being effectively subsidies to the affected industry. Why in hell should the consumers of that very product be the ones to pay the cost of that subsidy? You know, whatever may be the purpose for which to protect an industry, why should it be the consumers of that very product who should have to pay the extra cost? There are little twists like that... If you’re a complete dyed-in-the-wool protectionist, there’s no hope for you. But there are others who are not quite there, and little arguments like this one may win them over, you see.

The last thing we need is to clothe ourselves in pedantry. “Because only we and nobody else understand our techniques, we are the only ones that can talk about this and therefore we have to answer these questions for you. You can’t know the reason why.” That is a no hope solution. It’s never going to work that way, and where it does, probably the guys who are saying those things are going to lead the economy in the wrong direction.

CM: Why did you decide to study economics, and study economics at Chicago?

AH: Well, it’s a very long story, but... My whole life was determined in some sense by a curious event — my choice in the second year of high school to take Spanish as my language. Another thing that happened my last year in high school, I took an economics course for one semester with a very good professor, whose name was Clarence D. Long. He inspired me to choose economics as my undergraduate major

\textsuperscript{1} See McCloskey, Donald M., If You’re So Smart: The Narrative of Economic Expertise, The University of Chicago Press, 1990.
when I went to Johns Hopkins University. I didn't stay there long. I stayed only about twenty months, taking courses a mile a minute, seven courses a semester, but then the Second World War intervened and I was drafted into the army.

Well, I go into the army, I go to Basic Training and in Basic Training they give us a battery of tests. Out of this battery of tests, I emerge as a Spanish linguist. How about that! Why? Because I had learned Spanish reasonably well in high school. I took a regular Spanish course my first year in college. I liked it, I did well in it. I took a reading course over the summer, wrote book reviews, things like that. I was taking graduate courses in Spanish at the time when I was drafted into the army. So when they gave me these tests, I did pretty well, and they allowed as how I was not a trainee in the language, I was a linguist in the language, which was an exaggeration, but not necessarily for them. So I was sent to the University of Illinois where I became a member of a language pool, at graduate school level. I wrote a thesis on latifundios in Spain. We were there I guess about six months or so. And it was a great time, actually.

Then it was early 1944, the war was heating up in Europe. The U.S. was sending people overseas, so the government broke up programs like that. I was condemned to being state-side because of my eyesight. So anyway, there were a bunch of us, and the government said, “We don't want to waste our money, so these guys have to be classified as linguists, since we spent so much money on them.” We sat there playing bridge for about six weeks and then finally the Colonel calls me in and says, “You went to Johns Hopkins University. Did you take any other language besides Spanish?” Yes. “What have you taken?” German. “How many courses have you had in German?” One year. “What grade did you get?” A. “Well, starting tomorrow, you're a German linguist.”

So I went to Camp Ellis in Illinois where I was put in charge of Company 12 of prisoners of war. My language education in German really began there. I stayed in prisoner of war work really until the end of my army career. I moved from the company to battalion headquarters. We ran about a thousand prisoners in the battalion. They were doing all kinds of work on the base—all the cooking, all the sewing, all the carpentry, all the plumbing, etc. We even sent a number of them out to do field work. We took them to side camps to pick peaches, corn, and do things like that.
When our prisoners were shipped back, in August of '45, I was shipped to Chicago, where I was auditing the books at Fort Sheridan. We actually lived downtown in Chicago, and went every day out to Fort Sheridan since we weren't allowed to be under the command of the same Colonel whose books we were auditing. So that was quite a time.

I was getting out of the army in March of '46, and to go back to Johns Hopkins, I would have had to wait until the following September because the semester had already started in January or February. On the other hand, I could start at the University of Chicago right away. And I did. I took a masters in international relations, and only then shifted to economics when I found my true heart and soul were more natural in economics than international relations. That happened at the end of '47. So I didn't spend much time learning to be an economist. I spent about two years in the department. But I had taken a lot of economics courses while I was in international relations, so I basically completed a full PhD program in economics at Chicago.

But all of this started, you see, because I took Spanish as my language. That whole story would have been different if I hadn't gone to the University of Illinois, been made a linguist, gone into prisoner of war work, hadn't gone out to Fort Sheridan, and so on. And then of course later, when we had our chance in Chicago to cooperate with the Catholic University of Chile, why did T.W. [Schultz] choose me to be a member of the little team that went to Chile? It was because he knew that I knew Spanish. I went down to Chile in '55, which is where I met Ernesto Fontaine and Sergio de Castro, who were the two interpreters, fifth year students at Católica. They accompanied us all through our week in Chile as our interpreters because they were Grange School "old boys" and they knew English perfectly. We got along perfectly, and they saw us all around with everybody that we went in contact with. Then, when Ernesto and Tejo came to Chicago, they shared an apartment with some other Chileans. That's when I met Anita [his wife].

**CM:** Ah ha.

**AH:** Now you can see why I am a true existentialist. I really feel that life is full of random events that determine everything and yet,
there is a small element of free will to go along with it, which drives us all [laughter].

**CM:** What was that element of free will that went into your decision to study economics? You were studying international relations...

**AH:** After the war I was influenced by some amount of youthful idealism, I think. I studied international relations, I took a masters and my main field within international relations was economics. I then started the PhD program in international relations. I was in a course with Quincy Wright, who was Chicago's most famous international law person, one of the probably three or four experts in the world who had the most prestige. I figured, if I was taking a PhD at Chicago, it was like taking a field with Milton Friedman or T.W. Schultz, you know. If you had people that great, you don't want to miss them.

So I started taking the field with Quincy Wright in international law and it was the most goddamned boring course I ever was in. Not only was it boring, but it was a fantastically huge amount of work. He made you write papers every two weeks in which he would pose international legal problems. I remember we had one problem that had to do with some hogsheads of molasses that were being moved around in 1763 between British and French ports. There was a problem of international law concerning who owned the merchandise, who could do what with what. And we had to write a twenty page paper on this kind of thing using the international law of the time. So we had to go to the law library, go through the stacks and research all these things. And I was sitting one Sunday night trying to type out this thing which I'd been researching all week long, and I said to myself, "Harberger, are you a man or a mouse?" [laughs] I don't know which I was. But the following day, I went to the secretary of economics and I said, "Can I move into this department, please?" And they said, "Delighted." And that was how I got into the economics department's PhD program. I was just utterly frustrated with this international law thing that was not part of me, you know what I mean?

Was I a man or a mouse? I don't know. By fleeing, or by recognizing reality as I should? You know. Probably both. So that's how I got into economics the second time around, after I had been an undergraduate in economics before and I'd always done well in economics.
Interview with Arnold C. Harberger

**CM:** Where did you go as an undergraduate?

**AH:** Johns Hopkins.

**CM:** You did your... I was confused, I understood you'd been there, but then you were drafted...

**AH:** I never finished undergraduate. I never got an undergraduate degree.

**CM:** Oh, ok. I never got a high school degree. Chicago let me in anyway.

**AH:** Welcome to the club!

**CM:** Why and when did you decide to specialize in public finance?

**AH:** That's the funniest thing in the world. After I got my doctorate, I went to Johns Hopkins once again, this time as an assistant professor. And who came over during my first year to give an evening class, a graduate class in international trade, but J.J. Polak, who became the first head of the research department at the International Monetary Fund. So he came over and was teaching this night class in international trade and I, wisely, decided I would sit in. So I sat in on this, and then he invited me to go to the Fund to work for the summer of 1950. So I went and I worked in his shop and I was sharing an office there with T.C. Liu and S.C. Tsiang, who became later the intellectual founders of the Taiwan economic miracle, and with Michel Verhulst, who went to work for the gas industry of France. He didn't become very famous, but I think he became a fellow of the Econometrics Society. So here were the four of us in that office and it was a wonderful time.

We were working with Polak, and under Polak was Sidney Alexander. That was the summer of 1950, when the Korean War broke out. And with the Korean War, the prices of raw materials, all over the world, went through the roof. Some prices multiplied by five, others by three, others by two... the prices that didn't multiply by two were a rarity. And this caused people to worry. They said, “Well, if a little conflict like the Korean War can cause this great turmoil in all the materials markets, what about our long-term future?” So, President
Truman appointed the President's Materials Policy Commission—called the Paley Commission, because William Paley was its chairman. They were asked to investigate the future of materials in the longer term. And Sidney Alexander became a key person on their staff. So Sidney brought me into the Paley Commission in 1951 and I did the work there on projections of 1975 materials demand. I worked on it for pretty much a year. I was very lucky in that I was allowed to put my name on my chapter.

T.W. Schultz read this report and read my chapter, and in one of the great serendipity bursts of all time, he said, “This man is the right person for public finance in Chicago.” And you tell me, how you can leap from this analysis of the U.S. economy, the demand for housing, the demand for automobiles, the demand for telephone calls, and through that, filtering down to the raw materials, how... what in the world has that to do with public finance, I never could figure that out. But T.W. has this kind of a mind. And so, he convinced me and his colleagues that I would be a good shot at public finance.

What had happened was that they had lost Henry Simons, who had been a great figure in public finance. And then there was a curious thing. His successor was Roy Blough, who had been in charge of tax analysis in Treasury in Washington during the war. While there, he assembled a magnificent group of people who worked with him. Milton Friedman was there, Ruth Mack was there, and Carl Shoup was there, Bill Vickrey was there. Goodness knows who all was not there at one time or another. Somewhere in my library—he willed it to me—I have a set of documents that they produced, and it is absolutely impressive. Shoup and Mack and Friedman did a paper on the consumption tax, like 1943... it’s a classic. It may not be the first thing on the consumption tax, but it’s one of the best. And very early. There were many other good things produced by that group. So it was natural that they would think he’d be a wonderful professor. Well, he came to Chicago and he was a very boring professor. He didn’t inspire anybody to do anything, and he didn’t do very much himself. And he was a little pompous, but nice, a decent analyst, not very deep analytically, didn’t really command the theory of the subject. Then he was named a member of the Council of Economic Advisors and he left Chicago. And all the colleagues sighed a sigh of relief and said, “Gee, we found a way to get rid of him.”
But then they had this vacancy and they couldn't fill it. They looked around in public finance and they didn't find what they were looking for. And then Schultz came up with my name. So here I was, an international trade economist, having been working on materials demand projections, being converted into public finance.

**CM:** When and where did this terminology “Chicago boys” come from?

**AH:** There are several things here. First of all, it’s important to distinguish the “Chicago School” from the “Chicago boys.” The “Chicago School” is, I think, in many ways correctly identified with Milton Friedman. Milton had a certain image of things and he’s associated with that way of thinking. But he’s by no means the only one.

One of the things I like to point out about Milton is that he never taught in his classes *Capitalism and Freedom* or any of his popular writings. I don’t know if you had classes with Milton...

**CM:** He left for Stanford before I started as an undergraduate.

**AH:** But you know some of those who did. Milton taught price theory to me, he taught monetary theory to others. He went back and forth between the price sequence and the money sequence. At one point he refused to teach money because his workshop was on money, so he taught price theory again, having taught money in the interim. But I can’t remember any time when Milton tried to do in the classroom the kind of preaching that he does in his so-called “tracts.” Most people don’t understand this. They think that in Chicago we just funnel this stuff into people’s heads. That was never true, not even of Milton who was the most logical one to do that kind of thing.

But deep respect for markets you got from Milton, both on the money side and on the price side. You got it from T.W. Schultz, you got it from D. Gale Johnson, God only knows you got it from Gregg Lewis, you got it from Gary Becker, Harry Johnson... You see what I mean? No matter where you went, no matter which way these guys vote. There’s nobody I know who’s a serious contender at Chicago who did not exude, in one sense or another, this deep respect for the operations of markets. So that I think is the true element that characterizes the real “Chicago School.”
Now to the "Chicago boys." My interpretation is the following. There are a couple of important private schools in Chile for boys — I don't know if they're co-ed by now or not — but in any case, the Grange School was one and St. George's was the other. At least the Grange School was very much built on the English model of Eton and Harrow. They called all of their alumni "the old boys." So, that's where the commonplace English saying, "old boy network" comes from. Eton and Harrow alumni, those are the "old boys." They all know each other, they do each other favors all their lives, and so on. Many of our early Chicago boys and even later Chicago boys went to the Grange School. So they were "old boys." And when they started to function as a cohesive unit, it was very natural for some unknown journalist to smack on them the label of the "Chicago boys."

In the case of the first Chilean "reformation," if you want to call it that, I would say about eighty percent of the key players were Chicago alumni. And probably about the same percentage of the whole upper layer of government was occupied by them, plus their students. So the idea is correct that the Chicago boys were really in there, and that people were accurate in focussing on them, applying the Chicago label to what was going on... I don't see any problem. It may have been used pejoratively, but we can interpret that as a great accolade.

Later, when Hernán Büchi was the chief architect of a later phase of economic reform, there was a lesser concentration of the Chicago boys. But Hernán himself was a product of the earlier episode, and a co-participant in that, and there's no sense in which the way of thinking in Hernán's period that was deeply different from the earlier one. Perhaps there was more of an ideological tinge to the earlier case, more things done on principle, and in Hernán's case things were done with a more pragmatic slant. But I think the degree of market openness probably was greater at the end of Hernán's period than in the other period, so you can't say that Hernán was out there, you know, pragmatically eroding the structure. Quite the contrary: He was restoring the structure after it had been eroded by an interim period where the bad guys (personified by Lucho Escobar, who was the Minister for about a year in there), entered and screwed up the works as much as possible.
CM: You mentioned Hernán Büchi in your essay on the “heroes” of economic policy.2 You argued that successful policymakers must have certain character traits. You also mentioned Sergio de Castro, Francisco Gil Díaz...

AH: I have watched Paco ever since he returned to Mexico from Chicago. Even before he finished his dissertation, he was back in Mexico already making reforms. Then he went back to Chicago, did his dissertation, then returned to Mexico, and did more reforms. I think of him as the key player in almost everything that was done in tax reform from the time he first came back from Chicago. If that’s not exactly accurate, he certainly has to be one of the very few and certainly the most important player in the whole process of tax reform. And there’s an element of force of character in Paco that I don’t think anyone who knows him can deny. It’s just there, and it shows itself sometimes in the most undiplomatic ways. Yet there is tremendous respect for him, because everybody understands that if he is making nasty comments or nasty remarks, it’s not snide and private and personal pique. It’s that somehow he’s always being guided by some star up there, which is quite divine, you know [laughter] and he’s just following that star where it leads him. If he has excesses it’s been on the side of lack of tact and diplomacy, and at the same time I think that his accomplishments are a marvel to behold. I’m sure he has put people in jail that highly placed people in the Mexican government would like not to see in jail [laughter] and yet they are there. Character is a part of the whole thing.

Let me tell you a story about Sergio de Castro, who has a very similar but different style from Paco. In the old days, businessmen used to always be coming to the central bank and to the Finance Ministry asking for one kind of favor or another kind of favor and they always had some story to tell. So here comes this guy and he says to Sergio, “Well, you know, I’m not here for my interests, but for the interests of the five hundred workers in my plant. I’m probably going to have to close this plant unless something is done to keep it open. I don’t particularly care what is done —if I get favorable credits, that’s OK. If there’s some added protection at the border, that’s OK, if there’s

---

a special subsidy, that's OK, a special contract, that's OK. You can help me in any one of a number of ways, but I want to keep the plant open for the good of those workers.” And so Sergio, after some conversation says, “Are you sure that the reason you’re here is for the good of the workers?” The guy says, “Yes!” And Tejo says, “You don’t have to worry. The way we’ll do this is the following: in the first place, in case we have to take over your plant because it went bankrupt, we will put it in receivership”. In Chile they call it intervención, as in, “we will ‘intervene’ your plant”. So Sergio goes on, “and I will name as interventor Juan Naveillán. Now Juan is my champion interventor, and when I have put him in other plants, more than half the time he ends up saving the guys’ jobs. So, you know, it might just be that when we get your plant, Juan Naveillán will save it, the guys’ jobs will be saved, and there’ll be no more worry. But more than that, suppose Juan can’t save the plant. I will guarantee to you now that I will keep those guys working for at least two years before we close down the plant, and I will take special interest that these particular people find other employment after that is finished. So, that takes away your worry about your workers. Now, in case you have some worries about your own financial situation, I’m sorry I can’t help you with that, but we do have here in the Ministry a little chapel, and I will be happy now to accompany you to the chapel where we can both kneel down and pray for your financial future.”

**CM:** [Laughs]. I love it.

**AH:** It’s true! That’s real character.

**CM:** That’s fabulous. Who have been some of your other students from Mexico?

**AH:** Oh my goodness. Many, many. It’s... the list is... I’m trying to think now. I had an official document that I made a few years ago, looking for funding of one kind or another where we put down 25 or 30 people and the posts that they had held in Mexico. But... let me just think of some of them... Well, we have Sócrates Rizzo.

**CM:** The Governor of the State of Nuevo León.
AH: Socrates was Mayor of Monterrey and he's now Governor of Nuevo León. We have Manuel Cavazos, the Governor of the State of Tamaulipas. Crazy guy, went to Chicago and London. He was in the Presidency and a few other places of importance. He was at Chicago and then followed Harry Johnson to London. I think he ended up taking his PhD in London after having done a masters in Chicago or something like that. Maybe he came back to Chicago after going to London. I don't have all that totally straight. Let's see, another person who was very important is Herminio Blanco. He obviously had an extremely important role in all this process. [Herminio Blanco was Undersecretary of Commerce at the time of the interview.]

And then we have Fernando Sánchez Ugarte. An interesting story there. Richard Musgrave had a big program of tax reform in Bolivia in 1976 and he formed a very substantial team, with experts coming from all over the world. I was there for like three weeks, that's where I really initiated my hard work on tax incentives. But Musgrave generously and kindly said, "I heard so much about Chicago Latin American people, why don't you pick three for me to send to Bolivia?" And so I picked Sánchez Ugarte, and Rodrigo Bolaños, and Álvaro Donoso. Álvaro Donoso subsequently became Minister of Planning in Chile, then after that he served two consecutive terms as executive director of the IMF for Chile, Argentina, and other Latin American countries. And why was he kept there for two terms? Because the other countries liked him so much, he was such a good executive director. So that's one.

Then Rodrigo Bolaños became Vice Minister of Finance in Costa Rica. And then he became Gerente General del Banco Central. I think he became Minister of Finance for a very brief period at the end of the last government and then he became head of the Stock Exchange, which he still is. But he might well be the next president of the central bank in Costa Rica because he is a member of the party which won the recent elections in Costa Rica. So that's him.

And then you have Sánchez Ugarte. He went back to Mexico and became a Director and then a Director General [of the Ministry of Finance] and then he went away to the International Monetary Fund's Fiscal Affairs Division and then came back. I think he went away as a Director and came back as Director General or something like that, and then he became Undersecretary of Commerce.
CM: It’s really impressive how your students all know each other and then have gone on to such important positions.

AH: Well, that little group we had in Bolivia... The interesting thing is, if you had asked me, do you predict XYZ for these people? I probably would have said no. What I do know is that they are solid, reliable, good Chicago-trained economists with a sense of policy relevance and that I will put my hand in the fire for any of them as a well-qualified professional. But then here each and every one came to flourish in a way that you wouldn't have imagined at the time. And this has happened to a lot of our former students. I don't know what is the secret of all of that, though I really feel that an element in the picture is this sense, which is also a very Chicago sense, that economics is about the real world, economics has important things to say. All of this is nontrivial. As an economist you have a sort of visionary role vis à vis our society.

In some other schools you learn economics as a set of theorems. They say, “What about the dynamic optimization? What?! You didn't prove this theorem about dynamic optimization? How dumb you are!” Chicago people were never of this breed, never.

CM: Yes.

AH: Unfortunately, we no longer have the policy emphasis at Chicago that we used to have, much to my dismay.

CM: Chicago was famous for its emphasis on policy. I was lucky enough to have you as my professor, and D. Gale Johnson, and Gary Becker. But I was caught in this change, this move towards what you call “supertechnicism.” That started when Robert Lucas was named Chairman.

AH: You got a piece of both.

CM: There's a great division in economics today, between what I would call “real world” economics, and all this literature of infinitely lived agents, Markov processes, quadratic utility functions, n-space...
AH: Well, don’t give up the ship. I think there is an increasing sense that “supertechnicism” has shot its wad. We ask, what has it given us in the way of new insights of really new understanding of the real economy? The new style is to make a dynamic model in which the representative agent is thinking at every moment in an expectational way — something which is a total refutation of all the evidence to that date — and with a full prediction of everything into the future except if new shocks come to knock him off of his path.

Looking empirically at the world, seeing the way people react, the way they process information, the way information flows, fast to arrive to some, slow to arrive to others... I think still that it’s true that, so to speak, “old” adaptive expectations, or things that look closely similar to it, are amazingly applicable in the world after all of this buffeting that idea has taken. In some sense, all of “rational expectations” was a big reaction against “adaptive expectations” or adaptive processes in general. And yet, when it comes to understanding reality, a great deal is still there of the adaptive kind. Now, there are some variants of rational expectations which justify the old techniques of adaptive expectations as being a rational response to certain types of shocks.

If you look hard enough for journals you will find that... The ICEG [International Center for Economic Growth] with Nicky Barletta, Rolf Lüders and company, has produced the best shelf of books of any publisher on the subject of economic policy and development. All of this has been published with USAID financing. Now it’s not the same as the Journal of Finance or the JPE [Journal of Political Economy], but they are making an impact.

CM: Could you talk about your first experiences in Chile?

AH: Oh yes! Delighted. We went down in ’55 on this one week mission. We started the project and we had a small team in Católica starting about June of ’56. And I went down for that academic summer, I spent about two, two and a half months in Chile and I really drank in everything. I had my eyes wide open, like a kid in a toy shop, seeing everything. I saw with my own eyes on that visit maybe a quarter to a half of the total industrial value added of Chile. I was in the factories, in the mines, under the Pacific Ocean, at the Chuquicamata copper mine, in the textile mills, in factories making refrigerators and stoves, every place. I really got a good feeling for
that economy. I was fascinated. So I wrote a long letter, about a thirty-page letter to my colleagues in Chicago. In that letter I called their attention to most of the problems which later motivated reform. So it's a very good precursor of some of the things that took place. [That letter has been published by Chile's Centro de Estudios Públicos.]

**CM:** Chile is really a successful case. It keeps cropping up here in Mexico, especially with regard to the financial sector—the stock market, the autonomy of the central bank, the pension fund reform. There are so many parallels with Mexico. I often have to stop myself and not say, “Mexico is the only such and such,” there's also Chile, so I say, “...next to Chile”. And yet the reforms of the early 1980s are widely perceived as a failure, and many people came to the conclusion that it was the Chicago approach, the market-oriented approach that was inappropriate. Nevertheless, what we’re seeing now is that it was, apparently the correct approach after all.

**AH:** Yes.

**CM:** What is it that went wrong in the early 1980s?

**AH:** Different people have different ways of trying to tell the story, but I’ll give you my version. I see there being at least two important mistakes. I think that when they fixed the exchange rate in June of 1979, that was a small mistake. I’ll tell you the story there. They had worked with the *tablita*—do you know what the *tablita* is?

**CM:** A crawling peg.

**AH:** A crawling peg is a little bit different. A *tablita* is set in advance, while a crawling peg is usually thought of as catching up, adjusting the exchange rate to reflect each month’s inflation once it is observed and measured. Okay. Now, a *tablita* says no, we’re not going to do that. You had a *tablita* when the exchange rate was rising by one peso a day, or forty cents a day, that’s a *tablita*.

So Chile had a *tablita* in 1977, but it was a hidden *tablita*. Everybody thought they had a crawling peg, but it wasn’t a crawling peg, it was this hidden *tablita*, but nobody knew about it except a few insiders in the central bank. Everybody just thought that the exchange
rate went in different moves. That seemed to work successfully, so they introduced a public tablita in 1978. But they were unlucky because the tablita went up by, I think forty percent, and the price level went up by thirty nine percent. This led people to think, quite wrongly, that if you move the tablita, the price level will just follow it. And so they then scheduled the exchange rate to go up by some sixteen percent over the course of '79. And lo and behold, prices rose by sixteen percent in the first half of '79.

**CM:** Uh oh.

**AH:** So... they were very mad, and I think they reacted viscerally. So they abandoned the tablita in the middle of the year, and moved the exchange rate up to where it was scheduled to be at the end of the year and just fixed it there. Prices had run ahead of the exchange rate, so they devalued to let the exchange rate catch up, and then simply fixed it. Now that is not the best way to come to the decision to have a fixed exchange rate. It shouldn't be done out of anger or frustration. It should best come as a result of a careful analysis of events, a deep understanding of what's going on.

In Chicago in the early '70s the monetary approach was, in a sense, being reborn —assuming there had been an earlier incarnation of the monetary approach in other places. There was a big burgeoning of monetary approach work, a lot of empirical work, a lot of theoretical work going on, and everybody was up to their ears in the monetary approach. And I think, unfortunately, many of the early people who carried the message of the monetary approach almost acted as if the real exchange rate was immutable, as if PPP [purchasing price parity] was always going to work. They had a world view that did not encompass the concept of the real exchange rate, the ratio of tradables to non-tradables prices. They felt that there was an automatic adjustment mechanism attached to the monetary approach, but I think they misunderstood that adjustment mechanism.

What is, I believe, the correct and automatic adjustment mechanism, which is the true contribution of the monetary approach, is that when you create excess money, money that is in excess of what people are willing to hold, guess what? They spend it. And when they spend it, guess what? Some of that spending is on tradables. And when you have a fixed exchange rate and they spend it on tradables, guess
what? That additional spending on tradables goes out through the balance of payments. The idea of a machinery whereby excess money is blasted out through the balance of payments was something that we had not realized before.

And in fact, when we looked at real exchange rate movements in much of Latin America in the '50s and '60s, we thought well, they had a fixed exchange rate and they were inflating. As the price level went up, the real exchange rate went down. Then they had to devalue a lot, bringing the real exchange rate back up, then they kept inflating and it went down again, etc. We told that story in monetary terms, that they were printing money and that was making the price level go up, forcing the real exchange rate out of line.

Well now, after learning the lesson of the monetary approach, I never say that anymore. I say no, they printed money, it tried to get out through the balance of payments, they lost some reserves, and then they got scared. Because they were scared of losing more reserves, they started putting on these ad hoc restrictions. These ad hoc restrictions kept piling up: They had prior deposits, they had surcharges, they had prohibitions, prohibited lists, permitted lists, this, that... and finally everybody got so frustrated with them and said, we can't go on like this. That's when they started abandoning the restrictions, replacing them by a big devaluation. That's the correct appreciation of what was going on in the '50s and '60s, which I didn't understand until the monetary approach came along in the early 1970s.

That's the way you should think of the monetary approach, the demand function as having a term in \((M^s - M^d)/P\). I think I have shown, in many papers, that within a framework where all your demand functions have this term, you can have a real exchange rate situation where a capital inflow will drive your real exchange rate down, where reducing your trade restrictions will drive your real exchange rate up, where rising oil prices (for Mexico) will drive it down. And that has nothing to do with —neither contradicts nor affirms— the monetary approach.

So where were we? We're talking about the Chilean case. They somehow linked this monetary approach with the idea that the real exchange rate was not an important issue, that even if it was important, with a fixed exchange rate, the adjustment would be easy in either direction. But many of the people at the hub of this thing did not realize
that the real equilibrium exchange rate can undergo important changes even under fixed exchange rates.

Soon after Chile fixed the exchange rate in 1979, a lot of capital flowed in and they accumulated reserves. So that's why I say that fixing the exchange rate was not a big mistake by itself. If the capital had come in that way, without the fixed exchange rate, the exchange rate would have appreciated, not depreciated. So, why make a big deal out of the fixed rate? What happened was that, when the time came when that was no longer true, when the real exchange rate had to depreciate, then the system that they'd created was incapable of dealing with it. And they wavered for a year while unemployment went from eight percent to more than twenty five percent before they finally got around to devaluing. When they finally got around to devaluing, they couldn't devalue very much, because Pinochet had said it would be suicide to devalue. Then, when they did the first devaluation, in June of '82, they had to say it wasn't really a devaluation, it was simply a "correction," because they should have fixed to a basket when they in fact fixed to the dollar, so all they were doing was "correcting" that prior fix.

Well, that lasted two months, then they had to go to another system, that lasted another two months or so. During all of this process, Ministers and Central Bank presidents were rolling over, one after another. Each team would go a certain distance, it would prove to be inadequate, it would be kicked out, a new team would come in, they would do something else, go a certain distance, they would be kicked out. In the end, it took about five years to get to a true equilibrium.

I think that things would have been a lot better had they recognized the need for this adjustment earlier, let's say six to nine months before the actual devaluation in June 1982. But more importantly, I find the mistake having been in the way they let so much capital come in so fast. You ask, how did they let capital come in so fast? In the first place they had, and they still have in the 1990s in Chile, controls on capital. They didn't have an open capital account in Chile during this period. But the most important thing is that banks were initially practically prohibited from borrowing abroad. They could borrow abroad up to about twenty percent of their assets. Gradually that number was being adjusted up to twenty five percent, fifty percent, seventy five percent. Then all of a sudden, Bang! It went from let's say one hundred percent...
of capital and surplus, to twenty times capital and surplus. That large jump was a big mistake.

**CM:** I had read this differently, that there was a lack of recognition of the importance of financial regulation and supervision.

**AH:** That's coming later. There are two different things. This is just the issue of how the central bank dealt with the foreign borrowing by the banks. Now, why did they do that? They knew perfectly well the banks would go abroad. They were dealing with their problem internally, which was a hugely high real interest rate. They didn't know what to do about it. Another part of the mythology, coming from some of the monetary approach people, was that well, you just link to the world markets and you'll have world interest rates prevailing here.

You know, they were paying forty percent on savings and loan accounts in Chile, and with a fixed exchange rate, that's forty percent in dollars. That was available to anybody in Chile, just an open thing. There are many stories that can be told about that, but this is just to tell you how high that interest rate was. Borrowers were paying fifty, sixty percent on bank loans. It was tremendously high. They had every reason to want to try to bring interest rates down, and they thought bringing capital in from abroad would do it. Those of us who expressed reservations on that subject said, “You've got to be careful of the real exchange rate, the real exchange rate's going to be mucking you up here, and you don't want to get yourself in that pack of trouble.” But, it was a debate. There were Chicago people on both sides. And the guys who won were the wrong ones. So that's how banking controls were relaxed exactly with the purpose of inducing a flood of capital to come in, but without a realization that this flood of capital would have serious real exchange rate effects. Part of that reason was this mythology that I was telling you about of the monetary approach people, where I think they didn't properly understand the monetary approach itself. So, therein lies one mistake.

The other mistake, I think, goes back earlier in time. It had to do with the regulation of the financial system itself. The way I perceive it, the banking system was inadequately regulated from almost the very beginning. First of all, the banking system had been in the hands of the State under Allende. Then, as the banking system was being privatized, so also were other things being privatized. I talked to de
Castro when this privatization was going on and he told me, “We’re not privatizing anything that’s giving us positive cash flow.” They were experiencing twenty percent a month inflation at this point. “We’re only privatizing things that have negative cash flow. We can’t ask how much are we getting, nor can we afford to wait and get a better price. No, we’ve just got to get rid of this, it’s an artery that’s cut, we’re hemorrhaging, we’ve got to stop that.” So they privatized a lot of enterprises that had negative cash flows at the time of the privatizations. They were in the middle of a recession. Can you imagine if they privatized a few hundred of these enterprises that all of them would turn out to quickly just jump into the black and just prosper happily ever after? That’s impossible. I think most of these companies probably never got out of the red in some deep, underlying sense.

But these enterprises were into the banks, and the banks had the option to recognize that this was a bad debt and say, “Look, you’re bad. You go off into a corner.” But if they do that, they have to take that amount and deduct it from their capital. And if they do that, their lending limit goes down by twenty times that amount. If I recognize a bad debt for one million, my lending limit goes down by twenty million. Why do I want to do that? No banker wants to do that! So what do we do? We just keep quiet. We (the bankers) don’t have meetings about it, we don’t say we have this terrible portfolio, we don’t even want to know. We tell our subordinates, “We just don’t want to know about a bad portfolio.” They try to maintain ignorance, try to maintain optimism. Everybody was optimistic, everybody hoped that something good would come around, so they kept on rolling over these bad debts. So they’re rolling over bad paper... and what was this doing? What I call the “false” credit is squeezing out the good credit. You see what I mean?

The banking system’s size is limited by people’s holding of real money balances, \( M_2/P \). So whatever \( M_2/P \) is, it is reflected in things like foreign reserves, foreign assets, plus lending to the government, and what’s left is for the private sector. Well, all of this could be good credit if there were no bad credit, but to the extent that there’s bad credit, it inches in and leaves less room for good credit. Then the good credit becomes very expensive. The bad credit pays this high interest rate only nominally. But on good credit the high interest rate has to be paid. As a result much good credit turns bad. So this is my version of how this story works.
I used to go from Chile to Chicago, and Milton would ask me, “What's going on in Chile?” I'd say, “Funny thing, they're paying depositors two percent a month and they're charging the clients, business firms, they're charging them three percent a month real.” “That can't be! I don't believe it. Untrue.” And I said, “Milton, it's true.” He says, “Well, if it's true, it can't last.” Well, that's the way we all felt. But all of us should have just abandoned other things that we were doing, and looked intensively into this matter, trying to get to the bottom of it. What we would have found... I believe, are flaws in the structure of the financial system, in the superintendency of banks that was inadequately doing its job. It had a hard time to do its job because it couldn't pay people very well. The banking sector was booming. Private banks were sucking people away from the superintendency, because they wanted talented people. Soon all that was left in the superintendency were the dregs. And there was also an aura of non-interference, of deregulation. So here you have a weak superintendency with ineffective personnel, ill-paid, how are they going to run this thing? So that was the second big flaw.

That's my diagnosis, these two mistakes. You can't say, you know, that Mr. de Castro, Mr. de la Cuadra, or Mr. Piñera made huge mistakes. All of us were somehow involved in that one about the credit, and the one about the nominal exchange rate. I think that after, say July of '81, they began to pay the price for having tied themselves so closely to a fixed exchange rate. But it would have been easily escapable had they recognized the magnitude of the adjustment that was required. They didn't recognize the magnitude of adjustment but in part, that was because of this unwarranted faith in the idea that the automatic adjustment mechanism of the fixed exchange rate would take care of it anyway. That's my story of the mistakes at that point. I don't see any other thing that I would consider major errors of policy in that time.

Then, of course, things got bad in Chile, and by 1984, under Escobar and Jarpa, the uniform tariff went up and finally became a thirty five percent uniform tariff. A lot of old-type practices came in, like directed credit. I don't remember all the stories... But then happily the business community itself recognized that Escobar was taking them back to the Chile of the 1960s, when he had been minister before. And they said, “We don't want any part of this.” They pressured to get rid of him, and that's when Büchi came in. Happily, he quickly began to
undo the bad things Escobar had done. And in addition, Büchi had his own very important agenda for improving lots of things in the Chilean economy.

**CM:** He sounds like the Pedro Aspe of the Chilean economy.

**AH:** There were two. There was de Castro first, and Büchi second. They were sequential. The biggest reforms were done in the de Castro period. I often use the analogy that under de Castro the boat was built, but the best navigator that boat ever had was Büchi.

**CM:** How do you see the situation in Mexico now? A whole series of reforms have been made under De la Madrid, but especially under the Salinas administration. Do you see the Mexican reforms that have been made as solid and with good prospects to continue, or too dependent on individuals?

**AH:** I think that the reforms are pretty solid, but that they could be put in jeopardy. It's easy for a bunch of reforms to be left more or less in place, and by the government becoming less credible, by people having doubts in their minds about things, that can create little earthquakes, or big earthquakes in the system. That kind of thing is much more likely to happen than to have a government that just outright says, "We don't like this, we're going to go another way." It's more that the government can fail to reassure people that it's going to stay on the same track, that things are going to stay the same. I hope it gets to be as much as a consensus here as it is in Chile, that the basic framework of the modern economy is not going to change as governments move from one party to another, or from one set of political forces to another. It's wonderful in Chile that the socialists are among the best free market people we've got! [Laughs] The Socialist ministers have been more faithful to free markets than some Christian Democrats. That's basically true. And I hope that that happens here. But it's a little bit more shaky because you have here Cuauhtémoc Cárdenas to deal with and I don't think that he is going to change his attitude. Chile does not have as problematical a situation as Mexico has, I think, in a lot of different dimensions. Income inequality is more dramatic here than there. In Chile an income of one hundred thousand
dollars a year is a vast income. The biggest bank president might get that.

**CM:** A lot of people earn much more than that in the Mexican financial sector.

**AH:** That's what I'm trying to say. It's a different situation.

**CM:** One problem in Mexico is that so many economists have this Marxist or pseudo-Marxist training. They haven't got a clue about what is a market, what is a supply curve, a demand curve, an equilibrium price.

**AH:** Well, they're not trained. They're not professionals. And I trust that the market treats them that way.

**CM:** Could you comment on what you've seen in your lifetime, on the development of the role of the economist?

**AH:** Well, it's complicated... If you look at the economic team in Mexico today, you say, well, how many countries, how many times in history has a team this good ever been assembled, by a single country at a single time? I think you could count on the fingers of one hand, probably, the number of occasions in world history that this has happened. Certainly the fingers of two hands would be plenty. And at least two of those events would be Chile. And probably another one would be Argentina right now. So this business of setting in motion the training of really solid economists in Latin America has been a tremendous thing.

I believe that for the generation in question the quality of the Latin Americans that we're talking about has been well ahead of the quality of their average American and other counterparts. In the case of the generation like that of Milton Friedman, D. Gale Johnson, Gregg Lewis, all of those guys, that wouldn't be true. They were bred in the 1930s and they were impacted by economics in a way that later generations simply weren't.

I think that there has been a selection process by which people select what professions they go into, that has left economists a little bit in the backwater in places like the United States, by comparison
Interview with Arnold C. Harberger

with a number of Latin American countries where obviously, the economic problem is the biggest problem that the country faced. Latin Americans have been appreciative of all of this and let's hope it's here to stay. But I see a certain handwriting on the wall. You go to Católica de Chile and you will find that hardly anybody wants to major in economics anymore. They want to major in business. Why? Because all their friends are making so much money in business.

CM: [Laughs] Sounds familiar.

AH: And the salaries they're paid in universities, even though two thousand dollars a month is a very good salary for a country that has a per cápita income of three thousand dollars a year, you know, it's pretty good... But they're looking for bigger and better things. They find the business world more attractive and I think we are seeing a significant slowdown in the demand for good training in economics at places like Católica. I wouldn't be surprised if the same thing isn't happening in Mexico.

CM: I would say yes.

AH: Now there is a solution to this. We are getting right now from the University of Chile better people than we are getting from the Católica. What happens is, they come from lower socioeconomic strata, where two thousand dollars a month looks good and where the prestige of being a university professor is wonderful! You know. It's something that never happened in their families. It's not these rich families that have everything, you know, powerful figures, this, that and the other thing, cousins who are making a hundred thousand here and a hundred fifty thousand there. They're more in tune with the true average level of living in the country, and the idea that they'll be living a lot better than that is a powerful incentive. So I think drawing new people from the lower socioeconomic brackets is the best hope actually in the future for economics in countries like Chile and Mexico and Argentina where the financial sector in particular acts like —what would you call it? An attractive nuisance.
CM: Yes, but is doing serious economic research really so different from poetry, or painting, that people do it not for what it pays, but because they really have a passion for it?

AH: Well, there's a lot of that. Certainly that's true of the best economists at almost every level, the best in terms of those who make the great contributions, that push the science forward, but also the best at the level of the professional, the diagnostician. Guys that got Bs in courses in Chicago and went to the Ag Workshop, they go over to Indonesia and they perform wonders, you know, wonders! In terms of just applying good solid supply and demand economics where it's crying out to be applied.

One of the big problems that we are beginning to face in Mexico, and in Chile too — but they've done better in Chile — is how do you get the same kind of reform on the expenditure side that you have got on the macroeconomic and the tax side? That includes project evaluation and that's the place to start. Mexico is at a very primitive level, there is an infinite amount to be done. Chile has this wonderful set-up with Ernesto Fontaine where they have been producing guys — and there are literally hundreds of them in the government — that have been trained in a wonderful, wonderful course of one year's duration with very intensive training. I'm hoping that Mexico gets enough of this kind of thing started.

Part of Mexico's problem is that Mexico is about eight times as big as Chile. That means it needs eight times as many people. And you don't find eight Ernesto Fontaines at one point in time, you know? So how does Mexico begin to catch up? It's going to be a big challenge, that's all.

Where are the next challenges? The next challenge is to get much, much better control over government expenditures, but not just stopping government expenditure. There are plenty of places where we can at least conceive of very fruitful expenditures being made. Good education and human capital building in general. A lot of things can be done to improve that. So this doesn't mean necessarily that the government should shrink in total size.

One of the great things we have to worry about is the stability of society. In the end this is going to depend a lot on people in the lower segments of society feeling that society is reasonably fair in the sense that if not they themselves, then their children are able to rise in the
system if they put out the effort, if they show the ability, if they do this, if they do that. It can be a hope for a few small number of years, but in the end it has to be demonstrated in fact to be the case. So that's the big challenge, to make it be the case. And it's not so in Chile, in my mind, the way it ought to be, and there are not many countries where it is so.

I always think that equality of opportunity is a myth. You can't give the children of the poor the same opportunities as the children of millionaires. I mean, it's not true, it never was true and it never will be true. But you can make it possible for the children of poor families to rise to important places in society. I think the United States has proven, beyond a shadow of a doubt, that it's very possible to rise. I'd say half our last ten presidents have come from the bottom half or at least the bottom two thirds of the socio-economic spectrum. And that's also true of our major leaders in business, and whatnot. We have a very good record on that score. Not too many other countries do, especially in Latin America.

**CM:** Certainly in Mexico.

**AH:** That's the challenge. And it's all mixed in with using government resources well.

**CM:** Very few so-called economists are able to do a proper project evaluation — to just sit back and ask, what's the cost, what's the benefit, and which is greater? And then correctly measure the costs, correctly measure the benefits.

**AH:** It's not that hard to teach it. It's something that a year of intensive work can make a pretty world class expert. There aren't that many. The world level of this stuff is pretty miserable.

**CM:** One last question about Chicago. You left for UCLA in 1984?

**AH:** No, I've been at UCLA since '84, but I was two quarters there, and two quarters in Chicago, on average, per year for seven years. And then I retired from Chicago, I didn't resign, I never left Chicago. Like Friedman, I'm a professor emeritus, having worked my time. But I'm not retired from UCLA, and they'd have to more or less either offer
me the moon to retire, or else force me out. But you know... in the
United States there is a law that you cannot be required to retire for
age from any job.

**CM:** Isn't that something fairly recent?

**AH:** Not too recent. I am the first generation that in academic life,
can't be made to retire. Somebody who's a year older than me could
have been made to retire at seventy. But my particular year just barely
made it.

**CM:** If you're not ready to retire, how awful.

**AH:** How wonderful for me! You see, I can go on earning my living,
and having fun, and having students. Now in California, I can be
required to leave only because of incompetence. And if I were still in
Chicago, they would probably be able to prove incompetence at some
point pretty soon. But not in California. We have too many crazy people
in California!

**References**

An Interpretive Essay”, Journal of Economic Literature, vol. 9,
um. 3, September.
2, April.