

# Lunch with a Free-Market “Subversive”

by Bill Steigerwald

**C**HOSICA, Peru—As the old steam locomotive pulls a single passenger car slowly up a steep grade in the foothills of the Andes, the Latin American revolutionary is inside having lunch with several men.

He doesn't look dangerous. He carries no guns and leads no left-wing guerrilla army. He wears a suit and a necktie and is armed only with ideas.

But in a poor country like this, where many of the bogus theories and broken promises of socialism are still frozen into law, businessman Juan Olaechea is definitely an enemy of the Peruvian state.

Olaechea, 45, is much more than the CEO of the Ferrocarril Central Andino, a small, recently privatized freight railroad that hauls mostly horrible industrial things like acid and zinc and lead concentrates between Lima and the mountains. He's also a fire-and-brimstone free-market capitalist who speaks out boldly—some say rudely—in Lima's newspapers and in Peru's Congress against the evils of protectionism, socialism, and laws designed by politicians to benefit certain industries, including his own.

Olaechea is taking a special luncheon train ride with his friend, business partner and fellow revolutionary, Henry Posner III, a global railroad entrepreneur from Pittsburgh.

Posner is president of Railroad Development Corp., a tiny international railroad investment and management company that owns one-sixth of the Ferrocarril Central Andino and operates it under a 30-year concession granted by Peru's government in 1999.

Posner, the son of a well-known Pittsburgh businessman and philanthropist, makes his living running privatized railroads in Third World countries like Peru, Guatemala, and Malawi. Last fall he was in Peru to inspect and joy ride on the Ferrocarril Central Andino, one of the most spectacularly engineered railroads on earth. It's also the highest, climbing from the seacoast to more than 15,600 feet into the Andes.

Posner, Olaechea, and their consortium of British and Japanese investors are risking what once was thought impossible—trying to create a profitable business in an economy still hamstrung by regulation and crippled by a paternalistic government elite prone to play dirty and to play favorites.

It's not easy. But Olaechea doesn't take guff from anyone—which has put his railway in peril. When he debated a congressman on TV and made the official look bad, the congressman began an investigation of his railroad. Nothing came of it. It was just the age-old way for the politician to show the businessman who's boss, Olaechea says. His message to Peru's government is simple: “Stay away. Don't do anything for us. If we fail, we fail.”

Meanwhile, he and Posner are working to

make their unsubsidized company more efficient, more worker-friendly, and more profitable. As Olaechea told a Peruvian transportation subcommittee last fall, the freight trains of the Ferrocarril Central Andino run faster and safer than government trains did. And spills of their cancerous cargoes have been cut to virtually zero.

Yes, there are fewer workers employed, now that the railroad must pay its own way and no longer serves as a fat farm for relatives and pals of politicians. But Olaechea says the 170 who remain on the payroll are paid better wages and have fewer accidents. They also get basic benefits they didn't get before (like steel-toed shoes).

As for the bottom line, for-profit management clearly proves the benefits of the privatization revolution that swept South America in the 1990s, a decade that began with nearly every railroad in state hands. Now, thanks to pioneering privatizers like Posner's company, everything's been turned upside down. As Lou Thompson, the railway adviser to the World Bank, says, now every significant railway in the Americas is in private hands, "except for Cuba—and Amtrak."

Under state mismanagement, Peru's railroads were as bad as the rest of the continent's. They rang up \$437 million in losses during the 31 years of government ownership that ended in 1999. In the two years since they went private, Ferrocarril Central Andino alone has paid Peru's government about \$2 million in concession fees.

## Student of History

Olaechea runs a railroad. But he is also a student of Peru's history, which he says is a long, grim tale of the evils of centralized statism, from the Incas to the Spanish viceroys to the socialized republic of today.

With no prompting he will regale you with how Peru's mindless federal government went bankrupt in the late 1800s building the very railroad he now runs. And how the government became so impoverished from building railroads it didn't need that it couldn't defend itself from Chile, which whipped Peru in the War of the Pacific in

1879–84 and seized its valuable mineral land.

Olaechea is a man of privilege, a lawyer who studied at Harvard. His oligarchic family, which was living in Peru 50 years before the Pilgrims ever heard of Plymouth Rock, has both benefited and suffered at the hands of government for centuries.

He is an unapologetic capitalist who says clever things like, "Socialists love the poor. That's why they create so many." The centralized, all-powerful governments in Latin America are all alike, he says, and it is they who created and perpetuate Third World poverty. "I've grown up in a socialist country. The more socialist we got, the richer the right wing got—not because of the wealth they created, but because of their political connections."

Olaechea, who was halfway through reading the copy of *Atlas Shrugged* that Posner gave him, says it's a myth that only the left truly cares for the poor. He won't let anyone accuse him of selfishness or heartlessness. "I'm personally repulsed by seeing poverty and I am convinced that all the measures of the last 40 years to reduce poverty in Peru are the wrong ones and only increase poverty and injustice."

Olaechea talks the classical-liberal talk. But is he for real? Is he really a principled free-marketeer? Although Hernando De Soto, Peru's great defender of free markets, says he doesn't know Olaechea personally, he told me to be wary of men who speak like him. The libertarian clubs in every major Latin American city are full of rich businessmen, the author of *The Mystery of Capital* and intellectual patron of Lima's sidewalk-vending entrepreneurs said. But they are not really seeking open markets and true *laissez faire*, at least not for small merchants and street entrepreneurs. They seek the usual gifts governments dole out to elites who run mercantilistic states like Peru—favors, subsidies, and protection from competition.

But unless he is the greatest Latin actor since Fernando Lamas, Olaechea is not one of those libertarian pretenders. And though he's read F.A. Hayek and Milton Friedman, he did not acquire his faith in freedom and

market capitalism at Harvard or from reading books. “My school is life. When you talk to a bureaucrat, he talks upside down. And when he talks about honesty, he lies.”

## More Capitalist Revolutionaries

Olaechea is doing his small bit to drag Peru out of its statist past and into the modern free world, but he knows there are not nearly enough people like him at the top of his country’s society. He knows that if Peru is to join the world’s prosperous nations, it’s going to need thousands of capitalist revolutionaries like himself.

Nearly the size of Alaska, Peru is an official member of the Third World, with more than half of its 27 million people living below the poverty level and an average annual per capita income about a tenth of North America’s.

Peru’s economy, which is tied to the U.S. dollar, runs primarily on minerals, petroleum, fishing, and agricultural commodities like coffee. The economy has been significantly freed up since 1990, when reforms under ex-President Alberto Fujimori began lowering trade barriers, lifting investment restrictions, and allowing government-owned businesses like the phone company to become privatized.

Fujimori’s fall and the election of Alejandro Toledo as the new president are about the only news from Peru that has made it to America of late. Beside llamas, wool sweaters, and coca leaves, the country is best

known for the Inca ruins at Machu Picchu, which tourists visit in herds.

In terms of civil and political rights, Peru is less oppressive than it used to be, but according to Freedom House, it still is nowhere near as free as America or even Mexico. Soldiers with submachine guns, police, and security guards are ominously conspicuous in Lima, a sprawling but vibrant city of eight million mostly poor people. So are the armored cars guarding the side streets around Peru’s Congress.

Olaechea is not counting on a top-to-bottom free-market revolution in Peru anytime soon. But in the long run, he is optimistic. The world is globalized. Millions of Peruvians have emigrated. Almost 250,000 live in North America. The United States has its failings,” he says, “but it is to us a free country.

“The poor of Peru watch the same news and same TV shows as Americans and they’ll push away the politicians who try to bribe them. For now, however, the rich and the poor want the same thing: to get out of Peru.”

Olaechea the subversive capitalist is not going anywhere, however.

“Every day,” he says, “I wake up and ask myself the same question: ‘Where is the monkey wrench you need to get the system moving?’” He couldn’t run for political office, because he’d never win. “I would be a revolutionary,” he says. “But it’s not the guns, but the freedom of the country that makes it work.” □



### On Property

That is not a just government, nor is property secure under it, where the property which a man has in his personal safety and personal liberty, is violated by arbitrary seizures of one class of citizens for the service of the rest.

—JAMES MADISON

# Trust No One—Including *The X-Files*?

by Raymond J. Keating

I have two favorite moments from *The X-Files*.

In one of the television episodes (“Arcadia,” which aired in 1999), FBI agents Fox Mulder (David Duchovny) and Dana Scully (Gillian Anderson) go undercover in a planned residential community. Posing as the Petries—that’s right, same names as Rob and Laura from the old *Dick Van Dyke Show*—they are investigating the mysterious disappearances of several couples.

The community has strict regulations, and those who challenge the rules meet their doom at the hands of a thought-created monster conjured up by the strict homeowners’ president. Mulder fleshes out the creature by threatening to put up a portable basketball hoop and by knocking his mailbox out of alignment.

Rather than an attack on private communities, as might be expected from Hollywood, this comes across much more as a wonderful indictment of busybodies in local government and civic groups who try to impose their own views and tastes on their neighbors.

My other favorite moment took place in the 1998 film *The X-Files: Fight the Future*. This movie was fully immersed in “X-Files” lore, featuring a web of alien invasion and complex conspiracy. At one point, a shad-

owy figure tells Mulder that at the heart of the conspiracy is the Federal Emergency Management Agency. Mulder is warned, “FEMA, the secret government.”

With *The X-Files*’ nine-year pursuit of UFOs, conspiracies, and the paranormal now over (though additional films are distinct possibilities), it’s time to ask if this is a TV show that libertarians (or conservatives) could embrace.

*The X-Files* certainly had many moments—like those previously mentioned—that generate agreement or chuckles from libertarians. However, a compatible, broad philosophy is not to be found there.

Oh sure, there were various government schemes and conspiracies that regularly popped up, and the show’s message of “trust no one” very much applies to government. This held obvious appeal for freedom-loving folks.

However, at its core, *The X-Files* should have appealed most to two other camps. The first, most assuredly, are those who believe that the government carries out massive conspiracies of a wide-ranging nature. In contrast, most libertarians understand that not only is government too inept to successfully pull off vast conspiracies, but also that people have incentives—including monetary rewards—to reveal the truth about such skullduggery. In *X-Files* lingo, one might say that the truth is out there—for a price. It is similar to so-called price fixing or collusion in the market, in that someone always has an

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