

## Two 'revolutionaries' attempt to pull Peru out of its statist past

By **Bill Steigerwald** TRIBUNE-REVIEW

Sunday, November 18, 2001

CHOSICA, Peru - As the old steam locomotive pulls a single passenger car slowly up a steep grade in the foothills of the Andes, two Latin American revolutionaries are inside having lunch. They don't look dangerous. They carry no guns and they lead no left-wing guerrilla armies. They wear suits and neckties and are 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, the men are definitely enemies of the Peruvian state.

One of the subversives, Juan Olaechea, is a fire-and-brimstone free-market capitalist. He is 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.

Olaechea, 45, speaks out boldly - some say rudely - in Lima's newspapers and in Peru's Congress against the evils of protectionism, socialism and special laws designed by politicians to benefit certain industries, including his own.

The other revolutionary, the quieter one, is Carlos Dargent. A fourth-generation Belgian arms merchant who looks like Santa Claus, he is the popular mayor of Surco, a tidy residential district of 280,000 stuck in Lima's seamless, incredibly vibrant urban sprawl of 8 million mostly poor people.

In a country where corruption and bureaucratic red tape is a national trademark, Dargent, 54, is a rare political bird. With an annual budget of only \$25 million and the approach of a smart businessman, he performs small civic miracles for Surco's mix of rich, poor and middle-class people.

He has instituted a municipal ATM-type electronic card that rewards paid-up taxpayers with faster access to government services and gets them discounts at participating local businesses. And the municipal water- and garbage-recycling plants Dargent developed not only keep his 200-plus neighborhood parks as healthy and well-manicured as any suburb in America, they pay for themselves and make a profit.



Juan Olaechea



Carlos Dargent

Olaechea and Dargent are good friends. They are taking a special luncheon train ride with Henry Posner III of Pittsburgh. Posner is president of Railroad Development Corp., a Green Tree 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.

## Men on a Mission

Posner, the son of Pittsburgh businessman and philanthropist Henry Posner Jr., makes his living running privatized railroads in Third World countries like Peru, Guatemala and Mozambique. In mid-October, 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 15,000 feet into the Andes.

Posner, Olaechea and their other investors are trying to create a profitable business in an economy still hamstrung by over-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 into his railroad. Nothing came of it. It was just the age-old way for the politician to show the businessman who's boss, Olaechea's 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 month, 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 more and have fewer accidents. They also get benefits they didn't get before (like steel-toed shoes).

As for the bottom line, it clearly proves the benefits of privatization. All of Peru's railroads rang up \$437 million in losses during 31 years of government ownership. In the two years since they went private, Ferrocarril Central Andino alone has paid Peru's government about \$2 million in concession fees.

Olaechea is an unapologetic capitalist who 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."



Ferrocarril Central Andino steam engine



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."

## **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 Viceroy to the socialized Republic of today.

With no prompting, he will tell you 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 and could not afford. It couldn't defend itself from Chile, which kicked Peru's butt in the War of the Pacific in 1879-84 and seized its valuable mineral land.

Olaechea is a man of privilege. 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 a lawyer who went to Harvard law. He says clever things like, "Socialists love the poor. That's why they create so many." But is he for real? Is he really a principled free-marketeer?

Hernando De Soto, Peru's great defender of free markets, author of "The Mystery of Capital" and intellectual patron of Lima's sidewalk-vending entrepreneurs, doesn't know Olaechea personally. But he says to be wary of men who speak like him.

The libertarian clubs in every major Latin American city are full of rich businessmen, De Soto said recently. But they are not really seeking open markets and true government 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.

Unless he is the greatest Latin actor since Fernando Lamas, Olaechea is not one of those libertarian pretenders. And though he's read Friedrich 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 and he talks upside down. And he talks about honesty, and he lies."

He and his fellow revolutionary Mayor Dargent are doing their small bits to drag Peru out of its statist past and into the modern free world. He knows there are not nearly enough people like them at the top of his country's society.

But in the long run, Olaechea 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 is not going anywhere, however.

"Everyday," 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."

## **A Mighty Challenge**

If Peru is to join the world's prosperous nations, it's going to need thousands of capitalist revolutionaries. 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 10th 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.

In terms of civil and political rights, Peru is less oppressive than it used to be, but still nowhere near as free America or even Mexico. Soldiers with submachine guns, police and security guards are ominously conspicuous in Lima. So are the armored cars guarding the side streets around Peru's Congress.

During his decade as president, Fujimori slashed Peru's high inflation and eradicated the nasty Maoist Shining Path guerrillas. But political corruption in Fujimori's administration finally got the better of him last year and he had to flee the country. Peru's Congress daintily referred to the sometime strongman's troubles as "moral incapacity."

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 Pichu, which tourists visit in herds.

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**Photos by Steven Adams / Tribune-Review**

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