

Chile

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|--|--------|-------------|--------------------------------------|-------------|-------------|
| Status Index (Democracy: 9.10 / Market economy: 8.60) | | 8.85 | Management Index | | 7.51 |
| HDI | 0.854 | | Population | 16.0 mn | |
| GDP per capita (\$, PPP) | 10.274 | | Population growth¹ | 1.5 % | |
| Unemployment rate | N/A | | Women in Parliament | 10.1 % | |
| UN Education Index | 0.91 | | Poverty³ | < 2.0 | |
| | | | Gini Index | 57.1 (2000) | |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ³ Population living below \$ 1 (1990-2003). | | | | | |

A. Executive summary

After fifteen years of governments of the center-left coalition, the Concertación de Partidos por la Democracia (Concertación), Chile has consolidated its political stability, international incorporation and economic development, and it has corrected some of the negative social effects of the economic model inherited by Pinochet. Still the country suffers problems of inequality (income distribution, labor relations and employment) and insufficient capacity for state intervention in the economy. It has been unable to overcome the institutional framework inherited from the dictatorship that impedes further development and the consolidation of democracy.

The third government of Concertación, led by President Ricardo Lagos, has successfully recovered from the effects of the Asian crisis on the Chilean economy. In 2004, the rate of growth was 6.1% marking the highest point since 1997. Free trade treaties with the United States and South Korea and economic agreements with the European Union were important steps toward opening the economy. After some corruption scandals at the beginning of 2003, Chilean risk rankings and transparency reforms have done very well. Programs aimed at addressing extreme poverty that imply direct assistance to families, called Chile Solidario, have also been successful. The main problems that remain are the imbalance of labor relations, maintenance of inequalities in income distribution and the persistence of a relatively high rate of unemployment..

Some important steps have been made in last two years in Chile's democratic institutional reforms. Steps include: the extension of judicial reform, legislative reform on health known as the "AUGE Plan" (Universal Access with Explicit Warranties), honesty and public management laws, a new law governing public finance of political campaigns(although with some flaws), the creation of the Consejo Nacional de la Cultura (National Culture Council), and the advancement of some constitutional reforms. Despite these strengths, the Concertación government's main weaknesses lie in its institutions: the failure to change the

constitution, the electoral system and other crucial aspects of the institutional framework inherited from the Pinochet dictatorship.

On the other hand, important steps to improve truth and justice concerning human rights violations have been accomplished, specifically the Commission on Torture and Political Imprisonment report and statements by the armed forces recognizing its participation in these violations. However, the Supreme Court continues to oscillate on this and other matters, giving it a poor evaluation in the eyes of the public.

The government has been successful in its economic policy: international relations (with the exception of its place in Latin America) including economic agreements with the United States, Europe and countries in Pacific Asia, its active opposition to the U.S. policy on Iraq through its vote in the United Nations (UN) Security Council, and the organization of the 2004 Asia-Pacific Economic Cooperation (APEC) meeting. This implies a very high level of trust in the presidency, whose support has reached 70% after five years in government. Because of this performance, its coalition won municipal elections in October 2004. Given the fact that the right-wing candidate has dropped dramatically in the polls, there is a high probability that Chile will have a new Concertación government in December 2005 headed by a woman president (former Defense Minister Michelle Bachelet).

However strong Chile's macroeconomic stability, policies to overcome poverty, financial and commercial integration, and other structural and institutional reforms (such as health, the judiciary) should not hide major flaws and weaknesses that Concertación's very successful governments have been unable to overcome. Continuous problems include income inequality (one of the highest in Latin America), extreme corporate influence over the business sector, a monopolistic control of the media, a severe imbalance in labor relations that harms workers, bad performance in the quality of education and technological innovation, and the inability to eliminate the institutional enclaves left by the Pinochet dictatorship. Some of these problems, especially concerning social issues, explain why Chile cannot be higher ranked. The strategic recommendations suggested, then, address these questions.

B. History and characteristics of transformation

After the big economic crisis in 1930, in which Chile's externally oriented model of development was complicated by a crackdown on nitrate exports, the country adopted an import substitution industrialization model with a strong economic and social role for the state. This process was accompanied by a stable democracy, established in the 1925 constitution, although from the point of view of political participation this was restricted, and increased social participation, especially from

the middle class and organized urban workers. The integration of these populations excluded the peasantry and urban shantytown dwellers that were incorporated during the reformist governments of the 1960s and the beginning of the 1970s. This socioeconomic and political model was exacerbated during the Allende government under the influence of the leftist coalition *Unidad Popular*. Its program of nationalization of monopolistic enterprises, including the copper mines, called the “Chilean road to socialism”, aimed to transform the capitalist economy through institutional and democratic means. A process of political polarization allowed the military, led by General Augusto Pinochet and supported by the United States, to overthrow Allende in 1973. Consequently, a military dictatorship was established that put an end to this socioeconomic and political model and attempted to build a new one through political repression and neo-liberal economic reforms.

There is a consensus today about the destructive character of the Pinochet regime in regards to politics and social issues. The dictatorship was characterized by systematic and massive violations of human rights: disappearances, murders, torture, exile, a permanent state of siege, suppression of liberties and freedom of the press, etcetera. The relationship between parties and social organizations was disjointed because of the repression and the ban on all political activities. Due to the socioeconomic model imposed by the technocratic group linked to financial capital, known as the *Chicago boys*, the state withdrew from its social role concerning education, health, social security and labor relations. The rate of poverty went up to 40% and the real income of workers went down its 1973 level.

However, in some sectors that recognize the catastrophic political and social aspects of the military regime, the myth persists that the Pinochet regime was the founder of a solid and open market economy and created the basis for a modern society. All indicators – the economic growth rate, inflation, poverty, corruption, state management – prove exactly the contrary: its performance was the worst compared to the twenty years previous to the coup and the fifteen years of democracy. The foundations and solidity of Chilean economy are due exclusively to the *Concertación* governments.

In 1980, Pinochet imposed a Constitution that was the framework used by the democratic opposition in order to win the 1988 referendum designed to keep Pinochet in power. In 1980, Pinochet imposed a constitution through referendum designed to maintain his power, which acted as the focal point for democratic opposition. Finally, in 1988 it was defeated. After this plebiscite, presidential and parliamentary elections were held in 1989, and the center-left coalition (the *Concertación*) won with its candidate, Christian Democrat Patricio Aylwin. During the last fifteen years *Concertación* has won all the elections and elected three governments, and most probably will elect the fourth in December 2005.

The Aylwin government (1990-1994) was characterized by successful attempts to avoid any authoritarian regression and to conciliate economic stability by overcoming poverty through an increase in social expenditures. Concerning human rights violations under the dictatorship, the most important advance was the Commission (and the subsequent report) on Truth and Reconciliation that was the first official attempt to estimate the number of victims murdered and “disappeared” under the military regime, and which was met by the military and right-wing politicians.

The government of Christian Democrat Eduardo Frei Ruiz-Tagle (1994-2000) intensified the market economy, extending international trade and privatization. In this government, the market economy became consolidated, the country reached the highest rates of economic growth in its history, close to 8%, and poverty was significantly reduced. However, in 1998 Chile reached second place in Latin America in inequality, due to unequal income distribution.

At the time of this writing, President Lagos (2000-2006), socialist and founder of the Partido por la Democracia (PPD), leads the third Concertación government. His aims have included recovery after the Asian crisis and the promotion of significant reforms. These reforms include plans to overcome extreme poverty, to modernize education, health and culture (through the elimination of censorship, divorce laws, and the creation of the Consejo Nacional de la Cultura), to improve labor relations (through the introduction of unemployment insurance and decreases in labor time), to improve public financing of electoral campaigns, to decrease corruption in state management, and finally to continue constitutional reforms.

The economy recovered so that in 2004 Chile had a growth rate of 6.1%. All the macroeconomic indicators improved and Chile had a very active insertion into the world economy with economic agreements with United States, Europe and Asia. However, inequality and wealth concentration in Chile are some of the worst in the world (Gini index: 0.57). Concerning human rights, ongoing trials against some high level officers of the Pinochet regime including Pinochet himself and the Valech Report on Torture and Political Imprisonment are important steps toward justice and reparation.

During these fifteen years, the country has seen the most important economic development in all its history. Important advances have been made to overcome poverty, truth and justice concerning human rights violations under the dictatorship, submission of the military to political power, international economic involvement, changes to the judiciary, health and educational reforms. However, social inequality (income distribution, quality of education, unemployment and labor relations, among others) has not been overcome. Neither has the constitution imposed by Pinochet been replaced, despite some significant changes that are still in progress. The electoral system gives enormous veto power to the minority right

wing generated under the Pinochet regime and excludes an important leftist sector from parliament. In addition, the institutional framework for other spheres of society remains unchanged.

C. Assessment

1. Democracy

1.1. Stateness

The Chilean political system is highly institutionalized, and there is a high level of stateness. The state has all the capacity to enforce the laws. No other actors compete for the use of force. State institutions have widespread legitimacy, despite important criticism of the constitution and the judiciary. Since 1925, the Catholic Church has been separate from the state, and recently laws have been approved that give more opportunities and rights to other religious organizations besides the Catholic Church. In spite of the separation of church and state, the former exerts constant pressures, especially in cultural and values issues, and has forced the government and congress to change some laws (such as the divorce law and some laws concerning sexuality and reproduction).

During the period of this review, military institutions have become strictly obedient to the political authorities, but the constitution does not allow the executive to remove the Commanders in Chief.

The main problem is the co-existence of a strong stateness (i.e. the effectiveness and legitimacy of public policies) with two other contradictory elements: *de facto* powers like the church or the concentrated media or business organizations, and the persistence of the constitution created by Pinochet in 1980 that limits state capacity and popular sovereignty. Currently there is a discussion in the congress to consider modifying significant aspects of the constitution, but without generating a new democratic constitution, and without changing the electoral system.

1.2. Political participation

Chilean elections meet international standards, and follow the constitution without significant cases of fraud. Official results are not contested and are fully accepted. Censorship has declined during the review period and there is a restricted freedom of association and opinion. However, the institution of appointed senators still exists, and the electoral system gives a veto power to the right-wing alliance as a second majority and excludes a third force different from

the two alliances that share power. Press freedom and pluralism is severely limited by the concentration of media ownership in two groups. Only in 2005 was a small newspaper independent of these groups created.

Legitimacy is assured not only because every social and political actor accepts the rules and institutions of the political system, but also because the government represents social and political majorities. More than an agreement in fundamentals – which is lacking because there has been no real debate on social, economic and political foundations, crystallized in a new constitution – there exists a deep agreement on not changing laws by extra-institutional means. Beyond a strong instrumental consensus that also embraces the economic model, there is serious criticism of the model's impact on social inequalities and environmental problems. As long as an alternative to the market economy is not a viable option, debate on the possible variations of the economic model, for example a social democratic instead of liberal orientation, is still lacking, especially concerning economic concentration, social inequalities and the role of the state. In Chile, the state represents 16% of the national expenses, compared to other countries where it is about 50%.

Significant social reforms for which there is strong public and political support cannot be achieved because power groups linked to business sectors with strong influence on the media oppose to these reforms, which include tax reform to modify income distribution, state intervention during economic crisis or royalty on mine resource exploitation. Even if approximately 80% of public opinion favored justice on human rights violations under the dictatorship, trials and effective justice are very slow. In this respect, an important advance has been the Report on Torture and Political Imprisonment of the Valech Commission created by President Lagos. Another important step was the 2004 divorce law, after ten years of parliamentary debate and fierce opposition from the Catholic Church.

1.3. Rule of law

The constitution guarantees the separations of powers, which work independently from each other. Chile is a presidential system where the president acts also as a co-legislator. The parliament has limited power to check the executive due to the inheritances of the Pinochet constitution, but some reforms are under way in this matter. The judiciary branch is autonomous from a juridical point of view but its accountability is very limited, and it is ideologically very dependent. Recently the principal judge who conducted the Pinochet trials, who has just retired, denounced the corruption and ideological positions of judges vis-à-vis human rights. Even if President Lagos constantly reminds that "institutions are working and the executive does not intervene in the judiciary decisions" – which is true – the persistent ideological influence of the press and of de facto powers (i.e. the church) on the judiciary distorts processes and public opinion. In 2003-2004 there

were contradictory statements from judiciary members concerning their behavior and their role on crucial issues like human rights under the dictatorship, and also general accusations of corruption. According to public-opinion polls, the judiciary has a very low level of trust and confidence from the population.

On the other hand, authorities are effectively controlled by the Contraloría and the judiciary, as been evident in the review period by denunciations of corruption and accusations of misappropriation of public funds.

There are no restrictions on civil liberties. Important advances have been made concerning the end of the censorship and limits on free opinion vis-à-vis the government. However, reproductive rights are still limited.

1.4. Stability of democratic institutions

Institutional stability is one of Chile's greatest assets. All political actors play and respect the democratic game. However, in many aspects, political institutions are not democratic but were imposed by the 1980 Pinochet constitution, which remains in place. This impedes the deepening of democracy. The electoral system and the quorum required for changing the constitution makes radical reform very difficult. Stability therefore means also the persistence of those non-democratic elements of the institutional framework. This weakens the representative ability of parties and of politics in general.

1.5. Political and social integration

Chile today is a multiparty system, but due to the electoral system, it operates as a bi-partisan system with two major alliances. Parties are forced to form alliances in order to obtain representation in the congress. The Concertación de Partidos por la Democracia (Agreement for Democracy) alliance is formed by centre-left parties (Christian Democracy, Social Democratic Radical Party, Party for Democracy, Socialist Party) and is the majority coalition that has governed the country and won all the elections since the restoration of democracy in 1990. The Alianza por Chile (Alliance for Chile) coalition is constituted by the Unión Democrática Independiente (UDI), the majority hard right-wing party and the minority more democratic Renovación Nacional (RN) party. Due to the electoral system, the Communist Party, the Humanist Party and other groups on the left are without representation in congress; together these parties constitute the Juntos Podemos (Together we can) coalition that reached a 12% in the 2004 municipal elections.

The level of political participation is high, close to 70%, with low absenteeism due compulsory voting. However, registration is not automatic or obligatory, with consequently low registration rates for young people. A reform is underway

making registration or electoral inscription automatic. Parties are rooted in social (socioeconomic, income), ideological (right-left) and political cleavages (concerning the military regime) and the shifting vote is no more than 10-20%. Independent candidates are not favored. On political issues, there is no alternative to parties. However, according to polls, there has been diminished public interest in politics over the past 10 years, and parties enjoy very low levels of confidence or trust (reaching only to 8% in 2003 according to some polls).

2. Market economy

2.1. Level of socioeconomic development

Despite the stability and improvement of macro-economic indicators, exclusion and inequalities persist. Under the Concertación governments, poverty levels have decreased from close to 40% to 17% of the population. In 2000, the level of extreme poverty was 5.7%, and it has declined further due to an important program called Chile Solidario, which attempts to support 250,000 families with financial, job, education, health, psychological and lodging programs. Poverty unequally affects different regions, ethnic minorities, children and women. Unemployment affects especially younger or less educated people.

2.2. Organization of the market and competition

All the elements of a market economy are present in Chile. The economic order is established by the constitution. Public institutions supervise insurance companies, businesses, banking and financial institutions, with one institution devoted to preventing monopolies. In reality, however, the state has very low power of control and these institutions have not been able to prevent the concentration of properties and business links with the media. A law on speculative investments, established in 1991, was lifted in 2002.

Free trade has been encouraged through free-trade treaties with United States and South Korea and economic agreements with the European Union. The question for Chile is not the existence of a market economy, but rather its orientation towards a neo-liberal or socially oriented economic model.

2.3. Currency and price stability

Price stability has resulted from a coherent and definite policy of the government and the autonomous central bank. The annual inflation rate was 2.4% in 2004. Authorities place higher priority on controlling inflation than on reducing unemployment. During the review period, the government has established the

principle of structural public expenses in order to compensate the budget over a period of two or three years.

2.4. Private property

The protection and respect of private property are enshrined as a main principal of the Chilean Constitution. The privatization process initiated under Pinochet was corrupt and non-transparent, creating a high concentration of property ownership, especially strong in the media and other sectors. The right-wing opposition avoids discussion of this process, which the congress cannot revise or study under the current constitution. In many cases, the state was robbed. Today the main question is not privatization but an adequate regulatory framework, particularly in some formerly public services, now privatized. On the other hand, during the period under review private-public relations have deepened through market operations such as public works (such as highways).

2.5. Welfare regime

Chile developed some elements of the welfare state, in education, health, social security, housing and labor laws, from the 1930s until 1973. All these elements were removed after 1973 by the military regime. Under the dictatorship, social policies were "asistencialistas" – they only aimed to attenuate the most striking effects of the neo-liberal adjustment in the 1980s.

Under the democratic governments, social expenditures increased 160% between 1990 and 2003. However, the system of protection and social security created under the dictatorship has been maintained. Large parts of the system were transferred to the market, most importantly the Administradores de Fondos de Pensiones (AFP) and the Instituciones de Salud Provisional (ISAPRE). These market institutions are not able to provide adequate pensions or quality health care for all. Workers and low-income families must use the public system, which is of a lesser quality than the ISAPRES, resulting in an unequal access to the healthcare system. The pension system of the AFP is based on capitalization and it eliminated any solidarity dimension. Thus, the lower income sectors continue to participate in the public system (INP) that in spite of modernization provides very low pensions.

The significant injustice of the social-protection system inherited from the dictatorship led the democratic governments to regulate the private system as well as to increase pensions and to initiate other reforms. Furthermore, the Lagos government has created the AUGE plan to improve the quality and extension of health services in the public sector, always focusing on lower-income groups. The AUGE plan covers more than 50 pathologies and their respective therapies. This

plan also includes some modifications of the ISAPRES system. However, a solidarity fund project failed. Instead, a moderate fund that compensates health care costs for women and older people was introduced. Medical organizations criticized the measure for not covering all illnesses and the whole population. Undoubtedly, the AUGE plan is a major and significant reform, perhaps the most important of the Lagos government. Concerning social security, the candidate of the Concertación to presidential elections in December 2005 announced a reform of the system.

Regarding education, there is now a consensus that the problem is no longer access – at least in primary and secondary school, if not in pre-basic and higher education. According to HDI (2002), the adult literacy rate is 95.7%, and the combined gross enrolment ratio for primary, secondary and tertiary schools is 79%, the education index 0.90. In 2003, a constitutional reform established obligatory secondary education. However, all the measurements of quality beyond literacy show, first, a very poor performance by international standards, and second, a high inequality according to socioeconomic factors and type of school. In general, the private and paid establishment is of higher quality, while the public and subsidized private schools suffer lower performance. Despite increasing public expenditure and reforms in education, this gap has not closed. An OECD report states that the Chilean educational system is built to generate inequalities.

In higher education, despite a dramatic increase in enrolments there is a deterioration of public universities, due to inconsistent state policy and a general lack of resources. Public universities must compete with a proliferation of private universities that are usually – with significant exceptions – of a very low quality level because they follow market rules under very weak regulations.

Housing policy has been an important success. Around 70% of the housing-program investments in 2003 were dedicated to the poor sectors of the country. This investment increased from 23.1% between 1997 and 2001 to 68.5% in 2003, and resulted in the eradication of "Campamentos" or shantytowns generating new neighborhoods where social problems such as criminality and drug trafficking appeared, creating new ghettos in the larger cities.

Redistribution is a priority. In 2003, 41.9% of social expenditures in health, education and monetary subsidies were concentrated on 20% of the poorer householders (hogares), 22.7% for the first decile and 19.2% for the second. Thanks to these measures the poorer 20% of householders increased their income by almost 90%, while the 20% of richest householders increased by only 0.2%. In sum, due to the benefits of health, education and monetary subsidies the 20% of the poorest householders increased their share of total income from 3.9% to 6.9%, while the richest 20% reduced their share from 56.5% to 52.3%. As for other indicators of equity in 2000, the Gini Index was 57.1; the ratio of the richest 10% to the poorest 10% was 40.6, and the ratio of the richest 20% to the poorest 20%

was 18.7. Concerning gender, the ratio of estimated female to male earned income was 0.38, the GEM rank was 58 and the GEM value was 0.460.

2.6. Economic performance

The Chilean economy shows indicators of healthiness and solidity. During the 1990s, Chilean economic growth held at approximately 7% per year until the Asian crisis in 1997, when it began decreasing to approximately 2% in 2002. Since then the recovery began and annual growth reached 6.1% in 2004, the best result since 1997. According to the IMF, the same growth rate is expected for 2005. Inflation is below 3%, a concept of structural balance has allowed Chile not to have public deficit, while debt and a trade balance show good performance. Chile's main problem continues to be an unemployment rate between 8% and 9%, and high inequalities. During the last year of the review period nearly 200,000 new jobs were created and the unemployment rate decreased by 0.7%.

2.7. Sustainability

The public institution in responsible for the environment, Comisión Nacional del Medio Ambiente (CONAMA), is very weak, but new economic projects must consider environmental impact. International standards introduced by free-trade agreements add importance to the sustainability dimension. However, important environmental conflicts still exist and energy is problematic due to neighbor countries.

Important education reforms have extended the coverage of pre-basic education, establishing in the constitution the right to universal education for 12 years. The test for entering into higher education has been replaced. However, by international standards performance is still low. In addition, a high level of inequality plagues the education system, with municipal public schools being the most deprived.

The higher education system has collapsed and it is very unequal. Spending on sciences and technology is low. Public expenditure in education grew from 2.5% of GDP in 1990 to 3.9% in 1999-2001 and from 10.4% of the total government expenditure in 1990 to 17.5% in 1999-2001. Patents granted to residents were two per million people in 2000; receipts of royalties and license fees (U.S. dollar per person) was 0.2 in 2002; research and development (R&D) expenditure in 1996-2002 was 0.5% of the GDP and researchers in R&D were 419 per million people from 1990-2001.

3. Management

3.1. Level of difficulty

Poverty and inequality were the most important structural constraints during the dictatorship. Democratic governments have reduced the poverty level by more than half, but inequalities remain high. Chile depends on energy from abroad, and persistent problems with Bolivia have impeded better relations concerning energy imports, particularly gas. Most infrastructure problems have been tackled during the survey period. Primary constraints are institutional: the constitution and other laws inherited from the dictatorship and only partially corrected (electoral system, labor, health, higher education, social security). The right-wing minority and business organizations retain strong veto powers. Institutional constraints are also present in the state administrative organization, where laws on decentralization, regionalization and municipalities are insufficient and centralist. The lack of regional and local administrative autonomy is especially harmful in a country with a very extended, diverse and complicated geography.

There are approximately 80,000 social organizations in Chile, in which 55% of the population participates. Absenteeism during elections is low, but there is a high percentage of non-registration of young people (approximately 2 million out of more than 8 million voters). Levels of interpersonal and institutional trust are low. The government has given ambiguous signals in these matters, initiating two pieces of legislation concerning social organizations and automatic voter registration. The first project does not implement any mechanism to incorporate social organizations into public policies, while the second intends to reform the constitution in one of the few, if not the only, good aspects of it consistent with Chilean tradition: the compulsory vote. The government wants to make voting voluntary.

The fundamental problem of Chilean civil society is that social organizations were always constituted through politics and parties, so there is no strong tradition of a non-politicized civil society. Even today, there is a distance and division between politics and civil society that makes politics less democratic and civil society less relevant to policy decisions.

Profile of the Political System

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| Regime type: <i>Democracy</i> | Constraints to executive authority: | 2 |
| System of government: <i>Presidential</i> | Electoral system disproportionality: | 15.23 |
| | Latest parliamentary election: | 16.12.2001 |
| | Effective number of parties: | 5.6 |
| 1. Head of State: <i>Ricardo Lagos Escobar</i> | Cabinet duration: | 03/00-present |
| Head of Government: <i>Ricardo Lagos Escobar</i> | Parties in government: | 4 |
| Type of government: <i>divided government</i> | | |
| | Number of ministries: | 20 |
| | Number of ministers: | 18 |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Electoral disproportionality (Gallagher index) reflects the extent to which electoral rules are majoritarian (high values) or proportional: $\sqrt{\frac{1}{2} \sum (v_i - p_i)^2}$; v_i is the share of votes gained by party i; p_i is the share of parliamentary mandates controlled by party i. For presidential/ semi-presidential systems, the geometric mean of presidential election and parliamentary election disproportionality is calculated. Effective number of parties reflects the political weight of parties (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i.</p> | | |

During the survey period, ethnic conflicts, though localized, have become very significant in the south, especially on environmental and land property issues. Approximately 5% to 6% of the population comes from "pueblos originarios" — indigenous communities. Nevertheless, the main cleavages within Chilean society are ethical, concerned with human rights violations under the dictatorship, and socioeconomic, and based on inequalities. There is no religious conflict in the country, but a strong and disproportionate influence of the Catholic Church in public and politic affairs. These various cleavages and conflicts do not give rise to violence.

3.2. Steering capability

The government is able to propose and implement policies in line with strategic priorities oriented towards the long-term goals of democracy and a market economy. Examples of this are the a structurally balanced budget and reform in the spheres of justice, health and education, energy and infrastructure – all policies that demand a long-term budget going beyond the term of one government. These goals require state policies and not only government policies. On the other hand, the government has had to change some of its most important reforms, and especially to soften its redistributive dimensions, in reaction to public opinion, de facto powers like business organizations, the Catholic Church and the press, and the pressure of political opposition.

After the crisis caused in 2002-2003 by overpayments of public officers and by unproven accusations of diversion of public funds to political campaigns, the government was able to negotiate with the opposition an agenda of 38 reforms to

state administration, including political campaign financing. Many of these reforms were in the opposition's interest and were softened after parliamentary debate. When one Concertación party proposed a royalty for mining enterprises, the government opposed it due to the pressures of business interests, but afterwards changed its position and the proposal was defeated in the parliament. After the report of the Commission on Torture and Political Imprisonment, the government forced the opposition to approve proposals for justice and compensation of victims. The same success was not possible with the AUGE Plan for health care, and the government was forced to make another attempt to create a solidarity fund after the first proposal was rejected by the right-wing opposition. These examples demonstrate that, on one hand, there is undoubtedly a capacity to propose policies based on strategic and long-term priorities, along with the flexibility to learn from failures and to replace existing policies. However, this ability to learn is constrained by short-term calculations and the necessity to not lose face. Governing is determined more by political compromise and public image than by real leadership and learning. The inherited institutional framework is primarily responsible for this situation.

3.4. Resource efficiency

In general, resource use is under the control of an independent public authority. Efficient use of resources can be demonstrated by the balanced budget, the lack of significant public debt, and the existence of compensation funds when there is a crisis due to external factors (e.g. a rise in energy prices). Concerning public administrative personnel, until 2003 there were 3,500 posts depending directly on the presidency. After a number of scandals, this number was reduced to 750, with the remainder being open to public competition. To improve the administration of human resources, the National Direction of Civil Service was created, whose mission is the centralization and homogenization all policies concerning public personnel, making their careers more professional, with merit-based promotion.

One of the problems of coalition governments in presidential systems is that there is no other mechanism of coordination than the personal intervention of the president. Ministerial committees exist to coordinate public policy in some fields. In some cases of failed coordination, responsible officials are dismissed, as seen in the example of the “day-after pill” and the Undersecretary of Health’s dismissal. Other important problems are the lack of administrative decentralization and the financing of the municipal system.

The situation with respect to corruption is somewhat ambivalent. International Transparency considers Chile to be one of the least corrupt countries in Latin America, with a 2004 index value of 7.4; Chile is ranked 20th globally, one place below the United States and above France and Spain. Public authorities are subject to the control of a public body, the Contraloría General de la República.

Large-scale corruption does not exist. However, micro-corruption at municipal low central-administrative levels persists, as does a climate of suspicion surrounding the judiciary. In 2003 significant corruption cases were disclosed among parliamentary deputies and private business, as well as misappropriation of public funds in the Ministry of Public Works (in the first case, deputies lost their posts; in the second, a judicial investigation continues at the time of writing). Corruption results in part from weak public institutions and low public-service salaries. In an effort to reduce corruption, salaries have been increased and new personnel recruitment policies put into effect.

The most important corruption case in 2004 concerns Pinochet's secret accounts, as disclosed by the U.S. Senate, which demonstrates the high extent of corruption within the military government and the army during the Pinochet dictatorship.

3.5. Consensus-building

Consensus-building in Chile cannot be analyzed without considering that the entire economic and political institutional framework was inherited from the Pinochet dictatorship. Concertación governments have been unable to change this framework because of strong opposition from right-wing political parties and, at the beginning, the military, but also because institutional reform has not been one of the government's top priorities. All three Concertación governments have unsuccessfully sent constitutional reform projects to the parliament (until the Constitutional reforms approved in July 2005).

There is no real consensus on fundamental matters such as basic rights expressed in a constitution, the electoral system, or human-rights violations under the dictatorship. Important advances have been made with Commissions and Dialogue Tables, especially under the Lagos presidency, the Commission on Torture and Political Imprisonment, regionalization and decentralization, and the higher education system. There is no debate over the validity of the market economy as an economic model, simply because nobody in the world today can challenge it or propose an alternative. The real question is therefore what kind of market economy a country wants, with alternative visions of the role of the state and its regulation of the markets, the distributive dimension, sustainability, labor relations, social security and protection systems, the role of human capital, insertion in the world economy, the tax system, and incorporation of scientific and technological knowledge.

In all of these matters, one can hardly speak of consensus in Chile, because even when the diagnosis about inequality of income distribution is not discussed, there is no agreement on redistribution. The business sector and the right-wing parties strongly oppose new taxes in a country where companies pay very low contributions. Furthermore, they oppose the increase of public expenditure and

defend a very regressive labor law, pushing for more labor-market deregulation. Labor organizations, social organizations and the Concertación parties all favor redistributive measures, which the government cannot fully implement because of opposition pressures within the current institutional framework. The debate on the royalty for mining illustrates all this very well. Instead of consensus, Chile represents a series of compromises under a rigid institutional framework, with a few exceptions along the lines of poverty and education.

In sum, there is no normative political consensus on the constitution. There is little consensus on the economic model within the parameters of a market economy. The problem regarding human rights is not the capacity of the government to bring about reconciliation between perpetrators and victims, but rather the unwillingness of those civilians who supported the violations and crimes committed under the dictatorship to recognize and repent for their role – even when the military has already taken these steps – and the ambiguities of the judiciary in ensuring justice is served.

The problems impeding consensus-building are not caused by the government but instead by actors linked to the right-wing opposition, and the institutional framework. The government has had to compromise because it lacks the necessary votes in parliament to make its desired reforms. Political actors who would support political and economic reform from outside the Concertación coalition cannot do so because the electoral system denies them parliamentary seats.

Chilean civil society does not have the capacity to intervene in politics, even if there is a blossoming of social organizations. They can contribute to public opinion make no meaningful impact on political decisions or policy-making. In consequence, Chile represents a forced and artificial consensus that apparently gives stability to the system but that in fact weakens representation, encourages stasis and creates distance between citizens and politics.

3.6. International cooperation

Chile has performed very well in this respect, with the exception of intervention in Latin America and the problem with Bolivia. The country has an excellent international reputation. It maintains strong bilateral cooperation with many countries, particularly the European Union (German GTZ, France, Spain) in such domains as R&D, justice, state and decentralization reforms; also for development of PYMES (small and medium enterprises) from Spain or development in information technology (donations by Bill Gates).

The level of international trust towards the country is demonstrated in the free-trade agreements with the United States, South Korea, the European Union, Mexico and other Latin American countries. Chile has been a member of the UN

Security Council (opposing the war in Iraq) and has promoted together with Brazil and France the UN Committee against Hunger in the World. Lagos's Interior Minister has become the General Secretary of the OEA, and the country has coordinated peacekeeping forces in Haiti in 2004. The organization of the APEC meeting in 2004 was a success.

In sum, Chile has a solid and reliable international position in both trade and politics, strengthened by the visit of President Lagos to many countries accompanied even by business-organization leaders who oppose him politically. Beyond this, Chile has somewhat distant relations with the rest of Latin America, and some problems in its relations with Bolivia and to a lesser extent Peru. Bolivia desires autonomous access to the Pacific Ocean but the response of the Chilean government is that the international treaties on this matter are still in force. In addition, the ambiguities vis-à-vis MERCOSUR add to this distance, offset somewhat by solid relations with Brazil and improving relations with Argentina.

4. Trend of development

4.1. Democratic development

Chilean democracy has undoubtedly reached a high level of stability. Authoritarian regression is not likely. All political actors, willing or not, are compelled to play the democratic game. However, Chilean democracy, even if stable and legitimate, is still a defective democracy because the rules are biased and are not the result of a true consensus, but rather of an adaptation to the institutional framework inherited from the "guided transition" out of dictatorship. The Chilean post-authoritarian regime has reached the minimum requirements of a democracy for free elections, universal suffrage, political participation, civil liberties, the rule of law, and governability.

However, the institutional framework favors the veto power of the right-wing minority and the pressures of de facto powers that limit popular sovereignty. The constitution is difficult to change, the electoral system excludes from parliament significant sectors mainly on the left, and inequalities create different kinds of citizens generating distance from political participation. Chile presents a paradox: a solid but incomplete democracy, with strongly authoritarian enclaves; these elements are not moving coherently in a better direction. Significant improvements have been made in overcoming the veto power of the military and impunity for crimes committed under the dictatorship. New norms have been established to reduce corruption within public administration. However, the expectations of citizens for overall change in political institutions and the socioeconomic model have been partially frustrated, as the *Latinobarómetro* public-opinion poll shows. Even if social integration has improved with a

significant decrease of poverty, this does not improve the level of democratic consolidation.

4.2. Market economy development

The Chilean economy grew by 6.1% in 2004, and the same growth rate is expected for 2005. Chile has a fully functioning market economy, open to foreign trade and investments. New markets are opened through the free-trade agreements with other countries. Chile's main problem is the neo-liberal rather than social orientation of its economic model, due to pressures from the business sector in opposition to regulation, overcoming inequalities, tax reform, or a strong protection role for the state. Despite this opposition, the government has implemented significant reforms in health and education, and created programs to eliminate shantytowns and extreme poverty. The Human Development Index is impacted negatively by gender inequalities comparatively worse than in other Latin American countries.

Table: Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------|--------|------------------|------------------|-------|
| Growth of GDP in% ^a | 4.5 | 3.4 | 2.2 | 3.3 | 6.1 |
| Export growth in% ^b | 4.9 | 8.2 | 0.4 | 7.2 | 12.9 |
| Import growth in% ^b | 13.9 | 1.6 | 1.4 | 9.5 | 16.2 |
| Inflation in% (CPI) ^c | 3.8 | 3.6 | 2.5 | 2.8 | 1.1 |
| Investment in% of GDP ^d | 21.9 | 22.0 | 22.0 | 21.8 | 22.0* |
| Tax Revenue in% of GDP ^d | 16.5 | 16.6 | 16.6 | 16.3 | 16.2* |
| Unemployment in% ^e | 8.3 | 7.9 | 9.0 ^b | 8.5 ^b | 8.8 |
| Budget deficit in% of GDP ^b | -0.6 | -0.5 | -1.2 | -0.4 | 1.9 |
| Current account balance in billion \$ ^b | -898 | -1.100 | -885 | -594 | 1.900 |

Source: a. Banco Central de Chile <http://www.bcentral.cl>; b. CEPAL: Balance preliminar 2004; c. Instituto Nacional de Estadísticas INE <http://www.ine.cl>; d. IMF; e. Instituto Nacional de Estadísticas INE <http://www.ine.cl>; (*) preliminary.

D. Strategic perspective

All the indicators and international reports, either from the Comisión Económica para América Latina (CEPAL) or FMI, show that the economy will grow in upcoming years and that unemployment will probably decrease. Therefore, in terms of economic development it does not seem to be a significant problem. The real problems are in the middle term, because the question in Chile is not about the market economy, but about what model of market economy the country will have. Too close at the beginning to the neo-liberal model, it has slowly moved toward one that can be called liberal with corrections. Neither model fits the

country's future. It is time to move to a more socially progressive or “social democratic” model of market economy, with a stronger role for the state (the percentage of state expenses on the GDP is too low by international standards) and a more egalitarian distribution of income, resources and power.

This means necessarily:

- A serious tax reform with a clear redistribution element. The tax structure in Chile is very unfair, especially concerning the low business taxation. The collection of taxes is good but can be improved;
- reform of the state that goes beyond efficiency and incorporates coherent economic regulations, social participation and real regionalization and decentralization;
- reform of social security and the system of social protection;
- a completely new design of higher education and the scientific and technology system; and finally
- a new institutional framework for environmental and ecological problems.

Concerning democracy, the most significant aspect is the maintenance of the Concertación governments, which will most probably have a fourth mandate in the December 2004 presidential election, choosing a woman for president for the first time in Chilean history. Since 1990, Chile has stabilized a defective democracy, but unfortunately based on a constitution imposed by the Pinochet dictatorship. Though important reforms have been approved in 2005, it will still be a non-consensual constitution from which a very unfair political system derived that gives extended power to the right-wing minority, excludes the left and generates a set of institutions that distance people from public affairs and politics.

The change of the electoral system is a life or death question for Chilean democracy. Other important issues are new laws on financing politics and parties, the election of governments at regional levels, administrative autonomy for the regions and municipalities, and limits to the concentration of mass media. However, all this must be accompanied by the clear statement that justice will prevail on all the cases of human rights violations under the dictatorship, thus filling the ethic gap of Chilean society, and by the generation of a new constitution, that re-establishes trust in politics.

At the international level, one of the main problems is distancing Chile from the rest of Latin America. In this sense, the problem with Bolivia, the rigid Chilean idea that the treaties cannot be revised and that this is only a bilateral issue, will always be an obstacle to fully integrate the country in the region, which is indispensable for the future.

In sum, the four main issues for Chile to face in the middle- and long-term development of the country, for leaving behind the post-Pinochet era and going beyond its short-term successful economy, are:

- the reconstruction of the ethical community through completing truth and justice reforms;
- reconstructing the socioeconomic national community through state reform and redistribution policies towards equality;
- the reconstruction of the political community through a new constitution and a new institutional framework in several spheres of society;
- the re-insertion in the Latin American community, by resolving the problems with its neighboring countries.