

BTI 2010 | Chile Country Report

Status Index	1-10	8.99	# 9 of 128	
Democracy	1-10	9.30	# 8 of 128	➔
Market Economy	1-10	8.68	# 10 of 128	➔
Management Index	1-10	7.35	# 2 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	16.6	HDI	0.88	GDP p.c.	\$	13858
Pop. growth	% p.a.	1.0	HDI rank of 182	44	Gini Index		52.0
Life expectancy	years	78	UN Education Index	0.92	Poverty ²	%	2.4
Urban population	%	88.2	Gender equality ¹	0.52	Aid per capita	\$	7.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

After 19 years of center-left coalition governments Chile has consolidated its political stability, international insertion and economic development and has corrected some of the negative social effects of the economic model inherited from the Augusto Pinochet regime. But the country still suffers from problems of inequality (income distribution, labor relations, and employment). It has been unable to pass a new constitution that would replace the Pinochet-era constitution adopted in 1981 which – despite substantial reforms after 1990 – is still in force, impeding further development and the deepening of democracy.

The fourth government of the center-left Concert of Parties for Democracy (Concertación de Partidos por la Democracia) coalition, comprised of the Christian Democrats, the Social Democrat Radical Party, the Party for Democracy and Michelle Bachelet's Socialist Party, saw the first cabinet in the country's history in which gender parity was observed. A major reform of the state system of social protection, a partial constitutional reform in education (especially directed at private education) and a law on public probity were approved in this period. However, the electoral system introduced under authoritarian rule remained unchanged. It gives a kind of veto power to the right-wing alliance as the "second majority," and excludes a third force – particularly the political left – leaving the two dominant alliances to share all important posts, and allowing for only marginal participation by the Communists in local government.

The current constitution is the result of nearly 50 reforms designed to gradually eliminate the authoritarian enclaves that prevent the proper functioning of democratic institutions. More far-reaching social reforms are impossible due to the veto power of groups linked to the business sector, which have great influence on the mass media. These veto actors have impeded a number of policy measures, including tax reform aimed at changing the income distribution, the state intervention during the economic crisis, and attempts to improve equity and quality of education as demanded by the student movement in 2006. The electoral system forces parties to form

alliances in order to gain representation in Congress. Significant sectors of the left are therefore excluded, discouraging political participation. Almost a third of the population (especially young people) has not registered to vote.

In economic terms, the country's growth rate has decreased. However, Chile has confronted the world economic crisis in very good shape, in part due to savings accrued during the recent boom in copper prices. In mid-2008, inflation reached an annual rate of 9.5%, significantly increasing the risk of being unable to achieve government goals. The central bank has noted that the country is well-placed in confronting the current global financial crisis. The government has introduced four packages of economic measures to confront the crisis, with particular attention paid to the disadvantaged sectors of the population. The budget for 2009 includes an allocation of \$37 billion for spending on pensions, health, education and housing for Chilean families. Growth in public spending will reach 5.7% in 2009, with an increase of investment resources of 8.8%. While poverty pressures have lessened, there is still a very high level of inequality. On the other hand, businessmen have announced that a significant reduction in unemployment would require greater labor flexibility, and that the concentration of property would damage small and middle-sized enterprises. Workers still seek, among other things, improvements in the welfare system, especially relating to the damage caused by mandatory integration into the private system during the military regime.

History and Characteristics of Transformation

The widespread economic crisis of 1930 hit Chile particularly hard due to the country's outward-oriented model of development and the collapse in the nitrate trade. After the crisis, the country adopted an import substitution industrialization model, with strong economic and social roles for the state. This process was conducted within the context of a stable democracy, established by the 1925 constitution, although political participation was restricted. Political development was marked by extensive pluralism, a relatively strong party system, and increasing social participation especially among the middle class, but also among organized urban workers. However, this integration excluded the peasantry and urban shantytown dwellers, who were not incorporated into the political system until the reformist governments of the 1960s and early 1970s. Between the 1950s and the beginning of the 1970s, Chile's economy grew at about 2.3% annually.

This socioeconomic and political model was transformed during the government of Salvador Allende and his Unidad Popular (a leftist coalition), with their program of nationalization. The program, called "the Chilean road to socialism," aimed to transform the capitalist economy through institutional and democratic means, nationalizing monopolistic enterprises such as the copper mines. The subsequent political polarization allowed the military, led by General

Augusto Pinochet and supported by the United States, to overthrow Allende in 1973. A military dictatorship was established that put an end to the extant socioeconomic and political models and attempted to build a new one through repressive politics and neoliberal economic reforms.

Today, a consensus exists about the destructive character of the Pinochet regime concerning politics and social issues. The dictatorship was characterized by systematic and massive violations of human rights: disappearances, murders, torture, exile, permanent states of siege, suppression of liberties and press freedom, etc. The relations between parties and social organizations were dissolved due to repression and a ban on political activities. Under the socioeconomic model imposed by a financial capital-linked group of technocrats, known as the “Chicago boys,” the state withdrew from its social role in education, health, social security and labor relations. The rate of poverty went up to 40% and the real income of the workers fell back to its 1973 level.

However, some sectors of society, though recognizing the catastrophic political and social aspects of the military regime, continue to propagate the myth that the Pinochet regime was the founder of a solid, open market economy, and the creator of the basis for a modern society. All indicators such as growth rate, inflation, poverty, corruption and state management prove exactly the contrary: Compared with the 20 years previous to the coup and the 17 years of democracy following its end, the Pinochet government’s performance was the worst of the three. The foundations and solidity of the Chilean economy are due exclusively to the governments of the Concertación de Partidos por la Democracia (Concertación) coalition. In 1980, Pinochet imposed a constitution that provided the framework under which the democratic opposition organized, ultimately winning the 1988 referendum designed to keep Pinochet in power. After this plebiscite, presidential and parliamentary elections were held in 1989, and the center-left Concertación coalition won with its candidate, Christian Democrat Patricio Aylwin.

During the last 18 years, the Concertación has won all national elections, including the four presidencies since 1990. The Aylwin government (1990 – 1994) successfully avoided any relapse into authoritarianism, achieved economic stability and combated poverty by means of increased social expenditures. The most important advances regarding human rights violations under the dictatorship were the Commission and the Report on Truth and Reconciliation, the first attempt by Chilean authorities to estimate both the number of victims murdered and the number of the “disappeared” under the military regime. Both the military and the political right opposed the report. The government of Christian Democrat Eduardo Frei Ruiz-Tagle (1994 – 2000) deepened the market economy by extending international trade and implementing a new round of privatization. Under this government, Chile’s market economy was consolidated and the country reached the highest rates of economic growth in its history, close to 7% per annum. Though poverty was significantly reduced, by 1998 Chile had climbed to second place in Latin America in terms of unequal income distribution.

The third Concertación government, led by President Ricardo Lagos (2000 – 2006), a socialist and founder of the Partido por la Democracia (PPD), managed to restore the economy after the Asian crisis. It also promoted and implemented significant reforms aimed at combating extreme

poverty and modernizing education, health, culture (elimination of censorship, law of divorce, creation of the Consejo Nacional de la Cultura), labor relations (unemployment insurance, decreasing working hours), public financing of electoral campaigns, laws on probity in state management, and constitutional reforms. The economy recovered, and in 2005, Chile had a growth rate of 6.3% and had improved all of its macroeconomic indicators, having become very active in the world economy with economic agreements with the United States, Europe and Asia. However, inequality and wealth concentration in Chile is still among the worst in the world (the country's GINI coefficient is 0.57). In the area of human rights, prominent trials of some high-ranking officers of the Pinochet regime (and of Pinochet himself), along with the Valech Report on Torture and Political Imprisonment, marked historic steps toward justice and reparation.

The fourth coalition government (2006 – 2010), led by socialist Michelle Bachelet, has initiated major reforms to the state system of social protection, especially the social security and pensions systems. Her administration has created advisory councils for policy development and launched projects in addressing childhood development, education and social security, all with the goal of promoting protection and equity in both coverage and quality. The signing of new trade agreements and education conventions with other countries has continued. In spite of efforts to achieve equal workplace opportunities for men and women, Chile took 96th position out of 104 nations in a recent World Economic Forum Competitiveness Report.

In sum, during the past 19 years, the country has witnessed the most important economic development in its history. Major advances have been made with respect to overcoming poverty and reinstating truth and justice after years of human rights violations under the dictatorship. The period has also seen the subordination of the military to civilian power, international economic insertion and judicial, health and educational reforms. However, Chilean society still suffers from social inequality (with respect to income distribution, quality of education, unemployment and labor relations, among other issues). The constitution imposed by Pinochet has not been replaced, despite essential reforms passed in 2005. The electoral system gives enormous veto power to the minority right-wing parties founded under the Pinochet regime, and excludes an important leftist sector from parliament. Also, inadequate institutional frames for other spheres of society remain unchanged.

Transformation Status

I. Democracy

1 | Stateness

The political system in Chile is highly institutionalized. The state has the authority to enforce the laws and possesses the monopoly on the use of force.

Monopoly on the use of force

All groups in society, including the indigenous population, accept the nation-state as legitimate. State institutions have a relatively high degree of legitimacy. However, the state does not explicitly recognize the country's various ethnic groups in its constitution. The constitution imposed by the Pinochet regime still exists, although modified by almost 50 reforms. Because of its origin, it has not been fully accepted by all citizens. Immigrants' rights have been addressed in only a partial way. Official figures do not reveal the magnitude of immigration flows; this is used as an argument for not giving priority to an immigration policy that would ensure realization of fundamental economic and social rights. Faced with a continuing increase in migratory flow, some limited legislation has been passed that will allow immigrants access, in time, to some of these rights. An attempt was made in 2008 to pass a more comprehensive immigration reform. The Peruvian community of immigrants, comprised of 65% women, is the most vulnerable part of the population.

State identity

Chile is a secular state. Its legitimacy and legal order are defined without noteworthy reference to religious dogmas. Since 1925, the Catholic Church has been separate from the state. In recent years, laws have been enacted that give more opportunities and rights to religious organizations besides the Catholic Church. The Catholic Church presents itself as an actor that seeks consensus on specific issues (e.g., discussion of minimum wage). However, there are instances in which the institution has exerted great pressure on various aspects of social life that involve considerations of ethical values, and in which it has tried to influence the formulation and promulgation of laws. The country's divorce law, for example, took nearly a decade to be enacted. The Catholic Church has in the past also tried to force the government and Congress to change rules related to sexuality and reproduction (e.g., with regard to rules ensuring that pharmacies carry the morning-after pill), as well as to health and education.

No interference of religious dogmas

The state has a differentiated and well-developed administrative structure throughout the country. Its operation has been further improved by the laws on probity (2003) and on transparency (2009). To some extent, however, its operation exhibits shortcomings that arise from the concentration of resources in areas close to the cities home primarily to people of a middle-high socioeconomic stratum. There are some weaknesses in the effectiveness and legitimacy of public policy. The Inter-American Development Bank's (IADB) Network on Public Policy Management and Transparency gives the Chilean civil service 61 points out of a potential 100 on its Bureaucratic Merit Index, the second-best ranking in the region after Brazil (88 points) and before Costa Rica (58 points). The centralism in the way public policy is defined remains, and thus the specific needs of the country's political-administrative divisions and the particular characteristics of the population are not always reflected. As there is no real regional autonomy, regional governments and administrative structures depend heavily on centralized decision-making.

Basic
administration

2 | Political Participation

All elections are held according to international standards, the constitution and the law with only sporadic cases of fraud. In general, election results are not contested. Political parties and citizens may be present when votes are counted. However, the binominal electoral system introduced under authoritarian rule gives a kind of veto power to the right-wing alliance as the "second majority," and de facto excludes a third force, leaving the two dominant alliances to share all the posts. Thus, unrestrained free elections result in narrowed social representation. According to the 2008 National Study on Political Parties and Electoral Systems, 71% of the voting population is enrolled in the electoral registry. That means that almost a third of the population (skewing especially toward young people) does not participate in elections. A bill for automatic registration has recently been passed, but at the same time establishing the voluntary vote. Thus, voter turnout will probably decrease in the long term.

Free and fair
elections

In principle, the effective power to govern has been guaranteed since the 2006 constitutional reforms. There are no longer veto powers as such, notwithstanding the strength of some actors that serve as pressure groups. Since 1990 the veto powers and political enclaves in the hands of the military have been increasingly eroded, especially after 1998, the year of Pinochet's arrest in London. In 2006, the institution of appointed senators was abolished and the president also regained the right to remove the commander-in-chief of the armed forces, thus further strengthening democratically elected rulers' power to govern. A certain restriction may be seen in the electoral system, which provides for the overrepresentation of the right-wing alliance as the so-called second majority. The Catholic Church,

Effective power to
govern

business elites and the media are strong political actors that can heavily influence the agenda on key issues (during the period under review, these included debates over dispensing the morning-after pill, educational reform, tax reform, etc). The institutional framework, and in particular the constitution, do not endow the state or the government with the necessary tools and means to intervene in moments of crisis, as was the case with the crisis of the Transantiago transport system in 2007.

The freedoms of association and assembly are unrestricted within the democratic order. Independent political and civil society organizations are generally allowed to form freely. Political activity on the part of unions is not subject to restrictions, but their collective bargaining rights are still subject to some provisions that do not meet international labor law conventions.

Association /
assembly rights

The freedoms of opinion and the press are constitutionally guaranteed. The media landscape is sufficiently differentiated; media organizations cover sensitive issues as well as fulfilling a watchdog role vis-à-vis the government and other political authorities. The censorship that affected some issues has been removed in recent years. In 2005, laws that impeded reporting on the military and the government were eliminated from the penal code. The constitutional reforms of 2005 eliminated defamation as an offense against public persons.

Freedom of
expression

However, there are huge differences between print and electronic media. Pluralism of the press is limited by the concentration of media ownership in two groups all over the country, El Mercurio and Copesa. The influence of these newspapers is mostly on the political elites rather than the broader public. The few alternative print media are often forced to close due to a lack of private advertising and public support. According to a study by Observatorio de Medios Fucatel, the central government, municipalities, state institutions and services collectively spent about 4.3 billion pesos (between \$7 million and \$8 million) on newspaper advertising during 2005. The government and ministries alone spent 1.2 billion pesos on printed media. The main recipients of state newspaper advertising were El Mercurio (48%) and the Copesa group (29%), accounting for 77% of the total. The mainly state-owned La Nación accounted for 9% of advertising expenditure. Thus, only about 15% of the whole was spent on advertising in independent newspapers and magazines.

On the other hand, the country has an independent television landscape of private and public stations, as well as a vibrant radio scene with over 800 stations and an increasingly important online media presence. The TV landscape, with seven nationwide terrestrial television channels, is more diversified today than in the 1990s when there were only three channels. In addition, there are 13 national cable/satellite channels. In December 2008, CNN-Chile launched a 24-hour news channel, diffusing political news more widely and leading the public TVN to launch a similar channel. A broad range of radio stations of national and partially

transnational ownership are seen as credible, and also provide political news. In addition, online media such as El Mostrador are becoming more popular, especially among the elites.

3 | Rule of Law

The constitution guarantees the separation of powers. The various branches of government work independently and serve as a check on each other. The presidential system allows the president to act as a co-legislator. In 2005's constitutional reforms, parliament's capacity to check the executive branch was reformed somewhat. For example, parliament was granted the power to summon ministers. The judiciary has also been strengthened during the last 12 years.

Separation of powers

Chile's judiciary is independent and performs its oversight functions. Several constitutional reforms have further improved its performance. In 1997, the election procedure for Supreme Court judges was reformed, as was the penal code, introducing the public prosecutor's office and district attorneys. The 2005 reform enhanced the Constitutional Tribunal's autonomy and jurisdiction concerning the constitutionality of laws and administrative acts. Some observers even see it today as one of the most powerful such tribunals in the world, able to stop governmental decrees (as in the case of the day-after pill) or to protect citizen's rights against powerful private entities. A certain threat to the judiciary's independent functioning arises not so much from the executive but rather from the ideological influence of the press and de facto societal powers, which distort its processes and public opinion. According to surveys, the public still has a low level of trust and confidence in the judiciary.

Independent judiciary

In general, authorities involved in corruption and/or misappropriation of public funds have been subjected to an audit by the Comptroller General's Office and the judiciary and have been severely punished. Particularly heinous individual instances are denounced by the public and prosecuted by the judiciary. Officeholders accept the judicial system's procedures, as was evident in a case of corruption involving members of the Lagos government. A suspicious press also monitors the state's behavior, ensuring that it is abiding by the rules.

Prosecution of office abuse

There are virtually no restrictions on civil liberties. Significant progress has been made in relation to censorship and limits on the freedom of opinion, as well as in the political and judicial treatment of human rights violations. The Bachelet government also engaged to approve the ratification of Chile's access to the International Criminal Court, which had long been delayed due to the resistance of the right and the Constitutional Tribunal's demand for necessary constitutional reforms (ratification took place in June 2009). However, the rights of indigenous peoples, sexual minorities, the disabled and women are not always fully guaranteed.

Civil rights

Access to the judicial system has been improved for the lower social strata through a specific program within the context of judicial reforms, although this is still insufficient in a Chilean society marked by great disparities. According to the 2008 human rights report issued by the Universidad Diego Portales, special review is required of the judicial system, the state prison for adults and minors, and the situation of women, sexual minorities, and indigenous peoples.

Prison facilities do not comply with high international standards. The same report states that there have been persistently “severe conditions of overcrowding, lack of adequate medical care, death, torture and abuse, police corruption, and generally a lack of transparency and proper control of the management.” There are serious limitations on access to this information. The situation is even more dramatic in relation to the situation of children and youthful law offenders, noting that “the most widespread problems are related to the quality of infrastructure facilities, geographical location, feeding of children, the conditions of the right to visits and access to adequate health benefits. Also, torture and mistreatment persist, including the use of punishment cells in violation of international standards, and sexual abuse.” Rehabilitation programs are totally ineffective. The implementation of a mixed system that incorporates the private sector in infrastructure has led to some significant change.

4 | Stability of Democratic Institutions

Democratic institutions are stable to a high degree. They operate in accordance with their functional purposes and are effective and largely efficient. Institutional stability has been underpinned by widespread support for the rules of the game, in place even before the democratic transition. The current constitution is the result of nearly 50 reforms designed to eliminate authoritarian enclaves, but this has taken place in such a gradual manner that the functioning of institutions remains somewhat hampered by the authoritarian legacy of the constitutional framework. To date, stability has been favored over the implementation of changes that would improve performance and deepen democracy (in particular, a new democratic constitution should be developed and the electoral system should be changed).

Performance of
democratic
institutions

All relevant political and social actors, including the military, accept Chile’s democratic institutions as legitimate. A genuine debate over social, economic and political issues that could lead toward the establishment of a new constitution has yet to occur, but deep agreement exists on adhering to the institutional structure in the course of all reforms. There is thus strong instrumental consensus on basic procedures, but this consensus does not extend to shared values.

Commitment to
democratic
institutions

5 | Political and Social Integration

Despite some signs of debilitation, Chile still has a stable, moderate, socially rooted party system with low fragmentation, low polarization and low voter volatility. However, though parties are still sufficiently anchored in society, consent among the population and stable linkages with civil society have weakened in recent years.

Party system

Chile has a multiparty system, but the electoral system induces it to operate as a two-party system with two major alliances: the ruling coalition and the opposition. Parties are forced to form alliances in order to gain representation in Congress. One of the alliances is formed by center-left parties – the Partido Demócrata Cristiano (PDC), the Partido por la Democracia (PPD), the Partido Radical Social Demócrata (PRSD) and the Partido Socialista (PS) – and is called the Concert of Parties for Democracy (Concertación de Partidos por la Democracia). The Concertación has served as the ruling coalition since the reinstatement of democracy in 1990. The other party block, the Alliance for Chile (Alianza por Chile), consists in large part of the Unión Demócrata Independiente (UDI), the hard-right-wing party that was closely allied to Pinochet, and to a lesser extent the more democratic Renovación Nacional (RN). The Communist Party, the Humanist Party and other groups of the left that the electoral system has de facto excluded from representation in Congress together form the Together We Can (Juntos Podemos) coalition. In October 2008, the Alianza won its first election since the return to democracy, gaining more mayors in the municipal elections, while the Concertación won at the level of municipal councils.

In general, the party system is organizationally stable and sufficiently anchored in society, with stable but weakening connections to civil society. It is well rooted in classic socioeconomic, ideological and political cleavages, but has some difficulties in expressing new social and cultural cleavages. The degree of voter volatility is rather low when measured in terms of the two politically relevant blocs. The degree of polarization is overall moderate when the parties not represented in parliament are included, although comparatively high in relation to some issues, such as reconciliation concerning human rights violations. Independent candidates and free riders do not attract many votes. On political issues, there is no alternative to parties. However, parties are severely criticized and have fallen to a very low level of public trust. According to a December 2008 survey performed by the Centro de Estudios Públicos (CEP), 18% of the population identifies with the right and center-right, 13% with the political center, 22% with the center-left and left, but 38% does not identify with any political current at all.

Chile's network of interest groups is relatively dense but dominated by a few strong interests. Associations representing capital and the Catholic Church play a particularly powerful role. The trade unions, which were weakened greatly under

Interest groups

the dictatorship, have been able to achieve some organizational stability under the subsequent democratic governments. By international standards, however, their bargaining power (strikes, collective bargaining) and affiliation rate have remained low. In addition, unions are confronted by strong business associations which have been able to maintain their powerful position since the economic model has been left largely unchanged since 1990. Employers' associations wield great influence on the executive in shaping economic policies. There is no law that regulates the links between lobby groups and the public sector.

According to the 2008 National Study on Political Parties and Electoral Systems, 45% prefer democracy to any other form of government, 29% express indifference toward democracy or autocracy, and 18% say that "in some circumstances, an authoritarian government can be preferable to a democracy." In the same survey, 57% evaluated the functioning of democracy as "regular," 15% thought democracy works in a "good-very good way," and 24% thought it worked in a "bad-very bad way." In short, while there is clear support for democratic institutions in abstract terms, there is simultaneously strong criticism of the existing system.

Consent to
democratic norms

The elitism and narrowness of the political system in Chile contributes to political disaffection. This is evident in polls in which Chile holds one of the highest ranks in terms of institutional distrust. According to the results of a December 2008 public opinion survey by the Center for Public Studies (CEP), 43% of the population approved of the administration of President Bachelet, compared to 49% in 2006. In the same survey, 60% believed that Bachelet acts with weakness when pressured by interest groups. These figures changed dramatically at the beginning of 2009, surpassing 60% in favor of the president and her government due to her management of the economic crisis.

Civil society's organizational landscape has become increasingly differentiated. Alongside numerous religious organizations, there is a very dense network of civil society organizations. The self-organization of civil society for political, cultural, socioeconomic and other purposes operates in a spontaneous and temporary form. The UNDP National Map of Partnership for the year 2000 estimated that 56 associations exist for every 10,000 inhabitants (i.e., about 80,000 organizations in all). According to the National Study on Political Parties and Electoral Systems, 36% approve of or fully support participation in public demonstrations, 39% feel the same about participation in organizations or political parties, and 42% about electoral campaigns. Only 1% of respondents had come to a political party to seek help for personal problems. The same survey reported that 73% believe they cannot trust anyone and that 62% are not interested in politics. This is consistent with the low level of association: Only 21% of the population belongs to a church or religious institution, 14% to a sporting group, 17% to a charity or organization of volunteers, 6% to a labor union and only 3% to a political party in an active way.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

In spite of relatively stable macroeconomic indicators, exclusion and inequality persist. Poverty and social exclusion in Chile are historically determined by structural causes. According to the Survey of Socioeconomic Characterization (CASEN), the poverty rate has declined from nearly 40% at the beginning of 1990 to 13.7% in 2006. Within the indigenous population, it has been reduced from 35% to 19%; poverty thus affects indigenous peoples at a rate almost 6 percentage points higher than that of the non-indigenous population. Extreme poverty has decreased since 2002 due to the implementation of a program called Chile Solidario, which has attempted to reach directly to each of the 250,000 families in that segment of society with financial, employment, education, health, psychological and lodging services.

Socioeconomic
barriers

Poverty affects some regions more than others, and affects ethnic minorities, children (encompassing 22% of those between 0 and 3 years of age, and 20% of those aged from 4 to 17) and women particularly hard. The number of indigent households headed by women has doubled, from 22% in 1990 to approximately 45% in 2006. Unemployment especially affects the less educated and the young. In 2006, the unemployment rate within the indigent population was 40% vs. 5.7% among the non-poor, a figure that according to estimations will double during the current economic crisis.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	95652.7	118249.6	146772.6	163877.5
Growth of GDP	%	6.0	5.6	4.6	4.7
Inflation (CPI)	%	1.1	3.1	3.4	4.4
Unemployment	%	7.8	6.9	6.0	7.2
Foreign direct investment	% of GDP	7.5	5.9	5.0	8.8
Export growth	%	13.3	4.3	5.5	7.8
Import growth	%	18.4	17.2	10.5	14.3
Current account balance	\$ mn.	2074.5	1448.8	7154.3	7188.6

		2004	2005	2006	2007
Public debt	\$ mn.	9426.0	9096.5	9448.7	9377.9
External debt	\$ mn.	43803.0	45369.8	47971.5	58649.0
Total debt service	% of GNI	10.9	7.1	10.7	8.0
Cash surplus or deficit	% of GDP	2.1	4.6	7.7	8.8
Tax Revenue	% of GDP	17.0	18.7	20.6	21.5
Government consumption	% of GDP	11.4	11.1	10.4	10.5
Public expnd. on edu.	% of GDP	3.7	3.4	3.2	3.4
Public expnd. on health	% of GDP	2.8	2.8	2.8	-
R&D expenditure	% of GDP	0.7	-	-	-
Military expenditure	% of GDP	3.7	3.6	3.7	3.4

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Chile possesses a strong institutional foundation for market competition and for ensuring the public economic order. Governmental policy is limited to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and the expansion of required intermediary institutions. Insurance companies, banks and financial institutions are autonomous and the state has a low oversight incidence concerning these institutions, which has favored concentration of the sectors over time. The informal sector plays a minor role.

Market-based competition

The formation of monopolies and oligopolies is regulated by independent agencies. The Tribunal for the Defense of Free Competition (TDLC) is responsible for preventing, correcting and sanctioning anticompetitive conduct. Cases can be presented to the TDLC either by the National Economic Prosecution Service (FNE), an investigative body, or by companies with a complaint. Together they are responsible for the investigation and resolution of cases of abuse of dominant market position, restriction of competition by cartels and/or ententes, disloyal competition, and market concentration (monopolies, mergers, and cartels). However, these institutions suffer from a lack of resources and institutional capacity in such a way that prevents them from eliminating market concentration completely.

Anti-monopoly policy

In 2008, a merger between two large retail companies was blocked, but a few months later, one of them was bought by one of the biggest transnational retail companies.

Foreign trade has been expanded and consolidated. The state does not intervene in free trade, but rather supports a national export orientation by means of a network of institutions linked to the economy. Free trade has been encouraged by international and bilateral agreements with the United States, the European Union, and Latin American and Asia-Pacific countries.

Liberalization of
foreign trade

Institutional foundations are in place for a solid banking system that complies with international banking supervision standards. The finance sector is subject to its own supervisory agency, the SBIF, which monitors and applies the provisions of the banking act and provides a risk classification of financial institutions. Chile follows the norms of the Basel Committee on Banking Supervision. Capital markets are open to domestic and foreign capital, although they are vulnerable to speculative investment.

Banking system

8 | Currency and Price Stability

The maintenance of low, stable and sustainable inflation is one of the pillars of Chile's economic model and the primary objective of the monetary policy of the Central Bank of Chile (BCCh). For this purpose, the BCCh has oriented its monetary policy toward an inflation rate of 3% per year, as measured over a two-year horizon. However, the rate of inflation, which was 3% in 2005 and 3.4% in 2006, jumped to 7.8% in 2007 and 8.9% in 2008 due to rising food and energy prices. Inflation expectations have shown significant increases according to a variety of measures, as has public concern regarding this issue. As a corrective measure, the Monetary Policy Rate (TPM) has increased by 200 basis points since June 2008, which has made for a rise of 325 basis points since mid-2007. Since December 2008, however, the consumer price index (IPC) has registered significant declines; IMF projections indicate an inflation rate of around 3% for 2009 and 2010.

Anti-inflation /
forex policy

Overall economic policy since the 1990s has been marked by highly disciplined maintenance of macroeconomic stability, toward which the central bank and the government have worked together quite effectively. The government's fiscal and debt policy is narrowly targeted at stability. In 2000, President Ricardo Lagos' government introduced a fiscal rule based on a structural surplus of 1% of GDP to reaffirm and intensify Chile's commitment to fiscal responsibility. Primary surpluses were at 8.4% of GDP in 2006, 9.4% in 2007 and 5.1% in 2008, resulting in an impressive overall balance. According to the Monetary Policy Report (IPOM) issued by the BCCh in September 2008, decisions on monetary policy have been

Macrostability

taken in a coordinated manner among different banks, in required adherence to international standards. These measures aim to strengthen the provision of liquidity through a wide range of tools addressing the current crisis (this has resulted, among other things, in negative variation in the price of financial assets, and significant declines in commodity prices).

9 | Private Property

Protection of and respect for private property have been definitively consolidated, and are enshrined in the constitution as a main principle. Property rights and the regulation of the acquisition of property are designed to allow for a dynamic market economy. The property rights in the Chilean Constitution are specified in more detail than is the right to life or other essential human rights.

Property rights

Private companies are viewed institutionally as the primary engines of economic production, and are given appropriate legal safeguards. The main privatization process took place under the Pinochet regime. This process was not transparent and helped to consolidate the historic concentration of ownership. The participation of private enterprises in state infrastructure (public-private partnerships) has generated controversy because common goods and resources are managed according to market logic. In particular, the participation of private enterprises in road infrastructure and correctional facilities has had negative externalities, for which the enterprises cannot be held accountable.

Private enterprise

10 | Welfare Regime

Between the 1930s and 1973, Chile developed certain elements of a welfare state. This was reflected in the development of an institutional framework of education, health, social security, housing and labor laws. After the military coup in 1973, this was dismantled and replaced by subsidiary policies aimed at mitigating the worst effects of neoliberal adjustments in the 1980s. With the transition to democracy, a series of reforms began and measures were taken to revitalize the public sector (primarily health, social security, education and housing). Between 1990 and early 2000, social spending increased by 160%. However, the institutional structures inherited by the military regime persisted. Thus, a significant part of the health and social welfare sector is governed by the market, as is the case with the Administrators of Pension Funds (AFP) and the Provisional Institutions of Health (ISAPRE). These institutions are unable to secure decent pensions and quality health care for all.

Social safety nets

To secure health, workers and low-income families must use the public system, which often enjoys fewer resources than the private sector, thus creating a clear

segmentation in terms of access. The poor and elderly populations typically end up as part of the public system. On the other hand, 10% of the profits from the sale of copper are reserved for the comprehensive welfare system of the armed forces. The Lagos government implemented the so-called Regime of Explicit Health Guarantees (Régimen de Garantías Explícitas en Salud, RGES, also known as Plan AUGE) aimed at improving the quality and availability of public sector health services, particularly for lower income groups. After a series of reforms, the AUGE Plan now mandates both ISAPRE and the National Health Fund (FONASA) to provide medical care to any person who meets certain age requirements and who suffers from one of 56 diseases covered under this scheme. Furthermore, a fund to offset the cost of health care for women and the elderly population was created. President Michelle Bachelet has pledged that at the end of her term (2010), the AUGE Plan will cover at least 80 diseases but, at this stage in time, this goal seems unlikely to be reached. Various social movements oppose the AUGE Plan, because it neither covers all diseases nor the entire population.

In the early 1980s, the social security system was completely replaced: What had once been a collective public distribution scheme was transformed into a system of individual pensions and defined contributions managed by the private sector's AFPs. Reforming the social security system has been a priority for Bachelet's government, in order to increase minimum pensions, give pensions to all women, extend social security to young people, introduce a monitoring system over the AFPs and create a solidarity fund. For this purpose, an Advisory Committee was created that drafted a law enacted in January 2008. Although public sector workers criticized the measure, as they were not part of the decision-making process and the AFP system was not eliminated, it must be recognized that this law is undoubtedly one of the most important social reforms in the new democratic era.

Housing policy aimed at ameliorating the lack of adequate housing stock, particularly for the population's poorer households, has been a major success. Between 1990 and 2005, 93,000 housing units have been provided every year, most serving the poorer sectors of the country. This has meant the eradication of most "Campamentos" or shantytowns, and the generation of new residential neighborhoods. Unfortunately, these new communities have come with a new variety of social problems, including criminality and drug traffic. In other words, the initiative has led to the creation of new ghettos in the big cities. During Bachelet's term, the sum dedicated to the "vivienda social" program (providing basic housing for the poor) has been increased, accompanied by a substantial policy aimed at improving neighborhoods. The number of government-provided housing units went up to 170,000 annually, while special programs targeted the quality of neighborhoods. Out of 223,000 families considered to be indigent, 190,000 benefited from the housing program.

A number of institutions are designed to compensate for gross social differences, but are not sufficient to guarantee equal opportunities. The 2009 budget includes \$37 billion for expenditures on pensions, health, education and housing for Chilean families. Public spending will grow by 5.7% for 2009, including an increase in resources devoted to investment of 8.8%. Extreme poverty has decreased due to the Chile Solidario program, but poverty still disproportionately affects some specific regions, ethnic minorities, children and women. Unemployment is higher among the less educated and the young. Data from the 2008 HDI update reports the estimated ratio of female to male earned income as 0.41. The country ranked 75th out of 108 countries on the UNDP's gender empowerment measure (GEM) index, with a GEM value of 0.521.

Equal opportunity

Inequality has remained almost unchanged at a high level. In 2006 the Gini coefficient was 52.2, falling from 54.9 in 2003 and 55.9 in 2000. According to 2006 data from the Ministry of Planning (MIDEPLAN), the ratio of the share of national income accruing to the richest 20% as compared to the poorest 20% was 13.0 before and 11.5 after social transfers, indicating some attenuation of inequality. Due to the benefits of health, education and monetary subsidies, the poorest 20% of households increased their share of total income from 4.2% to 4.7%, while the richest 20% reduced theirs from 54.6% to 54.0%. In 2006, 49.4% of social expenditures on health, education and monetary subsidies were concentrated on the poorest 20% of households. There is no data for more recent years due to the timing of official surveys.

In the educational field, there is consensus that the main problem is no longer coverage, at least at the primary and secondary levels; however, it is still a problem at the preschool and higher education levels. In 2003, a constitutional reform established obligatory secondary education. However, all measurements of quality (beyond literacy) show a very bad performance by international standards and high levels of inequality associated with the interrelation of socioeconomic factors and types of schools (with private establishments offering high-quality instruction, and the public and subsidized private schools showing lower performance). Despite substantially increased public expenditure and reforms in education, this situation has persisted to the present day. A recent OECD report indicated that the construction of the Chilean educational system generates inequalities.

11 | Economic Performance

The Chilean economy shows indicators of strength at the macro level. During the 1990s, growth averaged near 7% until the 1997 Asian crisis, when it started to decrease to around 2% in 2002. Since then, the economy has recovered, reaching average annual growth rates of 5.0% between 2003 and 2007 before dropping to 3.8% in 2008. Between 2001 and 2006, inflation averaged 2.5%, rising to 7.8% in

Output strength

2007 and 8.9% in 2008. Governments' close attention to structural balance has led them to avoid public deficits; the trade balance has shown good performance, and high copper prices have led to a surplus of around \$9 billion. The main problems continue to be unemployment and high inequalities in the distribution of income, despite an increase in new jobs and decreases in the unemployment rate from 10% in 2004 to 7.1% in 2007. Today, unemployment is on the rise again. Foreign direct investment (operating under the auspices of Decree Law 600, the Foreign Investment Statute) reached \$2.35 billion between January and August 2008, 187% higher than the same period during the previous year (\$816.9 million), and representing an increase of 71% over total 2007 foreign investment (\$1.37 billion). The sectors attracting the largest amount of investment are related primarily to the mining industry. This sector drew \$1.4 billion in the first eight months of 2008, or 61% of the total; the electricity, gas and water sector drew \$434 million, or 18%; and communications, with a material investment of \$153 million, drew 6% of the total investment in the period. Canada serves as the largest source of investment, at \$1.2 billion (50%) followed by Japan at \$341 million (14%) and the United States at \$205 million (9%).

12 | Sustainability

Since the early 1990s the National Council for the Environment (CONAMA), has been responsible for the environment. This will be replaced by an environment ministry (the Senate's Environmental Committee approved the proposed bill in July 2009). Though to date environmental institutions have been very weak, new economic projects are required to incorporate an environmental impact report. Chile has signed international standards attached to free trade agreements on the subject, and authorities publicly attach great importance to sustainability. However, conflicts still persist in the wake of new mega-projects in mining and electricity, as well as others that affect the soil. The negative impact on water resources are compounded by energy problems shared with neighbor countries.

A good example in the mining sector is the case of Pascua Lama, a mining development that contemplates the exploitation of open-pit mineral deposits of gold, silver and copper, and provides processing for products such as gold, silver and copper concentrate. The project is conceived as binational, with construction and operations both in Chile and in Argentina. While the company has an alleged policy of environment protection, the project holds the possibility of destroying glacial terrain, and by extension, their water reserves. Thus, its sustainability is highly questioned. In the energy sector, the construction of hydroelectric plants in the Aysén region, in the south of the country, has triggered an important debate over the potential negative effects, including potential annual losses of more than 4,000 jobs in the tourism sector and problems in the development of agriculture and livestock in the area. Strong campaigns have been prompted by civil action, some of

Environmental
policy

them with a favorable outcome. In October 2008, the Advisory Council of the Native Forest Act was established, referred to as the first step in implementing the Law on the Restoration of the Native Forest and Forest Development. These measures are a response to past destruction of southern Chile's native forests. However, the legislation in these issues is not given high priority, and there is an important segment of researchers that sees environmental sustainability to be at odds with the country's current model of growth.

Education and R&D are still weak pillars in Chile's development model. Chilean governments have undertaken significant reforms in education by extending the coverage of pre-primary education, by establishing a universal 12 years of schooling in the constitution, and by replacing the entry test qualifying students for higher education. During Bachelet's term, preschool coverage levels have been significantly increased, and in 2006, more than 800 nursery schools were founded. However, the performance of public universities has deteriorated, despite a substantial increase in enrollment. Inconsistent policy and a high economic deficit have led to a proliferation of private universities that, with a few notable exceptions, are of very low quality. This was confirmed by the accreditation processes carried out by the National Council for Accreditation (an autonomous body associated with the Ministry of Education). According to the UNDP's 2007/2008 Human Development Report the adult literacy rate is 95.7%, while the combined gross enrollment ratio for primary, secondary and tertiary schools is 82.9%, resulting in an education index score of 0.914 (a level similar to Slovakia or Singapore). However, by international standards, the performance of the Chilean education system remains relatively poor; substantial inequality in terms of quality exists, with public municipal schools among the worst performers.

Education policy /
R&D

In 2006, students demonstrated to demand far-reaching changes in the regulatory framework, including the replacement of the Education Constitutional Act (LOCE) inherited from the dictatorship. The government subsequently promoted educational reform resulting in the General Education Law (LGE) project, conceived as a replacement for the LOCE. However, pressure by the private sector and the Catholic Church prevented significant changes in the structure of state subsidies to private schools, and the principle of profit continues to be legitimate in education. Thus, the current bill maintains the spirit of the joint educational provision, with education funded by the state and managed through the municipalities, tax-funded education managed by private individuals, and private education financed by parents. One major difference is that while the LOCE covered the whole educational system (primary, secondary and higher education), the LGE is restricted to pre-primary, primary and secondary education. (In July 2009, debate on the LGE began in the Senate, after the measure's approval in the Chamber of Deputies.) In order to calm the protest of some sectors within the Concertación, a bill was presented in December 2008 aimed at strengthening the public education system.

According to the 2008 OECD “Briefing Note For Chile” on education, Chile spends 5.7% of its GDP on education, close to the OECD average of 5.6%. Although Chile is still below the OECD average for expenditure at the primary, secondary and post-secondary non-tertiary level (3.4% of GDP, as compared to the OECD average of 3.7%), this is not the case at the tertiary level, where Chile’s expenditure is 1.8% of GDP, whereas the OECD average is 1.4%. Expenditure levels as a percentage of GDP in Chile are similar to levels seen in Hungary, Norway and Portugal. Expenditure levels at all levels of education (as a percentage of GDP) recorded a rise between 1995 and 2000 from 5.1% to 6.7%, but also a slight decrease during the 2000 – 2006 period to 5.7%.

Private sources of funding provide an above-average share of educational spending in Chile, accounting for 47% of expenditure across all levels of education combined. This is well above the OECD average of 15%, and represents the highest proportion of private expenditure among OECD countries and partners. Between 2000 and 2005, the percentage of private funding in educational expenditure for all levels of education increased from 45% to 47%. Also in this five-year period, the share of private funding increased by 14%, whereas that of public funding increased by only 3%. At all levels of education combined, 96% of this private-source funding originates from households. At the pre-primary level, Chile’s share of private educational funding is at 31%, well above the OECD average of 20%. At this level of education, Chile has the seventh highest share of private funding after Australia, Austria, Iceland, Japan, Korea and New Zealand. The primary, secondary and post-secondary non-tertiary education level is similar to pre-primary on this measure, with 30% of spending coming from private sources, significantly higher than the OECD average of 8.5%. This difference is even larger at the tertiary education level, for which private sources count for 84% of expenditure in Chile, compared to an OECD average of 27%.

R&D expenditure increased slightly to 0.6% of GDP in 2005, with 444 researchers engaged in R&D per million people (compared to Argentina with 720 per million). Public spending on science and technology has increased in recent years, with a particular focus on human capital formation through the National Innovation Fund for Competitiveness; in sum, R&D spending has increased 85% since 2000. Patents granted to residents in 2000 were 2 per million people; revenues from royalties and license fees were \$0.2 per person in 2002.

Transformation Management

I. Level of Difficulty

While poverty and inequality in Chile historically has had strong structural roots, this was exacerbated under military rule as the living situations of the poor and the reduced provision of services led to increased social segregation. The governments of the Concertación have managed to cut the poverty level by half. However, levels of inequality remain very high.

Structural
constraints

Chile depends on energy from abroad. Due to longstanding diplomatic issues with Bolivia, gas is not imported directly but bought from Argentina, which sells Bolivian gas at higher prices. Since 2006, Michelle Bachelet's government has taken some important steps toward solution of this problem, with a new policy toward Bolivia. In January 2009, Bolivian entrepreneurs suggested that selling gas directly to Chile would be possible, but according to authorities this is a subject to be defined by bilateral relations and the implementation of outstanding commitments. In this framework, Chile has sought alternative sources of energy that are not environmentally sustainable.

In recent years, most infrastructure problems have been improved by means of concessions to private companies, although there are problems represented by the low regulation capacities of the state (private corporations selected by competitive bidding share in the construction but do not fund or maintain projects, these responsibilities falling to the users that pay fees for use of the infrastructure). After a period of time (10 to 30 years), control of these projects passes to the state. The country's geography has kept some communities relatively isolated, primarily in the far north and south, and island communities overseas (e.g., Easter Island and the Juan Fernández Archipelago).

The main constraints stem from the institutional aspects of the constitution and other laws, and from structures inherited from the dictatorship and only partially corrected (such as the electoral system, employment laws, health care, education and social security). This has enabled the right-wing minority and business organizations to retain enormous bargaining power. These structures also dictate the administrative organization of the state, in which laws on decentralization,

regionalization and municipalities are highly inadequate. Given the country's diverse geographical characteristics, this lack of regional and local autonomy is especially harmful.

There are about 80,000 civil-society organizations in Chile, with participation of about 55% of the population. Absenteeism in political elections is low, but a high percentage of young people are unregistered (around 2 million, in a population with just more than 8 million voters), despite some improvement in the last elections (2005 presidential and 2008 municipal). Levels of interpersonal and institutional trust are low. Recently, a bill for automatic registration and voluntary voting was approved, sparking debate primarily among politicians and academics, but reflected in the mass media. The real problem with civil society in Chile is that it has always been organized and established through politics and political parties. There is no tradition of active participation by civil society in politics. This means that today there is a distance and a sort of division of labor between politics and civil society, which makes politics less democratic and civil society less relevant to decision-making.

Civil society
traditions

Five percent to 6% of Chileans come from "pueblos originarios." In recent years, ethnic conflicts, though localized, have become more significant in the south, generally over environmental and land property issues. Ethnic conflict has thus become a permanent concern for internal security, though the issue has been distorted by media manipulation. However, the main cleavages in Chilean society are ethical (i.e., concerning human rights violations under the dictatorship) and socioeconomic (concerning social inequalities). There is no religious conflict in the country, although the disproportionately strong influence of the Catholic Church in public and political affairs tends to tie the hands of secular governments. The debate on the day-after pill has been very heated, and was brought to the judiciary by right-wing political forces with the support of the church. However, these cleavages and conflicts, though real, do not escalate into violence (with a few exceptions in the case of ethnic conflicts).

Conflict intensity

II. Management Performance

14 | Steering Capability

The political leadership is committed to constitutional democracy and a socially responsible market economy. Its policies give these goals priority over short-term expediency. The government has been able to propose and implement long-term policies, favoring state interest and not only the concerns of individual

Prioritization

governments. Examples of this include the adherence to the concept of a structural balanced budget, and reforms to justice, health and education, energy and infrastructure based on long-term, publicly financed policies that stretch beyond a single government's term.

The government is committed to democracy and market-economic principles, and is able to implement agreed-upon reforms effectively. However, agreements on and implementation of reforms are conditioned by several strong pressures. Pressures from public opinion polls; de facto powers including business organizations, the Catholic Church and the press; and the overrepresentation of the political opposition in parliament lead the government to change some of its most important reforms, and in particular soften their redistributive dimensions. Thus, the aim of building a socially responsible market economy cannot always be implemented effectively.

Implementation

The Concertación's agenda has been strongly marked by the influence of economic and political elites, even in opposition to views of coalition members themselves. Examples include the failures in regulation of mining companies, delays in implementing a health policy that will better protect the elderly population and the adoption of projects that are environmentally unsustainable. Bachelet's government has in general been less responsive to pressures exerted by big interest groups, especially with regard to cultural and ethical issues; however, even her administration's proposed reforms to education and social security showed the stamp of these groups' interests.

Chile's government clearly has the capacity to propose policies based on strategic and long-term priorities, the flexibility to learn from failures, and the ability to introduce new policies. But this learning ability is also constrained by a tendency to emphasize short-term considerations and the fear of losing face. As a result, leaders in Chile sometimes succumb to political pressures and public image concerns rather than demonstrate genuine leadership and institutional learning. In addition, faith in technocratic leadership means that leaders sometimes give greater credence to a given authority's steering capabilities than is warranted.

Policy learning

15 | Resource Efficiency

The government uses most available resources efficiently. Resource use is subject to the oversight of an autonomous public agency and other public bodies: the Auditor General's Office (CGR), as recognized by the constitution, essentially determines the legality of the state administration's actions. Efficiency in the use of economic resources can be demonstrated by the balanced budget, the absence of public deficit and public debt, and the availability of compensatory funds for times of crisis due to international factors (energy or oil insufficiency, for example).

Efficient use of assets

The reform process in public management (implemented by the Frei Ruiz-Tagle government) includes a set of partial measures and plans designed to deepen the reform of the state and address the public administration's shortcomings. Until 2003, about 3,500 public administration posts were appointed directly by the president. After several corruption scandals this number was reduced to 750 and the Senior Management Service System (Alta Dirección Pública) was created. In a progressive manner, important positions are now filled through public competition, which makes the careers more professional and meritocratic.

Although the project of state reform and modernization had been in the hands of an interministerial committee in direct coordination with the president since the mid 1990s to early 2000s, it later took a place in the Ministry of Economy without having a direct relationship with the head of state. President Bachelet has once again taken the initiative to modernize public administration. In her administration a technical secretariat for the transparency and probity of public administration has been established (within the General Secretariat of the Presidency).

In most cases, the government coordinates its policies effectively and acts in a coherent manner, but there are also cases of lesser success. One of the problems of coalition governments in a presidential system is that there are no effective mechanisms of coordination besides the president's personal intervention. To coordinate some fields of public policies there are interministerial committees, advisors, and other formulas. If a coordination problem emerges, the highest authority of the agency is made accountable.

Policy
coordination

Bachelet improved the coordination of social policies by creating an interministerial committee ("area de protección social") that is supported by an Executive Secretariat. Its mission is to coordinate and complement the work of government agencies to achieve comprehensive and progressive benefits. The committee is coordinated by the Ministry of Planning and made up of other ministries (Culture, Education, Health, Women, Labor and Housing). Its responsibility includes the formulation and coordination of public services, and the promotion of better-quality care for the at-risk population.

Chile is widely considered as one of the least corrupt countries in Latin America and even among all countries outside the OECD. The Comptroller General of the Republic performs oversight functions that help to guarantee the absence of large-scale corruption. However, micro-corruption does occur, especially at the municipal and low levels of central government (baptized by the press as "administrative fires"), and is often a function of influence-peddling.

Anti-corruption
policy

According to a research center funded by the opposition, between 1990 and 2006 over 80 cases of corruption within the public administration or public companies (mostly as individual practice) were reported: 14.3% of these cases came during the

government of Patricio Aylwin, 27.4% under the administration of Eduardo Frei Ruiz-Tagle, 47.6% under the Ricardo Lagos government and 10.7% during Michelle Bachelet's first year of government. In checking the group's sources, a significant number of these cases were verifiable and had not surfaced publicly.

During 2003 and 2006, there were significant cases of corruption involving members of parliament, private companies and other institutions. The most important case of corruption was unveiled in 2004, and involved the U.S. Senate presenting evidence that showed illicit enrichment by Pinochet. This evidenced that such practices were present during the military dictatorship, when the enrichment of individuals who handled classified information was possible. Recently, several influential networks within the judicial sector have been discovered, reaffirming the traditionally bad reputation of judges and junior officers.

The government has taken strong legal action and has developed new bills aimed at preventing further corruption problems, which have been fostered by weaknesses in public institutions and low salaries earned by public officers. As an example, one bill would oblige certain authorities to transfer their personal assets to an independent, blind-trust fund. By the close of the review period, this had been pending in Congress since June 2008.

After each period of political tension produced by the revelation of corruption, there had been a series of measures aimed at improving public administration. Since the establishment of management culture, the focus has been on deepening state reforms in component institutions. These measures have emerged from a consensus with opposition representatives. One example was the agreement between José Miguel Insulza (a minister under the Lagos government) and Pablo Longueira (president of the UDI) that proposed a solution to the crisis of 2002 – 2003, in which payments to public officials for political campaigns were exposed. The government and the opposition were together able to negotiate a program of 38 reforms to state administrative rules, including the financing of political campaigns. However, much of what was discussed by the opposition was moderated in the parliamentary debate. In 2006, following new allegations of corruption and misuse of public funds for political campaigns, President Bachelet launched a new drive for transparency and probity in public administration, leading to an initiative implemented in the early months of 2009.

16 | Consensus-Building

All major political actors agree the goal of building a market-based democracy. However, this is a merely instrumental consensus, the origins and moral foundations of which are grounded in Chile's still-painful history. In fact, consensus-building in Chile cannot be analyzed without taking into account the

Consensus on goals

institutional framework and economic model inherited from the dictatorship. The Concertación governments have maintained most of this model and have even deepened some elements due to the strong opposition of the political right wing and, at the beginning of the democratic period, the military. Only in 2005, under the Lagos government, were an important set of constitutional reforms finally passed with the approval of the opposition. However, virtually no progress has been made concerning the electoral system or with regard to the organic constitutional laws, which establish the rules of the game for each political sector or policy and which are very difficult to modify.

The ongoing policy of strategic consensus has operated more by default than by design. There are no agreements resulting from institutionalized debate on key issues such as the constitution, the electoral system, human rights violations under the dictatorship (despite the significant progress made on this issue, especially during Lagos presidency, by bodies such as the Commission on Political Imprisonment and Torture), regionalization and decentralization, or the higher education system. Neither the economic model nor the reigning market-economic principles have been subject to a discussion over their validity, due to the absence of alternatives. Even if the issue of unequal income distribution is not contentious, there is no agreement on redistribution or the role of business and state in this scenario. This is due to the business sector and the right wing that maintain their strong opposition to new taxes in a country where companies still pay very low contributions. These forces oppose increases in public spending, and defend a regressive approach to labor, pushing for greater flexibility.

In the same vein, President Bachelet's drive for a system of social protection is not derived from consensus with the private and the business sectors, and cannot even count on the agreement of those directly involved. Society and the economy indeed function, but more by accommodation and subordination than by real consensus. In sum, concerning politics, there is no substantial but only strategic consensus on the constitution in order to avoid a worst case like the Pinochet putsch. Concerning the economic model, there are significant differences of opinion on the kind of market economy model that should be adopted. All of this means that there is a forced and artificial consensus that gives apparent stability to the system but in fact weakens representation, freezes the system and widens the gap between citizens and politicians.

In recent years, Chile's military institutions have grown increasingly acquiescent to the civilian government, and since the constitutional reform of 2005, the executive has the power to remove military commanders. The effective power to govern is thus guaranteed, but some pressure groups are nonetheless very strong. For example, interest groups linked to business sectors with strong media influence have been able to block deeply popular social reforms.

Anti-democratic
veto actors

The political leadership in Chile has been able to prevent the escalation of conflicts. President Bachelet has introduced a new “citizen” style of politics and has shown great ability to react to conflicts and problems. Yet the government lacks a general orientation and an institutional framework that allows for real popular participation. Local political leaders also have a certain ability to contain conflicts. The strategic and forced consensus described in section 16.1 gives apparent stability to the system, but in fact undermines performance and creates distance between citizens and politics.

Cleavage /
conflict
management

The political leadership takes the interests of civil society actors into account, but Chilean civil society lacks the capacity to intervene in politics. While able to affect public opinion, the emerging social organizations are not significant or powerful enough to influence political decisions and hence the development and design of public policies. However, on issues related to gender and ethnic minorities, permanent action and cross-interest activities can be observed. These groups have even had some influence on legislation that, due to the silence of the media on these subjects, remains inadequate to the problems outstanding. President Bachelet’s style of politics emphasizes the importance of participation and the consultation of citizens; this is expressed, among other ways, in the creation of advisory boards for different subjects. However, many critical projects such as the Plan Transantiago (a metropolitan transport system), designed by the government of Lagos, have been conducted without public participation. Because of that, the current government has faced severe conflicts.

Civil society
participation

The Concertación governments have made significant efforts in terms of revealing and exposing the truth about human rights violations during the Pinochet regime. In a context of high political tension with the army, the Truth and Reconciliation Commission was created in May 1990, composed both of opponents and supporters of the military dictatorship. Its aim was to clarify the historical truth on human rights violations during military rule. The Rettig Report, based on the work of this commission, revealed more than 3,000 cases of human rights violations or acts of political violence that had resulted in death or disappearance. However, processes of justice began accelerating only in 1998, after the arrest of Pinochet in London. The Mesa de Diálogo was established, reuniting civilian and military representatives. However, this initiative failed because it did not obtain reliable data on the “disappeared” detainees.

Reconciliation

During Lagos government, the topic of human rights was for the first time assumed to be a concern of state policy, and in March 2003, the Human Rights Program was established. President Lagos’s paper, “No hay mañana sin ayer” (There’s no tomorrow without yesterday), included measures to improve and extend victim reparation, solidify the role of the courts, and create monitoring and education institutions aimed at ensuring these events never would occur again. In November 2003, the National Commission on Political Imprisonment and Torture (commonly

known as the Valech Commission) was established to gather information on human rights violations between 11 September 1973 and 10 March 1990. Since that time, the process of delivering pensions and other compensatory benefits (education, health and housing) for those classified as victims of torture and political imprisonment for has been implemented and remains ongoing. There has also been legal attention for the families of “disappeared” victims.

During Bachelet’s government, the main problem arose from mistakes made with the recognition of corpses of potential military regime victims. A special commission and a special presidential advisory for human rights were created. One of the main measures has been the creation of a museum of memory and human rights, which will be inaugurated in December 2009. But the unwillingness of the judiciary, the media and the political right (especially the UDI) to recognize their role in the dictatorship’s human rights violations still hampers true reconciliation. There is broad consensus that significant achievements have been made in establishing justice for past human rights violations. However, according to court statistics revealed by the Universidad Diego Portales’ annual human rights report in 2008, by late September 2004, of a total of 356 pending cases pending, only 33 had been elevated to higher courts, eight were still at the process of sentencing at the lowest court level, and the rest remained in the research or summary stage.

17 | International Cooperation

Chilean governments since 1990 have all made well-focused use of international aid for the needs of transformation, effectively utilizing international assistance for their domestic reform agenda. The International Cooperation Agency (AGCI, created in 1990) is a public service organization tasked with supporting plans, programs, projects and development activities of interest to the government, including management and international cooperation. AGCI manages, negotiates and administers projects in cooperation with donor countries, mainly from the European Union, Asia and North America. Most projects consist of technical assistance, technology transfer, internships and other forms of support for Chilean professionals associated with approved projects. Main domains are corporate governance, state reform, science and technology and university development. The country is no longer simply a recipient of international aid. Today, Chile is a partner of the traditional donor countries in implementing projects that benefit other Latin American countries with severe development problems. Chile has received good evaluations for its cooperation with developing countries, and also for its bi- and multilateral cooperation in areas such as science, research, justice, decentralization, reform, the development of small and medium-sized enterprises, cooperation with Spain and informatics development (associated with donations by Bill Gates).

Effective use of support

The Chilean government is considered very credible and reliable by the international community, and the country has an excellent reputation all over the world. The level of international confidence towards Chile is reflected in its solid and reliable position both in trade and politics, and in its numerous bilateral and multilateral agreements with other countries. Chile has signed free trade agreements with the United States, South Korea, the European Union, Japan, China and Latin American countries including Mexico. Currently, a free trade agreement with Turkey is being negotiated. While serving on the U.N. Security Council, Chile opposed the war in Iraq. It has promoted, together with Brazil and France, the United Nations World Hunger Committee. A former Minister of the Interior (José Miguel Insulza) is currently secretary general of the OAS. Chile has also sent 600 soldiers and policemen to participate in the U.N. Peace Force (MINUSTAH) in Haiti.

Credibility

During the last 20 years, Chile has distanced itself somewhat from Latin America and maintained its differences with neighboring countries, but it has recently improved its relations with the Latino community. President Bachelet has successfully sought to improve relations with Bolivia and has defended democratic continuity in Evo Morales' deeply split country. Significantly, Bachelet became president of the Union of South American Nations (UNASUR), demonstrating other Latin American governments' confidence in Chile's leadership capabilities. Relations, however, remain somewhat ambivalent, as a result of Chile's pursuit of its own development model, a drive which results from domestic constellations of political power. While economic integration on the international level has been achieved, Chile has distanced itself from integration schemes prevalent today in Latin America. Maintaining a relatively stable economic relationship with Brazil, the country's relationship with MERCOSUR remains ambiguous, particularly since Venezuela's accession to this organization. Longstanding diplomatic tensions with direct neighbors remain. Bolivia still demands its own access to the Pacific Ocean, which has been blocked by the Chilean government, referring to international treaties. Peru has sought correction of the maritime boundary with Chile in front of the International Court of Justice. And from 2005 – 2006, gas supply problems in Argentina (which has its own gas, as well as gas purchased from Bolivia) Chile's principal provider, has induced frictions between the two countries.

Regional
cooperation

Strategic Outlook

Contemporary Chile has gained and maintained a relatively high level of political and economic transformation, and its center-left governments since 1990 have demonstrated a fairly high level of good governance and the transformation management. All of the relevant indicators today characterize Chile as a politically and economically stable country with relatively favorable conditions in facing the current global economic crisis. The government has implemented a broad range of measures aimed at confronting the effects of crisis, including economic policies (monetary, fiscal, and foreign-trade policies) and sectoral policies such as housing, agriculture, labor policy and social programs.

During the first three years of her four year term, President Bachelet has made significant efforts in the social field. Notwithstanding, apart from the constitution and the electoral system, Chile's main challenges are in the field of adequate social policies. Despite a substantial increase in public education spending, inequalities persist in terms of results, cementing the high level of social inequity. Parliamentary discussion on a bill to strengthen public education is underway; a key approach on this issue will be the inclusion of all relevant actors. In health matters, the focus needs to be shifted to the accessibility of medical services (in terms of territorial proximity, sufficient capacities and social equality). The system of private health insurance requires a thorough review to prevent permanent irregularities. Some goals of indigenous peoples regarding work, education, land and integration have been achieved. Yet, the widespread acceptance of multiculturalism and the guarantee of effective respect for indigenous peoples are still pending. During 2008, an action plan was developed that focused on three areas: a) political system and institutional rights, b) integral development of peoples, and c) multiculturalism and diversity. However, it is also essential to overcome the climate of conflict which in the past has led to violent confrontation. Environmental institutions have to be strengthened. The soon-to-be-inaugurated Environment Ministry will need to fight for competencies that have traditionally been occupied by other services, especially in relation to environmental impact assessments. Indiscriminate actions on the part of private companies, which do not always include environmental protection measures, must be regulated.

In sum, there is a need for a progressive social or social-democratic market-economic model with a greater role for the state (Chile's proportion of state expenditure to GDP is very low by international standards), and with better distribution of income, resources and power. This necessarily requires a profound tax reform, with a strong redistributive element, as well as a state reform that would enable greater social participation. Regionalization and decentralization should be enhanced, and higher education and technology policies should be completely redesigned.

Concerning political transformation, Chile is a democracy with some vestiges of an authoritarian regime: a constitution that stems from the military dictatorship (though modified in 2005); actors that persist in the use of veto power; unrepresented political views; and a gap between the political system and the population. A new constitution with popular legitimacy is necessary for Chile if it is to become a real democratic country. In addition, changing the electoral system is critical for Chilean democracy (a partially amending draft was sent in early April 2007). Legislation on the financing of politics and parties is required. Government elections at the regional level must be implemented and greater administrative and functional autonomy must be given to the regions and local governments. Regulating the concentration of the media is a condition for a deliberative democracy. At the international level, a major challenge for Chile is the distance it has kept from the rest of Latin America. In this respect, relations with Peru and Bolivia require special attention since they constitute an obstacle to full integration into the region, which is absolutely indispensable for the future.