

Draft for comment

DEMOCRATIC GOVERNABILITY IN CHILE

Alan Angell
St Antony's College, Oxford

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We are asked in this conference to think of democratic governability as the sustained capacity to implement effective policies for social and economic welfare. Effective governability does not have to be, by definition, democratic. There are examples of authoritarian governability - the Mexican PRI or Pinochet's Chile come to mind in Latin America, and Singapore or South Korea at certain prolonged periods in Asia. So what are we talking about when we refer to democratic governability? Is this just another variant of the concept or can we argue that in some ways it is superior? Are social and economic policies more effective and more sustainable when they are associated with democratic governability?

The question then arises as to the nature of the characteristics of democratic governability which would serve as the basis for the argument that this kind of governability has advantages over the authoritarian variant. Michael Coppedge argues for the inclusion in the definition, the characteristics of stability, order and legitimacy.¹ These are no doubt necessary conditions but they could also apply to authoritarian regimes that have had success in implementing effective social and economic policies. Perhaps we should look at the concepts of accountability and transparency to take the definition further.² Regimes that are democratic have better mechanisms for controlling corruption because of the presence of an active opposition, a congress with powers to investigate and a free press. Social spending does not only depend on what the centre thinks is good for the people, but what the

I would like to thank Malcolm Deas, Julio Faundez, and David Sugarman for their helpful comments on this paper, and especially, Samuel Valenzuela

¹ Michael Coppedge, *Party Systems, Governability and the Quality of Democracy in Latin America*, Conference paper Buenos Aires 2001, p 7. He cites a wide range of conditions - 'the rule of law, law abidingness, efficient bureaucracy, a strong merit system, low crime rates, long lasting cabinets ...' and so on. He also argues that the contribution of the party system to governability should include electoral volatility, party penetration of associations and even levels of party identification.

² I owe this point and those of the rest of the paragraph to Samuel Valenzuela whose comments made me re-think the whole of the first section of this paper. His detailed comments on other matters have also been incorporated into the text at so many points that I would just like to express general gratitude.

people want and are able to demand through their elected representatives. The process of policy-making may be slower and subject to compromise but it is open and consensual. Critics do not fear sanctions. A firmly rooted democratic system can ensure policy continuity. It may be argued that democratic governments are prone to clientelism and populism, but not all are, and not all (if any) authoritarian governments are free of these distortions. Indeed, an independent judicial system that can check populist temptations is obviously more possible to construct under democracy. Clearly I am talking about an ideal type, but in this paper I will try to argue that Chile has improved governability under democracy.

On the second issues which this conference addresses, there are problems in trying to learn lessons from the Chilean experience. If we are trying to compare governability between various countries of Latin America then we need to consider the starting point of the newly established or re-established democracy – and there is no doubt that the starting point has been very varied. Chile was, of all the transition countries, the only one relatively well placed to construct democratic governability. This places an obvious limitation on the extent to which we can draw lessons for comparative purposes.³ However, I would also argue that if are trying to explain why since 1990, Chile has a good record of democratic governance then we need to go back not just to the Pinochet reforms but to much earlier.

Historical Perspective

It is often assumed that the modern efficient state was a creation of the Pinochet years. My argument is the contrary – that the Pinochet regime achieved a high degree of governability in part because there was a relatively efficient and consolidated state before 1973. There was a long tradition of state efficiency and political institutionalisation (including political parties) in Chile which provided a beneficial inheritance both to authoritarian and democratic regimes after 1973. Even the military government, paradoxical as it may seem, felt constrained by the prevailing legalism of the Chilean state, and impelled to provide a judicial explanation and

³ This point was made to me by Guillermo O'Donnell.

justification of what they were doing – as is illustrated by Robert Barros' account of the 1980 Constitution.⁴

President Aylwin expressed his own conviction of the high level of institutionalisation of the Chilean system:

You cannot overemphasise the tradition of institutionalisation in Chile - this is fundamental. Cardinal Silva used to refer to the soul of Chile being its love for its institutions. This is true at the popular level as much as the elite level. And closely associated with this is a tradition of solving disagreements through discussion and negotiation. Of course, it went horribly wrong in 1973 but the consequence of that trauma and the dictatorship that followed was to reinforce the need for a return to the respect for institutions.⁵

Yet comparatively the Chilean state, though not democratic, did embody legality and constitutionalism.⁶ The nineteenth century saw fewer internal conflicts than in most if

⁴ Robert Barros, *Constitutionalism and Dictatorship: Pinochet, the Junta and the 1980 Constitution* (Cambridge: Cambridge University Press: 2002. He writes – rather controversially – that, ‘The military dictatorship in Chile was not personalist.....Autocratic institutional self-limitation was possible because the collective organization of the dictatorship denied any single actor of the authority to shape rules at their discretion’. P 4

⁵ Interview with President Aylwin, Santiago, December 2001. An influential book along these lines is Mario Góngora, *Ensayo Histórico sobre la noción de Estado en Chile en los siglos XIX y XX*. (Santiago 1981). He writes that in Chile, ‘el Estado es la matriz de la nacionalidad: la nación no existiría sin el Estado, que la ha configurado a lo largo de los siglos XIX y XX’, p 5. For a powerful statement of the way in which democratic government developed in Chile through a gradual process of extensión of the suffrage from the C19th onwards see Samuel Valenzuela, *Democratización via Reforma: La Expansión del Sufragio en Chile* Ediciones del Ideas, Buenos Aires 1985. An interesting definition of the importance of the state is given by Francisco Gonzalez and Desmond King, ‘Stateness matters because without its basic constitutive elements a given territory cannot be ruled as a liberal democratic regime. First, legal institutions are a constitutive part of modern states. They comprise the set of social relations ordered by general rules and backed up with a centralised coercive guarantee over a given territory... Secondly, bureaucracies are another constitutive part of modern states. They create a properly working state apparatus capable of enforcing the general rules throughout the territory... Lastly, another constitutive element of modern states is ideological. It includes the discourse and official practices that legitimize the rule of state institutions in a given territory....’ ‘The State and Democratization: the United States in Comparative Perspective’ *British Journal of Political Science* Vol 34, 2004. Chile would seem to meet these criteria at a relatively early stage in the country's history.

⁶ No doubt President Aylwin's own respect for institutions influenced his remark, but it is a view widely supported by one prominent school of Chilean historiography. This view has been challenged by another school, emphasising the brutality of repression of popular movements, the neglect of the Mapuche people, the suppression of the Communist party for ten years after 1948, the privileges that went to the upper class, and the restricted nature of

not all other Latin American republics. The constitution of 1833 lasted until 1925. Political parties early established a near monopoly of political representation.⁷ Regional pressures were weak in the face of highly centralised state. The judiciary was relatively independent. Since the 1920s the Contraloría General has performed a critical role of audit, scrutiny and control over executive action at all levels, thereby helping to legitimate the constitutional system and central authority.⁸ Even under General Pinochet the Contraloría served as a force for probity in the public administration, including the local sector - though it was forced to bend to the dictator's will on key constitutional issues and to accept his nomination as Contralor. Crucially, the Contraloría has served as a brake on corruption, (though not as we now know that of General Pinochet himself). This is a sharp contrast with, for example, Colombia, where the similar agency is regarded as highly corrupt.

Central to our argument is the proposition that the state achieved a relative degree of independence from political forces. It was never colonised by a personalist movement such as Peronism in Argentina, or by dominant parties as in Venezuela. State consolidation was helped by the rents from mineral exports, though these never assumed the proportions that oil rents did in the Venezuelan economy. The state was able to develop a system of social welfare which, though far from perfect, brought benefits to the middle and working class sectors in a way largely free from clientelistic practices.⁹ The state was also capable of running large-scale development agencies like CORFO that made an important contribution to industrial and economic development. When nationalised, the copper mines under CODELCO were also reasonably well managed. The Chilean tax system collected taxes with relatively low

democratic participation. And the coup itself showed how fragile the system was when faced with the intense strains of that period.

⁷ For discussion of this see, Timothy Scully, *Rethinking the Center: Party Politics in Nineteenth and Twentieth Century Chile*, (Stanford CA: Stanford University Press 1992).

⁸ Chile is probably the only country in Latin America where the municipal governments regularly send their accounts to be audited every month by the Contraloría.

⁹ See for an account of the development of social policies in Chile, José Pablo Arellano, *Políticas Sociales y Desarrollo: Chile 1924-1984*. (Santiago; CIEPLAN: 1984).

levels of evasion.¹⁰ The police, though hardly liked, were markedly less corrupt or partial than in other republics. Even the military was not normally a threat to the civil order except in special circumstances such as 1924 or 1973.

My argument is that democratic governability had solid and deep-rooted foundations - perhaps along with Uruguay the best start in Latin America for the task of post-authoritarian reconstruction. This brief and over-simplified historical account is important in trying to understand why Chile has achieved a high level of democratic governability. It is easier to resume good democratic practices than it is to invent them afresh.

Constructing democratic governability in the period of transition

It is sometimes assumed that the incoming democratic government in 1990 had such a favourable inheritance from the Pinochet government that it was all plain sailing. In fact the new government faced a host of difficulties.

Not least were the difficulties on the economic front. Undoubtedly there were reforms during the Pinochet period that were of benefit to stable economic growth. These are well-known and hardly need further comment. Yet Pinochet's government left office in 1990 with the economy in a far from healthy condition. The short-term legacy was increasing macro- economic disequilibrium. In a burst of populist expenditures targeted at the plebiscite of 1988 and the elections of 1989, real demand rose by an unsustainable 22% in the period 1988/89; inflation for the period September 1989 to January 1990 on an annualized basis rose to 31.5%; and though exports rose by 20%, in the same period, imports rose by an alarming 46%.¹¹ The economic growth of 1988/9, therefore, rested

¹⁰ The Chilean tax bureau, the *Servicio de Impuestos Internos*, was founded in 1902 – and the average tenure of its director is six years, which is much longer than the comparable Latin American figure. A student of the subject concludes that, ‘Historically speaking, corruption within the Chilean tax agency has not been systematic or generalized but episodic’. Omar Sánchez, *The Political Economy of Tax Policy in Chile and Argentina*, D Phil thesis, University of Oxford, 2005, p 234

¹¹ Ricardo French- Davis, 'Desarrollo Económico y Equidad en Chile: Herencias y Desafíos en el Retorno a la Democracia', *Colección Estudios Cieplan*, (Santiago) No 31, March 1991. For an article placing the Pinochet government in longer term economic perspective see Ricardo French- Davis and Oscar Muñoz, 'Desarrollo Económico, Inestabilidad, y Desequilibrios Políticos en Chile', *Colección Estudios Cieplan*, No 28, June 1990.

on precarious foundations. Growth was based upon using under- utilised capacity, but investment to increase capacity was inadequate. The growth of new investment in the economy was only 15.4% pa in the 1981/9 period compared with 20.2% pa in 1961/71. The previous government cut social expenditures, and this contributed to an already serious problem of poverty which in 1987 affected 45.1% of the population (of which 17.4% were in extreme poverty). All this plus the adverse effects on international prices of the Gulf War made macro-economic management very difficult. The Pinochet government had tied up state funds to deprive the Aylwin government of freedom of action. An estimated US \$2 billion in the Copper Stabilisation Fund on which the Aylwin government was counting as a cushion against likely future falls in copper prices, had already been spent by the Pinochet government by repaying the bad debts accumulated in the Central Bank when it bailed out the financial sector from the collapse of 1982/3.

The constitutional and political system also imposed real constraints on the incoming government. Pinochet created an institutional and constitutional structure to embody his ideas, values and policies. Hence the Constitution of 1980 gave the state a limited role, but with authoritarian controls over democratic processes. The military, in the original version, was given a tutelary role over the political system. Congress lacked powers to perform an adequate regulatory and monitoring role over the executive. There were nine designated senators in the Senate, four of whom were nominated directly by the military. The Constitution safeguards private property rights against the state, and gives the courts extra powers to ensure that the free-market economy remains intact. The Constitution is difficult to reform –only in 2005 after fifteen years of trying was there agreement to abolish the designated senators, increase congressional investigatory powers, and increase the authority of the President over military appointments. During the first eight years after the return to democracy the Right enjoyed a virtual veto power over legislation though a combination of Pinochetista designated senators, and an electoral system that benefited the Right not least in the way that the electoral boundaries were drawn.

Pinochet intended that when the Constitution came into force in the 1990s, he would be chosen as President until 1997. The Constitution contained a clause allowing the heads of the various branches of the armed forces to select a candidate to stand in a

plebiscite, which, if approved, would elect that candidate to the Presidency for an eight-year term of office. Pinochet ensured that he would be that candidate. But in a plebiscite held in October 1988, Pinochet lost by 55 per cent votes against to 43 per cent in favour and he had to call for a free election for the presidency to be held in December 1989. Nevertheless, the 43 per cent of the vote that he obtained was testimony to the extent of support that he still enjoyed, even if part of that vote is discounted because of the fear of opposing the military regime.

Pinochet's strategy after the October plebiscite defeat was to safeguard his own position by insisting upon his constitutional right to remain as Commander-in-Chief of the army whoever won the elections in 1989. His aim was a military free of civil interference in internal matters such as promotions, and enjoying a privileged budgetary position for equipment, salaries and pensions. The military budget could not be reduced below its 1989 level in real terms, and the obligatory 10 per cent of the share of copper sales of the state corporation CODELCO assured it a considerable sum for arms purchases.¹² Pinochet also sought to make impossible any trials of members of the armed forces for human rights abuses.

Constitutional amendments in 1989 removed some of the objectionable parts of the constitution. But the outgoing government also passed laws to restrict future governments - the leyes de amarre, (literally, the binding laws), intended to limit the discretionary power of the incoming government.¹³ One law granted security of tenure in the public sector, so that the incoming government had few posts at its discretion: an estimated 12 of a total of 1519 in the Ministry of Interior, for example, and a total of

¹² Expenditure on the military during the Pinochet regime on one calculation was the highest in Latin America (outside Cuba) as a percentage of GDP and continued to be so during the democratic governments – though in Chile the police was included in the military budget as were the generous military pensions paid by the only part of the pension system that remained in state hands. The government lacked the power to make cuts. Figures of military expenditures are very difficult to calculate because many items appear in the budgets of other ministries – military hospitals under those of the Health Ministry, subsidies for defence industries under economic development and so on. These figures are drawn from Eugenio Lahera and Marcelo Ortúzar, *Military Expenditures and Development in Latin America. CEPAL Review*. August 1998, No 65, Pp. 15-30.

¹³ For details of the leyes de amarre see Alan Angell and Benny Pollack, 'The 1989 Elections in Chile and the Transition to Democracy', *Bulletin of Latin American Research* Vol 9 No 1, 1990.

only 556 in the public sector as a whole. Another law prohibited the incoming congress from investigating the activities of the Pinochet government. Members of the Supreme Court were offered handsome payments to retire to make way for equally conservative, but considerably younger judges.

So the Aylwin government took office with a constitution much of which it rejected, an electoral system which was not of its choice, an armed forces over which it had relatively little formal control, a judiciary which had been unquestioning loyal allies of the outgoing government, an entrepreneurial class confident in its ability to mobilise the political Right if that were necessary, and a media hostile to it. On the other hand, its own supporters expected a great deal, including the restitution of many social and economic rights previously enjoyed. In its electoral campaign, the democratic opposition had promised that la alegría ya viene and its voters were waiting for this to arrive. Yet the new government was a coalition of forces that had come together only fully in the late 1980s. Previously the major parties – the Christian Democrats, the Socialists (several varieties), and the Communists – had been engaged in recriminations over who was responsible for the coup and the best tactics to confront the Pinochet regime. These parties had never collaborated before – indeed had been hostile to each other from the 1960s onwards.

It is important to stress these economic difficulties, unfavourable constitution, an untried political coalition, and a Right with veto power because all these factors demanded of the new government very considerable tactical skill and vision to – in terms of the concerns of this conference – combine positive policy outcomes with strengthening of democratic practices. Far from an easy ride, it is clear that the government faced major challenges. How well did it do?

Democratic governance in Chile since 1990¹⁴

Economic growth

Growth in Chile accelerated after the economic crisis of 1982/3 when the Pinochet government adopted a more active regulatory role, active intervention in areas of the economy and an aggressive policy of export promotion. Chile also enjoyed high copper prices from the mid-1980s for a number of years. GDP grew annually on average by 7.5% between 1983 and 1993, and by 4.4% between 1993 and 2003 – the slower performance is explained by the recession of 1999-2001 but growth is recovering and is expected to be over 5.7% in 2005.¹⁵ The growth rate under democracy is even more impressive if we regard the last few years of the Pinochet government as recovery from recession. Total GDP, expressed in constant US\$ of 2000, grew from US\$30.4 billion in 1983 to US\$68.3 billion in 2003. In terms of Purchasing Power Parity, the estimate for total GDP in 2004 is a much higher US \$169.1 billion and for GDP per capita (PPP) is US \$10,700.¹⁶ Exports grew at 10.3% pa between 1983 and 1993, and 8.4% between 1993 and 2003. In terms of constant US\$ of 2000, exports rose in value from US\$ 5.8 billion in 1983 to US\$ 18.7 billion in 2003. Exports as a proportion of GDP rose from 24% in 1983 to 34.5% in 2003 – not far short of the economic performance of the legendary Asian tigers. Whereas in 1968/1970 public investment was 59 per cent of total investment, and private investment 41 per cent, by 1996 public investment was only 16 per cent and private investment 84 per cent.¹⁷ International debt as a proportion of GDP has fallen from 90.7% in 1983 to 49.1% in 2003. The government has in recent years concluded a number of important bilateral trade deals with the USA, South Korea and with the EU. These agreements are important not just for trade relations but for their impact on

¹⁴ This section draws upon my chapter, *Los hechos o las Percepciones Ciudadana?: Una Paradoja en la Evaluación de la Democracia Chilena* in M Alcántara and L Rodríguez eds, *Chile: Balance de su Consolidación Democrática*, (Barcelona: forthcoming). I am grateful to the editors for permission to use this material.

¹⁵ *El Mercurio*, Santiago, 8 February 2005. The growth rate per capita in Chile in the 1990s was 4.8% whereas the Latin American average was 1.8%; and the next higher rate in the Asian tiger economies plus China was 4%. José de Gregorio, 'Crecimiento Económico en Chile; Evidencia, Fuentes y Perspectivas' in *Estudios Públicos* (Santiago) No 98, 2005.

¹⁶ The PPP figures are from the CIA World Fact Book on www.cia.gov

¹⁷ E. Rodríguez and C. Serrano, 'Cómo va el proceso de descentralización' in R Cortázar and J Vial, *Construyendo Opciones* (Santiago:1998).

the political standing of the government and on the international profile of Chile. All this was achieved with a gradually declining inflation rate which in 2003 was just 3%.

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De Gregorio argues that in matters of fiscal policy, Chile is one of the most responsible countries in the world. Moreover, maintaining the size of government relatively controlled, the composition of government expenditure has favoured growth – he estimates that the size of government in Chile is 5% of GDP lower than would be expected for a country with the size of income that it has.¹⁹

Social Welfare

But have the benefits of growth been so badly distributed that the majority of the population has seen no substantial improvement in incomes and welfare? The answer clearly is no. On many indicators Chile ranks favourably with the OECD countries – life expectancy is now 76 years (compared with a Latin American average of 71), infant mortality is 10 per 1000 births (compared with the Latin American average of 28), and illiteracy is down to 4% of the population (compared with the Latin American average of 11%).²⁰ On the composite index of human development prepared by the UNDP, in 2002 Chile was rated 0.784 – marginally lower than Argentina but almost the same as Portugal.²¹ 70% of Chileans now own their own houses - an increase of 10% since 1990; house ownership levels are the same across all socio-economic strata; and 43% of homes were bought with state assistance. Of the houses 81% are classified as of good quality and only 7% of poor quality.²² Chileans also participated in technological innovations. The number of fixed lines and mobile

¹⁸ Which de Gregorio argues is based on three factors – the independence of the Central Bank, a sound fiscal policy, and high levels of growth. Op cit p 38

¹⁹ *ibid* p 42

²⁰ World Bank, *World Development Indicators Database*, 2004

²¹ UNDP, *Human Development Report*, 2004

²² Figures from *La Tercera*, 31 March 2005, quoting the figures of the Ministry of Planning (MIDEPLAN).

telephones per 1000 people rose from 358 in 1999 to 659 in 2002; and the number of internet users rose from 625 thousand in 1999 to 3.6 million in 2002.²³

Governments after 1990 emphasised growth as the major objective, but this was also seen as the best way to deal with poverty and to improve equity. Real wages increased by 3.3% pa in the ten years after 1990, the minimum wage increased by 17% in real terms between 1989 and 1991 alone, and employment grew by 1.7% pa in the same period. The minimum wage by 1998 was equivalent to 45% of the average salary of unskilled workers – and this rose to 60% by 2003.²⁴ Unemployment fell to a low of 6.1% in 1997 though it has increased to around 9% since then. The government introduced an unemployment insurance system in which by mid-2005 some three million workers were enrolled.

The results in poverty reduction were impressive – and Chile is exceptional in Latin America. Overall poverty fell from 45.1% of the population in 1987 to 20.6% in 2000, and those in extreme poverty fell from 17.4% to 5.7% in the same period (four times lower than the regional average of 20%).²⁵ Despite the recession of 1999 poverty continued to decline to 18.8% in 2003 and extreme poverty to 4.7%. Costa Rica also had a poverty rate of 20% in 2000 but it was only 26% ten year earlier. The Latin American average fell only from 48% at the start of the period to 44% at the end. Chile has by far the lowest rate of child malnutrition in Latin America with only 1.9%: the next lowest was Costa Rica with 6.1%, and the rate in Argentina was in the mid-1990s, 12.4%.²⁶

²³ All the data in this paragraph come from the World Bank *World Development Indicators Database*, 2004

²⁴ De Gregorio op cit, p 70.

²⁵ The data in this and the following paragraph are drawn from Alejandro Foxley, *Successes and Failures in Poverty Eradication: Chile*, World Bank 2004. Chile achieved the UN Milenium Development Goal to cut poverty by half ten years ahead of schedule. It has to be said that some of the legacies of the Pinochet government were positive – a much improved data base and some effective targeted programmes such as those towards mothers and young children.

²⁶ UNDP, *Democracy in Latin America: Towards a Citizens' Democracy* (New York: 2004) p 119. In the USA the poverty rate in 2005 was estimated at 12.7%. – though the US uses a different measure of poverty which lowers the rate compared with the method used in Chile.

There was a massive increase in social expenditures. Investment in public hospitals and primary care units increased from US\$10 million to US\$100 million in the Aylwin period (though for a variety of reasons performance overall was less satisfactory). Social expenditures on health increased by 9.4% pa from 1990 to 2000, and on education by 10.6% in the same period. Housing subsidies rose by 160% in the decade, targeted at low income and rural families. However, the government ran into stubborn opposition from unions and professional associations in the health and education sectors, and there were errors of management, but at least in terms of a sustained financial investment in social benefits there was never any question of the commitment of all three democratic governments. The government's skilful handling of social expenditures is shown by the tax reform of 1990, based upon cooperation with the political Right which accepted an increase in taxation as a price to pay to sustain the economic model, and, presumably, to extract future concessions from the government. The reform symbolised to the population that the government was serious about equity issues for the tax increases were linked to social spending. The timing was very effective - one of the first major measures of the government.²⁷ It showed that the new government could negotiate with the Right at least on some issues, without abandoning its commitment to social equity.

Governance

A World Bank Governance Project created a series of indicators to measure the quality of governance using as criteria political stability, government effectiveness, regulatory quality, rule of law, control of corruption and voice and accountability. Table one shows that Chile is above the Latin American average; overall performs

²⁷ A rather more muted appraisal is that of Delia Boylan. 'The important question to ask is not how committed was this administration to equity issues, but how much it was willing to risk in promoting an extensive equity- oriented reform in the face of countervailing pressures? My answer would be, not very much.' 'The 1990 Chilean Tax Reform', *Latin American Research Review* Vol 31 No 1 1996, p 14. Yet this rather contrasts with her later judgement in the article that 'this reform played a crucial role in soldering the fragile rule- making environment at the delicate moment of regime change'. p29.

better than the next rated country in Latin America, Costa Rica; is clearly superior in governance to Italy; and is not ranked as very inferior to the USA or UK.²⁸

²⁸ D Kaufman et al, *Governance Matters: Governance Indicators for 1996-2004*, World Bank: 2005

Table One: Governance Indicators

Governance Indicator	Year	Chile Percentile Rank (0-100)	Costa Rica Percentile Rank (0-100)	Italy Percentile Rank (0-100)	Latin America & the Caribbean Percentile Rank (0-100)	United Kingdom Percentile Rank (0-100)	USA Percentile Rank (0-100)
Voice and Accountability	2004	83.0	84.0	82.0	53.6	93.9	89.3
Political Stability	2004	76.7	83.0	56.3	39.2	71.4	60.7
Government Effectiveness	2004	87.0	68.3	70.2	42.1	94.2	93.8
Regulatory Quality	2004	94.1	71.4	81.8	49.8	94.1	86.7
Rule of Law	2004	85.5	65.7	71.0	39.1	93.7	92.3
Control of Corruption	2004	88.7	77.3	74.9	44.6	94.6	92.6

Source: D Kaufman et al, *Governance Matters: Governance Indicators for 1996-2004*, World Bank: 2005

Moreover, Table Two shows that on all indicators Chile has improved since 1998 – apart from a minor decline in government effectiveness.

Table Two: Governance Indicators: Chile 1998-2004

	Year	Percentile Rank (0-100)
Voice and Accountability	2004	83.0
	1998	67.0
Political Stability	2004	76.7
	1999	71.5
Government Effectiveness	2004	87.0
	1998	87.4
Regulatory Quality	2004	94.1
	1998	92.4
Rule of Law	2004	85.5
	1998	85.4
Control of Corruption	2004	88.7
	1998	86.3

Source: D Kaufman et al, *Governance Matters: Governance Indicators for 1996-2004*, World Bank: 2005

The World Economic Forum measures the competitiveness of national economies – including indicators such as the quality of public services and of macroeconomic policy. In the 2004 survey Chile was ranked at 22nd place in the international comparisons –higher than South Korea (29) or Malaysia (31) or Mexico (48) or Argentina (74).²⁹ Another survey conducted by the Adenauer Foundation constructs an Index of Democratic Development. On a 1 to 10 scale with 10 equivalent to a high level of democratic development, in 2005 Chile scores a remarkable 10.435 (followed by Costa Rica with 8.510 and Uruguay with 8.355).³⁰

These are all very impressive achievements. In a relatively brief period Chile has constructed a system of democratic governance superior on these indicators to any

²⁹ Reported in *The Economist* 16 October 2004

³⁰ Available on the website www.idd-lat.org

other country in Latin America, and on a par with many of the most developed countries.³¹

Political Stability

Chileans can hardly complain about instability or unpredictability in their political life. Apart from Switzerland and, for an earlier period Austria, few governing coalitions have received such a stable vote in a comparable period of time since the elections in Chile from 1989. Detailed electoral results for the Chamber of Deputies since 1989 shows some variation in the voting for individual parties inside the coalitions, and a slight decline in the vote for the governing Concertación and a rise in the vote for the Right. But overall electoral volatility in comparative terms is very low indeed. Signs of political desencanto or desgaste may be shown by the public opinion polls but the electoral evidence shows far less evidence of any serious disenchantment.³²

Parties are not held in high esteem in Chile (hardly different from most countries in this respect) but there is little doubt about the central role of party voting. Table Two shows a decline in electoral participation, but the rate was very high in 1989, and was still relatively high in 2001 - a mid-term election for congress which lacked the mobilising impact of a presidential contest.³³ However, there is little increase in voting for anti-party movements or new parties (though this last point may be partly explained by the rigidities of the electoral system), though there is concern about the low level of voter registration amongst the potential first-time voters – as indeed there is in most countries.

³¹ Presumably relatively low levels of crime can also be used as an indication of governability. In Chile the mortality rate caused by intentional injury in 2000, was 4.5 deaths per 100,000 inhabitants. In Colombia it was 70, in Honduras 154 and in Mexico 14. In Costa Rica it was 6.2 and in the Dominican Republic 15.8, UNDP, *Democracy in Latin America: Towards a Citizens' Democracy* (New York: 2004) p 112.

³² A survey of the opinions of Deputies indicated that 46.8% thought that the democratic system was very stable (compared with a Latin American average of 20.8%) and the rest thought that the system was stable. Instituto Interuniversitario de Iberoamerica *Datos de Opinión: Elites Parlamentarias Latinoamericanas: Chile 1993-2005*. Salamanca: 2005.

³³ The vote is compulsory in Chile, but registering to vote is voluntary. So it is unlikely that high participation rates are explained by the obligation to vote.

Table Three

Percentage participation rates in elections 1989- 2001

	1989	1992	1993	1996	1997	1999	2001
Valid Votes as % adult population	81.38	70.19	73.68	61.44	53.38	68.22	62.45
Abstention and Non- Registered	13.58	20.84	17.57	27.57	28.86	28.81	23.9
Blank and Null Votes	5.04	8.97	8.75	10.99	17.76	2.97	13.65
Total	100	100	100	100	100	100	100

Source: Alfredo Riquelme ‘ ¿Quiénes y Por Qué “No Están Ni Ahí”? Marginación y/o Automarginación en la Democracia Transicional. Chile. 1988-1997’. In Paul Drake and Ivan Jaksic *El Modelo Chileno: Democracia y Desarrollo en los Noventa*. Santiago: Lom Ediciones, 1999. For 2001, official figures of the Ministry of the Interior. The elections of 1989 and 1993 are combined presidential and congressional elections; those of 1992 and 1996 are municipal elections; those of 1997 and 2001 are congressional elections only; and 1999 was the first round of the Presidential elections. The municipal elections of 2004 are complicated because for the first time votes could be cast separately for mayor and councillors. In the elections for mayors – in which there was higher participation – there were 8.18% votes cast as blank or null; and the abstention rate was 18.3%. *La Tercera* 3 November 2004.

Two case studies

Executive-Legislative Relations

One of the major political problems in Latin America has been the unsatisfactory relationship between executive and congress, either because the executive has too much power, or indeed because it has too little. The optimum point is one where behaviour is co-operative, where the legislature acts as an effective check on executive action and participates constructively in the framing of public policy. At first sight it might seem that Chile is not at this point. The constitution gives the President excessive powers – regarded by some in theory as one of the most powerful

presidencies in the world (though against this one should note that the Constitution also restricts the scope of the state and government more than in many other constitutions in Latin America).³⁴

Peter Siavelis argues that the overall political context has modified excessive executive power, and that the party system, the extent of Presidential support in Congress, and the political context of the transition have meant in practice that the informal influence of Congress is much greater than the constitutional provisions would suggest. Crucial in orchestrating good relations between President and Congress is the work of the *Secretaria General de la Presidencia* (SEGPRES) responsible for two-way contact between both branches and making the relationship one of persuasion rather than conflict.³⁵ Moreover, the prevailing political consensus made the President's task in important policy areas rather easier – for example, Siavelis writes that ‘there was a consensus amongst legislators that without centralised budgetary control in the executive branch, particularistic spending initiatives of individual legislators could break the national budget.’³⁶ There have also been a series of improvements in the role and powers of congress in this period, not least in a 1997 protocol giving Congress access to better information to consider the budget. Nevertheless, there is a long way to go before congress assumes the role that many congressional representatives feel is its due. A proposal to create a powerful

³⁴ Peter Siavelis, ‘Executive-Legislative Relations in Chile’ in Scott Morgenstern and Benito Nacif, *Legislative Politics in Latin America* (Cambridge University Press: 2002) p 81. Siavelis is referring to the writings of Scott Mainwaring and Matthew Shugart, and to Matthew Shugart and John Carey.

³⁵ Veronica Montecinos summarises the role of SEGPRES, ‘Charged with ensuing fluid relationships between a cohesive executive branch, Congress, political parties and social organizations, SEGPRES became the core of what many called the “transversal party”, a vast network of economists and other policy experts..... This powerful agency managed to integrate the political and economic dimensions of government by facilitating agreements regarding the legislative agenda, evaluating the implementation of the government programme, and scrutinizing the technical and political viability of all policy and legislative proposals’ *Economic Policy Making and Parliamentary Accountability in Chile*, Democracy, Governance and Human Rights Programme, Paper No 11 December 2003, UNRISD Geneva.p 8

³⁶ Siavelis op.cit p 100.

Budget Office – even though it was supported by the Finance Committee of both chambers – was never approved.³⁷

Formal constitutional rules are not necessarily a guide to the real power of particular institutions – constitutional conventions can alter the spirit if not the letter of the constitution. The legitimacy of the democratic process has strengthened as government and opposition have bargained over issues comparable to those in other democracies – how to reform the health system, the appropriate level of taxation, and how to deal with crime. As mentioned before, there was political agreement between the government and opposition on a major tax reform to take a modest amount from the immodest gains of the business sector and use it for social purposes. There was agreement about a labour reform which, though far short of the aspirations of the labour movement, was an improvement on the Pinochet reforms. The process of ‘normalisation’ of political life was assisted by the high degree of internal unity of the governing coalition and the relative lack of substantive disagreement with the opposition. Samuel Valenzuela writes that, ‘Though the continuity of the 1980 Constitution has not been broken, the transformations have been significant, and the recreation of previous institutional practices has been so extensive, that one can say that there has been a transition, not yet finished, towards the recreation of a fundamental legal framework for the practice of democracy’.³⁸

John Carey’s data shows a high level of re-election of incumbents in both chambers of the legislature – in the 1993 and 1997 elections ‘around three-quarters of incumbents have been re-nominated for the Chamber within the same coalition, and three-fifths have won re-election’.³⁹ He further concludes that,

‘Chile’s Congress is re-establishing itself as an unusually professionalized and technically competent legislature. Politicians endeavour – generally successfully – to

³⁷ Montecinos, op cit p 39

³⁸ Samuel Valenzuela, ‘La Constitución de 1980 y el Inicio de la Redemocratización en Chile’, in Torcuato di Tella. *Crisis de Representatividad y Sistemas de Partidos Políticos*. Buenos Aires, Argentina: Grupo Editor Latinoamericano, 1998. p195.

³⁹ John Carey, ‘Parties, Coalitions and the Chilean Congress in the 1990s’ in Morgenstern and Nacif, op cit p234. The figures for the Senate were a little lower, which is not surprising given that the term of office for Senators is eight years.

build careers through re-election to Congress...Much of the substantive oversight and policy-making work of the legislature is, moreover, delegated to a set of standing committees and stable membership on these committees.. which means that these intra-legislative institutions are accumulating substantial policy expertise'.⁴⁰

The work of congressional representatives is organised at the level of the governing coalition, rather than at the level of the individual parties. The two major institutions of the lower house – the mesas directivas and the committees – are organised by the two coalitions. This gives an additional weight to the proceedings of congress even though the constitution allocates it a very subordinate role.⁴¹ These patterns of behaviour are important, and tend to become the norm. A president using excessive executive powers, or a congress in which the Right was totally obstructive would seriously undermine governability in Chile. This is not to say that constitutional reform is irrelevant – and clearly a reform that further strengthened the power of congress is desirable. But the fact is that for some fifteen years president and congress have cooperated in the task of governing Chile in a democratic fashion.

*Taxation*⁴²

The democratic governments inherited an efficient tax system (as indeed did the Pinochet government– though that government simplified and reformed the tax system with the introduction of the VAT). The Aylwin government was determined to lower the rate of tax evasion, firstly, by improving the agency's operating procedures and increasing the level of expertise, and, secondly, by making the system more transparent, simple and impartial. Outside experts were recruited, and special performance bonuses were introduced. For the first time a fully merit-based system of recruitment and promotion was implemented, with the intention and effect of reducing

⁴⁰ Ibid p 253

⁴¹ Baldez and Carey, in a careful study of the budgetary process in Chile, argue that the way the process is structured prevents congress from processing clientelistic measures into the budget, and hence underpins the executive policy of running a fiscal surplus. However they also conclude that though congress has no formal role in drafting the budget, there is congressional input at this stage especially for the governing coalition. Lisa Baldez and John Carey, 'Budget Processes and Fiscal Restraint in Posttransition Chile' in *Presidents, Parliaments and Policy* ed Stephan Haggard and Mathew McCubbins, (Cambridge University Press 2001) p 130.

⁴² This section relies upon the excellent Oxford thesis of Omar Sánchez, op cit

clientelistic practices in the hiring of staff. The real salary of the average employee increased by over 130% over the 1990s.

A major innovation – producing both efficiency gains and savings - was the reduction of paperwork by use of the internet to make tax payments.⁴³ The Director of the SII (*Servicio de Impuestos Internos*) claimed in 2001 that Chile was more advanced in its use of the internet for tax purposes than the USA, France, Spain or Germany.⁴⁴ Almost three-quarters of a million of the country's two million corporate and individual taxpayers use the internet for tax purposes. The SII also pioneered the use of information on general financial transactions of taxpayers to provide a more accurate picture of real earnings (against the opposition of the political right and business groups as an invasion of privacy). The SII conducted polls to see in which area taxpayers were most likely to complain and has, in response, introduced measures to simplify procedures and to make them more equitable. Improved customer service reduced tax evasion. As Sánchez points out, 'no less than 94.4% of Chilean taxpayers in 1992 considered that evading taxes constituted a serious transgression and 73% of them declared themselves scared of the powers of the SII.'⁴⁵

The results have been impressive. Tax evasion levels fell from 30% of potential revenues in 1990 to 18.3% in 1993 – a figure which has been more or less constant since then (and compare this with Argentina at 31.5% or Peru with 68.2%). Evasion on income tax was reduced from almost 50% to 40% in the same period. Evasion overall was by 1995 very similar to Canada (23%) or Spain (26%). By 1999 the additional revenue gained that year as a result of lower tax evasion, compared with the rate of evasion in 1991 was more than US\$1 billion.⁴⁶

⁴³ It says a lot about the efficiency of the tax system – and about Chileans – that the most visited website in Chile is that of the tax office! Even though the number of tax officials increased by 36% in the 1990s, this was lower than the rate of increase of taxpayers – income tax payers increased by 47% and those subject to VAT by 41%. Ibid p 245.

⁴⁴ Ibid, quoting from an interview in *El Mercurio* of 21 Feb 2001 with Javier Etcheberry.

⁴⁵ Ibid 244

⁴⁶ Ibid 249. The question of how these evasion rates could be even lower is an interesting one and the answer, according to the Director of the SII is more tax inspectors and greater legal powers. Each tax employee collects more in Chile than the comparable employee in most developed countries – so the argument for more resources is a compelling one.

There are problems with the tax system in Chile. Some sectors of the economy (agriculture, mining and transport) and some regions enjoy a preferential tax regime; and the income tax is still very complex and the differential between personal and business taxes is too great.⁴⁷ But for our purposes the system does illustrate very well the achievements of democratic governability in Chile. Taxation is a crucial element in the relationship between a state and its citizens. If citizens trust the fairness of the tax system, and the ends to which taxation is used, then a vital building bloc of good governance is created. Fair and efficient taxation produces benefits whose importance both to the government and the state are difficult to over-estimate. These virtues improve the quality of democracy, provide resources for growth, and enhance social justice.

Democratic Governance since 1990 – the deficits

If the above analysis is correct, it is still only part of the story. There are aspects of democratic governance in Chile that have come under increasing scrutiny, and criticism.

Equity and income distribution

If poverty reduction has been dramatic, the same cannot be said for income distribution.⁴⁸ There are questions raised about the government's commitment to equity given the unequal distribution of income⁴⁹. Income distribution in Chile is one of the most unequal in Latin America – not least because of the enormous increase in

⁴⁷ Ibid 336. However, a royalty tax on the mining sector was agreed in 2005.

⁴⁸ Carlos Huneeus makes a strong case for broadening the issue of inequality to the political and social spheres as well as that of income. He argues that the issue is essentially about the power structure and argues for the need to strengthen social organisations such as the trade unions. 'Las Desigualdades en el Chile de Hoy: Una Aproximacion Politica', in www.asuntospublicos.org 1 June 2005. An important topic not developed here for lack of space is the question of the rights of the Mapuche people. Government dealings with these demands have been rather clumsy, while the Mapuches have become more assertive, though far from united in the nature and organization of their demands.

⁴⁹ This is one of the themes in Peter Winn ed, *Victims of the Chilean Miracle: Workers and Neoliberalism in the Pinochet Era, 1973-2002*. North Carolina: Duke University Press, 2004.

earnings of the top 1% or less of the population.⁵⁰ In 1996 the World Bank calculated that there was a monetary income differential of 1 to 20 between the top and bottom quintiles of the population. However, if the redistributive effect of social expenditures is taken into account then the income differential for the same quintiles is reduced to 1 to 11. Moreover, if the top decile of the population is omitted from the calculation, Chile drops from being one of the worst performers in the region to the most equal along with Jamaica and ahead of the USA.⁵¹ Normally such an unequal income distribution has negative consequences on growth. However, in the case of Chile this has not been the case. De Gregorio attributes this to effective social expenditures and to solid institutions.⁵²

Poverty tends to be concentrated geographically – the richest municipalities in Santiago have a poverty rate of under 1% whereas in the poorest municipalities it is closer to 25%. Foxley emphasises that the first stage of poverty reduction is relatively easy - 60% of the reduction was due to economic growth and the remainder to social policies.⁵³ But thereafter it is not so easy. Unless higher expenditures on health and education translate relatively quickly into better performance – and the results have been disappointing – then the anticipated benefits to equity will not be realised. Moreover, though it is relatively easy to reach those who are just below the poverty line there remains a hard core of extremely poor for whom social policies are very difficult to reach (as there are in all countries). It remains to be seen how well the initiative of the present government – Chile Solidario, a family centred project – performs in this respect.⁵⁴

⁵⁰ Gabriel Palma, *The Kuznets Curve Revisited* . Unpublished paper: Cambridge University, 2002.

⁵¹ InterAmerican Development Bank, *Facing up to Inequality in Latin America*. Washington DC: 1999.

⁵² Op cit pp 69- 70.

⁵³ Foxley op cit, quoting the World Bank study, *Chile's High Growth Economy, Poverty and Income Distribution*, World Bank 2002.

⁵⁴ According to President Lagos in his 'State of the Nation' address in May, of the 225 thousand families in extreme poverty, already 180 thousand families are incorporated into the programme. The full text of the speech is published in *El Mercurio* 22 May 2005.

Presumably one of the theoretical merits of neoliberal economics is the creation of a genuine capitalist culture in which employment opportunities are based upon merit, and in which monopolistic practices do not damage the process of economic decision making. During the Pinochet process there was much attention on the way in which wealth had accumulated to a small privileged group. How far has this persisted under democracy? How far does the structure of privilege impede the development of those small and medium-sized enterprises regarded as of crucial importance to the creation of employment?⁵⁵

However, it must be remembered that Chile has long had a pattern of very unequal income distribution – in the early 1950s the coefficient was 0.44 and it rose to 0.5 in 1968 and fell only a little in the Popular Unity years to 0.47 in 1971. During the democratic governments the Gini Coefficient was 0.5322 in 1990 but rose to 0.5465 by 1998.⁵⁶

Corruption

The issue of corruption has recently received much attention in Chile. According to Alfredo Rehren, the Contraloría investigated 241 cases of corruption at the local level in 1993-94. Public enterprises such as Chile's huge Copper Corporation, the Concón Oil Refinery, a water and sewage plant in Valparaíso, the Maritime Corporation and the Port Authority have been accused of corruption. Services such as the National Housing Service, the Sports and Recreation Direction, the National Emergency Office in the Ministry of Interior, the Military Hospital, the National Police's Retirement Service, and the Office for the Return of Political Exiles also faced accusations of corruption.⁵⁷

Rehren lists recent cases including corruption in the Ministry of Public works diverting funds to increase salaries in the Ministry; a scandal involving the transfer of

⁵⁵ I owe this point to Julio Faundez.

⁵⁶ Rosemary Thorp, *Poverty, Progress, and Exclusion* (Washington DC: 1998)

⁵⁷ Alfredo Rehren, 'Political Corruption in Chilean Democracy', *Harvard Review of Latin America* Spring 2004.

government bonds from CORFO to a private investment corporation; and most notorious of all the removal of congressional immunity from six deputies for involvement in bribery. He offers two explanations,

First, corruption is caused by traditional clientelistic structures --historically linking the Chilean political elite and the electorate-- that endured beyond the authoritarian experience, but currently in crisis. Second, privatizations introduced deep changes in the dependent nature of political parties from the entrepreneurial state and dismantled former clientelistic mechanisms. A reduced and much less powerful State left political parties without the lubrication necessary to maintain the previous clientelistic machinery. The successful introduction of market economics made the Chilean political elite more dependent on the market and on a new and empowered entrepreneurial class.⁵⁸

However, he also quotes data showing that most Chileans in terms of their daily encounters with the Chilean bureaucracy and social services do experience corrupt practices, from which he concludes that Chile is a case of 'grand corruption'. This is supported by the Latinobarómetro finding that while most Chileans considered corruption to be a major problem, on the other hand when asked about the probability of successfully bribing a judge, a policeman or a civil servant – only 20% in two cases or 19% in the other though that was likely. These were the lowest rates in Latin America –in Mexico the responses were 58%, 65% and 55% (and the figures for Argentina were not much lower). Presumably when Chileans express concerns about corruption this is directed at politicians and not at the institutions of the state. In the survey of Transparency International for 2004 which measures subjective perceptions of the misuse of public office for private gain, Chile is ranked 20 out of 145 countries, only three places behind the USA and four behind Hong Kong – and above France and Japan. Mexico is ranked at number 64 and Argentina at 108.⁵⁹

The system of financing elections by contributions that were neither registered nor limited was clearly an area that did lead to corruption in fact if not in law. However, a recent law has attempted to control private donations (and to introduce a system of partial state funding). The law came into effect for the municipal elections in 2004,

⁵⁸ Ibid p

⁵⁹ Reported in *The Economist* 23 October 2004.

but the real test will be the Presidential and Congressional elections in 2005.⁶⁰ The law is in some respects deficient but this is a notoriously tricky area in which efforts to regulate effectively have defeated policy makers in the most advanced countries.⁶¹

Corruption exists in all countries. At least in terms of scale, in Chile it does not seem to be a serious threat to the political system and public rejection of corruption is strong. Moreover, the governments have made efforts over the years to control corruption – the latest of which was a Commission on Transparency and Probity created by President Lagos in January 2003 to begin a major governmental overhaul to fight corruption, many of the recommendations of which have been made into laws.

The evidence of corruption of the Pinochet regime is growing – not least that of the estimated US\$27 million that the dictator accumulated in the Riggs Bank, amongst others, in the USA using false passports. This is not the only case, however. An earlier and massive scandal involved fraud by directors of Enersis (a privatised electricity supply firm) to the Spanish company Endesa. The sums involved amounted to over US\$200 million, and the Supreme Court has recently (July 2005) confirmed fines of US\$66 million against those involved– principally Jose Yuraszeck, a major

⁶⁰ For a discussion of the new law see Pedro Mujica, ‘Ley del Gasto Electoral en su Debut: sus Deficiencias y una Propuesta’, *Asuntospublicos.org* 26/11/2004. The new law establishes a limit on campaign expenditures depending on the nature of the election and the size of the constituency; it establishes three different kinds of private financing with strict regulations on size: and also introduces a limited system of state funding depending on the size of the vote in the last election. Nevertheless there are many forms of campaign expenditure that are not covered by the law; and there are still great disparities in the amounts spent by different parties and candidates in the elections in 2004. Moreover the Servicio Electoral has very limited capacity to monitor expenditures.

⁶¹ This is dealt with by Kevin Casas, *Paying for Democracy in Latin America: Political Finance and State Funding for Parties in Costa Rica and Uruguay*. Oxford D Phil thesis, 2003. Casas argues that his findings from Costa Rica and Uruguay show that contributions to electoral campaigns and to parties give access to policy-makers at the highest level but do not necessarily lead to influence on policy decisions. However, unlike those two countries, until very recently Chile had no system of state funding of parties or elections, the scale of the economy is much greater, and most contributions went to candidates rather than parties. For a study of the effects of party finance in Chile see, M A Garreton. ‘Exploring Opacity: The Financing of Politics in Chile’, in Carlos Malamud and Eduardo Posada-Carbo, *Money, Elections and Party Politics: Experiences from Europe and Latin America*. (London: Institute of Latin American Studies, 2005).

contribution to the finances of the UDI.⁶² A group of Concertación deputies has produced a report claiming that the loss to the state of the way that the privatisations was conducted during the Pinochet government amounts to \$US 2,500 million.⁶³ The disclosure of corruption under the Pinochet regime and not least by the dictator himself (and ‘commissions’ were paid to him well into the late 1990s) strengthens the argument that democratic governance is better at discovering and prosecuting corruption than dictatorship.

An over-centralised state?

Decentralisation was not high on the agenda of the new government, even though the free election of local authorities clearly was, and the government fought hard to secure those elections held for the first time in 1992. But the decentralised system agreed after hard bargaining with the Right was very modest in Latin American terms. The incoming government wished, for good reasons at the start of the transition, to secure and maintain strong central political and fiscal control.

In reality, there was little pressure to offset these centralising tendencies. Regional sentiment is very weak, and there is nothing comparable in Chile to the regional identities in Colombia.⁶⁴ Nor were the cities outside Santiago hotbeds of local identity. Decades of centralised government, reinforced by the fierce authoritarianism of the Pinochet government had produced tacit consent to the doctrine that ‘the man in Santiago knows best’. Hence the form of decentralization adopted is a uniform standard structure that does not allow for regional and local differences - which certainly exist geographically and in economic terms, even if public perception of them is weak.⁶⁵ Regional governments are appointed and not elected. Municipal governments have very little real power – practically no fiscal autonomy. This system

⁶² Details from *La Tercera* 8 July 2005.

⁶³ *La Tercera* 25 July 2005

⁶⁴ For a discussion of decentralization in Chile see Alan Angell, Pamela Lowden, and Rosemary Thorp, *Decentralizing Development: the Political Economy of Institutional Change in Colombia and Chile*, (Oxford: Oxford University Press: 2001).

⁶⁵ This form of decentralization contrasts sharply with the Spanish, or Venezuelan, form that has seen individual negotiations between the provinces and the central government within the framework of a permissive constitution.

may have been felt necessary in order to maintain political control and perhaps even more so to prevent any of the fiscal problems that have affected decentralisation elsewhere. But it hardly created much enthusiasm for local government or fostered local participation.⁶⁶ The system may be good for governability – but less so for democracy.

Decline of the Party System?

There is considerable criticism of the party system in Chile. Commentators often assume, explicitly or implicitly, that parties since 1990 have to be measured against an earlier period of mass, participatory parties, when ideological and programmatic differences were clear and hotly debated not just by party elites but also by ordinary members. In other words, they were truly parties of masses and not parties of elites more concerned to control than to express popular sentiment.

But is this picture of the past accurate? It is difficult to be authoritative in the absence of detailed studies of party organisation and behaviour in contrast to the many studies of party ideology. Undoubtedly the parties did have deep social roots, there was fierce electoral competition and there were pronounced ideological differences. At least there was in the period 1964 to 1973. But was this period typical or not? Probably not – and that period was exceptional not just in Chile but in many parts of Latin America and indeed in the world (remember the events of 1968 for example). If we look to earlier periods of Chilean party history we have a different picture. Had there been reliable polls in, for example, 1946 to 58, it is not obvious that the level of public trust or confidence in the parties would have been very different from those of today. There was massive rejection of the parties in the election of 1952, even though the desertion was temporary. There was also much greater electoral volatility as parties like the Partido Agrario Laborista rose and declined, or the Christian Democrats suddenly moved from small minority to almost majority status. In other words it is very

⁶⁶ When asked by the author why decentralisation in Chile was so timid, President Aylwin replied (somewhat offended): ‘It is not at all timid. The problem is that Chileans are timid in the use they are making of the possibilities for decentralization. The laws are there - but we need not just laws but a change of mentality.’ Interview December 2001.

misleading to contrast parties today with a model of parties based on an unusual period in Chilean party development.

However, there have been changes in the party system –it would have been remarkable if the experience of exile and clandestine activity for seventeen years had not changed them. Parties have become more centralised and controlling, though local parties have always been subordinate to the centre, not least because the limited functions of local government gave them little opportunity to exercise any real power. Leadership is composed of Santiago-based professional politicians. Decisions are made at the centre, even the important one of which candidate will fight which constituency. Parties effectively control recruitment to elective office. Given the electoral system, independents or parties outside the major coalitions have little chance of being elected. This level of control and influence is undoubtedly good for governability, assuming that the electorate as a whole does not reject the existing system and search for another one or a charismatic anti-party leader. It is less clear that it is good for democratic participation.

If we analyse parties as agents of government rather than as agents of popular representation, then they look successful. The governing coalition has successfully fought and gained over 50 per cent (or very close) of the vote in a plebiscite, three presidential, four congressional and three municipal elections, has witnessed an unprecedented successful period of economic growth and dealt with complex political issues such as justice for human rights abuses. And complementing the role of parties as agents of government has been the role of the parties of the Right as agents of opposition. Increasingly those parties have come closer to the government in the most controversial of matters – that of human rights, or the trials of General Pinochet – while continuing to bargain with the government over more mundane matters of government. The Right offers a plausible alternative government to that of the existing one – without this being perceived as a threat to democratic governability. Democracy in Chile in a way not typical of Latin America is party democracy.

However, it can be argued that the party system fashioned for the transition period when stability and central control were necessary, have not responded well to the changing circumstances. The party system now is seen as too centralised, too

inflexible, creating too many barriers to new entrants, and is insufficiently responsive to the demands of new groups. It tends to perpetuate in power the same group of politicians over a long period of time, whose energies seem to be consumed in internal faction fighting, either within their own party or with other parties in the same coalition. Centralised decision-making does not mean that the centre itself is united. Indeed, the sharp divisions inside the parties, and the existence of semi-organised factions means that candidate-selection itself reflects horse-trading between the various factions. This further tends to separate the centre from the local parties and to make the parties less responsive to local needs. The attempts to widen participation in the selection of candidates – for example, the primary to choose the Presidential candidate of the government in 1999, and introduction of party primaries for the congressional elections by the PDC in 2001 – increase involvement but also bring associated problems of even greater internal party antagonisms, and an increase in the costs of electoral competition.

The prevailing electoral system has a great deal of influence on the way that the parties and coalitions behave.⁶⁷ Jaime Gazmuri, a leading Socialist Senator, has argued that unless there is electoral reform, there is a real danger that the existing system will destroy the party system. He argues that the tension between the interests of the parties and that of the coalitions is creating tensions that are more and more difficult to manage.⁶⁸ This is an area of future uncertainty. It seems less and less likely, as some argued earlier, that the coalitions have effectively become two parties rather than two coalitions. There is growing evidence, as Senator Gazmuri indicates, of real tension between the members of the same coalition –obvious in the disputes over the choice of congressional representation for the 2005 elections. But if there were to be an electoral reform, what would the shape of the ensuing party system? That is a question for the future.

The Problem of managing the public sector unions

⁶⁷ Two important influences on the Chilean party system are the electoral system and the system of party finance. These and other factors are discussed in Alan Angell, 'Party Change in Chile in Comparative Perspective', *Revista de Política* (Santiago: Instituto de Ciencia Política, Catholic University Vol XXIII, No 2, 2003.

⁶⁸ Interview in *La Tercera* 2 August 2005

This issue is often reduced to the problem of the unions but is this accurate? Too often the unions are cast in the role of reactionary defenders of their privileges against reforms to produce wider social benefits. In so far as the reform of health and of education has disappointed their designers, the resistance of the workers in the sector to these changes has been one of the main problems. In the educational reform there were imaginative and successful attempts to target the poorest schools in the P900 programme, and an imaginative and wider programme of reform of the primary and secondary sector, MECE Básica and MECE Media.⁶⁹ Yet the results in terms of educational achievement indicators have been disappointing – though this could well be due to inefficient expenditures, or inequality or a combination of the two.⁷⁰ No doubt the reforms were more difficult to implement than thought, and the benefits have taken longer to emerge than hoped. But if one culprit in all this is identified, it is the teachers.

This is a crucial problem all over Latin America. While unions in the private sector have declined in importance, those in the public sector have retained both membership and political influence. There is no easy solution to the problem of winning over the members of these unions to the cause of reform, but unless they are won over there will be no reform. It is natural that public sector employees who lost their rights under dictatorship and who saw large salary cuts will feel that they have the right to restitution, and they have the power to make politicians take those demands seriously. Yet no reformist government can accept simple pay increases without some trade-off in terms of control over personnel deployment at the very least. But public sector unions want both stable employment and high salaries. Is there any way out of this conundrum?

President Fujimori tried one solution, which was to sack most of the employees of the Ministry of Education, hire and fire teachers at will, reduce salaries to the bare minimum (or even lower) and centralise policy making in the Ministry of the Presidency. This is

⁶⁹ For an (over-optimistic) account of these programmes see, Alan Angell, ‘The Politics of Education Reform in Chile’ in L Haagh and C Helgoe eds *Market Reform and Social Policy in Latin America* London: Macmillan. 2003.

⁷⁰ De Gregorio op cit p 71.

hardly the right way to go about social reform. Judith Tandler points to another way in her excellent book on social reform in Ceara, which consists in winning over public sector workers to the cause of reform by a mixture of incentives, appeals to their professional standards, involvement in policy making, and improving their identification with the local community.⁷¹

In spite of the frequency with which teachers and health employees are seen as obstacles to reform in Chile, in practice their behaviour has been relatively moderate. Undoubtedly the government has pursued active policies to improve the conditions of public sector workers. Yet there is still a long way to go. If social policy is to be successful then policy makers have to involve and secure the assent of those responsible for implementing those policies. It is not sufficient just to neutralise protest; it is also necessary to win over public sector workers to support the reform process. The government has announced a major initiative to restructure the Ministry of Education in order to make it much more decentralised. Teachers on the other hand, are strong advocates of centralisation. How this reform works out remains to be seen.

If governance is so good in Chile, why do the opinion polls show such negative findings?

Asked in 2004 if they thought that democracy was preferable to any other form of government, 57% of Chileans agreed that it was – up from the 50% in 2002. The 2004 figure was just above the Latin American average of 53% (and way below the 77% of Costa Rica or the 78% of Uruguay).⁷² Preference for an authoritarian government in some circumstances was the choice of 19% of respondents and the same number thought that it made no difference if the government was democratic or authoritarian. Asked if they were very, or more or less, satisfied with the way that democracy

⁷¹ Emanuel de Kadt summarizes very well the arguments of Judith Tandler and others - 'the core of their case was that increasing public sector worker's autonomy and discretion, instead of reducing them as the neoliberal model would suggest, and treating them with trust, dramatically improved both commitment and performance.' E Zukerman and E de Kadt, eds, *The Public-Private Mix in Social Services*, (Social Agenda policy Group, Inter- American Development Bank) Washington DC 1997. p 156. Judith Tandler's book, *Good Government in the Tropics*, (Johns Hopkins Press, Washington DC: 1997) is essential reading on the issue of social and economic reform.

⁷² The data in this section is all taken from the annual reports of the *Latinobarómetro* at <http://www.latinobarometro.org>.

worked in Chile, only 40% agreed – though this was a sharp increase from the 23% of 2001 (when the country was recovering from recession) and was the highest figure since 1996. Satisfaction with democracy was expressed in Latin America on average by 29% of respondents, and even the best rated country, Costa Rica had only 48% satisfied (a fall from the 75% of 2002). Confidence in the institutions of government was also low. In 2003 only 19% of Chileans expressed confidence in the judiciary, 18% in the Senate and 15% in the Chamber of Deputies, and parties in 2003 had only 6% expressing confidence in them – compared with 15% in 2001. The executive was more highly regarded and, in 2004 as many as 64% of Chilean approved of President Lagos making him the third most highly rated president in Latin America.

Chileans are not very impressed with their economic model. In 2002 only 19% expressed satisfaction with the way that the market economy functioned - below the Latin American average of 24%. However this rose to 36% in 2004 reflecting the recovery of growth. Indeed in 2004 Chile was the leading country in Latin America in the level of support expressed for the way the market economy was working - compared, for example, with 16% in Argentina, 20% in Mexico and 25% in Brazil. Privatisation was not very popular – only 29% of Chileans in 2003 thought that it had been beneficial to the country. Of course the explanation for this might well be that of rising expectations – Chileans have been accustomed to growing prosperity and are demanding more.

Neither do Chileans trust each other very much. Asked in 2002 if one could trust in the majority of people only 13% of Chileans agreed – the fourth lowest level of trust in Latin America (with Brazil the lowest with only 3% and Uruguay the highest with 36%).⁷³ In another survey combining happiness with life satisfaction scores, although

⁷³ CERC polls indicate that in 2003 only 13% expressed general levels of trust in other people – compared with Canada and the USA with 38% and India with 39%. One possible explanation is the lingering division over Pinochetism and the effects of living under that dictatorship for so many years. The Chilean dictatorship was characterised by its high level of organisation including surveillance over its citizens in a way that resembled the Stasi in the former GDR. It was prudent in the Pinochet regime not to trust too many people. The persisting presence of Pinochet under democracy was a reminder of those times, and may well have helped to sustain the culture of mistrust that grew up after the 1973 coup. However, as Samuel Valenzuela, has pointed out to me, the meaning of ‘trust’ can be very different in different countries

Chile was ranked medium high it was well below the levels of, for example, Colombia or El Salvador or Venezuela.⁷⁴

It is important to put these findings on perceptions into comparative perspective. Declining trust in political parties, for example, is widespread. Comparing the data of the Eurobarometer with that of the Latinobarometro for 2002, Chile occupies a middle position (12%) between the low of 4% level of trust in parties in Argentina to the (not very) high of 36% in Holland and Denmark. The level of trust in parties in Chile is not very different from that in France or Britain. Partisan identification is also declining world wide.

Is public mistrust of politicians necessarily harmful for democracy? Or is it beneficial? There would hardly be societal accountability in a democratic system unless there were levels of discontent that led society to scrutinise what politicians were doing and why certain policies were adopted. Chileans are more educated, more accustomed to improvement, and it is quite natural that this leads not to contentment but to demands for more. Should we minimize the critical perceptions of the workings of democracy in Chile, and write them off as a healthy expression of democratic discontent? Should we be concerned for the survival of the political system as a legitimate stable force? Or should we accept that these attitudes point to deficiencies in the political system, and with the quality of democracy, that can to some extent be remedied? What is important is that citizens have satisfactory outlets for the institutional expression of discontent – such as the existence of an effective political opposition, separation of powers, effective scrutiny of executive actions, and the rule of law. It is when these conditions are not present that discontent becomes a threat not just to the government but to the political system as a whole. If we accept that those conditions are present, then discontent in Chile is different from that in, for example, Venezuela which led to the collapse of the party system and the regime, or from that in Bolivia which led to the resignation of the President.

Explaining the low levels of trust

⁷⁴ Reported in R. Inglehart, *Subjective Well-Being Rankings of 82 Countries*. Available at <http://www.worldvaluessurvey.org>

The sceptics come predominantly from the Right. Asked in 2003 if they were satisfied with democracy in Chile – those sympathetic to the Christian Democrats registered an approval rating of 55%, for the PS 62% and for the PPD 42%. On the Right the figures were, for the UDI 27% and for RN 21%. Asked if democracy was the best system for a country like Chile, the supporters of the Concertación gave approval varying between 87% and 93%, but supporters of both parties of the Right, 52%. For many Chileans the government of the Concertación and the democratic system have become, more or less, the same thing. If this perception exists, then the low support expressed for democracy by the Right both as a system and as a practice is understandable. As Huneus points out, it is not that in Chilean there are fewer democrats than in other countries but that there is a substantial group – some 20-30% - who remain nostalgic for the days of the dictatorship, and who see democracy as government by the anti- Pinochet forces.⁷⁵

There exists a general perception that the major beneficiaries of the economic model are the wealthy business sectors – and that the poor are poor because of lack of opportunities and not because of lack of effort.⁷⁶ When a government has managed to reduce poverty very considerably, when most people feel relatively secure economically, and feel confident about the country's future economic performance, then attention tends to shift to relativities. The public is becoming increasingly aware not just of income inequities, but of inequities in other aspects of state provision whether it be the conditions of employment, education, health or even the law.⁷⁷

If neo-liberalism has been broadly accepted by the political elite, even by the leaders of the Socialist Party, it is far less clear that the same has happened at the popular level. On the contrary, a majority of Chileans would prefer a more active role for the

⁷⁵ Carlos Huneus, *Chile, Un País Dividido* Santiago: Catalonia 2003. This is an essential book not just for the wealth of information it contains but also for its acute political analysis. If the Right had a minimalist conception of democracy, some on the Left had a maximalist conception – a yearning for the good old days – and this attitude also reflected in negative perceptions of democracy.

⁷⁶ In the USA surveys show that about 41% think that the poor are such because of factors outside their control and 43% because of lack of personal effort. In Chile over 60% think it is because of factors outside the control of the poor. Huneus, op cit 2003: 138.

⁷⁷ 90% of Chileans think that there is not equality before the law. Huneus, op cit , 2003: 158.

state. When Chileans are asked of which enterprise they have a high opinion then the state enterprises – CODELCO, BancoEstado – come out on top. The much-vaunted private pension scheme, the AFPs, is not popular.⁷⁸ Chile has long been a country with a reasonably well functioning state, and Chileans have long welcomed an active role for the state.

Lessons from the Chilean Experience

This is an area where I think one has to proceed with extreme caution. If Chile has been as successful as I have argued, then it might seem obvious that the country has much to teach the rest of Latin America about how to achieve that result. This, however, ignores crucial factors. One is the very different starting point for the post-authoritarian governments meant that problems differed from country to country. Another factor complicating the task of making recommendations is the high level of resource endowment of Chile, the relatively small and relatively well-educated population, and the long history of state and political institutionalisation – all conditions conducive to successful reform but not conditions common to many other Latin American countries.

Social and economic reform is only partly about the design of the reform, but much more about the politics of implementation and that is contingent upon the specific political and institutional structure of each country. President Sánchez de Losada may well have been right that the proposed pipeline for gas exports from Bolivia through Chile was fundamental for economic growth. Unfortunately his misreading of the political situation meant that not only did he lose the pipeline but he lost his post.

It is immensely difficult to reform certain institutions, such as the police for example. Even countries with relatively high levels of economic development are unable to reform police forces so that they become agents of law and order rather than part of the problem of criminality – consider Argentina or Mexico. But it is not just a

⁷⁸ Hence a vast majority – 78% - oppose the privatization of BancoEstado or of CODELCO or of the postal service; while in 2003 only 29% expressed confidence in the much vaunted privatised pension scheme, the AFPs and 19% in the private health providers ISAPRES; and 56% agreed with the proposition that taxation is necessary for the state to make adequate provision of the basic social services. Huneus, op cit : 150-154.

question of corruption, it is also, and perhaps more important, a question of efficiency and of the level of trust of the citizens in the police. Even an honest police force could fail on those two scores. No doubt the Chilean Carabineros could offer many useful lessons to the police forces of other countries, but whether they were adopted or not would depend largely upon the will and ability to reform in the host country. Similarly, it would be a benefit for any country in Latin America to have an institution like the Chilean Contraloría General, but it stretches the imagination to think how it could be copied and even more how it could survive incorrupt in most countries of Latin America. The same point could be made about the Central Bank – compare the way with which it has maintained its autonomy from the government with, for example, the similar institution in Argentina.

It is increasingly clear that without an effective legal system that democracy remains shallow, and the cost of economic transactions is increased. The faults of many existing systems are not difficult to diagnose and the design of reform is not especially complicated. Yet millions of dollars of expenditure by the IFIs have produced at best marginal improvements in countries that already had reasonable judicial systems – like Costa Rica – and arguably have worsened the state of judiciary in countries with corrupt judiciaries such as Honduras.⁷⁹ One common recommendation is to adopt a more modern criminal procedure code. Chile has recently introduced a major reform in its criminal procedure code which was introduced initially in the provinces and then in mid-2005 in Santiago as well. It is hoped that this simpler system of oral-based, adversarial procedures will promote greater access and equity. Whether it works well or not depends greatly on the overall political and judicial environment and that can be hostile as well as favourable. This underlines another difficult aspect of policy reform – the nature of the inter-relationship, and even the inter-dependence, of various institutions. A reformed criminal procedure code depends for its success not only on the design of the reform and the abilities of the judges, but also upon the police, the prisons, and the resolve of politicians not to interfere in judicial matters.

⁷⁹ Julio Faundez and Alan Angell, 'Reforma Judicial en América Latina: el rol del Banco Interamericano de Desarrollo' in *Sistema Judiciales* (Santiago: Chile) Vol 4 no 8 2005.

There are certain aspects of the Chilean experience that one would most certainly not recommend as a positive lesson (though they might be useful negative ones). One is the Chilean constitution and another is the Chilean electoral system, and until recently the system of party and electoral finance had nothing to commend it. One institution that has been copied in Latin America and held up for admiration by international observers is the Chilean system of private pensions.

There is little doubt that the pension reform is internationally regarded as a great success. However there are difficulties in recommending it as a model for other countries. In the first place, pension reform normally involves complex political bargaining. Chile's pension law was imposed by an authoritarian state at the height of its powers - no other country has similar political conditions at the present time. Moreover, the system of individual capitalization does depend upon a powerful and efficient regulatory state, steady economic growth and a developed capital market. Perhaps the enthusiasm of advocates of the system has been excessive, as Carmelo Mesa-Lago suggests.⁸⁰ Coverage is less than the previous system - so there is still the need for state-funded pension support for those who fall outside. Moreover, of those who are in the scheme, a large proportion is not contributing actively. The combination of these two factors means that the AFPs are covering less than half of the country's workforce.⁸¹ The fiscal cost of the transfer to the private system in the mid-1990s was about 3.4% of GDP annually. The AFPs are paying relatively few pensions so far - the test will be in years to come when the schemes are paying many

⁸⁰ 'Pension Systems Reform in Latin America: the position of the International Organizations' in *CEPAL Review* no 60, December 1966. He suggests too that it may be something of a misnomer to regard the scheme as purely private - membership is compulsory, the funds are strictly regulated and supervised, there are heavy state subsidies and transfers, and state guarantees in the event of bankruptcy. pp 77/8. He also draws attention to recent research claims that the effect on net savings has been marginal. And the state continues to provide 'pensiones asistenciales' to destitute people.

⁸¹ Armando Barrientos writes that 'The personal pension scheme has proved unattractive to workers in the flexible labour force for whom it was designed to be especially attractive. Pension coverage probabilities are low or negative for workers in the informal sector, for younger workers, and for married women.....it is unlikely that in their present form personal pension plans will substantially increase their coverage of the labour force'. 'Pension Reform and Pension Coverage in Chile' *Bulletin of Latin American Research* Vol 15 No 3 1996 p 319. A hard core of 1.5 million contributors have made no payments into their accounts for more than a year.

more pensions and when economic growth is not quite as spectacular as in the early 1990's. Moreover the administrative costs are very high.⁸² And the AFPs are not popular - the opinion polls show that a majority of the population are very critical of them.⁸³ Another criticism, made by the ILO of the Chilean scheme, is that there is no redistributive element in the Chilean pension scheme, generally regarded as an important component of pension arrangements.

It is interesting that the candidate of the governing coalition, Michelle Bachelet, has made pension reform a major issue in her proposed policy initiatives. According to her advisors the system will run into a major crisis after 2010 when many more contributors will become recipients. Under consideration are automatic state pensions for those over 65 who are not covered, or not covered adequately, by the AFPs, a campaign to reduce their administrative costs and make them more competitive, and a campaign to create incentives for independent workers to become members of the scheme.⁸⁴

It is relatively easy to list the conditions for successful democratic governance that Chile has met. It is not so easy to extrapolate from that success to draw lessons. Successful policy implementation is only, as I argued earlier, in small measure about policy design but more about implementation. There are plenty of blueprints that can be drawn up from the Chilean experience but implementation depends upon the local institutional and political structure and that will be very different. I assume that Argentine tax experts are as equally well-trained and capable of devising an efficient tax system as their counterparts in Chile, and an interchange of expertise might benefit both countries. But whereas the Chilean tax system is insulated from short term political interference and enjoys both respect and autonomy that is clearly not the case in Argentina.

⁸² According to a report by Oxford Analytica, the AFPs spend US\$ 17 per person on sales promotion, and these represent the largest single item in a pension fund's expenses, equivalent to 30% of total costs. 'Chile: Pensions market' 15 March 1995

⁸³ They scored below banks, public notaries and stockbrokers in terms of public esteem. Financial Times January 19 1996. Some 59% of those questioned had no confidence in the AFPs - and confidence was only slightly higher amongst those who were affiliated to them.

⁸⁴ 'Las Primeras Decisiones de Bachelet' in *La Tercera* 31 July 2005

I am conscious that the conclusion of this paper about lessons is rather sceptical not to say negative. But this is based upon the belief that what matters most is not what a country has to teach another, but the receptivity of the country that needs to learn the lesson. What determines that receptivity of course is a complicated matter – the historical legacy, the strength of the reform movement, the condition of the economy, and the level of state and political institutionalisation. Unless, however, the conditions are right for learning lessons, then it is unlikely that the most perfect of reform design will prosper.