

The
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An anxious role model

Chile needs change, but this should build on its strengths

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FOR the past quarter of a century Chile has stood out from its Latin American neighbours, enjoying political stability and faster economic growth. The centre-left Concertación coalition that ruled from 1990 to 2010 preserved the free-market economy it inherited from General Pinochet's dictatorship but gradually added better social provision. When the centre-right won power under Sebastián

Piñera in 2010, it acted much like the Concertación and began to regulate market abuses.

To many outside observers Chile remains an admirable success story. Public debt and inflation are low. Only one Chilean in ten lives in poverty, while infant mortality is not much above that in the United States. Santiago, the capital, is laced not just with urban motorways but also with metro lines.

Yet Chile is ill at ease. Mr Piñera's government was dogged by massive student demonstrations calling for free education. In 2013 Michelle Bachelet, the moderate Socialist president in 2006-10, won a landslide victory on the most left-wing platform since democracy was restored, calling for a new constitution and reforms aimed at tackling pervasive socioeconomic inequality. Many in her coalition, rebranded as the New Majority and including the Communist Party, now repudiate the gradualist, consensus-building approach of the Concertación as a sell-out to the right.

In practice, Ms Bachelet's reforms are proving to be a mixed bag. An electoral reform introducing proportional representation in place of two-member districts (a Pinochet bequest which favoured the centre-right) was overdue. A cumbersome new tax law aimed at raising three percentage points of GDP to spend on education will crack down on evasion but risks discouraging investment.



Chile has the least-bad schools in Latin America, though that is not saying much. But the president chose to adopt the students' political agenda. The first of several education reforms bans school selection of pupils, bars privately run but publicly supported schools (which educate 58% of children) from making profits and will gradually replace parental top-up fees at these schools with public funding. This will eat up most of the extra tax revenue.

More important for raising standards will be the next bill, to increase teachers' salaries but subject them to evaluation, with those failing being sacked. Coming too is a labour reform, which will give more power to Chile's weak trade unions, possibly in return for more flexibility.

The left insists the reforms will turn a country run for and by a small elite into a social democracy. Many on the right and in business say they threaten Chile's success. They point to an economic slowdown, though this was mainly caused by a fall in the price of copper exports; a weak recovery is under way. More persuasively, moderates within the New Majority say that Ms Bachelet's team is less technically competent than its predecessors, and that ideology and short-term politics have replaced realism and long-term vision. Ms Bachelet has misread the national mood, they say: an expanded middle class wants not to abolish the elite but to be able to join it. That is why a majority in polls now oppose the education reform.

Recent events have added to the uncertainty gripping Santiago's political and business worlds. Whistleblowers have revealed that dozens of politicians across the political spectrum received illicit campaign donations from two business conglomerates. Some of the businessmen involved engaged in large-scale tax evasion. Far more damaging for Ms Bachelet herself was that her son and daughter-in-law seem to have used their influence to obtain a bank loan from which they made \$2.5m in a questionable property deal. The president's popularity has plunged (to 31%). On May 6th she took the drastic step of asking her entire cabinet to resign.

In a country that has grown used to political predictability nobody knows who among the presidential hopefuls for 2018 will survive the financing scandal. On April 28th Ms Bachelet pledged to enact reforms of party finance recommended by a hastily convened commission. In an attempt to regain the political initiative she brought forward her plan for a new constitution, calling for a national debate from September.

Though much amended, the constitution dates back to Pinochet. For that reason, polls show that some 60% of Chileans want a new one. Some changes are certainly needed. But the process is fraught with risk. Optimists point to the strength of Chile's institutions. Pessimists see a slow slide towards Argentine-style populism. It is up to Ms Bachelet to ensure the optimists are proved right.

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