

Seminar on Democratic Transition and Consolidation
2001 - 2002

The controversial legacy of the Chilean transition

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Round Table

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the Chilean transition

May 9th, 2002

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President of Chile (1994-2000).

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The controversial legacy of the Chilean transition

Ludolfo Paramio

OIn the early hours of October 5th, 1988, after the commanders of the armed forces had dissuaded him from calling the army out onto the streets as he initially intended (according to General Matthei's version of events twelve years later), General Augusto Pinochet Ugarte acknowledged that the result of the plebiscite on whether he was to continue as Head of State for another eight years or not had gone against him: 44% had voted "yes", 56% had voted "no". That moment marked the start of the transition to democracy in Chile after 15 years of a military regime that had seized power through a coup staged by General Pinochet himself and that had brought down Salvador Allende's government on September 11th, 1973.

The 1988 plebiscite was actually a measure that had been established by the military regime itself as a future possibility when it gave itself a Constitution in 1980. That Constitution was approved by a referendum lacking the guarantees that would allow victory for the No vote eight years later. Likewise, as the regime had also envisaged, a presidential election was then held in December 1989. The outcome was victory for Patricio Aylwin who polled more than 55% of the votes. Aylwin was a politician with a long track record in politics with the Christian Democrats but he had been put forward as the candidate to run for the presidency by the Concertación de Partidos por la Democracia (Coalition of Parties for Democracy), an alliance that had succeeded the original coalition put together to wage the campaign for the No vote in the plebiscite. It had later solidified into a lasting electoral option that included the Partido Socialista, the Partido por la Democracia (PPD), the Partido Radical and a number of other

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minor parties as well as the Christian Democrats.

The Concertación coalition, together with its mirror image right-wing Unión por Chile, was created chiefly in response to the peculiar electoral system set up in 1980 with binomial districts or constituencies where two candidates had to run for the two seats that were on offer but where a party needed to obtain 66% of the votes to win both seats and 34.4% to be sure of taking one of them. These rules obviously did nothing to help third parties compete electorally and were devised not only to favour a two-party system (or a two-alliance system) but also, and mainly, to stabilize the balance of forces in the bicameral Parliament and to minimize the risk of any drastic changes tipping it. In addition to being a consequence of the rules of the game set by the 1980 Constitution, however, the Concertación also entailed a strategic political development platform for Chile that took on board the lessons of 1973.

The tragic finale to the Unidad Popular experience in 1973 not only prompted widespread condemnation of the military coup but also serious debate on the possible mistakes that should not be made again. In Europe, the Secretary General of the Italian Communist Party at the time, Enrico Berlinguer, wrote his *Riflessioni sull' Italia dopo i fatti del Cile* in which he presented the kernel of his vision of the historic compromise which was that a government could not rely on a simple majority for support to push through far-reaching reforms. What it had to do instead, in his view, was to try to muster the broadest possible consensus for them. Using the events in Chile as a metaphor, Berlinguer was throwing out into the political arena the proposal for a historic deal between the PCI and the DC that would bridge their ideological differences with a view to a thorough overhaul and modernization of Italy's economy and society.

That deal or agreement was not to be in Italy but it did take shape in Chile during the process of transition to democracy as a common government platform worked out between Socialists and Christian Democrats. In this case, however, the wager was not all about drastically reforming a society that had come to a standstill but rather the undertaking of second generation reforms in a society that had survived radical neoliberal surgery with contradictory consequences. On the one hand, it had been held up as an extraordinary example of economic success in the context of Latin America and, on the other hand, it had witnessed drastic growth in poverty and inequality, which only added to the terrible social wounds that had been opened by the military regime's repression.

There was a two-fold purpose underlying the agreement that went beyond the straightforward rationale of electoral rules. One, it was to avoid the second generation reforms losing credibility in the eyes of radical Socialist groups that might deem them as not going far enough and, two, it was to build up a reputation of responsibility for the democratic opposition as a whole. The idea was to show that the Concertación could take up the economic model it had inherited and run with it, without losing its efficiency and competitiveness plus points, whilst at the same time it would correct its deficits on the social side, take the modernization process further forward and reduce poverty, thus creating a fairer, more united society.

Inevitably, President Aylwin additionally had to deal with the hardest legacy of all passed on by the military regime: the consequences and after-effects of its repression. Aylwin tackled this legacy by asking the jurist Raúl Rettig, heading a National Commission for Truth and Reconciliation, the *Comisión Nacional de Verdad y Reconciliación*, to prepare a report on cases of repression carried out during the military regime and set up a *Corporación de Reparación y Reconciliación* (Redress and Reconciliation Corporation) in an attempt to make redress for or compensate the damages resulting from such events. But these efforts were constrained by the paradoxical situation created by the 1978 Amnesty Act, whose validity had been confirmed in January 1990 by a ruling issued by the Constitutional Court, all of whose members had been appointed by the regime. The paradox was that the Amnesty Act prevented anyone alleged to have been responsible for crimes against human rights from being brought to trial and the Rettig Report recorded evidence of more than 2,200 victims of such crimes, including people who had been killed and others who had “disappeared” (the actual figure is estimated to be closer to 3,000).

This was not the only padlock barring the way forward to the democratic transition. Another constraint was that nine senators were designated rather than elected and four of them were chosen by the National Security Council from amongst former commander in chiefs of the different branches of the armed forces. That Council’s authority in certain areas even went above that of the president-elect who could neither appoint nor dismiss commanders in chief. General Pinochet himself was to continue to head the army until 1998 when he became a senator-for-life. Even so, some reforms were negotiated and passed with a view to the handover of presidential power to Aylwin. For instance, the number of handpicked senators was cut from the original 20 to nine, the term of office for the president was reduced from eight to four years (although it would later be raised to six years for subsequent presidencies) and the ban on Marxist parties was lifted.

All in all, the restored Chilean democracy had to be built on the foundations of a controversial legacy. It had to accept the successful albeit unfair economic and social model, make up for crimes against human rights without making anyone stand trial for them and keep within a legal and constitutional framework that imposed conditions on the way democratic mechanisms worked both for sovereign decisionmaking and representation. The situation was rather odd to say the least and prompted many observers to talk about a kind of wardship or partial democracy. The ultimate symbol of that supervised democracy until 1998 was the continuance of General Pinochet as commander in chief of the armed forces.

The contradictions of such a situation really came to the fore with a bang when Pinochet, who was a senator by that time, was arrested in London on October 16th, 1998, in compliance with an international warrant issued by the Spanish high court, the *Audiencia Nacional*, charging him with the crimes of genocide and torture for which the usual limits of territorial jurisdiction would not exist under international conventions. Pinochet’s arrest sparked off

an intense legal debate and diplomatic tensions ran high between the Chilean, Spanish and British Governments. In the end, the British Government decided to send Pinochet back to Chile in January 2000, justifying its decision on humanitarian grounds by citing his poor state of health.

The situation created by Pinochet's arrest in London went some way towards modifying and some way towards clarifying the alleged limits of Chile's democracy. Chilean justice had been paving the way for the possible prosecution of those people responsible for crimes against human rights for some cases not covered by the 1978 amnesty—classifying disappearances, for instance, as a crime of aggravated kidnapping until there was proof of the death of the missing person or persons—, and on the same day Pinochet was arrested in London, a new legal action was filed against him in Santiago, bringing the total to thirteen in all.

The stance taken by the government led by Eduardo Frei, the second Concertación president since 1994, had been to defend jurisdictional sovereignty and sustain that Pinochet could only be put on trial in Chile where the crimes he was accused of had actually taken place. In May 1999, Judge Juan Guzmán Tapia had started to investigate the general's responsibility for crimes committed in October and November of 1973 by the so-called Caravan of Death and after he returned to Chile his immunity as a senator was removed through a Supreme Court ruling issued in August of 2001. He was only saved from standing trial by a diagnosis of senile dementia although a legal reform would later allow him to continue enjoying his privileges as a life senator after he had tendered his resignation in July 2002 out of consistency—imposed rather than chosen—with that diagnosis.

Judge Juan Guzmán's relative success in his desire to make the former general stand trial may have been reinforced by Pinochet's arrest in London but perhaps even more significant is the fact that the democratic institutions in Chile bore up well to the strain of the situation and showed no sign of backing down or wavering at all. Political leaders and members of the Government with a long track record of opposition to the dictatorship—and also of persecution by it—found themselves caught in a paradoxical situation as a result of Pinochet's arrest. They were obliged to demand his return to Chile and because many people abroad refused to believe there was a real chance he would be prosecuted once on home ground, that demand was construed as a simple wish to ensure the general's impunity which the democratic leaders would be bound to guarantee. The actual denouement of the saga, however, entailed both moral condemnation of the dictator and the end of his residual pivotal position in Chilean politics.

The Pinochet case was such a high-profile one that it entails a two-fold risk. The first one is that the previous achievements of the Concertación governments, their reaching of economic and social goals and the fact that they put institutions back onto a normal footing again, will be overshadowed. The second one is that the stance taken by the Chilean Government during the crisis will be construed as a purely conservative defence of the status quo, unlinked to any

attempt to wipe out the authoritarian regime's hold over democratic institutions.

In actual fact, of course, despite possible misunderstandings or errors of judgement that may have been made, President Frei and his Government also acted in line with a strategy to restore to institutions their normal role and avoided Pinochet's arrest and possible trial outside Chile leading to any regression to the original polarization that had been the springboard for the military regime. In order to get rid of the regime's restrictions that still stifled institutions, in this strategy they had to make sure the rightist parties, particularly the UDI (Unión Democrática Independiente, the party most identified with the legacy of the military regime) did not dig in their political positions and refuse to be shifted as that would prevent agreement on the reform of those aspects of the Constitution that limited democratic representation, thus opening the door to a new phase in Chilean politics.

The depth of polarization of public opinion during the early months of Pinochet's arrest in London should not be overlooked. According to the "Barometer" published by the Centre for Contemporary Reality Studies (CERC) in September 1999, although 71% of Chileans thought that Pinochet would go down in history as a dictator, more than 50% of UDI and Renovación Nacional (RN) voters said they disagreed with that description. Indeed, over 60% of voters from both parties on the right of the political spectrum thought he was one of the best rulers this century and more than 70% maintained that Pinochet had freed Chile from Marxism with his 1973 coup.

But at the same time, it was no secret to anyone and certainly not to the general and the people closest to him that the UDI leader, Joaquín Lavín, was thinking about distancing his political program from the image of the dictatorship. He wanted to change approach so that it would resemble more a populist kind of right-wing program. When Lavín paid Pinochet a formal albeit inevitable visit when he was under house arrest in London, both men were visibly uncomfortable during the event. Any weakening or hesitation on the part of President Frei on the subject of the judicial territoriality principle would have reinforced the more nostalgic tendencies of Pinochetism and although in the short term that would have awarded an electoral advantage to the Concertación the price paid for it would have been the blocking of any progress made by Chilean society towards overcoming its bi-polarity.

Besides drastically cutting down the proportional nature of parliamentary representation, one particularly perverse effect of the binomial electoral system is that it wipes out any incentives to parties (or alliances) to compete for the voters in the center of the political spectrum. So, if the radical factions on the left and right gained greater weight in the wake of the Pinochet case, the outcome was bound to be greater polarization of the system where there were two options for political choice, making chances of a consensus on the normalization of institutions an increasingly remote possibility. Reducing that polarization was, therefore, a priority for those people whose prime interest was in consolidating and enhancing Chile's democracy.

Moreover, Frei had already tried to get a parliamentary agreement together to reform the

Constitution and get rid of the so-called “authoritarian enclaves”. The Renovación Nacional party, led at the time (1995) by Andrés Allamand, was fundamental to that agreement. When it came to the vote in the Senate, however, seven of the RN senators did not keep to what had been agreed and voted against the reform. Apart from the internal factors that might explain why the senators did not toe the party line —essentially the start of a long political and electoral crisis for the RN—, this behaviour is only understandable against the backdrop of political polarization that still prevailed and will eventually disappear as original political preferences start to put in an appearance again.

Indeed, the fact that some of those enclaves still exist is bound to be counterproductive for the Chilean right in the long run. When Frei becomes a senator —and eventually Ricardo Lagos too— (because former presidents are entitled to be senators) and when they are added to the designations made during their own presidential tenures, the majority amongst the non-elected senators will be pro-Concertación. That will prompt the right into accepting the abolition of the enclaves. The electoral reform question is a much trickier one to deal with. Electoral procedures that are at odds with democratic representation as described above may be one of the main factors causing the fall-off in political participation together with the need to register to vote and the fact that voting is compulsory for registered voters —a particularly inappropriate combination to stimulate electoral participation.

In fact, one of the most striking paradoxes of Chilean democracy is that despite its exceptional success on the economic and social fronts, even within the post-1999 limitations, electoral participation has not made any progress at all. The number of unregistered voters has grown to almost two million —i.e. to almost 20% of the population entitled to vote—, tripling the 1988 figure. In fact, the decline in GDP growth in 1996 and 1997 —after the spectacular 10.6% recorded in 1995— to such enviable figures as 7.4 and 6.6% in those two years respectively might actually have triggered the spectacular rise —to 1,178,000— in blank or spoiled ballot papers in 1997. Such an increase must have been more than just the usual response of voters to dashed hopes and expectations. Quite plainly, the system does not provide any other channels for a protest vote to be expressed because of the barriers (electoral not legal barriers) that bar the entry of new parties and that also deter any possible increase in participation as a result.

Reforming the electoral system, however, has two different sides to it. If prior registration was abolished —or made automatic— there would, in principle, be no impact on electoral behaviour but it might conceivably benefit the opposition in particular provided it manages to shake off its highly ideologized image so identified with Pinochet’s dictatorship. When Ricardo Lagos’s current presidency comes to an end in 2006, Chile will have had 16 years in a row of Concertación governments and the simple generational difference of the anti-governmental attitude in voters with a shorter memory of what happened in the past will have an increasingly favourable impact on the right. It will then be able to risk removing the

obstacles to participation in the belief that its advantage will increase although it could also just limit itself to fostering a widespread move for registration if it felt there was a real drive for change amongst the younger (potential) voters.

Changing the binomial system, however, means opening Pandora's box. A proportional system in Chile might lead to the usual governability difficulties seen in non two-party presidentialist systems and the one constituency-one candidate option might have the same effect by removing any incentives for election alliances to be formed. The second-leg voting system for the direct election of the president, however, makes any previous negotiation of parliamentary coalitions unnecessary. In countries like Bolivia—thanks to the parliamentary choice of president from the two candidates who have received the highest number of votes from the people—, that makes governability easier. Both the experience of Salvador Allende's Government and other less dramatic but more recent experiences in other countries in the region demonstrate the need to avoid stalemate confrontations between the executive branch and the Parliament.

All in all, that means that it is not so easy to envisage an agreement on the possible reform of the electoral system designed in the 1980 Constitution, some features of which are actually a stumbling block to democratic participation. The authoritarian enclaves, on the other hand, are likely to disappear gradually as time goes by and as democratic institutions are reinforced in parallel. The positive reference made by the commander in chief of the army since March 2002, Juan Emilio Cheyre, to the court sentence in the case of 12 retired army officers including four generals who were found guilty of the murder in 1982 of the trade union leader Tucapel Jiménez may be significant in this respect. Not only would it have been inconceivable whilst Pinochet was still commander in chief but nor could it have been expected—at least with similar clarity— during the tenure of his immediate successor, Ricardo Yzurieta.

The truth is that the main question marks hanging over the future of Chilean democracy today are less and less linked to the traumatic years of the 70s and 80s and have more in common with the type of problems clouding the future of democracies in Western Europe. The reason why young people have moved away from politics in Chile may be attributed to rules that do not favour participation—pre-registration—, or seen as a consequence of the way the media handle the political agenda or the outcome of the limitations on the results of governments. Only the first point in the list can be regarded as specifically linked to Chile because the other factors have been used in other countries to explain why people have stopped trusting parties and politics over recent years.

Those people who would like to believe that there really is some kind of Chilean idiosyncrasy behind it may defend a hypothetical loss of legitimacy suffered by governments because they have hung on to the economic model introduced in the 1980s by the dictatorship. Election figures, however, point more towards a combination of economic voting—punishing those in government when the results are bad—and a maintenance of the ideological division that

came to the fore in the 1988 plebiscite. The 1999 recession (−1.0 fall in GDP) does not seem to be a bad explanation of the difficulties faced by Ricardo Lagos, the first Socialist president of the Concertación and also the first one not to be elected after the first round of voting because he only won 48% of the votes compared to the overwhelming 58% obtained by Eduardo Frei in 1993, but at the same time the participation was high enough to think that the old No voters are still against the return of the right to government through an election victory. One new factor is the DC's election crisis after its share of the votes in the December 2001 legislative elections dropped to 20%—and it dropped down to number two party in the face of the rise of the UDI—, which might create incentives to break up the Concertación.

Indeed, to talk about the legacy of the dictatorship model at all may be a convenient formula but it is not one that sheds much light on the current discussion of Chilean politics. The two most singular aspects of Chilean politics seem to be a strong moral conservatism, which is largely intact with the influence the Church earned itself as the human rights champion during the dictatorship—and that is made visible in a dramatic contrast between social reality and a pre-liberal matrimonial legislation, not to mention a taboo on abortion—, and a strong social demand for greater public spending and State responsibility in the supply of public goods which comes through in the answers to the CERC Barometer in December 2001. More than 90% of all those interviewed for the Barometer survey said that they think the State has to take on a role to cut down earnings inequalities, defend consumers, provide jobs, improve the situation of pensioners or improve the quality of the health system.

One way of describing this situation is to say that the traits that define the ideological vision inherited from the Pinochet model clearly clash with the expectations and demands of a society that has witnessed 15 consecutive years of economic development. But if that clash is to be removed, not only will ideological taboos have to be tackled—like some aspects to do with family morals— but also the constraints on government action when playing by the current rules of the game in world economics. Although the extreme expansion of free market relations in Chile may be in strong contrast to European or other Latin American societies where the public sector has maintained or still maintains a greater presence, the demand for greater State responsibility in the resolution of social problems is a practically universal—with the exception of USA— phenomenon and is not necessarily a response to Chilean history under “Pinochetism”.

The question of whether the Concertación Governments should have been bolder when amending family legislation and if the crucial influence of the DC has been a delaying factor is open to debate. But as far as the limitations imposed by the economic model are concerned, it has to be admitted that it would have been blatantly irresponsible to jeopardize market confidence in the Chilean economy in exchange for any hypothetical benefits to be obtained by breaking through the financial orthodoxy. And, inversely, it would be totally unfair to deny that the Concertación governments have been fairly successful in making the economy grow

and also in reducing poverty against a backdrop of instability and growing social inequality.

Between 1990 and 2000, per capita earnings grew by 48.7% in Chile; the actual average pay packet grew by 40.5% and the minimum urban wage by 73.2%. Between 1990 and 1998, the number of households below the poverty line dropped from 33.3 to 17.8%, and the number of households in utter poverty from 10.6 to 4.7%. This spectacular reduction in poverty levels, however, cannot disguise the persistence of and even slight rise in social inequality: between 1990 and 1999 the Gini coefficient crept up from 0.554 to 0.559 although such figures are not that exceptional in the region where only Costa Rica (0.473) and Uruguay (0.440) recorded more reasonable inequality indices in 1999 (HFODS Social Panorama Social of Latin America, 2000-2001).

The economic growth figures in Chile are a reference point for anyone dealing with the problems of Latin American development: after an average 6-7% growth rate in the years prior to the 1999 recession —when GDP fell by -0.1%—, in 2000 there was a quite considerable upward spike of 4.9 (3.5% in per capita GDP), although it was brought up short in 2001 when growth was only 2.8%. With monetary instability as the prevailing trend in the Southern Cone, the (naturally pessimistic) forecasts point to growth staying below 3% and to unemployment remaining above 8%. Compared to the evolution witnessed in the 90s, these figures may seem disappointing but they are actually very positive in the midst of the crisis hitting the region.

Moreover, there is no sensible way of arguing that a more successful policy would have been possible in a context of falling export prices —particularly copper and with a general reduction of 8.7% in trade terms— and recession or stagnation of the export markets for Chile's exports: Asia, USA and the European Union. In any case, besides implementing an anti-cyclical policy through the fund set up with revenues from copper collected in years when prices were high, the Chilean government has steadfastly followed a consistent strategy to diversify and extend its trading relations including the free trade agreement signed this year with the European Union.

No matter what you might think of the way the world economy currently works and of the restrictions it imposes on governments, the main cloud hanging over Chilean democracy today does not seem to be the problems stemming from its economic model. As for the authoritarian enclaves, the passage of time and the consolidation of institutions themselves seem to be gradually toning down their importance. Perhaps what is at stake today is simply to find out whether the Concertación, which has played a key role not only in bringing democracy to Chile but also in consolidating its institutions and in creating a better society, will be able to survive the electoral erosion of the DC and maintain its supremacy over a political right which is shedding its image of the party linked to the dictatorship and taking on a new, more populist look. But that is a question mark over the future of Chilean politics and not over the future of its democracy.

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Achievements and challenges of the Chilean transition

Eduardo Frei Ruiz-Tagle

It gives me great pleasure to take part in this event organized by the Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE), an institution that has always shown enormous concern for democracy and issues affecting society as a whole.

Before making my presentation, I would like to point out that when the possibility of coming to Madrid to take part in this event arose, I never imagined that I would be doing so just a few days before the President of Chile, Ricardo Lagos, signed a treaty with the European Union in this very same city.

It is certainly a very special moment for my country. It is the culmination of a lengthy process that commenced in the early years of the last decade when the Chilean President at the time, Patricio Aylwin, signed the first framework cooperation agreement with the European Union.

Subsequently, in 1996, when I held the presidency, it was my task to sign in Florence the agreement kicking off talks leading to a political, economic and commercial treaty.

Years later, in 1999, during the First Summit of Heads of State and Government of the European Union and Latin America, held in Rio de Janeiro, we laid down the method and the deadlines for our negotiations.

Now, on May 17th, President Lagos will sign and seal all that work we have been doing for more than ten years. This process, which is coming to an end at a difficult time for Latin America, is an acknowledgement of the way Chile has steered its transition to democracy, despite all the complexities, shortcomings and challenges that are still outstanding. That acknowledgement is a source of great satisfaction to all the Chilean people.

Eduardo Frei was President of Chile (1994-2000). At present, Mr. Frei is Senator of Chile.

Let me move on now to my lecture as such and as agreed with the organizers of this event I will be talking to you today about the democratic transition process in Chile from the founding of the Concertación coalition until the present today. I will cover all the major events that have taken place over the last twelve years, especially the changes witnessed in my country over that period.

The birth of Concertación

The road to recovering our democracy that was curtailed by the coup staged on September 11th, 1973, is one that has taken us through a complex background landscape.

When the opposition at that time realized that the armed forces would never be ousted from power solely through a mobilization of society, an armed struggle or other means, it managed to put together a broad alliance to defeat the dictatorship through the polls, as provided for in the 1980 Constitution.

That was the first milestone of the Concertación because an intense internal debate was triggered within the social and political forces opposing the dictatorship to decide if we were to participate in the 1988 plebiscite or not. That is when the Concertación alliance for the NO vote was set up as a prelude to or direct predecessor of the current conglomerate. That initial alliance successfully prevented the military government from remaining in power for a further eight years thanks to its victory in the 1988 referendum which marked the start of the transition.

It is very important to understand that the Concertación was not set up solely and exclusively to defeat the military regime and restore democracy. The idea was also for it to form a majority government capable of ensuring democratic governability.

That last point is extremely significant because one of the major destabilizing factors in Latin American democracies has always been the existence of governments elected by a minority. Chile, in fact, was a prime example of that situation. Up to the time of the military coup hardly any of its governments were elected by a majority vote.

The difficult start to the transition

Thanks to the victory of the No option in the plebiscite, a presidential election was held a year later and won by Patricio Aylwin. Before making a brief analysis of his time in office, however, it is important to highlight three particular features of our transition that make it different from the other transitions experienced by all the other countries in Latin America.

Firstly, Pinochet still enjoyed considerable support for his government when his period in power came to an end, as shown by the 43% he achieved in the 1988 ballot.

In particular, he was strongly backed by the business elite, influential media and right-wing parties who were over-represented in the Parliament after the presidential and parliamentary elections held in 1989 because of the binomial electoral system.

Secondly, thanks to his constitutional prerogatives, Pinochet carried on as commander in chief of the army for another eight years.

Thirdly, his legacy was an antidemocratic Constitution whose reform mechanisms made change highly unlikely unless broad agreement with the opposition could be reached and that has not yet been possible.

With this background, Concertación's move into the limelight to take power represented a challenge on an enormous scale with all sorts of doubts and question marks hanging over it. What kind of governability could the country possibly have with such powerful armed forces? How would the armed forces react to the moral imperative to investigate human rights violations? Would the opposition support the democratization of the country? How could the government live up to people's expectations when there were so many unsatisfied social demands?

Obviously, the first task was to ensure governability. So, when it was plain that Aylwin's victory in the presidential election was imminent, the Concertación commenced negotiations with the government to reform the Constitution.

It was not an easy process because what the military regime proposed fell far short of what the opposition expected. Nevertheless, given the importance of ensuring that the future administration could function normally and of lessening any doubts that could be cast on the legitimacy of the Constitution, we eventually accepted the reforms that were voted on in the referendum, despite the limitations on the sovereignty of the people and on the power of the majority which still remain intact.

Nevertheless, other initiatives have been successfully pushed through. For instance, local governments were made democratic and amendments were made to the composition of Supreme Court judges and the way they are appointed. One consequence of that change was that it allowed Pinochet to be prosecuted.

I am personally convinced that Chile has implemented its transition in exemplary fashion. The democratic regime is fully consolidated and there is no danger of it reverting back to authoritarianism. Chilean institutions work in accordance with what is set down by law and respect for human rights and individual freedoms prevails in the country.

The democratization process has not progressed as fast as we expected it to. Today, there are a dozen or so projects in the National Congress whose aim is to break down the authoritarian enclaves in order to make all institutions truly democratic. That has not been possible, however, because of the constant refusal of the opposition to let them go.

Moreover, we have bravely and determinedly addressed the moral imperative to find out the truth about people who were killed, tortured or who disappeared during the

military government. Everyone knows what the report prepared by the Comisión Verdad y Reconciliación (Truth and Reconciliation Commission) contains and everyone accepts its findings. On the basis of that report, a number of steps have been taken since to give redress to those who suffered the violations or to the families of the victims.

For instance, over 50 billion pesos in pensions have been awarded to more than 35 thousand people; more than 7 billion pesos in educational benefits, and more than 50,000 people excluded for political reasons have now been reinstated and given their pension entitlements.

As for criminal justice, Chile has gone much further than any other Latin American country on this front. A large number of members of the armed forces, including several officers like the former head of the dictatorship's security organization, have been tried and sentenced to prison for the part they played in cases of human rights violations.

In addition, almost all the cases with greatest impact on public opinion have been cleared up and the culprits have either been sent to prison or are awaiting their sentence.

In fact, when Pinochet was arrested in London, my government fought the case on the grounds of sovereignty in the British courts so that Pinochet would be returned to Chile to be tried by Chilean courts. When he did come back, he lost his senator status, legal proceedings were initiated against him and he was committed for trial. Today, the case against him has been dismissed temporarily because of Pinochet's poor health but he has not yet been unable to prove his innocence in the crimes he is charged with committing.

Obviously, these events sometimes led to tension with the armed forces but any potential problems were always resolved in the framework of the rule of law. Civil authority was never superseded by the army at all.

Besides, another important point to mention is that during my government a vehicle for dialogue, the Mesa de Diálogo, was set up and representatives of the government, the armed forces, human rights lawyers and social organizations all took part.

The commendable achievement of that institution which ceased to exist when President Lagos took office was that during its work, the armed forces admitted for the very first time that some of their members had systematically violated the human rights of thousands of Chileans during the military government.

Moreover, there were also doubts about the future of the economy. Contrary to what happened in other countries, when the military government left power in Chile, it also left behind it an economy that was in order but weighed down by a hefty social debt. The outgoing authorities—who touted the idea that in Chile there was an “economic miracle”, a debatable notion to say the least—forecast that the country would go into reverse and that chaos would take hold in Chile.

However, events proved them wrong on that score. The economic collapse never happened. Quite the contrary is true. A glance back through all the indicators is enough to make you

realize that under the Concertación governments my country experienced a period of greater plenitude and growth than at any other time in its history.

The major changes

Economic growth and the fight against poverty

- Chile achieved its greatest period of growth ever in the 90s when it doubled the size of its economy. The average growth rate over the last decade was 6.5%, except for 1999, when Chile was hit hard by the Asian crisis. I know that the way we tackled that situation was controversial but I believe that the fact that economic growth in 2001 was 5.4% proves that we got it right.
- Since 1990, Chileans have increased their real income by 66% on average.
- When the Concertación took over in government, inflation was cut to its lowest level for 60 years. Ever since measurements of this indicator started more than 60 years ago, Chile's inflation rate had never been in single figures and that has had a positive impact on the earnings of workers.
- During the last ten years, the national unemployment rate has been kept below 8% almost constantly. Despite the difficulties we have had to deal with in the wake of the Asian crisis, our unemployment rate is one that other countries, even in Europe, would envy us for when going through hard times. Chile went through a deep recession in 1982 when its production fell by over 14% and the country as a whole lost some \$25,500 million, i.e. 30% of our domestic product, according to figures from the Santiago Chamber of Commerce, and we had an unemployment rate that topped 30%.
- Almost one million jobs were created between 1990 and 1998. In 1990, we had a workforce of around 4,400,000 workers, meaning jobs grew by 22% over the decade.
- Earnings grew in sustained fashion over the last ten years.
- The minimum wage rose in real terms by 72.5% between 1990 and 1999.
- Poverty and extreme poverty were cut by half compared to 1990. Of course, there is a lot still to be done in this area but without trying to be self-complacent let me tell you that I do not believe that any country in Latin America can claim to have reduced poverty by almost 50% in just over ten years.

- The value of our exports doubled during the period 1989-1998. This is a vital issue for us because our economy is open to the world and that means that thousands of jobs depend on us having a position in international markets.
- There was a boom in foreign investment in Chile. During my Government, over \$30 billion was channelled into Chile as real investment made. Solely in 1999, which was the worst year of my term of office economically speaking, \$9.22 billion flowed into the country. During the 1980s, i.e. over a period of ten years, Chile received \$10 billion in foreign investment.

Social development

- Education
 - Public spending on education grew by 156% between 1990 and 1999, taking it from 2.4% of the GDP to 4.3% in more or less the same period. When my Government started, we fully understood that to achieve full development we had to undertake far-reaching educational reforms so that our children could have a high standard of education, on a par with the international market and on the level of the challenges of this century.
 - The monthly State subsidy per pupil rose by 136% from \$10,143 in 1990 to \$23,992 in 1999.
 - Sustained growth in the coverage of different levels of education.
 - Improved efficiency of the educational system by increasing the average pass rate from one year to the next and lowering the fail and dropout rates in both primary and secondary education.
 - In 1996, an educational reform program was implemented around four areas: teaching improvement and innovation; professional development of teachers; curricular reform and the full school day.
 - Under the reform, the Enlaces (links) network program was set up with the aim of building an educational computer network that would connect up 50% of primary schools and 100% of secondary schools. More than 5,200 schools have joined the initiative, equivalent to 90% of the subsidized school population.
 - Some 3,500 teachers have travelled to different countries all over the world to carry out

assistantships and follow further education and postgraduate courses.

- The minimum teacher's salary grew considerably during the last decade.
- To date, 67.9% of all schools have taken up the full school day. This option involves major investments to extend and modernize schools. Between 1997 and 2000 more than 114 billion pesos were invested in 748 projects.

- Health

- Between 1987 and 1997, the health budget grew by 140% in real terms, allowing Chile to enjoy biomedical indicators on a level that is very close to developed nations.
- To overhaul the health sector, which had deteriorated and was in a state of neglect by the early 90s, the democratic governments have made substantial investment totalling more than 450 billion pesos solely in infrastructure and equipment. (Graph) More than 40% of the hospital infrastructure Chile has today was built by the Concertación governments.
- Two hospitals were built in the Metropolitan Region, 10 others were fully rebuilt and 71 were modernized.
- A total of 13 specialist health centres were built; 117 accident and emergency centers; 126 new doctor's surgeries were constructed and another 68 were refurbished; and 50 primary emergency care services were built.

- Housing

- A total of 912,000 housing units were built between 1990 and 1999, equivalent to an average of 90,000 per annum, much higher than the 54,000 recorded during the six years between 1984 and 1989.
- The size of housing units grew by an average of 57.4 sq. meters in the period 1980-1989 and by an average of 62.4 sq. meters during the decade of the 90s.
- The Chile Barrios plan was set up to tackle the poverty affecting almost 1,000 illegal settlements and campsites in the country with 600 already covered. By 2003, the precarious living conditions of an estimated 117,000 families will have been solved. In addition, the program's holistic approach to solving the problem of utter poverty also provides for education and social organization aid for the people living in those settlements.

- The participative road surfacing program, designed to surface streets, premises and housing areas, preferably where there is a shortage of resources, covered more than 1,500kms. This initiative involves surfacing the streets in towns and villages with funds contributed by the State, the local government and the inhabitants themselves. Thanks to this initiative, more than 80% of all the streets in towns and villages all over the country are surfaced today.
- Justice
 - The process of modernizing Chile's criminal justice system has commenced with the design and drafting of legislation to turn the written, interrogative and secret system into an oral, public, confrontational one. It is already working in five regions in the country and should be nationwide by 2004.
 - The system used to appoint the members of the Supreme Court was also amended.
 - The main change is the separation of the task of investigating a crime and charging someone for it from putting that person on trial and judging him. All of these tasks were previously performed by one and the same person: the judge.
 - The first steps in the new reform process were to get approval on setting up the Public Ministry and to appoint the National Prosecutor. The new system now operates in five regions in the country.
 - More than 120,000 sq. meters of penal institutions have been built, allowing for the expansion or re-opening of 23 prisons or detention centres all over the country.
 - Legislation and the administration of justice covering the family, women and children have been brought up to date.
 - Some examples are the laws on filiation, child adoption, child abuse, domestic violence and sex offences.

Infrastructure development

- Since 1990, Chile has benefited from major changes in the quantity and quality of its infrastructure.
- The Concertación fostered an active investment policy and involved the private sector in the policy through a concession mechanism.
- Investment increased from 139 billion pesos in 1990 to 723 billion pesos in 1999.

- Main production and regional development infrastructure projects:
 - In the case of water infrastructure, a total of 208.714 billion pesos were invested in reservoirs, irrigation works and other projects.
 - In the case of airports, around 78,500 sq. meters of new terminals and refurbishment and extensions of existing terminals were completed.
 - Important steps were taken to consolidate the Ruta 5 from La Serena to Puerto Montt by completing an approximately 1,500 km stretch of high standard, two-lane highway (only 137 km long until 1990).
- Main social infrastructure works:
 - Enhancement of irrigation quality covering more than 200,000 hectares.
 - Drinking water supply was provided to 96% of concentrated rural towns and villages. In three to four years time, Chile will have 100% nationwide coverage for drinking water and drainage systems.
- Main international integration infrastructure:
 - Following on from the decentralization of the Chilean Ports Company, a number of new ports were built and several existing ones were modernized.

Telecommunications sector:

- The multicarrier dialing system came into force, ending the quasi-monopoly that existed in long-distance telephony services.
 - As a result, long-distance call rates were brought down by an average of 60%, whilst traffic increased by almost 400%.
 - The tariff-setting processes for local telephony companies enabled service coverage to be expanded with a 260% increase in lines in service, taking telephone penetration from 6.5 to over 20 lines per 100 inhabitants.
- Energy policy:
 - One of the most important achievements of the last decade was the country's energy integration, achieved through a variety of gas (7), oil (3) and electricity (1) interconnections with Argentina that brought with it economic, environmental and energy benefits.

- The Rural Electrification Program enabled electricity to be installed in over 90,000 rural housing units, raising the percentage of rural properties with electricity to 76%.
- Sanitation companies:
 - The State switched roles from being a business to being a regulator.
 - That change had a positive impact on the waste water processing coverage and the export sector. By 2006, Chile's coverage in this area will be 85%, on a par with developed countries in this area.
 - Since the start-up of the new system, the tax authorities have collected in more than \$1.5 billion. That figure should rise to \$3.5 billion by 2010.
 - Increased profits for the State in privatized companies.

Foreign relations

- Integration with neighboring countries
 - An agreement was reached with Argentina in the dispute over Campo de Hielo Sur, bringing all our border disagreements that had been going on for more than 100 years to an end.
 - Mining Integration and Entitlement Treaty allowing exploration, mining and sale of border mining resources on both sides of the mountain range separating the two countries by granting Chilean and Argentinian citizens equal treatment as nationals when on foreign territory.
- Economic internationalization
 - Gradual reduction from 11 to 6% in customs duties to be completed in 2003.
 - Economic agreement signed with Mercosur.
 - Bilateral agreements entered into with Ecuador, Canada, Mexico (expansion of the agreement signed in 1991) and the European Union. We also became members of the Asia-Pacific Economic Cooperation Forum and started negotiations to set up the Latin American Free Trade Area (LAFTA).
 - Negotiations commenced for Chile to become part of NAFTA.

State reform

- Creation of the Electronic Public Procurement Information System available on the Internet which will provide information on ongoing and past State procurement procedures when it is fully operational. Once the National Congress passes the Procurement Act, it will be possible to hold tenders and award contracts electronically.
- Creation of a State web site with more than 2,000 hits a day through which citizens can gain access to more than 400 public institutions.
- Incorporation of new management and evaluation instruments like strategic planning, ministerial goals, government project evaluation, management enhancement programs and full management reports that are compulsory for each service and are available on the Internet.
- Administrative Probity Act which, among other measures, guarantees access to administrative information and forces top-level authorities and public servants of the State to submit a public declaration of interests when taking office.
- Reform of the Penal Code to create new corruption-related crimes.
- The efforts made to improve honesty have been acknowledged internationally. The non-governmental organization Transparency International rated Chile as the most upright, honest country in Latin America and has ranked us successively as one of the top 20 in its 90-nation honesty league table.
- A Red Tape Simplification Program has been implemented, covering 100 services. It eliminates and simplifies 300 cases of excessive red tape in their procedures, saving an estimated 13,000 working hours a year.
- The electronic document and digital signature were given the go ahead for use in the Public Administration.
- The creation of a governmental Intranet which will save the tax authorities more than \$100 million in five years and will link up all the country's public services on a single network.
- As far as decentralization and institutions are concerned, the regionalization of public investment was given a strong boost. In 1994, 21% of public investment was decided by the regions themselves and not by the central government. Today, that figure is more than 45%.

Environment

- The setting up of an environmental authority meant that it could be included in the development process based on the concept of sustainable development.
- Birth of the National Environment Commission.
- Passing of a series of regulations governing matters including environmental quality and emissions; the procedures and phases for prevention and decontamination plans; and the system of environmental impact assessment.

Outstanding tasks

This presentation has briefly reviewed all we have done. We are proud of that track record although not necessarily fully satisfied with it because we know that there is still a lot left to do to complete the transition and reach the development threshold.

We need to consolidate the progress we have made up to now by turning the ethical principles of democracy into a legitimate institutional reality that is fully accepted by one and all.

In these almost twelve years of democracy, despite its continuous success in the polls, the Concertación has not been able to wholly perform political-institutional power because of the interference of those mechanisms inherited from the previous regime, designed to “protect” democracy.

Likewise, I am convinced that the way to have a solid democracy that meets the wishes of the great majority of Chilean citizens is to move forward in tandem, helping institutions and the different players involved in political processes to develop and mature.

To achieve that, what we need first of all is a modern, competitive, democratic party system. Amongst other features, that system would require public funding both for parties and for political campaigns and an electoral mechanism that allows all political forces to be represented.

It is also essential to stake out quite clearly the limits of the role of the armed forces. Our defense institutions deserve to be fully appreciated by people again instead of being the subject of either adulation or attack on the part of different political sectors.

This will only happen when they can devote themselves entirely –leaving no room for debate– to the professional tasks the country sets for them and that are their legal and constitutional responsibility.

Lastly, one of the main challenges ahead of us is to raise the standard of politics. Between all of us, we must build a participative, inclusive, healthy and pluralist democratic culture

that can enhance our coexistence.

From an economic and social standpoint, the big task ahead of us is to ensure sustained, more equitable growth that will allow us to become part of the global economy so that we can gain from its benefits and cut down the risks entailed by its threats.

The situations of inequality that are still quite plainly a feature of our society are a tremendous challenge to the stability, depth and strength of the democratic ideal. Social inequality erodes confidence and trust in institutions and widens the social gulf.

That is why we urgently need to put forward the idea of a new social pact to link up our material progress to social, cultural and spiritual progress.

In practice, this means that together with macroeconomic balancing policies and fiscal and monetary responsibility we must be able to give impetus to a people-centered economy. To do so requires an equitable, creative and efficient State driven by social development; a State that focuses its actions on the more vulnerable sectors of society.

Ladies and Gentlemen:

That brings my presentation to an end. I hope that it has lived up to your expectations. Thank you once again for giving me this chance to speak to you. I would be happy to answer any comments or questions you may have.

Thank you very much.

Comments by Andrés Allamand

I would like to make three comments on the presentation made by President Frei before focusing, as I was requested to do, on issues related to the political reform still to be undertaken. The first comment is about growth; the second is about poverty and the third and last remark is about revenue distribution.

As far as growth is concerned, my impression of the figures given by President Frei is that they are extraordinarily eloquent. Anybody who makes the slightest attempt to be objective when examining the performance of the Chilean transition on the growth front has no choice but to conclude that its results have been outstanding. They are even better if analysed comparatively and in perspective.

Average growth figures in Chile in the 1980s, in what has been called the “lost decade” in Latin America, were already higher than the average for the region but that trend became even more marked in the 90s. According to ECLAC, growth rose to around 5 % in circumstances in which the regional average did not even attain 3%. That being said, it is interesting to examine the possibilities of future growth for the Chilean economy. One useful parameter to do that are the measurements prepared by the World Economic Forum and Harvard University which, as you know, have been compiling and publishing the most prestigious competitiveness indices for years now. Competitiveness is defined as the economy’s ability to grow in sustained fashion in the medium term.

The Growth Competitiveness Index (GCI) for 2001– which covers 75 countries – measures the growth potential of a country on the basis of three factors: its technological level, institutional quality or “capital” and macroeconomic management.

The top five countries heading the most recent GCI are Finland, USA, Canada, Singapore and Australia. Spain lies in 22nd place and Italy is number 26 in the league table. Where does

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Chile appear? It appears in a highly impressive 27th place. Costa Rica, the next closet Latin American country behind it, lies in 35th place, then comes Mexico in 42nd spot and Brazil as number 44. The bad news for the region comes after that. There are nine Latin American countries amongst the bottom 15.

In other words, Chile stands out as a competitive country in a region that is outstanding on account of its low level of competitiveness. This comparison underlines what President Frei said about the economic success that has been the hallmark of the Chilean transition.

So where are the black clouds hanging over such a promising landscape?

The first one was mentioned by President Frei: the slow rate of growth over the last four years already, almost half of the average figure running through the previous decade.

The second one is that Chile is lagging behind somewhat in the technological stakes. Although it lies in 27th place in the GCI, Chile is not ranked in identical fashion for the different factors that are taken into account to make up that index. For instance, it is ranked 21st for institutional quality and macroeconomic management but when it comes to technology, Chile falls sharply down to 42nd place in the table. Therefore, our technological competitiveness is lower than our competitiveness corresponding to all the other variables considered.

Thirdly, Chile also lags behind somewhat with regard to education and training of its human resources (measured, for example in years of schooling of the population) because in that aspect although our results are on a par with our level of development we are progressing at a much slower pace than other nations like the South East Asian countries (Korea, Malaysia and Thailand, for example). Lastly, from the standpoint of our development model, Chile is overly dependent on commodities. Historically, it has always been dependent on them but that is not a good reason for it not to be a cause for concern. The countries that have experienced most growth in the last 30 years are not the ones whose growth has been driven by raw materials but rather they are the countries that have taken a qualitative leap forward and have turned first into adapters of technology and then into technology creators. That is not our case.

Let me make a comment on the subject of poverty. I don't know whether any other country has done what Chile has done in ten years. I am talking about cutting poverty and destitution levels from 38.6% to 20.6% and from 12.9% to 5.7%.

That is an exceptional performance. However, despite that great progress made we still have a 20% poverty rate in Chile. In other words, despite everything achieved up to now, one out of every five Chileans still lives in poverty. That throws up challenges of a different scale. The point has already been made that growth needs to be given a new impetus because, believe me when I say that the most effective way of reducing poverty is through growth. To be exact, growth is a necessary prerequisite but not enough to do the job on its own; it must go hand in hand with other measures. For instance, Chile can do more to improve the way it targets its social spending given that only 40% of spending is concentrated on the poorest 20% of the population. A number of social policies and programs must also be redesigned. The point to

remember above all is that when poverty stands at 20.6% of the population and 5.7% live in extreme poverty, the instruments required to deal with that problem have to be much more sophisticated. They require policies that are more decentralized, that get much closer to the problem and that involve greater participation of civil society organizations in order to home in on the key pressure points.

The only economic aspect of the transition in Chile that has not been positive is revenue distribution. On this front, we are in the same position as ten years ago or slightly worse off despite the social spending correction. In fact, without the impact of that correction, the problem would have got worse over recent years. And we are talking about major inequality: the richest 10% of the population concentrates 41.7% of all the revenue and the poorest 10% receives just 1.5%.

It is true that Latin America is the region of greatest inequality in the world and it is also true that Chile does not top the list of countries with the worst record in distribution. Nevertheless, we still have a huge inequality gap within Chilean society.

Chile certainly needs to work on getting its public policies right to gradually bridge that inequality gap – a veritable abyss. Such a highly fragmented society with weak cohesion does not adequately achieve what should be one of its goals. At the same time, improving revenue distribution is an incentive for growth given that the most cohesive societies grow more quickly and in more sustained fashion than those that have acute equality differences. Lastly, there is no better fuel for populist tendencies than unequal revenue distribution such as we have in Chile.

That being said, special attention needs to be paid to the instruments employed to tackle the problem. That is where countries tend to make serious mistakes! Policies designed to improve revenue distribution have to have two characteristics: firstly, they must neither weaken nor erode growth because if they do they end up as unsuited to their purpose. Secondly, they should be the right policies for the task in hand and most of them are not. The traditional instruments used, such as raising taxes and indiscriminate State intervention do not satisfy these requirements.

As for the subject of the transition, or rather the outstanding political reform, I think it is important to start off by asking why Chile has not yet completed its reform. The answer is a fairly straightforward one. It has not managed to do so yet because initially and until quite recently, to tell the truth, the opposition defended the indefensible in institutional matters, i.e. a set of authoritarian traits inherited from the institutional workings of the military regime. Nor did it help that initially the Concertación wanted to wipe the slate clean in institutional terms.

All in all, the dispute between the two sides made any conclusive agreement on the issue impossible until now.

Whatever the case, the reform process has clearly undergone two phases, the first being

after General Pinochet's defeat in the 1988 plebiscite. President Frei was referring to that phase when he mentioned the 54 reforms that were made to the 1980 Constitution in mid-1989.

A whole suite of problems was cleared up then. For instance, the Constitution had an article – article eight – which in practice prevented political pluralism and which was suppressed. The designated senators were neutralized by being reduced in number although their status was maintained. The functions attributed to the National Security Council were also amended and its composition was changed to bring to an end its majority military composition. Certain aspects of the states of exception, the suspension of rule of law, were improved too and the absurd presidential power to dissolve the Chamber of Deputies – a sort of parliamentary freak within an ultrapresidential system – was suppressed.

Ten years have gone by since then and a number of further attempts have failed, largely because of the refusal of the centre-right opposition to give in to the changes. This is the second phase, still to be concluded.

Today, however, the issue is different. The institutional senators who alter the majorities expressed in the parliament no longer have the backing of any political force in Chile.

They are all in favour of their abolition. The same goes for a rule that essentially handed over to the armed forces, through the National Security Council, a power that was really unacceptable in terms of proper democratic logic. They were given the power to be the ultimate “guarantors” of Chile's institutional life and national security. That provision has no backing today either.

All in all, the so-called “authoritarian enclaves” have gradually lost prominence.

So where, then, are the stumbling blocks preventing a constitutional agreement to bring the transition to a close? Firstly, they are in a law that still survives and under which if the President of the Republic wants to order a commander in chief of the armed forces to retire, he has to consult the National Security Council first. However, the same thing will happen to this law as has happened to all of the other vestiges of the authoritarian regime. At first, the people who feel nostalgia for the military regime defend those vestiges as non-negotiable and then they cease to cling to them as principles and start claiming “timing problems”. Eventually, they give them up without a fuss, as surreptitiously and silently as possible.

Today the real noose still tying up the Chilean transition is the debate on the electoral system. Just as President Frei insinuated, the truth is that politicians have no right to keep the pending political reform quagmired just because no agreement is reached on the electoral system about what the institutional senators should be replaced with.

The Chilean transition should really be brought to a close once and for all. Not only for internal reasons or to give politicians some prestige or to do things properly but because it does not make sense that such serious, responsible politicians, untainted by corruption, as we have in Chile are incapable of reaching an agreement on the rules of the game to make the democratic system work. Chile is throwing away the opportunity to show its face to the

world not only as the most solid, open economy in the Latin American region but also as the country with the most solid, trustworthy and consensus-built political institutions. On that level, it would have an enormous competitive advantage in a region afflicted by its own lack of governability, its rickety rule of law and by the endemic fragility of its institutions.

Shortsightedness has a lot to do with this inability to solve the problem because the solution is not that hard to find. We are talking about electoral systems, not highly sophisticated matters. I am not naïve and I am aware of how much electoral systems matter because they determine the way political power is distributed. I also know that there is a golden rule in any electoral reform: it is difficult to get the same people who have been elected through an electoral system to change that system.

Chile has a number of solutions within its grasp but first it must make a fundamental choice between a proportional system and a majority system. It has to wipe from its mind the unsustainable argument that the only really democratic option is the proportional system. That is a ridiculous theory and whoever sticks to it should go away and think up a good reason for disqualifying democracy in the USA, Great Britain or France.

My opinion is that Chile must choose a majority system and not go back to a proportional system. Anyone who has observed how the presidential system works in Latin America knows that the combination of presidential regime plus proportional representation is extraordinarily dangerous. Latin America's drama is precisely one of powerless presidents in a minority position permanently at loggerheads with the Congress, incapable of implementing their programs, forced to negotiate permanently in a fragmented party-based environment which, as we all know, ends up by eroding any and every leadership, sapping its energies and perverting the way the political system works.

But if all of this is so easy why does it not happen? This is the great paradox: in the opposition there are still people who believe that keeping the status quo is right. However, if nothing changes and there is no constitutional reform, in 2005 Ricardo Lagos will end up playing the role that Pinochet played in 1989. He will directly or indirectly designate the majority (7 out of 11) of the institutional senators and then, as the immediate next step, he will take up his own post (just as President Frei has done) as a life senator.

That would certainly be an irrational situation because it would mean that Chile would have a political system where the outgoing president would determine the parliamentary majority and, consequently, the success of the government taking over from him. And for the opposition, which has high hopes of getting into power, it would mean taking a dose of its own worst medicine as it could end up being the majority in the country but the minority in the Congress.

To summarize, the conditions are ripe for Chile to bring its transition to a close once and for all and for the vestiges of the authoritarian regime that still survive in the 1980 Constitution to be wiped out. If that does not happen, the paradox referred to above will come true and

the Concertación, which has always been against the authoritarian enclaves of the 1980 Constitution, might end up by accepting them and turning them to its own advantage. As for everything else, there is no reason to be surprised about the way things are. When democratic or electoral or institutional mechanisms are not neutral for the sides involved, when they favour some and work against others, in the long run they end up working against their own creators. That is why the great wisdom of democracies that work well and whose institutions are properly designed lies in the neutrality of the rules of the game.

As regards the questions and comments that have come up, I would like to deal with just two or three of them. Firstly, Chile has a democracy but it is obviously a democracy with limitations, a flawed democracy. However, as far as the Chilean political system is concerned, it would be quite reasonable to assert that it amply crosses the threshold of minimum democratic requirements. But there is a very worrying phenomenon and it is the issue of what we might call “a citizens’ electoral vacuum”.

Chile has an absurd system because it is not compulsory to be registered on the electoral roll but once you are, voting is compulsory. And if you add up all the people who do not register, those who are registered but who do not vote and those who cast a blank vote or a spoiled vote, the result is a huge “sack” of people who exclude themselves from the political process.

In 1989, in the first parliamentary election, 82.5% of those self-excluded citizens barely represented 17.5% of the electorate, but at the last parliamentary election they totalled 40.7%. In round figures, in 1989 6,797,000 people voted and in 2001 there were 600,000 fewer voters. The “sack” of self-excluded people at the start of the transition totalled 1,500,000; in 2001 it was 4,000,000.

We have a potential time bomb on our hands here that perhaps reflects a more widespread phenomenon. According to the Latinbarómetro survey, which covers more than 15 countries in Latin America, political institutions are in great disrepute. That means that the link between the problems of our democracy referred to above and the drop in support and the lack of affection for institutions is not just coincidental. It happens just as much in countries without authoritarian legacies in their political systems.

One of the reasons for this “growing vacuum” may lie in the fact that little is resolved through parliamentary elections. We have scarcely had time to mention that the Chilean parliament is handicapped. It is one of the weakest of all Latin American democracies in terms of its powers. In the Chilean political system, when it comes to the president’s relationship with the Congress, the president is a Tsar.

In addition, in the case of Chile, not only is the parliament handicapped but also everyone knows that the designated senators are the ones who tip the balance at the end of the day. These and other flaws may contribute to the voter self-exclusion phenomenon but to what extent and in what proportion they do is a question for which there is no definite answer.

Comments by Carlos Ominami

It is not easy to speak after the forceful paper presented by President Frei regarding the development of our country over the last 12 years. Nor is it easy to speak after Andrés' comments, especially during the first part of his paper, in which he called for a concerted effort to overcome inequality. This is more typical of a socialist senator (such as myself) than of the president of an opposition party. If all opposition parties in Chile behaved as Andrés suggests here, then the situation in our country would be vastly improved. Unfortunately, this has not been the case and my task on this panel is therefore much more difficult. Nevertheless, there are still a number of important aspects that need to be discussed.

I believe it would be fairly futile to continue focusing on the achievements of the Chilean transition and the strong points of Chile's development over recent years. It may also seem a little arrogant and may detract from the credibility of President Frei's own presentation. I believe that I will be able to contribute more to this panel by looking on the dark side of things and examining the more complex dimensions of this process.

To begin with, I would like to examine the following question: why is it that the Chilean transition appears to be such a success, despite the fact that from a political perspective it has been fairly problematic? The explanation for this has less to do with politics than with economics.

Our transition has been considered highly dynamic from an economic point of view, although this was far from evident at the beginning of the process. In my capacity as Minister for the Economy at the start of the transition, I was deeply involved in the entire process and to tell the truth, our experience was extremely paradoxical. As President Frei has already said, the greatest fears surrounding Chile's transition to democracy were focused on the economy. It was feared that democracy, with its good intentions and desire to relieve the poorer sections

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of society, would end up compromising one of the few positive aspects of the dictatorship, i.e. the economic growth and strong economy that Chile had enjoyed during the second half of the 1980s.

One of the great surprises of the Chilean transition was that it actually brought about an improvement in the economic situation, something that had never occurred before in Latin America. Transitions and democracies in Latin America had a bad reputation from the point of view of their ability to administer economic processes efficiently. They were democracies full of good intentions, sensitive to the poorer sections of society, but inefficient as regards economic management.

I believe that one of the key aspects of the Chilean transition is that it demonstrated that democracy could coexist with efficient handling of the macro-economy. Never in its economic history had Chile experienced a boom comparable to that of the 1990s. And this was a very important aspect of the Chilean transition since it reconciled democracy with efficiency and good economic management.

Here perhaps I should point out, in contradiction somewhat of Andrés Allamand's earlier comments, that this was not achieved simply by maintaining the bases of the economic policies implemented during the military regime. If we analyse what happened during the 1990s in greater detail, we see a number of important changes regarding what used to be common ground in the field of economic policy.

The outstanding results of the 1990s were achieved by increasing taxes, with (it must be said) the concurrence of a section of the opposition headed by Andrés during this period. But this did not contradict the areas of common ground in the field of economic policy. In 1990 we increased taxes, we increased company taxes and we increased value added tax for one very simple reason: we needed to finance a concerted effort to improve social policies. It would have been extremely irresponsible to increase social spending without adequate funding, and therefore a key aspect of the transition in the economic sense was tax reforms, aimed not at lowering taxes, but rather at increasing them.

A second, but equally significant development during this period was the first wave of labour reforms. At that time, there was a very large gap between the relative situations of workers and company owners. For this reason, between 1990 and 1992 a series of labour reforms were implemented with the aim of providing greater protection for workers and strengthening the negotiating power of trade unions, which had been seriously undermined by the military regime.

The measures that were adopted from an economic point of view were in no way linked to classical neo-liberal ideals, but were rather clearly heterodox steps based on dominating economic tendencies: tax increases, labour reforms aimed at strengthening the negotiating power of the trade unions and the introduction of a series of new regulations aimed at, for example, resolving or beginning to resolve the country's serious environmental problems. I feel

I should highlight here once again that we did not limit ourselves to simply continuing along the same lines as those laid down by the former military regime.

Another important decision was to give the most basic aspects of the democratic economic reform processes the character of State Policies, particularly in all areas linked to the market economy and the country's reintegration into the international community. During the democratisation process, we not only maintained a stable level of openness, but also intensified Chile's relationship with the outside world. One of the most important measures taken in this sense was a lowering of customs tariffs in 1991. Many doubts were raised regarding our economic approach, which was why it was so important that the democratisation process was able to continue bringing down the barriers which separated Chile from the outside world by reducing customs tariffs and negotiating international agreements with a wide range of different countries.

The Chilean transition enjoys a high level of prestige and is universally acknowledged to be one of the most successful transitions ever carried out, not only as regards its political aspects, but mainly due to its economic achievements also. This is quite paradoxical, because at the beginning, the political aspect was supposed to be the strong point, whereas in fact, the real success occurred in the economic arena, with the political side of things being relegated to second position.

President Frei talked of tasks yet to be carried out. I believe that this is a good description of the issues pending resolution in our country. I also agree with the contents of a letter of introduction from the President of FRIDE in which he asserts that there are two main problems facing democracies today: increasing inequality and progressive democratic deficits. I believe that this definition applies equally to the principal limitations with which our country is currently faced. In the economic field, Chile was undoubtedly the country with the greatest growth rate during the 1990s. But to add a new dimension to the discussion, however, I would like to make the following point: although Chile continues to be one of the countries with the highest growth rate over recent years in Latin America, its current growth rate is barely half what it was during the previous decade.

In light of President Frei and Andrés Allamand's comments, I would like to raise a question regarding the Chilean economy's capacity for growth in the medium and long term, since I believe it is an error to assume that an economy such as ours is assured of continuing growth rates of between 6 and 7% per year simply because of past performance. Such growth rates are achieved only with very strenuous effort and are not the result of automatic generation processes. It is therefore vital for Chile to focus on establishing a development strategy that will enable us to regain such growth rates in the future.

Growth rates such as those which we enjoyed during the 1990s cannot be achieved by simple automatic means. They require a lot of effort, imagination and intelligence. There are very few countries in the world which can boast a growth rate of between 6 and 7% per year.

Indeed, such countries are exceptions on the contemporary economic scene and the efforts required to achieve such results are by no means insignificant, especially in our country where we continue to have serious problems with inequality and an unfair distribution of income. As I have said on other occasions, as a country we have much in common with Asian nations insofar as we have a growth rate of 6-7 %, but the distribution of our income is more similar to that of an African country. We are a country in which the rich are very rich (it is not easy to find rich people as rich as ours in developed nations), and the poor are, inversely, very poor indeed.

Although it is true that half of the Chileans living in poverty at the end of the military regime have managed to improve their economic situation over the last 12 years, 20% of the population still live on or below the poverty line. Andrés has already talked about per capita income, but I would like to offer another datum that may prove even more revealing: Chile is a country with a high life expectancy, almost as high as in developed countries - 75 years. However, the difference in life expectancy between a person at the top of the income ladder and a person at the bottom is more or less 10 to 12 years. In other words, someone at the top of the income scale can reasonably expect to live ten or twelve years longer than someone at the bottom. To my judgement, this is one of the most brutal expressions of the social inequalities that exist within countries such as ours. Furthermore, it naturally raises questions regarding medium and long-term growth, on the one hand, and regarding the problem of how to distribute the fruits of that growth more fairly, on the other.

No other country in the world has achieved higher levels of social homogeneity and social integration with such low taxes as Chile. In our country, tax rates are set at less than 20%. No other country in the world has ever achieved a reasonable degree of social integration with such a low rate. I am not trying to suggest that my aim is to systematically increase taxes. What I am saying is that with the financial capacity available to Chile at the present time, it is impossible to generate a higher level of integration or to overcome the terrible inequalities that still exist within our country, and which I have not the slightest doubt that the market will prove incapable of resolving. And this is a fundamental problem facing our country today.

These prestigious and successful transitions nevertheless present one serious problem, i.e. the risk that the process will remain unfinished. And it is by no means an insignificant danger. I would not be surprised if in five years' time a discussion on the Chilean transition were to deal with exactly the same problems as those on the agenda today. And to be blunt, I think this is a fairly serious risk, i.e. the risk that we are faced with a transition impossible to complete.

But why should it be impossible to complete? I believe that the problem is much more complex than simply a discrepancy with regard to the current electoral system. The problem in Chile today is that there is no constitutional agreement. This is Chile's problem, and it is one of the main differences between the Chilean transition and the Spanish transition, the majority of transitions in Latin America and all such processes in general. The Spanish transition was

carried out on the basis of a constitutional agreement. In Chile, such an agreement has yet to be established.

Constitutional differences are very important, since they are directly linked to the electoral system and, of course, the power of the President of the Republic to appoint and dismiss top-ranking officials in the armed forces.

No matter how serious the infraction committed by a top-ranking military official, our President of the Republic does not have the authority to dismiss him and this is a very serious problem, as President Frei himself found out: there was one case in particular in which a very serious offence was committed, namely a top-ranking police official involved in a case of violation of human rights. President Frei expressed the government's wish that the person in question be dismissed, but when the chief of police refused to comply, there was nothing more he could do. This is not normal. The Chilean political institution does not pass the test of democracy.

Our system also establishes quorums that are, to put it bluntly, practically unattainable. The 1980 Constitution is the most enduring constitution ever established, because it is a constitution that cannot be modified and which was written by those who now form the opposition.

The national agreement established in 1985 specified the need for the country to have a Senate appointed exclusively by public vote. Although almost 17 years have passed since the opposition party signed an agreement abolishing the tradition of having designated Senators, such Senators still exist today. This is another of our problems. It is indicative of the obstacles faced by Chile in its attempt to complete the transition process. Andrés stated that the obstacle preventing the completion of the process lay in disagreements regarding the electoral system. I believe that the problem is more complex than this, because in the end, disagreements regarding the electoral system are linked with the issue of free expression for both the majority and the minority. I do not want a proportional system, since purely proportional systems lead to a high degree of political automation and result in situations of ungovernability. But a system in which 33 percent of voters count for the same as 65 percent is an obviously unfair system - a system designed to prevent the existence of either a minority or a majority and in which, at the end of the day, everyone is the same.

Andrés stated that the opposition was growing weary of the situation because under the current circumstances it will never be able to achieve a majority. This is true, but I believe that the opposition does not really want to achieve a majority. It does not want to achieve a majority for following reason: because a significant number of the current basic laws date from the previous period. In other words, they are laws that the members of the opposition themselves made and which they are not particularly interested in changing. For this reason, the issue of being a majority or minority does not carry the same weight for both parties. For us, it was very important to be a majority because we wanted to change things. But for the more

conservative groups, this issue is less important because being a minority would in fact give them the perfect pretext for not changing the things that many people want to see changed. As a minority, they could truthfully use the excuse that they do not have the majority required to make such modifications. And finally we will end up endorsing the reasons behind this resistance to change.

I would like to end by saying the following: I sincerely hope that the process of constitutional reform that has begun once again in our country will prosper. I do, however, have serious doubts and apprehensions regarding the possibility of this happening, due to the wishes and desires of what I would call the dominant cell of opposition in Chile. Although this may be a bold statement, I believe that the right-wing movement currently in power in Chile is a non-democratic movement, a movement that takes advantage of our unchangeable Constitution and which has no interest in achieving a majority, but which rather aims to maintain a system which perpetuates the inequalities referred to by Andrés himself. This seems to me to be the greatest challenge currently faced by our country.

I think the issue brought up by President Frei at the beginning is very important. Chile's progress and achievements have been acknowledged by the European Union and we are currently in the process of signing an agreement with the EU which places Chile in a truly provisional position within the context of Latin America. I hope that our policy of intensifying our international relations will not only enable us to strengthen our economic position and development, but will also help us to establish the conditions required to complete our political transition process. In much the same way as we now have a solid economy and above-board fiscal accounts, I hope we will soon have a democratic institutional situation of which we can feel equally proud. Thank you very much.