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Chile's Elites Face Demands for Reform

JENNIFER PRIBBLE

An estimated one million Chileans took to the streets in August 2016 to demand reform of the country's privatized pension system, calling for an end to individualized retirement savings accounts, which were created in 1981 during General Augusto Pinochet's military dictatorship. The mobilization, involving around 5 percent of the country's population, was the largest since Chile's return to democracy in 1990. Demonstrations of growing discontent have become common in Chile of late. The pension protests came in the wake of more than five years of student mobilization aimed at forcing a reform of the Pinochet-era education system.

What accounts for this surge of protest in a country that has long prided itself on its consensus politics and absence of conflict? And what does it mean for Chilean politics and democracy more broadly? By some accounts, the protests reflect a deep disconnect between the country's political elites—who have emphasized restraint, moderation, and neoliberal orthodoxy—and ordinary citizens, who are increasingly concerned about inequality, economic vulnerability, and social mobility. In that sense, they also symbolize the failure of Chilean political parties on both left and right to channel conflict and represent citizens' demands.

In another interpretation, the protests are evidence that the country's democracy has succeeded on some fronts but fallen short on others. The new demands demonstrate that social policy reforms enacted during the 1990s and early 2000s failed to live up to citizens' expectations. But they also underscore how the slow expansion of the state created new social rights, empowering calls for redistribution. In this view, the question looming over

Chile is whether the country's political parties and elites will adapt to these new demands, put an end to the elitist politics that defined the period after the democratic transition, and embrace a more participatory form of governance. Both interpretations hold some truth, but initial evidence suggests a strong resistance to change among elites, setting the stage for a political crisis.

The recent wave of protests may come as a surprise to those aware of Chile's reputation for good governance, high growth, and strong democracy. Its achievements have indeed been impressive by some measures. Between 1990 and 2015 the economy grew at an average annual rate of 3.5 percent, with only two years of contraction in a quarter-century. As incomes rose, the share of individuals living in poverty declined from 38.6 percent in 1990 to 7.8 percent in 2013. On the political front, Chile is also considered a success, with low rates of corruption and healthy democratic competition. Transparency International ranks the country among the world's 25 least corrupt states. The Varieties of Democracy index scores Chile as highly democratic in most respects, including protection of civil liberties and rule of law.

CAUTIOUS CENTER-LEFTISTS

Since the return to democracy in 1990, Chile has been led by a series of center-left governments; the right held the presidency for only one term (2010–14). The center-left administrations of the 1990s and early 2000s modified social welfare policies, expanding coverage and making benefits more generous. But none of the reforms dismantled the underlying structures put in place by the military dictatorship. During Pinochet's rule, Chile became a poster child for neoliberalism, radically reforming the economy and the welfare state, privatizing pensions and partially privatizing education and health care. Following the democratic transition, the center-left parties

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were cautious with reforms, hesitant to increase taxes or significantly expand the role of the state in the provision of services.

This moderation was beneficial in some respects, since it allowed the center-left to secure policy reforms despite the conservative tilt of the Senate and strong opposition from the well-organized business sector to any deviation from neoliberal orthodoxy. Still, this meant that social policy reforms, while important, could neither reach full universal coverage nor completely break with deeply rooted inequalities.

The center-left's cautious approach to social reform is explained in part by political constraints and policy legacies. The country's right-wing parties, National Renovation and the Independent Democratic Union, are strong and have resisted efforts to reduce the private sector's role in education, health care, and pensions. Moreover, the 1980 constitution, which was written by Pinochet and his allies, provided advantages to the right. The binomial electoral system, under which the candidates who finished first and second in a district each received a seat, all but ensured a divided Congress. Designated senators, who were named by Pinochet before he left office, gave the right enduring control of the Senate.

While these constraints influenced social policy outcomes in the 1990s and early 2000s, the moderate approach to reform also reflected the character of the country's center-left political parties. Chile's left-leaning parties are elitist in their organization, with weak ties to the voting base and limited space for participation. Their structures protect elites from pressures from below. As a result, the parties' policy-making process is insulated, involving consultation with technical experts and officials from the Finance Ministry, but little societal input.

Between 1990 and 2013, Chile's center-left coalition, the Concertación, was made up of the Socialist Party (PS), the Christian Democratic Party (PDC), the Party for Democracy, and the Social Democratic Radical Party. The two largest parties in the Concertación, the PS and the PDC, were political rivals before the bloody 1973 coup led by Pinochet, when Socialist President Salvador Allende was killed in a military assault on the presidential palace. After the coup, PS leaders and other leftists were detained, disappeared, or forced into exile.

During the years in exile, Socialist elites engaged in reflection and renovation. When the party returned to the political scene in the 1980s, it

had divided into two factions. One saw the coup as partly the result of the party's radicalization and its unwillingness to compromise. This group stressed a need for moderation during the political transition and in the early years of democracy. The second faction maintained a more traditional leftist stance, questioning Pinochet's neoliberal reforms more directly.

The more moderate, renovated faction eventually won control of the party. The organizational structure of the PS, which limits the power of militants and grassroots groups, allowed these market-friendly elites to pursue the centrist politics that dominated the 1990s and early 2000s. The result was that the social policy reforms adopted by Socialist presidents Ricardo Lagos (2000–2006) and Michelle Bachelet (2006–10) expanded the role of the state in health care, pensions, and education, but within the limits of existing revenue and without eliminating or further regulating private providers.

SHRINKING PENSIONS

One of Chile's most celebrated social policy initiatives was Bachelet's 2008 reform of the pension system, which was privatized in 1981 during the Pinochet dictatorship. Under the private system, workers are required to contribute 10 percent of their earnings to an individual account, managed by a private pension-fund administrator (AFP). The Pinochet law eliminated employer contributions and left AFPs virtually unregulated. It also instituted a system of social assistance pensions for workers whose contributions were insufficient. But the benefit was narrowly targeted and many Chileans reached the end of their working years without a guaranteed pension.

In response to growing discontent about coverage gaps and inadequate benefit size, Bachelet reformed the system, creating a state-guaranteed minimum pension for the bottom 60 percent of income earners. Her initiative increased the value of the benefit and supplemented contributions for women and young workers.

Still, the size of an average Chilean pension remains small by international standards. A 2015 government report found that the average pension value between 2007 and 2014 was around \$126 per month, representing an income replacement rate of 45 percent. The study also generated projections suggesting that benefit values are likely to decline in the coming 20 years, with replacement rates dropping to an average of 37 percent in 2025–35.

The inadequacy of benefits is confirmed by public opinion polls, which show that around 70 percent of respondents believe that their private pension will not cover their living expenses. Similarly, 60 percent say they worry about having to rely on private savings and 57 percent believe the private firms are not capable of effectively managing funds.

This growing sense of vulnerability among large sectors of the population is one factor that motivated the August protests, but the “No More AFP” movement also seeks to address profound inequalities in the pension system. Just before the August demonstration, news reports revealed that a retiree from the prison police force who was the former wife of a Socialist Party politician received a monthly retirement payment of \$7,800, nearly 62 times the average pension.

That disclosure drew attention to multiple layers of inequality built into the pension system. First, the fact that military and police pensions were not privatized during the dictatorship means that retirees from those services enjoy greater income protection than others do. Second, since the country's private system relies on individual savings, the value of a worker's pension is directly related to his or her labor income. Often, individuals who have an irregular work history and low wages are unable to save enough to finance a decent pension. This problem is especially stark for women, who are more likely to earn lower wages and leave the labor market for periods of time. In essence, Chile's privatized pension system tends to perpetuate and exacerbate labor-market inequalities among workers during their retirement years.

In the wake of the “No More AFP” movement, Bachelet proposed a series of further reforms to the pension system, including the creation of a public fund administrator, the introduction of employer contributions, and tightening regulations on private fund administrators. While these changes would improve the system, they are unlikely to lead to significant growth in benefits for most Chileans, unless the new employer contributions are used to finance the public, state-guaranteed benefit.

UNEQUAL EDUCATION

Inequality is not unique to old-age income security. It permeates Chilean social policy more

broadly, including an approach to education that is rooted in the Pinochet era. Beginning in 2006, the country witnessed a wave of intense student protests demanding reforms to primary, secondary, and tertiary education. These protests continued in subsequent years, peaking in 2011.

Pinochet's reforms of the educational system, much like his pension reforms, sought to reduce the role of the state in providing and paying for social services. In 1980, the regime decentralized the administration of primary and secondary schools and altered the financing mechanism, most notably through the adoption of a voucher system. Under the law, the state finances education through a per-pupil voucher payment that can be used by parents to send their children to a purely public (municipal) school or a subsidized private school. The original law allowed private schools to charge a co-payment on top of the state voucher. They were also permitted to set admissions criteria. All of this had the effect of excluding many low-income children from the top-performing voucher schools.

This reform led to a decline in expenditures on public education: between 1982 and 1990, spending as a share of gross domestic product fell by half, to 2.5 percent. The reform also resulted in a decline in

the quality of public education, because municipal schools found it difficult to finance their operations with the limited funds they received from vouchers. Moreover, many municipalities were incapable of administering the funds and struggled with the complex task of running schools, which previously was the responsibility of the central government.

As a result, inequalities between public and private education deepened. Since many low-income families could not afford the co-payments charged by subsidized private schools, these inequalities tended to mirror differences in family income. The Pinochet reform also altered Chile's tertiary education system, reducing state funding and facilitating the creation of private universities while subjecting them to little regulation. The reform liberalized the rules governing tuition and allowed universities to function as for-profit entities. As university enrollments grew during the 1990s and early 2000s, many families found themselves deeply indebted, but with graduates who still struggled to find work.

None of the reforms dismantled the underlying structures put in place by the military dictatorship.

Despite widespread recognition of the inequalities generated by the Pinochet regime's education policy, the Concertación governments of the 1990s and early 2000s were unable to restructure the system. President Eduardo Frei's center-left Christian Democratic administration (1994–2000) instituted a full school day for all public-school students. But this did little to address gaps in the quality of service provided by public and private schools.

In 2009, as protests mounted, Bachelet pushed through a general education law, which set new criteria for the establishment of private schools and created a state monitoring agency to improve educational quality. The initiative also required more transparent admissions criteria in subsidized private schools, though it did not eliminate the practice. Student protesters were critical of the law, since it maintained the voucher system and failed to address the problem of rising tuition costs.

Although the Concertación governments left the underlying structure of the Pinochet-era education system in place, they did increase public spending markedly. The new funds contributed to notable growth in school enrollment, and by the early 2000s Chile had reached near-universal participation in primary and secondary education. Enrollment in universities also expanded rapidly, with the tertiary gross enrollment ratio growing from 20 percent in 1990 to 86.6 percent in 2014.

However, this increase in university access was accompanied by an increase in cost, due to limited state funding. By 2005, it was estimated that the average tuition at a public university amounted to around 22 percent of Chile's per capita GDP—one of the highest ratios in the world. Moreover, due to the deep inequalities built into the primary and secondary education system, many low-income children did not have the test scores needed to attend the country's prestigious public institutions or even the top tier of private schools. Instead, they enrolled in private universities that charged high tuition but had less established reputations.

Discontent over high tuition costs and educational inequality continued to grow during the administration of center-right President Sebastián Piñera (2010–14). The election of 2013 saw the formation of a new center-left coalition, New Majority, which includes the Communist Party, and

by extension, leaders of the student protest movement. New Majority's candidate was Bachelet, who won on a platform promising free university education and progressive tax reform.

Upon returning to office for a second term, Bachelet reformed the tax code and secured passage of a sweeping education reform in 2015. The so-called gratuity law combined increased state funding with new regulations on tuition to provide free university access for 120,000 to 130,000 students in 2016. Bachelet has stated that she expects to expand coverage to all students by 2020. The education reform is funded through general revenue, boosted by the 2014 tax reform, which increased corporate taxes.

Protest leaders note that the funding does not cover the full cost of attendance and argue that the tuition subsidy is insufficient. Other critics contend that the law is too costly and perpetuates inequality, since it requires the state to invest heavily in tertiary education despite the fact that many Chileans, particularly the poorest, still cannot attend university. Some also warn that the new regulations could prompt the closure of some universities or erode educational quality. The reform has drawn criticism from both the left and the right of the political spectrum. As student protests continue, it is clear that Bachelet's measures have not succeeded in resolving these intense disputes over education policy.

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DISTANT ELITES

Chilean social policy reforms during the 1990s and early 2000s produced an expansion in coverage and slight increases in service quality, but failed to eliminate the underlying market logic built into the education, health, and pension sectors during the Pinochet era. The center-left parties have continued to demonstrate reluctance to respond to protesters' demands and break with the existing social policy architecture. This growing distance between center-left political elites and their voting base is reflected in declining voter turnout, disaffection with political parties, and mounting protests.

At the start of Chile's transition to democracy in 1990, around 80 percent of voters identified with one of the country's main political parties. By 2013, only 40 percent of voters identified with a political party. Trust in parties also fell: 34 per-

cent of Chileans expressed confidence in parties in 1995, but only 15 percent did in 2013.

As the appeal of traditional political parties declined, new actors moved into the void. In the 2009 presidential election, Frei, the Christian Democratic candidate, and Piñera, the National Renovation candidate, faced an outside challenger from the left, Marco Enríquez-Ominami. He won just over 20 percent of the vote in the first round and refused to support either of the top two candidates in the November runoff. Since then, Enríquez-Ominami has sought to build a new alternative, the Progressive Party. Other new parties have emerged on the left (Democratic Revolution) and the right (Political Evolution and Amplitude).

Along with declining support for traditional political parties, voter registration and turnout also fell during the first 25 years of the new democracy. Until 2012, electoral rules provided for voluntary registration—but voting was compulsory. In 1988, as the country prepared to vote in the historic plebiscite that would remove Pinochet from power, voter registration soared, with 90 percent of the voting-age population registering to participate.

From that point forward, however, registration declined considerably. By 2009, only 68 percent of the voting-age population was registered. In a system of compulsory voting, the share of valid ballots gives a better sense of citizen support than turnout, since voters who are required to participate may protest by spoiling their ballots. In Chile's 1989 parliamentary election, a mere 5 percent of ballots were invalid, but by 1997 that number had grown to nearly 18 percent.

In 2012, Piñera signed a law making registration automatic but voting optional. Since then, the country has seen a further decline in electoral participation. In the 2012 municipal elections, only 43 percent of registered voters cast a ballot. That figure increased to 49 percent for the 2013 presidential election, before collapsing to 34 percent for the October 2016 municipal elections. Turnout for the latter was so low that as few as 20 percent of voters showed up at the polls in some of Santiago's poorest districts.

STREET POLITICS

While formal democratic participation weakened during the late 1990s and early 2000s, street protests became more common. Beginning in 2006 but intensifying in 2011, secondary and university students became increasingly mobilized, organizing strikes, school takeovers, and large-scale pro-

tests. The scale of the protests was unprecedented in contemporary Chile. In 2011, there were at least 150 distinct protests, and some rallies drew between 500,000 and 700,000 participants.

In addition to the student protest movement, Chile has witnessed the growth of feminist activism and more recently the “No More AFP” movement for pension reform. Both groups have mobilized large numbers of citizens. With each new protest, civil society has become increasingly invigorated, showing an impressive capacity to call people into the streets and pressure the government. Yet the demands remain poorly defined, since there is little consensus about the movements' central goals.

Their demands range from the elimination of the private pension system to a new constitution. In response, Bachelet's second administration has not only carried out reforms to the education system and the tax code. The government also initiated a process of citizen consultation on constitutional reform and has introduced a bill that would legalize abortion if the mother's life is in danger, the pregnancy is unviable, or the woman has been raped. (Chile is one of just a handful of countries that ban abortion in all cases; just before leaving office, Pinochet tightened the already restrictive law by banning abortion in cases where the mother's life is at risk.)

Such measures do not appear to have quelled discontent. The protests have continued, while the president's approval ratings have plummeted. In 2014, at the start of her second term in office, around 50 percent of the population approved of Bachelet and only 29 percent disapproved. By August 2016, her approval rating had dropped to 15 percent, with 66 percent disapproving of her leadership. That is the worst showing by any Chilean president since the return to democracy.

The lack of support for Bachelet is partly due to discontent on both left and right over the tax and education reforms, but it also reflects a corruption scandal that tainted the beginning of her latest term. The matter involved a \$10 million loan taken out by her son and daughter-in-law one day after she was elected president in 2013. The loan was used to purchase a large plot of land just outside of Santiago. The land was resold shortly thereafter, allegedly for millions of dollars in profit. The loan drew attention because of its size but also because it was secured with help from one of Chile's most prominent businessmen, Andrónico Luksic. One question is whether the president's son knew the parcel was being rezoned, which made its resale

so profitable. His wife was charged with fraud in January 2016. The case coincided with other corruption allegations about campaign financing by the right-wing UDI party.

The results of the October 2016 municipal elections suggest that Bachelet's low approval ratings are reverberating down-ticket as well. The center-right Coalition for Change increased its share of mayors from 121 to 143 municipalities, including several major cities. New Majority saw the number of mayoral offices it controls fall from 167 to 140. Independent candidates also made gains. The results have prompted many to speculate that Piñera, leading the Coalition for Change, could be poised to return to power in this year's presidential election.

Yet it is not at all clear that the electorate has moved right in ideological terms. Instead, it seems that street politics and electoral politics have become increasingly separated in Chile. This trend underscores the need for parties to renovate themselves, or for new parties altogether. Thus far, the main efforts at party construction have been closely tied to key personalities, offering little by way of institutional strength and programmatic appeal.

PARTICIPATORY PARTIES?

The November presidential election will test the ability of the country's parties and political elite to adapt and listen to voters. If the system proves too rigid to change, popular mobilization and protest are likely to define politics in the coming years.

The political system faces immense pressure to open itself to greater public participation. The exclusionary and elitist mode of policy making that dominated the 1990s and early 2000s no longer appears to be viable. While that style of politics produced important social policy reforms, it also failed to address pressing issues or take inequality seriously. Parties have yet to adapt to the public's new demands and allow for renovation and citizen participation in candidate selection, platform formation, and policy reform. The fact that two of the front-runners for the 2017 presidential election are both former presidents—Sebastián Piñera and

Ricardo Lagos—suggests that Chile's two main coalitions are still in need of an overhaul.

Chile has been celebrated as an example of progress and democracy in Latin America. Its left-leaning parties have been applauded for their technically savvy and "responsible" leadership. While all of this is true, the past five years suggest there is a cost to the Chilean model as well.

Although Chile has seen robust growth and declining poverty, inequality has remained stubbornly high. Much of the protest during the past five years has centered on this problem. Bachelet's 2015 education reform was the most radical social policy initiative undertaken since the country's transition to democracy. Yet her response to the pension protests suggests that she and other members of the PS are still hesitant to push hard against private-sector interests.

The Chilean experience of center-left rule during the 1990s and early 2000s offers the lesson that politicians must focus on both outcomes and process. Elitist forms of policy making may have produced middle-of-the-road initiatives and contributed to Chile's strong growth and popularity with foreign investors, but they seem to have simultaneously frustrated large portions of society, which felt their concerns and preferences were not being represented. The country's recent history shows that process matters: even effective and sophisticated policies will prove insufficient if they are formulated in ways that are perceived as elitist and lacking public participation.

The challenge for Chile is to ensure that policy making and governance are democratized further. This will involve moving from a formal democracy to a more participatory democratic regime. Such a system can only be achieved with strong and representative political parties that are rooted in society and facilitate participation and consultation. The elimination of institutional constraints such as the binomial electoral system opens up possibilities for such a process. Ultimately, political elites must accept the challenge to revamp the way existing parties function, build stronger ties with voters, and respond to demands for greater equality. ■