

BTI 2008 | Chile Country Report

Status Index	1-10	8.99	# 8 of 125	
Democracy	1-10	9.30	# 9 of 125	➔
Market Economy	1-10	8.68	# 11 of 125	➔
Management Index	1-10	7.55	# 1 of 125	

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

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	16.3	HDI	0.86	GDP p.c.	\$	10,700
Pop. growth ¹	% p.a.	1.1	HDI rank of 177	38	Gini Index		54.9
Life expectancy	years	78	UN Education Index	0.91	Poverty ³	%	5.6
Urban population	%	87.6	Gender equality ²	0.51	Aid per capita	\$	9.3

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The third post-Pinochet democratic government, led by President Ricardo Lagos, (2000 – 2006) raised the country to an impressive level of economic, social and cultural development. Ricardo Lagos managed to restore the Chilean economy from the bow it took during the Asian Crisis. In 2005, the rate of growth was 6.3%, marking the highest point after 1997. The further opening of the economy through free trade treaties with the United States and South Korea as well as economic agreements with the European Union marked an important step for Chile. Chile has also ranked very well in terms of risk.

In the wake of a series of corruption scandals that erupted at the beginning of 2003, the legislature has approved reforms aimed at improving transparency in the government's decision-making processes. "Chile Solidario" programs battling poverty that entail direct assistance to families have proven successful. At the end of the Lagos government's tenure, the main problems facing Chile revolve around unequal labor relations, persistent inequalities in income distribution and a relatively high rate of unemployment, the latter because the labor force grew faster than the number of jobs created.

The Lagos government's most important achievements include: the extension of judiciary reform; health reform (Plan AUGE); probity laws in public management; a law regulating the public finance of political campaigns; and the creation of the Consejo Nacional de la Cultura. In 2005, the government also managed to bring about some important constitutional reforms that discontinued the practice of appointing rather than electing senators, empowered the president to remove top level military commanders, limited the conditions under which the National Security Council could convene, reduced presidential terms to four years, and created new regions. But the main weakness of the Concertación governments, including the Lagos presidency, lie

in the failures of institutional reform, that is, the failure to change the electoral system and other crucial aspects of the institutional framework inherited from Pinochet. In short, the absence of new constitution in Chile poses a structural political problem for the country. The report from the Commission on Torture and Political Prisons as well as the armed forces' statements acknowledging their involvement in human rights violations under Pinochet constitute important steps forward in Chile's process of reconciliation. However, the Supreme Court has oscillated on this and other issues, earning it a poor reputation among the public.

Since 1990, the three governments of the Concertación de Partidos por la Democracia (Concertación) (center-left coalition formed by Christian Democracy, Socialist Party, Party for Democracy and Radical Social Democratic Party) have successfully promoted economic, social and cultural development in Chile. Together with the incapacity of the right to offer a viable government alternative this allowed the inauguration of a fourth Concertación government, after a first electoral turn where the sum of votes of the two right-wing candidates was larger than the votes obtained by the Concertación candidate. The Concertación candidate Michelle Bachelet, a socialist, former minister of health and defense and daughter of a general murdered by the Pinochet dictatorship, won. The debate over social inequality, how to correct the country's socioeconomic framework and an emphasis on a new "citizen style" politics dictated the presidential campaign.

During its first year, the Bachelet government has made progress in increasing pre-school enrollment, the Plan AUGE and the project for transforming social security into a new protection system. In terms of the new approach to government she represents, her most important and crucial achievement thus far has been to improve the gender parity of posts in the cabinet of ministers and in the executive branch at both national and regional levels. In another positive development, advisory councils and commission councils for several public policy fields such as education, childhood and social security have been created. During the year 2006, Chile's economic growth rate decreased to 4%. The rise in the price of copper resulted in a sizeable fiscal surplus over \$9 billion, which gave rise to a heated debate over whether to save it or to increase social expenditures. New conflicts emerged from corruption scandals over the political misallocation of public funds, high school students demonstrating for radical changes to be made in education, and Santiago citizens demanding improvements in the new public transport model. The government responded with action to each of these cases, changing ministers, sending new law projects to parliament or establishing commissions to cope with the problems. Though this approach epitomizes the essence of the "new style," it lacks in coherent planning and implementation. Finally, Pinochet's death in 2006 provided the right opportunity to finally cut its links with its authoritarian past and to bring an end to the institutional framework that is his legacy in Chile.

History and Characteristics of Transformation

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

This socioeconomic and political model was transformed during the Allende and Unidad Popular (a leftist coalition) government, with its program of nationalization. The program, called "the Chilean road to socialism," aimed to transform the capitalist economy through institutional and democratic means, nationalizing monopolistic enterprises such as the copper mines. The subsequent political polarization allowed the military, led by General Augusto Pinochet and supported by the United States, to overthrow Allende in 1973. A military dictatorship was established that put an end to the extant socioeconomic and political models and attempted to build a new one through repressive politics and neoliberal economic reforms.

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

However, some sectors of society, though recognizing the catastrophic political and social aspects of the military regime, continue to propagate the myth that the Pinochet regime was the founder of a solid, open market economy, and the creator of the basis for a modern society. All indicators such as growth rate, inflation, poverty, corruption and state management prove exactly the contrary: the Pinochet government's performance was the worst compared with the twenty years previous to the coup and

the seventeen years of democracy following its replacement. The foundations and solidity of the Chilean economy are due exclusively to the governments of the Concertación. In 1980, Pinochet imposed a constitution that provided the frame under which the democratic opposition organized itself in order to win the 1988 referendum designed to keep Pinochet in power. After this plebiscite, presidential and parliamentary elections were held in 1989, and the center-left coalition, Concertación de Partidos por la Democracia (Concertación), won with its candidate, the Christian Democrat Patricio Aylwin.

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

The third Concertación government, which was led by President Ricardo Lagos (2000 – 2006), a socialist and founder of the Partido por la Democracia (PPD), managed to restore the economy after the Asian crisis. It also promoted and implemented significant reforms to combat extreme poverty and modernize education, health, culture (elimination of censorship, law of divorce, creation of the Consejo Nacional de la Cultura), labor relations (unemployment insurance, decreasing working hours), public financing of electoral campaigns, laws on probity in state management, and constitutional reforms. The economy recovered, and in 2005, Chile had a growth rate of 6.3% and had improved upon all of its macroeconomic indicators, having become very active in the world economy with economic agreements with United States, Europe and Asia. However, inequality and wealth concentration in Chile is still among the worst in the world (GINI index of 0.57). In the area of human rights, prominent trials against some higher officers of the Pinochet regime (and Pinochet himself) and the Valech Report on Torture and Political Prison marked historic steps toward justice and reparation.

The important advancements made by the Concertación governments won them a fourth term with the second-round election of Michelle Bachelet in January 2006. Her main proposals were to change the style of Chilean politics and to make reforms aimed to establish a new state system of social protection (welfare) to counterbalance the

negative effects of the market system imposed by the Pinochet dictatorship. Bachelet's first year in office has witnessed major advances in gender equity; the cabinet of ministers and all the executive high posts were distributed equally between men and women. She also created advisory councils for preparing policies and projects in the areas of childhood, education and social security, all of them with the goal of promoting protection and equity in both coverage and quality.

The road to economic growth has been maintained, and liberalization has continued with new trade agreements with Japan, China, Vietnam, Colombia and Peru. The main problem remains the lack of deep reform of the state, in particular tax reform. In this sense, the Bachelet government maintains the conservative seal of all the Concertación governments

The death of former dictator Pinochet in December 2006 led to a discussion over what type of funeral the government should declare, and the final decision to accept military funerals but not formal state ones. The intensity of the debate revealed that the heritage of the dictatorship still divides the country. However, this death could help to democratize the political right, which has remained thus far too linked to the legacy of dictatorship.

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

Transformation Status

I. Democracy

1 | Stateness

The political system in Chile is highly institutionalized, and maintains a high level of stateness. The state has complete capacity to enforce the laws and there are no other actors that compete for the use of force.

Monopoly on the use of force

Defining citizenship and who qualifies as a citizen is not a politically relevant issue. All citizens have the same civic rights and accept the nation-state as legitimate. The institutions of the state have widespread legitimacy, even if there is important criticism of the constitution and the judiciary.

State identity

Since 1925, the Catholic Church has been separate from the state, and recently laws have been approved that give more opportunities and rights to religious organizations besides the Catholic Church. In spite of the separation of church and state, the former exerts constant pressures, especially on cultural and value issues. It has in the past forced the government and Congress to change laws, such as those concerning divorce, sexuality and reproduction.

No interference of religious dogmas

The state's basic infrastructure extends throughout the territory of the country and is considered to be well functioning. Though Chile is still a centralized country, a process of administrative de-concentration has contributed to a greater openness and effectiveness in all 15 regions of the country.

Basic administration

2 | Political Participation

All elections are held according to international standards, the Constitution and the law without significant cases of fraud. The official results of elections are not contested. In 2006, the institution of appointed Senators was abolished, thus further strengthening the electoral regime. However, the electoral system introduced under authoritarian rule gives a kind of veto power to the right-wing alliance as the "second majority," and excludes a third force leaving the two dominant alliances to share all the posts.

Free and fair elections

In recent years military institutions have become strictly obedient to the political leadership, and in 2005 an important constitutional reform empowered the executive to remove the Commanders in Chief. The effective power to govern is thus guaranteed, but the political veto actors are strong. Significant social reforms desired by the majority of the public have been blocked by power groups linked to business sectors with strong influence on the media. Their weight has heavily influenced progress on such issues as tax reform to modify income distribution, state intervention during economic crisis, the transport crisis with the new Plan Transantiago and the amelioration of equity and quality of education demanded by the student movement in 2006.

Effective power to govern

Rights of political organization and communication can be exercised without restraint. Independent political and civil society groups are generally allowed to form freely. Political activity on the part of unions is not subject to restrictions, but their collective bargaining rights are still subject to some provisions that do not meet international labor law conventions, despite reforms by the Lagos government.

Association / assembly rights

Freedoms of opinion and the press are constitutionally guaranteed. The media landscape is sufficiently differentiated, covering sensitive issues as well as fulfilling its watchdog role vis-à-vis the government and other political authorities. The censorship that affected some issues has been removed in recent years. In 2005, laws that impeded reporting on the military and the government were eliminated from the penal code. The constitutional reforms of 2005 eliminated defamation as an offense against public persons. However, pluralism of the press is limited by the concentration of media ownership in two groups all over the country. In 2005, a small newspaper independent of these groups was forced to close due to the lack of public support and private advertisement. On the other hand, there is an independent television landscape of private and public stations, as well as a vibrant radio scene with over 800 stations around the country.

Freedom of expression

3 | Rule of Law

The constitution guarantees the separation of powers and these work independently from each other. It is a presidential system in which the president acts also as a co-legislator. The parliament has limited checking functions because of the legacy of the Pinochet constitution. During 2005's constitutional reforms, parliament's capacity to check the executive branch was reformed somewhat. For example, parliament was granted powers of summoning ministers.

Separation of powers

The judiciary is autonomous from a juridical point of view, but its accountability is limited and there are strong ideological influences. In 2005, the main judge

Independent judiciary

conducting the Pinochet trials denounced judges' corruption and ideological positions vis-à-vis human rights. President Lagos constantly repeated that "institutions are working and the executive does not intervene in the judiciary decisions." This is true, but the threat to the judiciary's independent functioning arises rather from the ideological influence of the press and de facto powers, which distort its processes and public opinion. In 2006, an important debate about financial autonomy of the judiciary and other reforms led to a confrontation between the Minister of Justice and the judiciary, but the conflict remained within the institutional framework. Moreover, according to polls, the public has a low level of trust and confidence in the judiciary.

Authorities are in fact submitted to the control of the Contraloría and the judiciary. This has been evident in recent years concerning denouncements of corruption and accusations of misappropriation of public funds. Not only are particularly heinous individual instances denounced by the public, they are also prosecuted by the judiciary. Officeholders accept the procedures of the judicial system, as was evident in a case of corruption involving members of the Lagos government. A suspicious press also monitors the state's behavior, ensuring that it is abiding by the rules. The most important case of corruption which became known during the last years concerned the secret accounts of Pinochet disclosed by the U.S. Senate, which proved the extended corruption of the military government and also the involvement of the army under the Pinochet dictatorship.

Prosecution of
office abuse

There are nearly no restrictions on civil rights and liberties. Progress has been made in the political and judicial treatment of human rights violations. However, reproductive rights are still limited. Access to the judicial system has been improved for lower social strata through a specific program within the context of judicial reforms, although this is still insufficient in a Chilean society marked by great disparities.

Civil rights

4 | Stability of Democratic Institutions

Institutional stability is one of Chile's atouts: all the actors play and respect the democratic game. Democratic institutions are stable to a high degree, notwithstanding the limitations posed by the authoritarian relics mentioned above. These democratic institutions operate in accordance with their functional purposes and are effective and largely efficient. The main problem is the coexistence of strong stateness, which means the effectiveness and legitimacy of public policies, with two other contradictory elements. First of all, there are de facto powers such as the Catholic Church, the concentrated media and business organizations. Second, the maintenance of the constitution instated by Pinochet in 1980 imposes significant limits on the capacity of the state and on people's sovereignty since Chilean laws are derived from that basic norm. During the

Performance of
democratic
institutions

Lagos government, some significant aspects of the constitution were modified, but failed to generate a new democratic constitution and to change the electoral system. This keeps democracy from being deepened and instead weakens the representativeness of parties and of politics in general.

Governability is assured not only because every social and political actor accepts the rules and institutions, but also because the government has a broad social and political majority. A real debate on social, economic and political foundations that could crystallize into a new constitution has yet to transpire, but a deep agreement exists on adhering to the institutional structure in making all reforms. Thus there is a strong instrumental consensus on the basic procedures, but this consensus does not extend to shared values. The lack of a normative consensus also applies to the economic model: there is serious criticism of its effect on social inequalities and environment problems. However, while an alternative to market economy is not in the offing, a debate over possible variations on the model, such as a social democratic orientation instead of the liberal one, also has yet to coalesce, especially surrounding the contention issues of economic concentration, social inequalities and the role of the state. For example, in the Chilean case the state represents 16% of national expenses compared with some countries where it is about 50%. During the presidential campaign of 2005/2006, the problem of inequality emerged as a shared concern. The Bachelet government has announced an important social security reform and a path towards a new protector state, but no tax reform or new taxes have been envisaged.

Commitment to
democratic
institutions

5 | Political and Social Integration

Chile today has a multiparty system, but due to the electoral system it operates as a two-party system of two big alliances. That is, parties are forced to form alliances in order to obtain representation in Congress. Center-left parties (Christian Democratic Party, Social Democratic Radical Party, Party for Democracy and Socialist Party) form one alliance, called “Concertación de Partidos por la Democracia” (Agreement of Parties for Democracy). This is the majority coalition and has governed the country and won all the elections since the reinstatement of democracy in 1990. The other is the Alianza por Chile (Alliance for Chile), constituted by the Unión Demócrata Independiente (UDI), the majority hard right-wing party and the minority more democratic Renovación Nacional (RN). The leadership of the Alianza tended to shift these years from the hard wing represented by UDI to a softer line represented by the presidential candidate Sebastián Piñera of RN. The death of Pinochet at the end of 2006 may have catalyzed this shift. Parties that the electoral system has excluded from representation in Congress are the Communist Party, the Humanist Party and other groups of the left, which all together constituted the coalition Juntos

Party system

Podemos (“Together we can”) that obtained 12% in the 2004 municipal elections and 7.40% in the election for Congress (deputies) in 2005. In all, the party system is organizationally stable and sufficiently anchored in society, with stable connections to civil society. Parties are rooted in social (socioeconomic, income), ideological (right-left) and political cleavages (concerning the military regime) and the shifting vote is no more than 10 to 25%. The degree of voter volatility is rather low when measured in terms of the two politically relevant blocs. The degree of polarization is overall moderate when the parties not represented in parliament are included, although comparatively high in relation to some issues, such as reconciliation concerning human rights violations. Independent and free-riders do not attract many votes. On political issues, there is no alternative to parties. According to polls, however, in the last ten years there has been a diminished concern for politics, parties are severely criticized and have fallen to a very low level of confidence or trust from the public.

Chile has a well-differentiated landscape of interest groups in which the associations representing capital and the Catholic Church play a particularly powerful role. The trade unions, which were weakened greatly under the dictatorship, have been able to achieve some organizational stability under the subsequent democratic governments, while the business associations were able to maintain their powerful position since the economic model was left largely unchanged. Governments have been able to maintain relative equidistance between the two associational poles and have installed tripartite mechanisms for concerted action on important reforms, such as in the area of labor legislation. The ability of the state and social interest groups to cooperate is relatively high and, together with a functional party system, Chile enjoys solid structures that can mediate between the interests of society and the state.

Interest groups

In Chile, the approval of democratic norms and procedures is medium to high (50 to 60%). It is still somewhat surprising that this figure has not risen more since the reinstatement of democracy, despite the successes of democracy and the market economy and strong approval for the government’s efforts. About one-third of the population expresses indifference toward democracy or autocracy, an attitude that is especially strong among the lower strata, while support for autocracy – at 25% – remains strongest among the middle classes, the winners under the Pinochet dictatorship. In political practice, however, this pattern of political attitudes does not lead to any questioning of the constitutional framework of democracy, even while Chile’s political class does not enjoy any high standing, with the clear exception of the president. The level of political participation is high, close to 70%, due to the compulsory vote. However, registering is not automatic or obligatory, thus meaning a very low rate of registering among young people. A reform is underway making registering / electoral inscription automatic.

Consent to democratic norms

The organizational landscape of civil society has become increasingly differentiated. Alongside numerous religious organizations, there is a very dense network of civil society organizations. Civic organizations' willingness to cooperate and to engage in strategic negotiations is given, and governmental recognition of their role as policy initiators is required. Civic organizations contribute to broadening democratic attitudes and practices within Chilean society and represent a social force for political moderation.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

In spite of the stability and improvement of macroeconomic indicators, exclusion and inequalities persist. Poverty has decreased from about 40 to 17% under the Concertación governments. Extreme poverty in 2000 was 5.7% and has decreased due to a very effective program called Chile Solidario that attempts to reach directly to each of the 250,000 families in that segment of society with financial, job, education, health, psychological and lodging policies. Poverty affects some regions more than others, and hits ethnic minorities, children and women particularly hard. Unemployment affects especially the less educated and the young.

Socioeconomic
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	67,265	73,694	95,026	115,248
Growth of GDP	%	2.2	3.9	6.2	6.3
Inflation (CPI)	%	2.5	2.8	1.1	3.1
Unemployment	%	7.8	7.4	7.8	-
Foreign direct investment	% of GDP	3.8	5.8	7.6	5.8
Export growth	%	1.6	6.5	11.8	6.1
Import growth	%	2.3	9.7	18	20.4
Current account balance	\$ mn.	-580.1	-964.1	1586.4	702.7

		2002	2003	2004	2005
Public debt	\$ mn.	6,799.5	8,046.3	9,426.0	9,096.4
External debt	\$ mn.	41,218.7	42,820.4	43,803.0	45,153.8
External debt service	% of GNI	12	11.7	11	7.3
Cash surplus or deficit	% of GDP	-1.2	-0.4	2.1	4.7
Tax Revenue	% of GDP	16.7	16.4	17.1	19.2
Government consumption	% of GDP	12.8	12.4	12.0	11.6
Public expnd. on edu.	% of GDP	4.2	4.1	3.7	-
Public expnd. on health	% of GDP	3.0	2.9	2.9	-
R&D expenditure	% of GDP	0.7	0.6	-	-
Military expenditure	% of GDP	3.8	3.4	3.9	3.8

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Chile possesses a model institutional foundation for market competition. Governmental policy is limited to general assurance and maintenance of the rules of the game. It provides for a neutral organization of regulations consistent with competition, including control over monopolies and expansion of required intermediary institutions. The Frei and Lagos governments used the increasing consolidation of the economic regime for a rather unspectacular expansion and complementing of reforms of the so-called first and second generations.

Market-based competition

Chile, with its small domestic market, is inevitably confronted with market concentration in some sectors, especially in the banking, private pension and health insurance industries. Since the late 1990s, Chile's anti-monopoly legislation has become more mature and effective. The Tribunal for the Defense of Free Competition (TDLC) is responsible for preventing, correcting and sanctioning anti-competitive conduct. Cases can be presented to the TDLC either by the National Economic Prosecution Service (FNE), an investigative body, or by companies with a complaint. The FNE was strengthened in 1999. The TDLC was created under a law passed in 2003 to replace the former anti-monopolies commission, which had only ad honorem part-time members. Together they are responsible for the investigation and resolution of cases of abuse of dominant market position, restriction of competition by cartels and or ententes, disloyal

Anti-monopoly policy

competition and market concentration (monopolies, mergers, cartels). There are ongoing debates on the problems of market concentration and politicians agree that further improvements have to be made.

Foreign trade has been substantially deregulated, and the degree of openness of the economy continues to grow. By 2003, tariffs were reduced to 6%. The state does not intervene in free trade, but rather supports an export orientation by means of a network of institutions linked to the economy. Free trade has been encouraged with international and bilateral agreements. The question and debate in Chile is not on the market economy as such, but the orientation of the market economy model toward a more neo-liberal or more socially oriented version.

Liberalization of
foreign trade

Chile enjoys a solid banking and finance system upholding international standards. The finance sector is subject to its own supervisory agency, the SBIF, which monitors and applies the provisions of the banking act and provides a risk classification of financial institutions. Chile follows the norms of the Basle Committee on Banking Supervision but is even more conservative in provisions such as equity capital requirements.

Banking system

8 | Currency and Price Stability

Price stability is a result of a very coherent and definitive policy issued by the government and the autonomous central bank. The rate of inflation was 3% in 2005 and 3.4% in 2006. Authorities privilege the control of inflation over employment issues.

Anti-inflation /
forex policy

Overall economic policy since the 1990s has been marked by highly disciplined maintenance of macroeconomic stability, in which the central bank and the government have worked together quite effectively. The government's fiscal and debt policy is narrowly aimed at stability. The budget deficit, which in the course of the economic crisis of 1998 – 1999 was accepted for the first time since 1990, was again reduced to zero after the crisis subsided. Since 2004, Chilean governments have returned to budget surplus, which was at an estimated 5.9% in 2006. In recent years, governments have established the principle of structural public expenses in order to compensate the budget over a period of two or three years.

Macrostability

9 | Private Property

The protection and respect of private property are definitively consolidated and the constitution has made it a main principle.

Property rights

Chile's largest privatization process unfurled under Pinochet. A highly corrupt and opaque process, it created a high concentration of property in a few hands that is particularly pronounced in certain sectors, such as the media. The right-wing opposition has avoided discussion of the process, and, according to the constitution, Congress is not permitted to examine or revise the process. In many cases, privatization under Pinochet was a kind of "robbery" of state property, which has been confirmed by the trial investigating Pinochet's accounts in the Washington, D.C.-based Riggs Bank. Today, the key concern is not privatization, but rather, establishing an adequate regulatory framework, especially in some former public services that have been privatized. On the other hand, private-public partnerships have been strengthened in recent years, for example in highway construction.

Private
enterprise

10 | Welfare Regime

Without being a real welfare state, from the 1930s until 1973, Chile developed some elements thereof in education, health, social security, housing and labor laws. The military regime dissolved these networks after 1973. Under the dictatorship, social policies were "asistencialistas," that is, aimed to attenuate the most deleterious effects of the neoliberal adjustments in the 1980s. Under the democratic governments, social expenditures increased 160% between 1990 and 2003. However, the system of protection and social security implanted by the dictatorship has been maintained. This means the transfer of a significant part of the system of protection and social security to the market, most importantly in the pension and health care systems through the Administradores de Fondos de Pensiones (AFP) and the Instituciones de Salud Provisional (ISAPRE).

Social safety nets

Such market institutions are not able to ensure adequate pensions, nor quality health care for all. Workers and low-income families must use the public system, of a lesser quality than the ISAPRES, thus developing a class-based health system. The AFPs are based on a system of individual capitalization and have eliminated any dimension of social solidarity. Thus, the lower income sectors continue to participate in the public system (INP), which in spite of a notable modernization process only provides minimal pensions. The flagrant injustice of the system of protection inherited from the dictatorship led the democratic governments to regulate the private system, and also to increase pensions and to initiate some reforms. Furthermore, the Lagos government, in an attempt to improve public health, unleashed the Universal Access with Explicit Warranties Plan (Plan AUGE) to improve quality and extension of public sector health services focused on the lower income groups.

The AUGE Plan encompasses more than 50 pathologies (during the Bachelet government it aims to have 80), their respective therapies totally covered by the

system. The law also includes some modifications of the ISAPRES system, but the project of a solidarity fund failed. Instead, a moderate project that compensates for the cost of health care for women and the elderly was introduced. However, the medical organizations opposed it for not covering all illness and the whole population. Undoubtedly however it is a major reform, perhaps the most important of the Lagos government. Concerning social security, the Bachelet government has established as a priority a reform of the system that will increase the minimal pensions, introduce some controls to the AFPs and create a solidarity fund. She created an advisory council and elaborated a law project that will be discussed in 2007.

Regarding education, there is a consensus that the problem is no longer coverage (cobertura) at least in primary and secondary school, even if it is still a problem in pre-basic and higher education. According to HDI (2002), the adult literacy rate is 95.7%, the combined gross enrollment ratio for primary, secondary and tertiary schools is 79% and the education index is 0.90. In 2003, a constitutional reform established obligatory secondary education. However, all the measurements of quality beyond literacy show very poor performance by international standards, and high levels of inequality between social groups and types of school (with the private establishments first in quality and the public and subsidized private schools of lower performance). In spite of the increase in public expenditure and reforms in education, the gap has persisted. An OECD report stated that the Chilean educational system is built to generate inequalities. During the student demonstrations in 2006, it was disclosed that the expenditure on a student coming from lower socioeconomic groups was 10 times less than that destined for a student of the upper strata. As for higher education, in spite of dramatic enrollment increases, the quality of public universities has deteriorated. An inconsistent state policy as well as a lack of resources has led to a proliferation of private, sub-par universities (though there are significant exceptions), which are submitted to market rules with very weak regulation. The Bachelet government considers the preschool system a priority, calling for a revolution with very ambitious goals of coverage. During 2006, more than 800 "salas cunas" (nursery schools) were founded.

In 2006, a massive protest by secondary students combined concrete demands (free transport, food, etc.) with the call for far-reaching changes in the structure, norms (Constitutional Law of Education) and management of the system. Their goals have been to ensure an active role of the state, reduce the market mechanisms and improve education quality and equity. The demonstrations led the government to create an advisory council formed by representatives of different sectors of the education system to promote reform. It is supposed that this will be defined and implemented in 2007, but most probably the structure of the system and the principle of profit for private schools with state subsidies will

not be changed because of the pressures of private sector and the Catholic Church. Housing policy has been a major success. Around 70% of the investments on Housing Programs of 2003 were dedicated to the poor sectors of the country. This investment increased from 23.1% between 1997 – 2001 to 68.5% in 2003. This meant the eradication of “Campamentos” or shantytowns, and the generation of new residential neighborhoods. Unfortunately, these new communities have come with their new kind of social problems, like criminality and drug traffic. In other words, the initiative has led to the creation of new ghettos in the big cities. During Bachelet’s first year of government, the amount of the “vivienda social” program (basic house for the poor) was increased, accompanied by a substantial policy for improving the neighborhoods.

There are a number of institutions to compensate for gross social differences, but they are still insufficient to guarantee equal opportunities. In 2000 the Gini Index was 57.1; the ratio of the richest 10% to the poorest 10% was 40.6, and the ratio of the richest 20% to the poorest 20% was 18.7. Due to the benefits of health, education and monetary subsidies, the 20% of poorest householders increased their share from 3.9% of total income to 6.9%, while the richest 20% reduced theirs from 56.5% to 52.3%. As for gender, the ratio of estimated female to male earned income was 0.38, the UNDP’s Gender Empowerment Measure rank was 58 and the GEM value was 0.460. Extreme poverty further decreased due to the Chile Solidario program but poverty still affects especially some regions, ethnic minorities, children and women. Unemployment affects the less educated and the young in particular. Concerning redistribution, in 2003 41.9% of social expenditures in health, education and monetary subsidies were concentrated on the poorest 20% of households, (22.7% for the first decile and 19.2% for the second). This meant that the poorest 20% of householders increased their income by almost 90%, while the richest 20% of householders increased only by 0.2%. There is no data for more recent years due to the timing of the official surveys. Recent data show an increase in social expenditure of 7.4% in the national budget from 2005 to 2006, making up for 67.4% of the total public expenditure. Health expenditure increased at 11.2% from the 2005 budget, and education expenditure by 11.2%.

Equal opportunity

11 | Economic Performance

The Chilean economy shows indicators of healthiness and solidity. During the nineties Chilean economy growth was about 7% until the Asian crisis in 1997, when it started decreasing, reaching its nadir at around 2% in 2002. Since then, the economy has recovered, reaching growth rates of 6.2% in 2004, 6.3% in 2005, although it declined again to 4% in 2006. Inflation rose a little from 2003 – 2004 (at an average of 2%) to 3.5% in 2006. A concept of structural balance has

Output strength

avoided public deficit and maintained good performances in debt and trade balance. Also, the high copper prices allowed a surplus of near \$9 billion. The main problems continue to be unemployment and high inequalities, despite a massive increase of new jobs and decreases in the rate of unemployment from 10% in 2004 to 9.3% in 2005 to 8% in 2006.

12 | Sustainability

There is a public institution in charge of environmental issues, CONAMA, but it does not have the rank of a ministry. Despite its weakness, new economic projects must incorporate the environmental impact aspect, international standards have been introduced in the Free Trade agreements that Chile has signed and authorities emphasize the importance of the sustainability dimension in their discourse. But there are still significant environment conflicts arising from new mega-projects for electricity and water reservoirs. Energy has become a problem in part due to problems in neighboring countries Peru, Bolivia and Argentina. Plans and debates are still underway to create a Ministry of Environment, as had been announced during the presidential campaign and also in 2006 by President Bachelet. In April 2007, the President appointed a minister of Environment in order to initiate that reform process.

Environmental
policy

Chilean governments have achieved significant reform in education by extending the coverage of pre-basic education and establishing universal education of 12 years in the constitution. The test for entry into higher education has been replaced by another. However, by international standards performance is still low. In addition, there is a high level of inequality concerning social strata and types of school, with the public municipal schools being the most deprived according to every test. Public expenditure in education grew from 2.5% of GDP in 1990 to 3.9% in 1999 – 2001, and from 10.4% of total government expenditure in 1990 to 17.5% in 1999 – 2001. The higher education system has collapsed and reflects inequality, and expenditures for science and technology are low. Patents granted to residents in 2000 were two per million people; receipts of royalties and license fees was \$0.2 per person in 2002; R&D expenditure in 1996 – 2002 was 0.5% of GDP, and researchers in R&D per million people were 419 between 1990 – 2001. Public expenditure in science and technology increased by 35% in 2006, and was especially concentrated in human capital formation through the National Fund of Innovation for Competitiveness, increasing 85% since 2000.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

The most important structural constraints left by the dictatorship were poverty and inequality. Since then, democratic governments have decreased the poverty level by more than 50%, but inequalities remain very high. Chile depends on energy from abroad, and its historic problems with Bolivia have impeded better relations concerning energy, especially gas. In any case, President Bachelet's new policy and attitude toward Bolivia have done much to alleviate the two countries' ancient grievances. Most of Chile's infrastructure problems have been combated in the last years. Thus, institutional shortcomings pose the main structural constraints. Namely, the constitution and other laws and structures inherited from the dictatorship (electoral system, labor, health, higher education, social security) give enormous veto power to the right-wing minority and the business organizations. These structures have been only partially corrected, and still dictate the administrative organization of the state, where the laws on decentralization, regionalization and municipalities fall far short of their aims and are centralist. This lack of regional and local administrative autonomy is especially harmful in a country with extended, diverse and complex geography.

Structural
constraints

There are about 80,000 social organizations and 55% of Chileans participate in them. Absenteeism in political elections is low, but there is a low percentage of registering among young people, even if the last elections in 2005/2006 saw a slight amelioration. The levels of interpersonal and institutional trust are low. The real problem concerning civil society in Chile is that it has always been organized and constituted through politics and parties, so there is no strong tradition of an independent and self-confident civil society. This means that nowadays there is a kind of division of labor between the two – political parties that dominate the political process and a civil society still in search of its proper role – that makes politics less democratic and civil society less relevant in the decision-making process.

Civil society
traditions

Five to six percent of Chileans come from "pueblos originarios," but in recent years ethnic conflicts, though localized, have become more significant in the South over environmental and land property issues. However, the main

Conflict intensity

cleavages of Chilean society are ethical (i.e., concerning human rights violations under the dictatorship) and socioeconomic (concerning social inequalities). There is no religious conflict in the country, but a strong and disproportionate influence of the Catholic Church in public and political affairs tends to tie the hands of secular governments. The debate on the day-after pill has been very heated, and has been brought to the judiciary by the right-wing with the support of the church. However, these cleavage and conflicts, if real, do not escalate into violence (with a few exceptions in the ethnic case). A strong mobilization of high school students coalesced in 2006 with the support of teachers, parents and public opinion. The students made several concrete demands including improved transport, changes in the Constitutional Law of Education (LOCE), and they called for far-reaching institutional changes to improve the system's quality and equity. A severe police repression of the protests nearly escalated, but was prevented when the students changed their protest strategies and the government criticized the police and removed the authorities responsible for the crackdown. The Minister of Education was dismissed, and the government announced changes and the creation of an advisory council that published a document proposing a project to be announced in April 2007.

II. Management Performance

14 | Steering Capability

The government is able to propose and implement policies according to long-term strategic priorities. Examples of this include the concept of a structural balanced budget, as well as the reform policies in justice, health, education, energy and infrastructure. The governments' combined efforts assure a long-term financed budget going beyond the term of one government; in other words, they constitute state policies and not only government policies. However, pressures from public opinion polls, de facto powers like business organizations, Catholic Church and the press and the political opposition over-represented in the parliament lead the government to change some of its most important reforms and especially to soften its redistributive dimensions. The abovementioned defects in educational and health reforms are examples for this weakness.

Prioritization

After the over-payment of public officers (especially in the Public Works Ministry) and unsubstantiated accusations of the diversion of public funds to

Implementation

political campaigns led to a crisis in 2002 – 2003, the government was able to negotiate with the opposition an agenda of 38 reforms to the state administration, including financing of political campaigns. However, much of this reflected the opposition's interests and other parts of these reforms were moderated in the parliament discussion. In 2006, a new package for transparency and probity was sent to the parliament by President Bachelet in the aftermath of new scandals surrounding the divergence of funds for political campaigns and other accusations of corruption that affected the Chile Deportes. When one party of the Concertación proposed a royalty for mining enterprises, the government first opposed it due to the pressures of business corporations, but afterwards changed its position and sent a project that was defeated in the parliament. After the report of the Commission on Torture and Political Prison, the government sent projects for justice and compensation of victims to parliament and forced the opposition to approve it. But this was not possible with the AUGE Plan for health; the government sent another project to substitute the solidarity fund that was rejected by the right opposition. In this respect, the Bachelet government has been less receptive to big pressure groups, especially concerning cultural and ethical matters, but the projects to reform education and social security have been permeated by the interests of these groups, which has limited their capacity to truly improve equality.

All these examples prove that, on one hand, there is undoubtedly a capacity to propose policies based on strategic and long-term priorities and a flexibility to learn from failures and replace inadequate policies with new ones. But this learning ability is also contaminated with short-term calculations and the fear of losing face, and thus sometimes falls closer to political compromise with pressures and public opinion image than to real leadership and learning. Again, the inherited institutional framework is the main cause for this stalemate.

Policy learning

15 | Resource Efficiency

In general, the use of resources is subject to the control of an independent public organism. The efficiency in the use of economic resources can be demonstrated by the balance of the budget, the lack of public deficit or significant public debt, and the existence of Compensatory Funds for times of crisis due to international factors (energy or oil, for example). Concerning public administrative personnel, up until 2003, 3,500 appointments were made by the president directly. After the scandals mentioned above this number was diminished to 750, leaving the rest to be decided by public competition. To improve the administration of human resources, the National Direction of Civil Service has been created, whose mission is the centralization and homogenization of policies concerning public personnel, which makes their careers more professional and meritocratic.

Efficient use of assets

In most cases, the government coordinates its policies effectively and acts in a coherent manner, but there are also cases of lesser success. One of the problems of coalition governments in a presidential system is that there is no mechanism of coordination besides the personal intervention of the president. To coordinate some fields of public policies there are the minister committees. In some cases of significant de-coordination, the responsible officeholders have been dismissed, as befell the Undersecretary of Health in the case of the day-after pill during the Lagos government. Other major problems are the very poor decentralization and financing of the municipal system, for which the law has been changed several times.

Policy coordination

Chile's reputation for effective use of resources is further bolstered by limited corruption and the government's efforts to increase transparency and combat what corruption there is. Primary mechanisms to ensure public integrity are in place and are supported by the government. Public authorities are submitted to the control of an independent organism called Contraloría General de la República. Due to these measures, large-scale corruption does not exist. However, micro-corruption does occur, especially at municipal levels and at the low central administrative levels, and is often a function of the traffic of influence. The judiciary is also plagued by a perceived lack of integrity. Furthermore, during 2003 and 2006, significant cases of corruption were disclosed between deputies and private business, and misappropriation of public funds in the Ministry of Public Works (2003) and other agencies (2006) has been disclosed. However, each time a scandal breaks, the government has taken immediate and severe judicial measures and elaborated new law projects to prevent new problems concerning corruption. In part, cases of corruption are an effect of the very low salaries of high-level and medium-level authorities. A response to this perceived cause-effect relationship was a set of laws improving salaries and generating new norms of personnel recruitment and probity.

Anti-corruption policy

16 | Consensus-Building

In general, all major political actors agree on building and strengthening democracy and the market economy. However, the institutional framework of the economy and politics inherited from the dictatorship may well cause frictions in the near future. The Concertación governments have been unable to bury this legacy because of the strong opposition of the right wing and, at the beginning, the military. The Concertación governments sent constitutional reform projects to the parliament, but only in 2005 were some important constitutional reforms approved. The electoral system has still not been changed, and the Organic Constitutional Laws that establish the rules of the game for each sector or field are very difficult to modify. So there is no real consensus on any of the crucial

Consensus on goals

issues, like agreement on the fundamentals expressed in a constitution, the electoral system, human rights violations under the dictatorship, regionalization and decentralization and the higher education system, among others. Concerning the economic model or the market economy, nobody discusses the model's basic validity. The real question is what kind of market economy the country wants. There is a lack of debate in Chile on most aspects of the economy, including the role of the state and its regulation of markets, the distributive dimension, sustainability, labor relations, social security and protection systems, role of human capital, the nature of insertion into the world economy, tax system, incorporation of scientific and technological knowledge, etc. These matters hardly display a consensus. Even if the issue of unequal income distribution is not contentious, there is no agreement on redistribution as the business sector and the right strongly oppose new taxes in a country where the companies pay very low contributions. They also oppose increases in public expenditures and defend a very regressive labor law, pressuring for more deregulation. The announcement by President Bachelet of a new protection (welfare) state is far from winning the approval of the business sector. Labor, social organizations and the Concertación parties all favor these redistributive measures, but the government cannot implement them. The debate on the royalty for mining illustrates this very well. So what Chile is experiencing is in effect a series of compromises under a rigid institutional system. These compromises, however, cannot be labeled as consensus, with some very few exceptions like poverty and education coverage. The paradox is that society and economy indeed function, but more by accommodation and subordination than by real consensus. In sum, concerning politics, there is no consensus on the constitution. Concerning the economic model, there are significant discrepancies on the matters mentioned, namely over the kind of market economy model. All of this means that we have a forced and artificial consensus, that apparently gives stability to the system but in fact weakens representation, freezes the system and widens the gap between citizens and politicians.

In recent years military institutions have become strictly obedient to the political power, and in 2005 an important constitutional reform allowed the executive to remove the commanders in chief. The effective power to govern is thus guaranteed, but some of the pressure groups are very strong. Significant social reforms desired by a majority of citizens and politicians, e.g., tax reform to modify income distribution or state intervention during economic crisis are blocked by power groups linked to business sectors that have a strong influence on the media. This impact could also be seen during the transport crisis with the new Plan Transantiago as well as with the attempts to ameliorate the equity and quality of education demanded by the student movement of 2006.

Anti-democratic veto actors

The government was able to prevent the escalation of conflicts that could take structural shape within Chilean society, especially gross social differences, regional disparities, and the human rights issue. However, it was only partially successful in reducing existing imbalances. Socioeconomic disparities have been reduced only minimally; they were somewhat ameliorated by job creation measures and by the introduction of unemployment insurance.

Cleavage / conflict
management

President Bachelet inaugurated a new “citizen” style of politics and has shown great capacity to react to specific conflicts and problems. However, the government lacks a general orientation and an institutional framework that allows for real popular participation. Her style emphasizes the “participation and consulting the citizens,” which she has displayed, among others elements, in the creation of advisory councils for different matters. However, many of the crucial projects such as the Transantiago Plan – which was formulated by the Lagos government – have been implemented without citizen participation. Also the Lagos government with its law concerning social organizations had given ambiguous signals concerning greater participation, but did not implement mechanisms to incorporate social organizations in public policies. Civil society does not have the capacity to intervene in politics, despite a blossoming of social organizations. Thus they can create some climate of public opinion to be taken into account, but they are still not powerful enough to influence political decisions on public policies.

Civil society
participation

On human rights, the problem is not the capacity of the government to bring about a reconciliation between perpetrators and victims, but the unwillingness of the civilians that supported the violations and crimes under dictatorship to recognize it and to repent, even when the military has. The judiciary has also maintained an ambiguous role in truly serving justice. Notwithstanding, important advances have been made with commissions, dialogue tables and the Commission on Torture and Political Prison.

Reconciliation

17 | International Cooperation

The Chilean governments since 1990 all made well-focused use of international aid for the needs of transformation, utilizing effectively international assistance for its domestic reform agenda. Chile tends to be a paragon of international cooperation among developing countries. It maintains bilateral cooperation with many countries, notably within the European Union (Germany, France, Spain) in such domains as scientific development and research, judicial reforms, gender-sensitive budgeting, and state and decentralization reforms. The same holds for the development of PYMES (small and medium enterprises) in cooperation with Spain and for Informatics development.

Effective use of
support

The government is considered very credible and reliable by the international community, and the country has an excellent reputation all over the world. The level of international trust towards the country is demonstrated in its numerous Free Trade Agreements with the United States, South Korea, the European Union, Japan, China and Latin American countries like Mexico. Chile has participated in the Security Council, there opposing the war in Iraq. It has a solid and reliable international position both in trade and politics, strengthened by the visits of President Lagos to many countries accompanied by business organization leaders, even those who oppose him politically.

Credibility

The Chilean government has actively and successfully built and expanded as many cooperative international relationships as possible. However, with regard to the volatile integration schemes in South America, it has always been reluctant to join or even promote regional integration. Concerning its neighbors, it has performed very well with the exception of its conflict with Bolivia. But this last aspect has shown in 2006 great advance due to the new style of both presidents, Bachelet and Bolivia's Evo Morales. In 2005 – 2006 a new problem emerged concerning the provision of energy, especially with Argentina. Chile's ambiguous position vis-à-vis MERCOSUR compounds its distance from Argentina, although it is well compensated by its solid relations with Brazil. However, President Bachelet has established new ties with Latin America and has adopted a new approach to the historical problem with Bolivia, in which she has included on her agenda the issue of Bolivia sea sovereignty.

Regional cooperation

Strategic Outlook

In economic terms, Chile's recent future looks promising, as all of the relevant economic indicators point to economic growth and decreased unemployment. However, because the question for Chile is not whether or not to pursue a market economy, but rather what model is most appropriate, the country's real problems will emerge in the medium term. Having moved from a neoliberal to a liberal-with-corrections model, it is safe to say that neither model bodes well for the country's future. It is time to move toward a more socially progressive or social democratic model, in which the state plays a greater role and there is a more equal distribution of income, resources and power. This would entail serious tax reform with a clear redistribution system. Chile's tax structure is highly unfair; corporate taxes are too low. The state would also need to be reformed so as to improve efficiency, incorporate more economic regulations, improve social participation and institute genuine regionalization and decentralization. Social security and welfare also must be improved upon. Higher education and the science and technology sectors are in urgent need of restructuring. Environmental issues need to be housed within a new institutional framework.

With several of these concerns in mind, the government presented in 2006 a law project to reform the social security system and thus open the market for new institutions, increase the pensions of the poor and create new regulations. However, the project does not change the essence of the system. Another law project aims at differentiating state subsidies for education in order to advance equality; in addition, there are plans to change the Constitutional Law on Education. In April 2007, the president appointed an environmental minister to establish an institution.

The most significant aspect of political transformation has been the continued mandate of the Concertación governments. In its fourth term, the Concertación also ushered in, for the first time in Chilean history, a woman as president with a gender-equal cabinet. Chile has consolidated a post-authoritarian democratic regime, but unfortunately, it is based on a constitution imposed by the Pinochet regime. Even if some reforms were approved in 2005, the constitution remains non-consensual; it is derived from an undemocratic political system that assured the right-wing minority's power, excluded the left and generated a system of institutions that kept people at arm's length from public affairs and politics. Implementing changes to the electoral system is vital for Chilean democracy; a project aimed at modifying the system was sent to parliament at the beginning of April 2007. Other urgent changes needed to assure democratic progress in

Chile include new laws on financing politics and parties, government elections at regional levels, administrative autonomy for the regions and municipalities, and disentangling the oligopolistic structure of the mass media. Above all, these reforms must be accompanied with a clear statement on justice – that it will prevail in all cases of human rights violations under the Pinochet dictatorship. Doing so will help heal the ethical wound currently dividing Chilean society. Presenting a new constitution would undoubtedly help to re-establish trust in politics.

At the international level, one of Chile's main problems is the fact that it has distanced itself from the rest of Latin America. Tensions with Bolivia, and the rigid Chilean notion that treaties cannot be revised combined with the view that this is purely a bilateral issue prevent Chile from full integration into the region, which is crucial to its future. Fortunately, new currents in international relations are under way, showing a shift toward Latin America and a new approach to the Bolivian problem. In sum, there are four main issues for Chile to resolve in making a clean break from its Pinochet past and to progress beyond its short-term economic successes: the restoration of ethical unity through upholding truth and justice; the restoration of socioeconomic national unity through state reform and redistribution policies to increase equality; the reconstruction of the political community through a new constitution and a new institutional framework in several spheres of society; and the re-insertion of Chile in the Latin American community by resolving problems with its neighbor countries.