



## CHILE UNDER THE LAGOS ADMINISTRATION

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### EXECUTIVE SUMMARY

On January 16, 2000 Ricardo Lagos was elected President of Chile over Joaquín Lavín, the candidate of the right by a close margin in the second-round. Lagos is the third head of state who hails from the center-left coalition ("*Concertación*"), which defeated General Augusto Pinochet in the 1988 plebiscite and thereby launched Chile's transition to democracy. The election results make it possible for this political block to complete 16 uninterrupted years in office. Yet such continuity is more apparent than real. The electoral campaign and its results included a series of novel developments that could well be a turning point for post-Pinochet Chile. The political figure of the former dictator was marginal in the presidential election. Indeed, the two solid blocks that shape the current political scenario in Chile focused their attention on reforms involving health, labor relations, law and order, decentralization, and education. Many similarities could be observed on these issues between the two candidates. The tone of the elections and the harmony in the platforms of the two blocks have provided further solidity to Chile's already stable political situation. On such a foundation, it is likely that a cycle of "second-generation" modernizing reforms will be introduced within a framework of broad political consensus and a disciplined handling of macro-economic affairs.

### CRITICAL ISSUES

The possibility that Chile's economy, society, and politics will undergo new modernizing break throughs will depend on two critical factors. The first is the direction taken by the new government, its leadership capability, and its talent for reaching agreements with political, economic, and social players. This will be displayed in good measure through the selection of Lagos' associates who will accompany him when he takes office this coming March 11 and in his first acts as head of state. The second critical factor will be the behavior of the center-right block. If it maintains its unity, electoral viability, public image, and centrist orientation, it could facilitate swift progress in modernization. The conduct of the Chilean business sector over the coming years will depend in large measure on the horizon and climate created by the above-mentioned political players. Indeed, the business sector is clearly in need of a framework that provides greater certainty in order to embark upon new projects in the context of an increasingly complex process of globalization.

### ESSENTIAL FACTS

The electoral process that brought Ricardo Lagos to the Presidency was transparent and clean. The campaign developed against a backdrop of complete freedom and without a single act of violence. The only event

that cast a shadow on the process was the enormous imbalance of economic resources in favor of the candidate of the right. This has created concern over the need to pass legislation on electoral financing and/or expenses. Abstentions totaled less than 10 percent and blank or null votes barely surpassed the 2 percent mark. Nonetheless, it should be noted that voter-registration rates have gone down in Chile over the past ten years.

In first round voting on December 12, 1999, Joaquín Lavín succeeded in capturing an unprecedented 47.5 percent of the vote in a tie with the official candidate. In the second round, held on January 16, he captured 48.7 percent of the votes, the best results attained by the right in a hundred years. In order to triumph in the second round, the center-left candidate had to make a dramatic turn in his campaign, avoiding the more confrontational planks and placing an emphasis on substance, leadership, and styles more traditionally associated with the center. He thus stressed the notion that a Lagos government would be the third government of the *Concertación* and not the second socialist government after that of Allende (1970-1973). The success of the right in these elections resulted from its ability to put forward a united leadership (that of Lavín) and a moderate, conciliatory discourse that distanced itself from Pinochet (who was physically out of the picture due to his arrest in London). The right also made a fitting appeal for "change" in a country that had been governed for ten years by the same coalition (the *Concertación*) and which in 1999, for the first time in almost fifteen years, was suffering the effects of an economic recession.

## CURRENT SITUATION

The recent presidential elections brought changes to Chilean politics that are destined to last. To start with, the political scenario has become much more competitive. Few analysts imagined that the center-left coalition, which had won every election by a wide margin since the re-inauguration of democracy in 1990, would be forced into a second round and win by barely 2.6 percent of the votes. This interjects a healthy degree of uncertainty into future electoral contests in Chile, and will force the various political blocks to do their utmost in order to show a good performance.

The principal factor in the changing political panorama of Chile was the transformation of the right during the recent campaign under the leadership of its candidate Joaquín Lavín. Lavín, despite belonging to the party most identified with the Pinochet regime (the Independent Democratic Union, UDI), distanced himself from Pinochet, conducted an upbeat, modern campaign, very close to the people, and adopted a moderate, centrist programmatic discourse. In this way the *Alliance for Chile* (encompassing the UDI and the other more traditional party of the right, *National Renewal*) was able to confront issues that had previously been taboo. A failure to do so would have undermined its ability to compete on the electoral scene.

This led to the presidential campaign having a right wing candidate calling for the resolution of pending human rights issues; advocating the discussion of certain political reforms aimed at eliminating non-democratic features of the Constitution; declaring himself in favor of reorganizing the State rather than curtailing aid to the poorest groups; favoring an increase in public expenses earmarked for groups such as retirees, peasants, or students; and advocating labor reforms to better protect workers; plus several other topics of a similar nature. This moderate platform dramatically improved the ability of the right to compete democratically. More importantly, it could lead the right to abandon the protection it has enjoyed under constitutional provisions of doubtful democratic legitimacy, inherited from the Pinochet regime, and instead to cooperate with the new government on matters where there was a convergence during the recent electoral campaign.

The recent presidential campaign also signified a dramatic change within the governing block, the *Concertación*. In concrete terms, this produced a shift in hegemony, which passed from the



hands of a Christian Democratic leadership, represented in Presidents Aylwin (1990-1994) and Frei Ruiz-Tagle (1994-2000) to one that is Social Democratic in nature, personified in President Lagos (2000-2006). This will translate into changes of style and perhaps a change of priorities. The process came about smoothly, through an open primary held in April 1999, where Lagos obtained more than 70 percent of the vote in a race with the Christian-Democratic candidate Zaldívar. The smoothness of the shift demonstrated that the center-left alliance, which defeated Pinochet and launched the Chilean transition to democracy, had attained a sufficient degree of institutionalization to successfully endure internal competition and shifts in leadership.

The Lagos presidential campaign was, in fact, *concertacionist*, not *socialist*. This was especially clear in the second round of the elections. In that phase, Christian Democratic leaders played a central role in the campaign, as the task at hand was to maintain and/or win over a centrist electorate attracted to the Lavín alternative. The new government coming into office on March 11 will be well balanced, with VIPs from the various political traditions that comprise the *Concertación*, similar to the preceding administrations of Aylwin and Frei. In fact, half of the key positions are in the hands of persons associated with the Christian Democrats, and the other half are in the hands of various Socialist or Social Democrat factions.

Beyond the changes described above, the recent presidential elections have further consolidated a trend observed in the post-Pinochet era, namely, the division of the political arena into two blocks or coalitions. What has changed is that these political parties are now more evenly matched. The origin of this division lies in the split over authoritarian rule vs. democracy that developed during the period of 1973-1990, and came to a head with the 1988 "YES – NO" referendum organized by Pinochet to extend his presidency for another eight years. The division into two blocks has deepened since 1990 due to the two-seat electoral system, which allows for the election of only two representatives from each district to the parliament. The recent presidential elections proved that both blocks (the center-left coalition, which opposed Pinochet, and the center-right coalition, which supported him) are capable of surviving profound internal transformations, and remain viable even while freeing themselves from the shadow of Pinochet. The "three-thirds" phenomenon of right-center-left, which characterized the pre-authoritarian political scenario in Chile, has been completely replaced by a bi-polar configuration, where two blocks (the center-left *Concertación* and the center-right *Alliance for Chile*) vigorously compete for the moderate centrist voter.

## PROJECTIONS

Now that the elections are over and the new Lagos government has been inaugurated, two issues remain. The first involves the character of the new administration. The second involves what course will be taken by the center-right.

The Lagos administration will be based on a coalition bringing together the Christian Democrat and Socialist / Social Democrat traditions. The various parties that comprise this block have faced a variety of internal conflicts, yet such conflict does not compromise the future of the coalition as such. Moreover, it should be borne in mind that the unity of the coalition is essential for the upcoming municipal elections (October 2000) and legislative elections (December 2001) in order to avoid defeat by the now powerful electoral block of the center-right.

The Lagos administration is comprised of a solid team of ministers and advisors, many of whom have completed post-graduate studies at universities in the United States. His government will most certainly maintain an orthodox approach to macro-economic affairs and a responsible fiscal policy. Heading up the Ministry of Finance is Nicolás Eyzaguirre, who holds a Ph.D. from Harvard and previously occupied a high position in the IMF. Under his guidance, Chile's development model, based on private initiative and an opening of the economy to foreign investment, is unlikely to change, especially since the economic crisis is over, as evidenced by



a projected rate of GNP growth this year of more than 5 percent, an unemployment rate of close to 8 percent, and inflation between 3 and 4 percent.

At the same time, it is likely that the Lagos government will introduce certain changes to other policies of former *Concertación* administrations. On the one hand, it will place greater emphasis on social issues for which a broad consensus appeared during the presidential campaign, such as health, law and order, decentralization, education, and labor relations. With respect to these and other issues, President Lagos and his government can be expected to demonstrate a greater degree of authority, leadership, innovation, and even volunteerism than that of the former *Concertación* administrations. Ricardo Lagos himself, as Minister of Education under Aylwin and then Minister of Public Works under Frei, clearly evidenced a style oriented towards bringing his projects to fruition through mobilizing all the resources available to him. Now, as he applies this style in a comprehensive fashion, he could establish a solid *de facto* alliance with the business sector that has been demanding a more resolute government with greater leadership capabilities for some time. Inevitably, under the Lagos government, changes will also be seen in the cultural realm, stimulated by a greater degree of creative freedom and freedom of speech.

As for the center-right, it appears that it will be difficult to rid itself of the style and discourse developed during the presidential campaign. This is due to the fact that the elections went unexpectedly well for the center-right — much more so than when taking a traditional stance— and a return to the past would not, therefore, seem reasonable. Furthermore, the center-right is almost immediately heading into two new elections (municipal elections this year and legislative elections next year), and would lose many votes were it to now turn its back on the promises made during the recent campaign. Along the same lines, the center-right ought to protect the leadership of Joaquín Lavín, who has prospects as a solid candidate for the Presidency in the next period (2006-2012), and this demands that he stay faithful to his campaign promises. Everything indicates that the center-right block, in the heat of the recent electoral contest, underwent an extensive, irreversible rejuvenation, turning it into a highly competitive democratic player in the new Chilean political scenario. Paradoxically, the detainment of General Pinochet in London for more than a year facilitated this development, and his recent return to Chile has not caused a serious relapse.

## PROBABLE OUTCOME

The Lagos government will be solidly based on a center-left political coalition, which favors maintaining current macro-economic policies, but will be innovative on social, economic, and cultural issues. Evidence of this spirit has already been seen in the appointment of 16 ministers, in whom the duties of the 21 ministries contemplated under Chile's institutional structure are concentrated, with the appointments including a record 6 women. In addition, everything indicates that the center-right block will persist in taking the centrist, moderate path on which it embarked during the recent presidential elections.

In one of his first acts as President-elect, Lagos met jointly with top business leaders, labor leaders, and the heads of small and medium-sized enterprises. He wanted to emphasize the commitment to maintaining frank and open dialogue between the government and the private sector. Later, during his first week as President, he invited the center-right to formalize the commonalities that came to light in the recent campaign. In response, Joaquín Lavín offered the collaboration of his technical teams. The question remains as to whether both forces, the government and the opposition, will be able to turn those commonalities that, into legislative agreements and a political consensus. Such is the case of the restructuring of the health system, in order to allow increased interaction between the public and private sectors. Following the recent campaign, the *Concertación* can no longer delay this. In the realm of labor relations, the reforms would focus on expanding collective-bargaining opportunities for workers and on



establishing unemployment insurance to offset the high degree of fluctuation in the Chilean job market. In the field of education, where successful reforms have been implemented for elementary and secondary school systems, the focus would be on measures to improve the quality of universities and technical-professional schools and to eliminate economic obstacles to access. Another priority area will be law and order, which ranked high on the recent electoral agenda. The need to address new demands by ethnic minorities (especially those of the *Mapuche*) and to resolve pending human rights issues are also areas, where the two parties seem to agree that action is required. Finally, there appears to be a consensus on the need to rapidly decentralize the country, which is so regionally imbalanced. Indeed, one-third of the population resides in the capital city of Santiago, where 41.5 percent of the GNP is concentrated. Even on such a sensitive issue as political reform (especially the elimination of senator and lifetime appointments), there are points of convergence that could be explored.

In one of his final declarations as a candidate, Ricardo Lagos invited the center-right to seek points of harmony between the two presidential platforms, and the issue is indeed on the agenda. Furthermore, in one of his first acts as President elect, Lagos held a joint meeting with the leaders of large, medium and small businesses and with trade union leaders, urging them to maintain channels of open and frank dialogue among one another and with the government. If the closing of these gaps is successful and a common program for reform and modernization is established, Chile will be able to take a great step forward in the coming years. The climate would be one of greater political competition, but with high degrees of cooperation, with an inclusive approach towards the business sector. Even if such efforts should fail, it is likely that the Lagos government could carry out a significant part of its program since, for the first time the *Concertación* has a legislative majority as a result of ex-President Frei being appointed a lifetime senator and the physical disability affecting Senator Pinochet. However, this could also make the political atmosphere extremely confrontational and lessen the chances of securing cooperation from the business sector, given the close relationship between the business sector and the center-right. Indications coming from the government and the opposition, as well as enormous public pressure calling for a policy based on consensus; will move both blocks in the direction of cooperation, and in turn lend boundless momentum to Chilean society in all its dimensions.

## POSTSCRIPT: SECTORAL INSIGHTS

*Energy.* The Lagos administration is likely to enact a new Electricity Act within the first two years. The projects now underway (such as the Ralco hydroelectric plant) will continue to enjoy the support of the new administration. These projects will encourage the use of natural gas in industry and vehicle transportation. The new sectoral authorities are technically competent and in addition to enforcing regulations will certainly encourage the development of new projects and initiatives.

*Transportation.* The new administration will continue Chile's solid support for private concessions for highways and airports. Through the incorporation of private capital, efforts will be made to renew the country's railroad system and develop new suburban train projects in Concepción, Valparaíso, and Santiago. The Santiago metro (subway) will continue to be expanded.

*Mining.* Changes will not take place in the ownership of Codelco, which will remain in government hands. Nonetheless, joint ventures with private capital will be sought for the development of new projects, especially outside of Chile. The strengthening of relations with Argentina will lead to the implementation of joint mining projects in border areas. It is probable that a debate on taxation for the mining industry, in very moderate terms, will be reconsidered in the coming years.



*Telecommunications.* Regulatory changes are not foreseen. The regulatory authority will continue to provide an incentive for greater competition in the sector. The process of convergence within the industry (telephony, Internet, television) will continue to intensify. The growing sensitivity towards the issue of protecting minority shareholders and the legal changes in said regard could lead to changes in the structure of ownership and control of some companies in the sector.