

Undoing the Damage in Chile

Jayati Ghosh

It was no surprise to anyone in Chile or outside when [Michelle Bachelet](#) romped home convincingly in a landslide victory in the run-off for the Presidential [election](#) in December. Indeed, the only surprise was that while she took 62 per cent of the vote, the voting rate itself fell to only 44 per cent of the electorate.

Bachelet, the pediatrician mother of four who was also among the students persecuted by the military dictatorship in the 1970s, has already served as President once. She completed her first term with an incredible 84 per cent popularity rating, which must be a record for any democratically elected leader after four years in office. But the current Chilean Constitution does not allow consecutive terms as President, so she could not contest again. In the interim, between 2011 and 2013, she was the first Secretary General of the newly founded international organization UN Women, but resigned from that position earlier this year to run for President again.

This time around she campaigned on the basis of a more explicitly progressive and transformative agenda, leading a coalition (Neuva Mayoria or New Majority) that includes a wide spectrum of political orientation, from the Christian Democratic Party in the centre to Bachelet's own socialist-leaning Concertacion to the Communist Party and an array of even more radical student leaders on the left. The very emergence of this coalition and its electoral success suggests that Chile has finally shaking off some of the torpor induced by the acceptance of neoliberal economic policies by both centre-right and centre-left parties over the past decades.

Of course, it is not that all politics in Chile was in a state of torpor, as young people in particular have been active in questioning structures and strategies that increased inequality and material insecurity. Indeed, the increasingly lively student movement in Chile has been raising important progressive demands relating not only to the privatization of education, but also much else that characterized the neoliberal consensus. Thereby it has arguably been responsible for radicalizing the wider population as well, and pushing the mainstream political discussion significantly to the left.

As it happens, the student movement has harked back to an earlier tradition, when the Communist party and the Socialist party were significant players on the political scene. In the early 1970s the Socialist [Salvador Allende](#) became President with the explicit goals of nationalizing the copper industry and pursuing egalitarian economic policies, only to be toppled and killed by a military coup on 11 September 1973, a move that was certainly applauded by the US and possibly actively assisted by the CIA.

The [Pinochet](#) dictatorship that emerged from that violent takeover turned out to be one of the most vicious and brutal regimes in a continent already known for oppressive military rulers. When it was finally terminated at the end of the 1980s, the general bequeathed an economy that had been the laboratory of the neoliberal economic experiment, the happy hunting ground of "Chicago boys" who effectively privatized everything that did not move and much that did. So deeply integrated into global markets had the Chilean economy become, so thoroughly market-centric and driven by the activities of capital in pursuit of ever more profits, that there was little space available for alternative economic policies even in a more democratic setting after the dictatorship ended. So the Socialist party that

governed Chile for much of the subsequent period accepted the basic principles of the [Washington Consensus](#) in terms of both macroeconomic and microeconomic decisions.

To some observers, Chile is seen as a model of macroeconomic stability because of the strict rules that have constrained its economic policy making. But others point to the dramatically increased inequalities in assets, incomes and access to basic goods and services over this period, making Chile one of the most unequal societies in the region as well as in the world. They also note the massive insecurities faced by workers whose rights are not respected, older people whose access to pensions is uncertain and inadequate and students who are crushed by massive (and often un-repayable) burdens of debt in the course of paying for their education.

These are some of the problems that Michelle Bachelet already had to contend with in her first stint as President. During that tenure, she and her government maintained the generally conservative macroeconomic policies that had become the norm. This included ensuring that with the government fisc was generally in balance and that revenues from copper exports (which still dominate in total exports) were used to finance public spending only in proportion to a reference average price, with windfall gains from global price increases being saved to a war chest for future use.

But that government brought in one major change: undoing the ravages created by the pension systems put in place under Pinochet. The Pinochet regime had created a contributory system managed by private insurance firms. This was both inequitable and inefficient: it excluded large numbers of working people who did not have any social security after their working years were over; it had very high capital costs; it was prone to many market imperfections including moral hazard and opaque and often unjust behaviour of the profit-oriented private insurance companies. In 2008 the Bachelet government changed back to tax-funded social pension system, which covers self-employed and other excluded workers and provides guarantee of a minimum income. This move has been copied by other governments in Latin America thereafter. However, the pension reform is not complete – it stalled during the government of Sebastian Pinera who will remain in office until March 2014 – and it will require additional funding if universal and stable coverage of the elderly is to be ensured.

There are some important [concerns](#) at present, which relate to two issues that have been central to recent popular protests: the huge student debt and unequal access resulting from a heavily privatised system of secondary and high education; and the fiscal reform that will necessarily be required to fund the public takeover of most higher education that appears to be the only way to solve the problem. The high cost of education, the uneven quality across institutions, the long years spent in gaining degrees only to face uncertain prospects of employment, are all features that have traumatised the younger generation in Chile for some time now.

Student protests began in earnest in 2006, during Bachelet's earlier tenure, led by high school and university students. The current system is heavily privatised (more than two thirds of enrolment is in private institutions) and even the better public institutions charge very high fees, especially relative to per capita income and future potential earnings. The tertiary education process is also very prolonged, with even undergraduate degrees taking 4-8 years to earn.

In this high-cost system, banks enable young people from the middle classes to access private universities and the more expensive public universities through a programme of state-guaranteed credit for students. Even with the loans, middle-class families spend

around 40 per cent of their income on higher education for their young. The poor are squeezed out altogether. Even among those who do get into the system, dropout rates are high. This affects the students as well as the educational institutions, which are financially responsible for dealing with that cost, so that many such institutions are also deeply indebted and no longer financially viable, creating a mountain of bad debt for banks to deal with eventually. Overall, the system fails everyone because it generates poor public schools, expensive private universities, unprepared teachers and unaffordable loans, which have grave financial consequences for households and eventually for banks.

The student movement has expressed its anger and resentment through a combination of traditional and innovative protests – strikes, huge demonstrations and marches, mass “kiss-ins”, and other means. Their demands include universal access to free public schooling and massive increase in state support to universities, which currently rely mainly on tuition fees. Achieving this will require significant revenue mobilisation by the state, which is where the proposals on tax reform and increasing the share of tax revenues raised from corporations and rich households are important.

The Nueva Mayoría coalition has managed to get a simple majority in the Congress, which will be necessary for the tax reform. But they have not got the larger majority required to push through the education reform. Still, there is clear recognition that this must be a major thrust of the new government that will take over in March next year, and already moves to persuade other elected representatives to support this are on. It helps that four important student leaders – all under 30 years old – have been elected to Congress, including the charismatic [Camilla Vallejo](#) of the Communist Party and [Gabriel Boric](#).

It is evident that the damage done to Chilean economy and society through all these decades of aggressive neoliberalism was immense and pervasive, and it will take time, patience and a lot of effort to undo it and to create a more equitable and secure society. Even so, it is clearly a time of hope in Chile. As Michelle Bachelet said in her victory speech, "The social and political conditions are here and at last the moment has arrived. If I'm here it's because we believe that a Chile for everyone is necessary. It won't be easy, but when has it been easy to change the world?"

* This article was originally published in the [Frontline](#), Print Edition, January 24, 2014.