Democracy and Growth with Equity in Chile- Lessons for India

Gaurav Sushant,
VIT University,
School of Social Sciences and Languages,
Vellore, Tamil Nadu, India.
E-mail: gaurav.sushant@vit.ac.in

Abstract

Chile constitutes a remarkable demonstration of the inevitable triumph of economic and political liberalism. Since its transition to democracy from authoritarian rule in 1990, Chile has made significant progress in economic development, poverty reduction and democratic consolidation. The country enjoys a consolidated democracy, as there is no fear of reversal to authoritarianism. Chileans value democracy, and autonomous institutions and working balance of power have stabilized the political system. The Concertación coalition government which came after the authoritarian rule of Augusto Pinochet followed the new discourse of “growth and equity” which meant giving market driven distribution a helping hand through limited social programmes targeted at the poorest sectors. Today, Chile can look back at last three decades of economic growth, very much in contrast to most other Latin American countries for which the 1980s and 90s have been a lost decade in economic terms. This paper will look into the Chilean success story and the lessons we can draw for India. The analysis will focus upon the nature of the link between consolidation of democracy through consensus politics and economic growth with the idea of equity. It will also highlight their social programmes of providing education, health facility and housing facilities to the poor which finally resulted in the drastic poverty reduction.

Key words: Chile, Restoration of Democracy, Consensus Politics, Growth with Equity, Social Sector
1. Introduction

The title of this paper as you all know is Democracy and Growth with Equity in Chile—lessons for India. To validate my points, this presentation will cover events from 1989 to 2009 in Chile. It is because in the year 1989, democracy was restored in Chile with the formation of a new democratically elected centre-left coalition government after the end of 17 years of dictatorial rule of General Augusto Pinochet. Similarly, the year 2009 is also important because in this year, for the first time, the same centre-left coalition was defeated in the presidential election by the right wing candidate after ruling for two decades. There was no doubt that this 17 year of authoritarian rule not only destroyed the country’s political system but also set strict limits on the media as well. However, on the contrary, on the economic front, military regime’s policy makers were able to put Chilean economy back on the path of development and put a better performance of the economy than that of Argentina, Brazil, or México at that time.

While the military-authoritarian regime of Augusto Cesar Pinochet (1973-1989) left deep scars on the society, economic liberalization process since late 1980s also had wide ranging impacts like labour flexibilisation, privatization of public enterprises, and low regulation environment which have no less contributed to larger socio-economic inequality, exclusion and political protestation. In this context, it is of interest to look into the dynamic interplay between the recently constituted democratic state institutions and the social sector demands in Chile where neoliberal model of economic development as well as authoritarianism, both were well entrenched during the democratic ‘transition’ and the centre left coalition government was committed to pursue the neoliberal model further after 1990. Among the major issues that dominated the politics under centre left Concertación rule from 1989-2009, two can be clearly identified: one was the continuation of the neoliberal model of economic development and the persistence of authoritarian elements under democracy for a long period of time. The second issue pertained to the demand and commitment towards the goal of equity. For the centre-left Concertación coalition, ‘Equity’ here meant giving market driven distribution a helping hand through limited social programmes targeting the poorest sections. That’s why successive Concertación governments had to demonstrate their commitment to this idea of ‘Growth with equity’ through specific public policies programmes. With this background, my paper will be broadly divided into two sections. Each section will separately discuss democracy and growth with equity in Chile after 1989 and will try to put forward some important points which can be taken as a lesson.
2. Democracy in Chile

After coming out of the authoritarian rule, political parties in Chile left their character of ideological rigidity and unwillingness to compromise and adopted the policy of consensual policy approach to start the process of national reconstruction (Posner 2008, p. 66). Another important development was the split of Chilean parties into two distinct camps: those who supported the continuation of military rule and those who opposed it. This induced the formation of centre-left coalition, the Concertación. It also forced the right to follow a coalition strategy and thus presented joint candidates in elections throughout the 1990s. These developments gave rise to two wide and relatively stable electoral coalitions representing the centre of the political spectrum, coalitions that monopolised political representation in Chile. This helped to displace political conflict from party level to coalition level and forced the two political camps into a consensus policy style of functioning.

So, after winning the first presidential election, democratization and democratic consolidation became the top priority of Concertación coalition. For this they set up some goals in the form of restructuring political institutions, extracting armed forces out of the political arena and creating mechanism to ensure full participation and physical security for all segments of the population. Actually, all this was done because the leaders of Concertación coalition were determined to transform Chile into a stable democracy.

In this regard, the first democratically elected government under Patricio Aylwin took initiatives related to human rights violation which occurred during authoritarian regime. The government compensated victims of human rights violations and their families and reversed the sentences of political prisoners for the acts against the dictatorship. Another very important initiative was the establishment of a commission for Truth and Reconciliation named “Rettig Commission” for the objective of accounting and analysis of the human rights violations by the authoritarian regime. According to Alexander Wilde in his article titled “Irruptions of Memory: Expressive Politics in Chile’s Transition to Democracy”, the multi-volume report by Rettig commission was an extraordinary achievement, impressive not only for its impeccable documentation but also for its broader historical and institutional analysis of the period including, significantly, the years preceding the dictatorship (Wilde 1999, p. 482). Another major breakthrough in democratic consolidation came during the tenure of next president Eduardo Frei who introduced municipal and regional democracy reform bill in the senate. With the passage of this bill Frei government fulfilled its commitment to decentralize regional and local governments. This decentralization was started by giving more authority and power to local government to coordinate and control public services carried out by other governmental agencies in the community. Eduardo Frei also got broad based political support
and consensus from the right wing parties and the *Concertación* for bringing comprehensive judicial reforms in 1997 because judicial system in Chile was considered ineffective, unapproachable to the poor, submissive to the military dictatorship, and more prone to corruption (Oppenheim 1999, p. 207). Thus, after seeing these judicial reforms being implemented by the Chilean congress, Francisco E. Gonzalez says:

The reform of the Supreme Court showed that the Chilean government was capable of engaging in gradual political change that weakened the authoritarian enclaves and moved Chile closer to a full democracy. In turn, bold political reformism helped to transform an institutional source of political-economic antagonisms into a source of potential synergies (Gonzales 2008, p. 172).

However, this process of democratic reconsolidation went through a difficult situation in 1998 when Pinochet was arrested in London for human rights violation and the military and right wing political parties created pressure on Eduardo Frei government to throw support for immediate return of Pinochet. The government acted in favor of Pinochet and averted a possible civil-military conflict at that time. In spite of doing all this, on returning Chile, Supreme Court lifted the Pinochet’s congressional immunity as a senator and allowed Judge to investigate the accusations against Pinochet. Next breakthrough in this direction came in the form of constitutional amendment brought by the next president Ricardo Lagos in 2005, according to which the power of Augusto Pinochet to appoint senators in congress was scraped which he was doing since he came to power in 1973. Not only that another provision under this reform was the restoring of elected president’s right to fire the armed forces commanders. All these policies of this shift of power were termed as the symbol of completion of transition to democracy in Chile. Ricardo Lagos also brought some legal reforms which reduced the restriction on free speech and changed Pinochet’s pro-business labour code. The re-democratization not only happened in Chilean politics. It also became visible in the *Concertación* coalition’s selection process of presidential candidates where the election of presidential candidates started to happen through primary election among the candidates of different parties inside the coalition. As a result of these primary elections, two of the last presidents of this coalition, namely Ricardo Lagos and Michelle Bachelet, came from socialist party which happened for the first time in Chilean history. Things became different when Michelle Bachelet took the office of president. While taking over the president’s office she announced that her government would be a “people’s government” and would be made up equally of men and women. Thus, she proposed a policy of gender parity in the distribution of government posts with the aim of opening the political system to more women and giving women a new political voice in the highest spheres of government.
One of the important reasons for the success in restoring democracy in Chile was the different nature of consensus in use by the political parties. Moreover, Intellectuals and politicians also redefined socialism as the deepening of democracy and considered it compatible with free market capitalism. This emphasis on the formal institutions of democracy combined with free market economics facilitated agreement among political elites across the ideological spectrum (Paley 2004, p. 503). To overcome seemingly impossible divisions, politicians focused on points of agreement rather than differences and employed a common language that would permit debate. They emphasized on the importance of words and symbols in maintaining the culture of cooperation or culture of optimism, which permitted the resolution of differences.

3. Growth with Equity

Chile is considered to be the ultimate model of neoliberal restructuring in Latin America in the late 20th century and the first decade of 21st century. After the overthrow of the socialist regime of Salvador Allende in 1973, Chile’s military government under Augusto Pinochet implemented an orthodox neoclassical economic restructuring programme which replaced state intervention with market incentives and opened Chile to global economy. These policies of severe fiscal control with stiff economic austerity by the autocratic military regime, for a period of seventeen years, failed so bad at the end of the military regime that Chile became a dual society, wherein a large percentage of the population was left without any substantial benefit of the so called country’s economic miracle. Not only that Economic growth per capita were also erratic and on average mediocre: 1.9 per cent per year from 1974 till 1989. This increasing inequality consequently led to considerable poverty. In 1987, 44.4 per cent of all Chileans were living in poverty, and 16.8 per cent were indigent (Weyland, 1997, p. 40).

Thus, after coming to power Concertación coalition anticipated that there would be popular demands that were previously repressed under the military regime. So, they attempted to pre-empt a possible conflict by satisfying the most urgent needs in those demands. Among these, Equity-enhancing policies were considered necessary to guarantee stability and strengthen their base of support. So, for this market-oriented policies of economic growth and the model of equity with inclusive growth were followed. All these policies were very much a neoliberal concept which was successful in averting the possible surge of populism and carrying out responsible economic policies. The economic policies were followed without breaking the economic model instituted by their predecessor and side by side they put poverty

---

1In neoclassical economics, buyers attempt to maximize their gains from getting goods, and they do this by increasing their purchases of a good until what they gain from an extra unit is just balanced by what they have to give up to obtain it. Similarly, producers attempt to produce units of a good so that the cost of producing the incremental or marginal unit is just balanced by the revenue it generates. In this way they maximize profits. (Weintraub 1993)
and social equity on the top of their agenda. Moreover, the economically sustained growth and economic dynamism made it easier for the *Concertación* governments to continue promoting equity and reallocate the fruits gained from better off sectors to the poor.

For doing this, *Concertación* governments emphasized on the need to increase public expenditures and to target these expenditures on marginalized groups. It was started by reversing the trend of declining social expenditures that happened during the military government. This approach to social policies in the area of health, education, poverty elevation and housing became the core of the Concertación’s ‘growth with equity’ strategy. Another important issue was rise in income inequality which generated greater demands for redistribution when democracy was restored. A series of policy measures and specific programmes were put into effect over the years through a progressive tax reform; the expansion of social benefits for poorer strata via improvements in the health system; and the strengthening of workers’ power through labour reform. The government also gave clear indications that all the new tax revenues would be used to finance social programmes to reduce poverty, increase health and education expenditure and provide housing for poor people (Foxley, 2005 p. 131-161).

![Graph 1](http://stats.oecd.org)

In the above mentioned graph, we can see that the total expenditure of the government in social sector doubled in 1996 and tripled in 2008 in comparison to 1990. This increased expenditure was to a certain extent targeted towards the lower-earning sectors of the population. According to Marcus Taylor, these social policy reforms had four pillars:
selectivity and targeting in place of universalism, Privatization of service provision, decentralization of remaining state responsibilities, and compensation for the social costs of structural adjustment through anti-poverty programmes (Taylor 2006 p. 172). So, after the formal adoption of ‘growth with equity’ model, Concertación government there by emphasized their confidence in free market, export oriented strategy to develop the material base of Chilean society, and its amalgamation with a more progressive social policy agenda that reincorporated those groups marginalized under the dictatorship’s restructuring programme. Marcus Taylor in his article titled “From National Development to “Growth with Equity”: nation-building in Chile, 1950-2000” has shared his observation on “growth with equity”. He writes: ‘Growth with Equity’ is therefore a moment of what is often termed ‘neoliberalism with a human face’ or ‘Third Way’ neoliberalism. In these circumstances ‘Growth with Equity’ soon developed into an attempt to mitigate the institutional confinement of production relations in the form crafted under the dictatorship by incorporating social aspirations primarily into the realm of social policy. Marginalized populations have been partially incorporated into the mainstream of Chilean society through new welfare institutions, such as participatory healthcare measures and the government anti-poverty programme entitled FOSIS (Taylor 2006, p.80).

So initially after the formation of democratically elected government in Chile, the increase in social expenditure was not sufficient, however it was just enough for these sectors to come out of the state of poor condition after 17 years of authoritarian rule. It was only after the coming of President Ricardo Lagos and Michelle Bachelet from socialist party that these policies were suspended and new ones were implemented. Some of the important policies implemented in these social sectors to enhance equity are as follows:

3.1 Restructuring of per student finance system in education

This scheme was restructured to recover the public investment in education sector. Under this scheme, the government increased the education spending by increasing per student finance for public and private subsidised schools. A major portion of this increased funding went into increasing school teacher wages. This policy also forced educators to be more alert to what the schools are doing and what parents and students wanted. Due to this, schools became more involved in the life of the students, and teachers started visiting the students’ homes when they were absent or when they have a family problem.

3.2 Improvement in health care services:

In order to improve access to health care for the economically poor sections of the society, the responsibility of the primary health care was transferred to a new emergency service unit called SAPU (Emergency Primary Health Care Service/ Servicios de Atención
Primaria de Urgencia) which tried to resolve the funding problems by collecting 60 percent of property tax from all the municipalities and redistributing it to municipalities on the basis of poverty indicators.

Another important step was the passing of new health reform bill with the name “Plan AUGE” (the Universal Plan of Explicit Guarantees in Health/Plan Acceso Universal con Garantías Explicitas en Salud). This reform was aimed to ensure universal access, opportunity of care and financial protection for the most predominant health problems that represented 60 to 70% of the disease burden of the Chilean population. The plan AUGE was significant because it was an attempt to eliminate the dual distinction between status and conditional citizenship. It established a universal package of services for all citizens, regardless of their income level. It aimed to create an executable social right to health care that the state would undertake to guarantee through providing funds and legal mechanisms by which citizens could exercise their right to healthcare (Dannreuther & Gideon 2010, p. 850).

3.3 Restructuring of housing allocations:

After coming to power, one of the important steps taken by Concertación was the increase in public expenditure on housing and a decline of housing deficits. Also, the government developed programmes which targeted specifically low-income allegados. In addition, it also made efforts to ensure that resources were more effectively directed to the neediest. One of the main characteristic of housing policies was its emphasis on housing as a commodity whose distribution used to be determined primarily by market forces rather than as a right.

Concertación government with the help of Ministry of Housing and urban, many programmes related to housing subsidy and mortgages for families were started. This task was given to an operational sub agency named Servicios de Vivienda y Urbanización (Housing and Urban Development Service-SERVIU). One of these programmes was the continuance of funding of basic housing programme which was started in 1981 by the authoritarian regime (Ozler 2011, p. 59). Another programme started by Concertación government was Chile Barrio programme under which an independent governmental entity was formed which gave urgency and priority to issues of housing for squatters and also to address social and economic problems in squatter communities (Ruiz 1998, p. 13-14). Another important housing programme started by Concertación government was Fondo Solidario de Vivienda (Solidary Housing Fund-FSV). This was started by Lagos administration which grew rapidly under Bachelet. It was started after the suspension of Chile Barrio programme. Although this programme came with some new ideas and changes, the

---

2 Allegados are multiple families living together in one dwelling.
fundamental neoliberal orientation of housing policy was not changed. In a way all these programmes were designed to give recipients more control over their housing and to ease the mortgage debt burden experienced by the poor. This finally improved the availability and accessibility of housing for the poor.

4. Lessons and Conclusion

In sum, the lessons which we get after accessing the work of Concertación to bring equity in the above mentioned areas are that universal public services were provided to all Chileans. It was seen in health policies where low income people were provided health facilities through public hospitals with more facilities and social protection in terms of health insurance was also provided with low premium. It can also be said that the return to democracy had positive impact on health policy which became inclusive and emphasized on extending access and improving services for the more vulnerable sections. All these measures showed concrete results like decrease in infant and mother mortality, improvement in professional care of delivery and an increase in the life expectancy of Chileans (Quiroga & Ensignia 2010, p. 155).

Some of the positive impact of their education policy which can be taken into account are that the repetition and dropping out were reduced which resulted in letting a large proportion of young people complete their secondary education. Priority was also given to educational reform process in the allocation of public resources in spite of the fiscal restrictions. The rapid growth of the economy also made possible an increase in contribution of 170 percent in education sector through the private contribution. Another highlight of the education policy was that the Government aimed at securing greater equity in education and for this, they focused on the provision of computer training, full day classes, increase in school meal coverage, school health programmes, provision of textbooks and materials and the expansion of pre-school enrollment (Marín 2001, p. 90).

Positive changes were also visible in Housing sector where Housing became affordable to low income people and people living below poverty line. It was done by overcoming the problem of mortgages and giving sufficient amount of subsidies. Not only that housing policies also promoted group activity among the recipients because committees of 10 to 50 families were formed to manage the housing project. This further increased the social cohesion because families worked together to solve their common problem of not having their own house.

Not only that, due to all these positive results in the above mentioned social sector, people of Chile started trusting more on democratic system and helped in making significant progress in democratic consolidation. They now enjoy a consolidated democracy, as there is no fear of
reversal to authoritarianism. Moreover, Chilean citizens value democracy, and autonomous institutions with a working balance of power have stabilized their political system. Elections have become the norm, and respects for individual rights are widespread. Democratic governments also gave importance to civil society by taking their opinion in appropriate sector like election reforms, education etc. It was because of these reasons that after one decade of democratic restoration; government came out with poverty alleviation programme which was aimed to take people out of indigent poverty who were still not able to take benefit of government policies either due to lack of knowledge or due to lack of motivation and ability. Additionally, Government was also able to bring stability in the migration of population from rural areas to big cities because small cities experienced important transformation due to good policy implementation which showed noticeable improvement of the living condition of the population in general. However, after going through all the positive aspects of policy implementation in Chile after restoration of democracy, one must also take into account the side effects of these policies which came out in the form of income inequality and perpetuation of another form of social inequalities, so that the same mistakes are not committed when this model is being followed by any other country.

**References**


Quiroga, Yesko and Jaime Ensignia 2010, Chile En La Concertación (1990 - 2010) Una mirada crítica, balance y perspectivas, Friedrich Ebert Stiftung, Santiago de Chile.


