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**GOVERNANCE AND INSTITUTIONAL DEVELOPMENT OF
THE CHILEAN ECONOMY**

This paper was prepared by Eugenio Lahera, Adviser on Public Policies to the Executive Secretary of ECLAC, and Mabel Cabezas, Consultant to the International Trade and Development Finance Division of ECLAC. The views expressed herein are those of the authors and do not necessarily reflect the views of the Organization. elahera@eclac.cl
mcabezas@segegob.cl.

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Introduction

The pre-conditions for economic and social reform in Latin America proved to be more complex than it was foreseen some years ago. To the original recipe of “right prices” it was necessary to add an integrated public policy approach. In turn, these “right policy packages” required institutional development, not only within the economy, but within society at large. Institutional changes, in turn, require democratic governance, which provides both social direction and political stability. Thus, the future of the reform process rests critically on the quality of democratic leadership and the soundness of the political system.

This article analyzes the governance of the Chilean economy, in the context of a growing concern about this subject within Latin America. The evolving conventional wisdom on economic policy is that a weak governance may put in jeopardy the painfully established economic reforms within the region; the process of economic change could well dry out. These concerns are realistic: economic reforms brought a rise in social inequality; according to some analysts, this is a short-term effect only and the reform path should be pursued, now adding second generation reforms, specifically in the area of institutional development and governance. On the other hand, events within the political sphere do not look promising: the democratization current is weakening and the future could bring further instability. The twin principles of free-market and democracy could meet severe implementation obstacles in Latin America.

On both political and economic accounts, Chile stands apart from this severe appraisal. International organizations, credit-rating agencies, international banks and consultant firms praise the Chilean situation and consider it an example for other countries. However, there are signs that governance is waning in Chile: the political economy of reform is increasingly harsh and the institutional flexibility required to accommodate and support the new changes required by a dynamic economy is not assured. To examine this trend is the main purpose of this article.

1. Recent economic performance in Chile

In March 1990, after over seventeen years of military dictatorship, Chile recovered a freely elected government; democracy and a free-market economy were thus finally combined. The economic results have been termed “the Chilean miracle”; both political and economic stability has been the norm throughout the nineties. There are two determinant factors of the Chilean process since 1990: the inherited institutional setting, on the one hand; and the political wisdom as well as the popular support of the Concertación¹ governments, on the other. So far, they have reinforced one another to achieve good governance of the economy.

Chile is often held up as a Latin American model in terms of economic performance and political development². Indeed, since the democratically elected government took over in 1990, the country has made a peaceful transition towards a stable, plural and democratic society.

¹ The Concertación de Partidos por la Democracia is the government coalition –integrated by the Democracia Cristiana, Partido Socialista, Partido por la Democracia, Partido Radical and other minor opposition parties– created in 1989 to win the elections.

² It is worth mentioning that Chile had a strong democratic tradition since 1833 until 1973, interrupted by few and short authoritarian episodes.

Chile is unquestionably the star economic performer in Latin America, in terms of sustained growth, price stability, domestic savings level, investment, exports growth, and institutional development (see Table N°1). Until 1998, the country enjoyed 15 consecutive years of growth: the average cumulative rate was 6.9% p.a. (7.7% in the 1990s). As a consequence of the Asian Crisis, the GDP growth rate declined significantly in 1998 (3.4%), and is expected to fall by 1 percent in 1999. The inflation rate has declined to one digit figures reaching less than 4% per year in 1998 and 1999. This is compared to an inflation rate of 20% in the late eighties. The investment ratio is around 28% of the GDP, the highest in Latin America. Furthermore, Chile is one of the very few countries that has achieved an important fiscal surplus of around 2% of GDP in the 1990s, nevertheless as a consequence of the Asian Crisis it is expected a fiscal deficit of 1%. This performance has certainly changed both the urban and rural landscape and transformed the everyday life and consumption patterns of the Chilean population.

Exports have grown robustly and have become increasingly diversified, although they still depend, to a high degree, on natural resources: minerals (copper), wood products, fish and fishmeal, and agricultural commodities. The country's economic interests are also well diversified between neighboring countries, the US, Europe and Asia. The Government has pursued an aggressive policy of engagement with overseas markets, and has negotiated preferential trade agreements with the Southern Cone Common Market (Argentina, Brazil, Paraguay, and Uruguay), bilateral trade agreements with numerous Latin American countries (including Mexico) and Canada, and is about to initiate negotiations with the United States. The joining to the North American Free Trade Agreement would then be a logic step.

The country has been an important recipient of direct foreign investment, to the point that excessive financial inflows have contributed to an exchange rate appreciation. Chilean firms and individuals have also invested abroad, especially in neighboring countries.

Poverty has been significantly reduced as a result of economic growth, job creation and government policy. While in 1998 21.7% of Chileans still live below the poverty line, this ratio is down from 45.1% in 1987. Extreme poverty fell even more: from 17.4% to 5.6% in the same period. It is true, nevertheless, that income distribution has not improved in the past 10 years. However, it should be kept in mind that Chile ranked first in Latin America in 1997 in the UNDP's Human Development Report, ahead, for the first time, of traditionally more equitable countries like Argentina, Uruguay, and Costa Rica.

On the other hand Chile's political economy is often mentioned as an example of good governance, at least –but no only– for the rest of Latin American countries. Chile, it is asserted, has not only the right policies, but also the right institutions and the right political economy processes.

2. The preconditions of governance

It is common knowledge that the outcomes of broadly similar reform packages have varied significantly across countries. The formal adoption of appropriate policies is useless if a country's institutions do not have the capacity and the incentives to ensure that policies will be adequately implemented. In turn, the characteristics of the environment in which citizens interact with each other and with government agencies, is a relevant factor underlying these variations. Hence, getting the policies right may not, by itself, be sufficient for successful development. Good governance is required to ensure that governments actually deliver the promises to their citizens (Lahera, 1996).

Although the classic transaction in law and economics –the trading of a homogeneous good in a market with large numbers of buyers and sellers– is well serviced by spot markets in which the identity of the parties is unimportant, things become more complicated as buyers and suppliers become dependent on one another (Williamson, 1995).

Governance is epitomized by predictable, open, and enlightened policy making (that is, transparent process); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs; all behaving under the rule of law (World Bank, 1994). The Commission on Global Governance has defined the term as the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.

The relationship between political and institutional aspects of governance is examined by Campos and Nugent: an essential characteristic of growth-promoting institutions is that they give agents a voice, a stake in the system. By doing so, they increase the appropriability of benefits or, conversely, reduce the amount of rent-seeking. In contrast to much of development literature, which relies almost exclusively on the output, or outcome side of institutions, this view puts considerable emphasis on the input side of the institutional development process (Campos and Nugent, 1998).

A specific trait of advanced economies' governance is that they have a wealth of institutions that facilitate the interactions among individuals and between individuals and the State. These institutions –which include neighborhood organizations, clubs– have been termed social capital (Putnam, 1993). In societies with abundant social capital there is a significant "trust" among individuals who are able, therefore, to engage in fewer non-productive activities.

In sum, governance has two determinant factors: an efficient political system and an adequate institutional development. As put by North, "The inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World". (North, 1990.)

3. The authoritarian regime as background

The conviction that the Chilean model is a paradigm of economic reform is still surprising for some. In fact, several of the reforms had already been applied in the seventies, with enormous costs which effects were long lasting. If the military government had ended in 1983, after ten years of dictatorial rule and economic experiments, it would be remembered as a great fiasco, both politically and economically. Even in 1985, evaluations of this experience seemed to conclude that it had failed to accomplish its main objectives. Likewise, there is abundant evidence that the process was linked to significant welfare costs. These disproportionately affected the poorest sections of the population, increasing the levels of poverty and worsening the income distribution. The evidence also suggests that serious mistakes were made in social and economic policy, which artificially increased the duration and magnitude of the adjustment period and associated welfare costs (French-Davis and Laban, 1995). On the other hand, according to the Rettig Report, 3.197 people were killed for political reasons during the dictatorship, including 1.102 who disappeared after being arrested by Pinochet's security forces.

However, after the big crisis of the early eighties, more pragmatic economic policies were adopted in conjunction with a more favorable international economic scenario. Thus, the

macroeconomic score of the dictatorship was positive during the final stage of the game. The strategic policy changes made by the authoritarian regime included: the freedom of prices and wages, the opening of the economy, the privatization of state-owned enterprises and assets, an orthodox fiscal policy, the reduction of the government size and intervention, the autonomy of the Central Bank³, and the privatization of the social security system (except that of the military); public entrepreneurial activities were limited by the 1980 Constitution. These reforms involved changes in policy orientations or economic aims, but they also considered profound institutional changes.

The political economy of these changes was clear enough: no political activity was allowed during the whole period: no consultations with the civil society or even with the businessmen who would be affected by the changes but governmental *diktat* once policy features were sorted out within the small and tight center of power. Technocratic power was high and encountered no serious limitations, once the dictatorial regime had set the path; sometime after considerable intra regime fighting.

The economic reforms benefited the entrepreneurs, but it was not of their own making; they were not active actors of the institutional developments of this period (Montero, 1999).

4. The overshooting of transition

The Chilean transition process went not along the paths predicted by the economic literature on the subject.

According to Alesina and Perotti, economic transitions from dictatorship to democracy, being associated with sociopolitical instability, should typically be periods of low growth. The social demands that were repressed under unconstitutional rule are likely to explode at the beginning of a new democratic regime. Until the new democratic regime is consolidated, it may face tremendous pressure to accommodate the conflicting demands of different groups. In addition, collapsing dictatorships are likely to bequeath to their successors serious economic problems (Alesina and Perotti, 1994).

The Chilean case was different, probably because the political transition was also different. The movement to oust the Pinochet regime went through different stages, including one of massive protests, which were answered with increasing violence by the dictatorial government. This induced a change of strategy of the Democratic Alliance⁴, which accepted the government's challenge to a plebiscite: the continuation of Pinochet as head of State was then rejected by the majority of votes.

The transition agreed with the government had to be based upon the 1980 Constitution. No matter how fraudulent the approval of that Constitution had been, this institutional stronghold did not seem to be a debatable matter at that moment. The same thing happened with several norms which were introduced in a hurry by the dictatorship once Pinochet lost the plebiscite, which included even laws of constitutional range ("leyes orgánicas constitucionales").

The Democratic Alliance, plus a group in the Right, negotiated with the government several changes in the Constitution. There was agreement on some points, while some others were deferred,

³ Although this autonomy was implemented after the military regime.

⁴ The Democratic Alliance was created in August 1983 by the Christian Democratic Party, the Socialist Party and other political forces; it was the basis of the Concertación por la Democracia coalition that took power in 1990.

waiting for democracy; today practically all of them are still pending. The 1980 Constitution was designed to maintain a supervisory role for the armed forces for an indefinite period and to make it virtually impossible to modify the rules of the game laid out. This was engineered through diverse interlocking mechanisms: a high proportion of unelected (“institutional” and “for life”) senators; the need for very large legislative majorities to reform the constitution; and a binomial electoral system that makes it almost impossible for any coalition to secure a significant majority in the Senate.

The armed forces gained a budgetary autonomy with regard to the level and the management of public military expenditure, which included 10% of Codelco’s⁵ sales per year; while the existence of influential non-representative institutions such as the National Security Council and the Constitutional Court was guaranteed. The Supreme Court nominated by the military government was unchanged, as well as an Amnesty Law passed in 1978 to cover the main period of human rights violations.

On the other hand, there was a tacit consensus –complemented by specific legal lock mechanism– on the economic policies: a free-market, open economy strategy; openness to foreign trade and investment, strict macroeconomics management, responsible fiscal policy and a controlled increase in social expenditures to be financed through a modest tax increase.

But the tacit agreement also included an acceptance by the Concertación of the extensive redrawing of property rights during the authoritarian government. The structure of the Chilean markets circa 1990 was less the result of an “organic”, protracted development process, than of political design by the Pinochet regime. These included flawed privatizations which in some important cases favored the very same public employees who were in charge of the then public firms; and intense processes of economic concentration under the aegis of “politically correct” (that is, pro government) economic groups. The media market, for example, was hand-designed by the authoritarian government. Both El Mercurio and the Copesa groups, both strong supporters of the military regime, were deep in the red by the end of the eighties and they were saved through creative financial gymnastics by public banks. The result, by design, was a highly concentrated market, within a sector with high entrance barriers.

The globalization process was relevant here. The democratic opposition realized that there had been a marked acceleration in the process of globalization, resulting in an increased degree of openness in most countries. These reforms were in the road the world was taking; results in the macroeconomics sphere were good, placing the Chilean economy ahead of the Latin American economies during the second half of the eighties. Also, the international financial community considered Chile as a model worth emulating, because of its successful transition to a free market economy. Changing the economic model would have met with international disapproval.

The more relevant of the Opposition's disagreements with the government economic strategy were on its social costs and on the narrowness of the export base, where natural resources or natural resources-based products predominated.

With today's insight it seems clear that these agreements amounted to an overshooting; not only from the Concertación's viewpoint, but also regarding political and economic flexibility. Most probably by the end of the eighties this was unavoidable; besides, there was an understanding with the Liberal right to make the necessary amendments: this would prove unworkable.⁶

⁵ Corporación del Cobre, the state-owned copper enterprise.

⁶ Even today's critics concede that the bulk of the agreements was necessary. See (Moulián, 1997).

Thus, the political and social process changed abruptly from the authoritarian to the democratic regime. Consensus was a solid foundation of the “agreed transition” and of the economic policies implemented by the democratic governments. In time, it would become a limitation to them.

The political and economic traits of the transition process made the Chilean situation highly specific. The democratic government inherited a sophisticated economic institutional development and a rigid political system, with significant non-fully democratic institutions. Governance seemed assured by this mix, but only under given conditions, which could not last forever.

For some analysts, the Chilean transition and the specific kind of governance it brought to life had an exemplary value for Latin America. The actual restrictions and the lack of flexibility were sometimes perceived as corrective devices for a society which was deeply divided and confronted by 1973, when the military took the power from the democratically elected Allende government. But now it seems clear that they made a virtue out of a necessity.

5. Governance: actors and arenas ⁷

An overview of the arenas where economic governance is determined reveals a spectrum where businessmen, politicians, public employees, the military, technocrats and special interest groups are the main actors. The manner in which power is exercised and decisions are made within the economic realm are clear, predetermined, and they often lead to agreed outcomes; however, there is a small, but growing mismatch between the current ways and means and the needs of the economy. The government has the initiative, but within given rules of the game which can only be changed by a piecemeal approach and then, slowly.

a) **Actors and “the model”**

Governments are usually the main actors of the political economy of reforms, acting within a certain institutional setting. Other actors include businessmen, politicians, military, public employees, think tanks and special interest groups. One specific feature of the Chilean case is that non-representative institutions established by the dictatorship are prominent.

The economic strategy of the Concertación governments has been in line with the new international conventional wisdom or paradigm over economic development: Chile is in fact one of its leading success cases. But within Chile the “model” was closely associated with the dictatorship by almost everybody: by the people voting for the Concertación parties, for sure, but also by the business community and right-wing parties. This misperception is an important source of rigidity, as the model must be changed or preserved –according to the different actors– for reasons that often are more political than functional.

For businessmen, the institutional setting is perfectible, but this should be done by –or at least in accordance with– the original conservative designers. After Douglass North visited the country in 1996 and lectured about the development process as the history of the overcoming of unsuccessful institutional arrangements, a former Pinochet minister and head of the most important conservative think-tank concluded that North was in fact preaching about the 1980 Constitution. In other shades of the spectrum, the enemies of the “model” often are also enemies of modernizations of

⁷ See Lahera and Toloza eds. (1997).

any kind, while pro-modernization neoconservatives within the Concertación –especially those who are not economists– assert the intangibility of the “model”.

Thus, the institutional setting has the original sin (or beneficial condition, according to others) of being a product of the dictatorship period. The decoupling of ideological and functional views on the subject is a too slow process.

Also, a distinctive feature of the Chilean case is the existence of the so-called “poderes fácticos” constituted by right wing-oriented actors that are not part of the “formal system” but that by their own right have a “veto power” on policy issues that can potentially affect them.

The Chilean case proves that to add legitimacy to the transparency and clarity, the rules of the game must be perceived as equitable for all the different factors of production, not only for capital. If any sector, especially the poorest ones, perceives that the deck is stacked unfairly, the tenets of governance will be eroded. The Aylwin government furthered three-way agreements among workers, employers and the government, including the annual determination of minimum-wage level, which did not last.

b) Arenas

Which is the trajectory of a reform within Chile?

Under the 1980 Constitution, the Executive branch has the sole legal initiative for a range of key economic, political and institutional issues. Therefore, the most important battles for reform are initiated and take place inside the government. Given the strictness of the institutional framework and the recurrent lack of flexibility of the outside actors, a careful consideration of what is both desirable and feasible must be made internally, prior to public discussion.

Policy design is made through diverse channels which usually include the interplay of sectorial authorities (ministries or agencies) with the social actors involved, as well as with the higher political authority; usually, the Ministerio Secretaría General de la Presidencia (SEGPRES) manages the political agenda of the government and the relationship with Congress.

The economic authority is distributed among three main institutions: in the first place, an independent Central Bank is responsible for the conduct of monetary policy; the Ministry of Finance is responsible of the fiscal policy and the general policy orientation of economic policies; and, finally, the Ministry of Economics is in charge of the regulatory and technology policies. There are, of course, sectoral ministries dealing with specific areas of economic activity like agriculture, transportation and telecommunications, and mining, but these policies are framed by the general policy orientation designed by Finance and Economics.

Legislative proposals are discussed both outside and within Congress. The voting intentions are usually clear from the start and the bargaining process allows only minor changes. It is in the system’s fabric that agreements must be reached with the right-wing parties and the unelected senators. This restricts participation of society, which would not be in line with the negotiations. This, plus the biased electoral system and the existence of diverse unelected authorities created in the 1980 Constitution, give to these minority parties an effective veto-power. As former President Aylwin put it, Chile is a democracy where the majority does not rule.

Public agenda and policies are also analyzed by different think tanks related to different political parties. The think tanks' specialists advise congressmen and often participate actively in the legislative discussions.

Budget negotiation procedures are strict and generally they favor the Executive propositions. However, the level of military spending –which amounts to 21% of the central government spending– is fixed and its management is opaque, by design. Public enterprises' budget is not subject to public discussion although both the Finance Ministry, and the independent Office of the Comptroller strictly supervise it.

6. The development of governance in democracy

a) **Institutions and rules of the game**

The success of Chilean policies during the 1990s can be explained less by them being original than rooted in institutions. This is not new within the Chilean economic and political system traditionally characterized by its formality and its historical orientation towards the creation of legal frameworks for everything possible.

On the other hand, different reforms and institutional changes initiated during the Concertación governments have been based on diverse degrees of consensus. In some cases, less than a complete agreement would not do, while in others it is easy to perceive significant asymmetries among the relevant actors; while some hold a veto power, others can be neutralized.

Some specific effects of the clarity of rules, often predicted or at least implied, in the literature is lacking in Chile. The formal quality of the rules of the game (its clarity, economy and consistency) does not assure its substantive merits. There are many several economics and social policies and institutions which ought to be changed; in some cases, minor ones, but in other cases less than drastic changes will not do (Uthoff, 1997). Economic governance could also be furthered by changes in the internal organization of firms and of labor relations. This has been only partially achieved in Chile.

i) Macroeconomic management

A key economic factor in the nineties has been the preservation of a climate of political and economic stability. This was essential for the investment take-off, and is an intangible asset which value cannot be overestimated. Besides maintaining a surplus in the fiscal budget and ensuring orthodox handling of monetary policy, a judicious macroeconomic policy has ensured that key relative prices –such as the real interest rate or real exchange rate– do not depart from medium-term equilibrium trends (Vial, 1995). Chile's success has been based on a strong fiscal discipline, cautious debt management and a tightly monitored banking system that is open to foreign investment. In addition, there is a copper stabilization fund to cushion the economy when the metal's price weakens and capital controls, aimed at discouraging the inflow and sudden outflow of hot money.

The Central Bank has been successful in preserving its autonomy, except for specific episodes of intense pressure exerted from the government economic authorities. The “political equilibrium” within the Board has been challenged (in favor of the government), but it could be restored in the near future.

The macroeconomic reform is the engine of the post-1981 economics, not only in Chile. Several of the “model” features have been changed during the democratic governments. For some, these changes are superficial and they confirm that the model remains in its integrity. But they include a tax reform, a gradual opening of the capital account that has promoted Chilean direct investments abroad complemented by controls on short-term capital inflows, and policies to prevent an excessive appreciation of the exchange rate. They also include fiscal policies with a bias for social spending and a high level of public savings.

What made this possible? A crucial factor was the quality of macroeconomics management, especially in the Central Bank, but also in the Finance Ministry. Their assessment and management of the situation proved successful from the beginning and the relative isolation of the Chilean economy from short-term effects of speculative capital movement was rightly credited to that policy.⁸ During the first years of the decade, Chile had a very reasonable macroeconomics framework, direct investment but also short-term capital. The Central Bank decided to screen the latter in order to not have too much of a good thing (Zahler, 1997). Chile had a 30% reserve requirement, between 1991 and 1998, on foreign borrowing and restricts short-term foreign investment in the stock market. The relevant discussion here was inside the Central Bank Council, which includes former high level officials, related to the military economic team.

In the financial sector, different reforms have taken place or are still on their way. They represent the deepening of the liberalization efforts of the past, after the major failure represented by the defective financial opening of the mid-seventies. The lack of comprehensive consolidated supervision remains as the main shortcoming of the current legislation, in terms of the principles of banking regulation that have been recommended by the Basel Committee on Banking Supervision.

The tax reform of 1990 was hardly conceived as a change of direction by anybody; its aim was to finance additional social expenditure, which was bound to rise anyway, after the drastic reduction made by the authoritarian government. The reform was quite moderate in a technical sense, entailing only a mild increase in income taxes for business and high-income groups and a small across-the-board increase in sales taxes.

A second tax reform –aimed at correcting tax structure– was proposed by the government during 1996, but it did not go through, after significant disagreements arose both within the government and between the government and the opposition parties. Instead, minor reforms oriented toward avoiding tax evasion were introduced in 1998, leaving the substantive discussion regarding tax structure unresolved. The outcome is uncertain; the government programs of the two most important presidential candidates coincided in terms of not increasing taxes, focusing their proposals in reducing tax evasion and improving the existing legislation.

With the Asian crisis, a number of problems have surfaced, in particular, discrepancies in approaches between the Central Bank and the Finance Ministry with regard to the policy mix to promote macroeconomic adjustment. In the second place, some influential actors raised their criticism against the Central Bank’s emphasis in reducing the rate of inflation making a more severe adjustment than necessary through interest rates. This new environment has affected the economic agent’s expectations and the credibility of the authorities, creating the opportunity for speculative attacks against the peso.

The export drive is being weakened and there is a debate going on –not specific to the Chilean case– at this time regarding the characteristic and consequences of the capital movements,

⁸ It is interesting to mention that the three Presidents of the autonomous Central Bank came from ECLAC.

and how they affect domestic interest rates and fiscal policy. The question of the optimal exchange rate system is on the agenda; discrepant policies are being advanced with regard to capital flows, on the one hand, and the level and composition of national expenditures, especially the private/public mix, on the other. There is no single equilibrium solution for the real exchange rate and consequences may be quite different. (See Zahler, 1992; and Fisher, 1997.)

Besides the sustainability of exporting commodities, lies the need to design and implement a more deliberate effort on industrialization. In the short run, economic activities based on natural resources or public services seem to be more attractive in terms of risk and profitability, particularly when compared with promising activities that require the development of technology. Furthermore, the limited depth and the shortcomings in the capital markets serve as a barrier to investments requiring innovations in technology and production, or whose rates of return are somewhat slower paced.

ii) Microeconomics development

Productive development as a subject of government policies is a reform area, which characterized the Concertación's analyses and government programs. Results have been at best limited. The design of institutions functional to the support of productive development has been a difficult task, amid business distrust of anything different to a direct subsidy and Concertación's doubts on the type of instruments needed.

The Pinochet government considerably reduced CORFO's⁹ role, which became limited to the privatization of state-owned enterprises, and credit provision to individual firms through private banks. Under the democratic governments, CORFO has assumed a new role to promote a reorganization of state enterprises, after the experience of the 1980s revealed the limits of the traditional instruments, like individual credit and technical assistance programs to firms. Building on the experience of PROCHILE¹⁰ during the 1980s, and drawing on the experience of the European industrial districts, new programs (Development Projects or PROFOs) aim to organize enterprises in groups to foster their joint access to new technology, and effect the internal reorganization of the firms were created (Pérez-Aleman, 1997).

With regard to the labor market, the first reforms package was mild and it did not challenge the "Plan Laboral" –the labor legislation designed by the Pinochet government– in organized labor's view. A new labor market reform, which is opposed by the organized labor confederation, includes a sort of unemployment insurance and some measures oriented toward the strengthening of collective negotiation process of the labor movement. These projects have been in Congress for years, where they have an uphill battle against the business community and the right-wing Opposition. By the end of 1999, reforms to the labor legislation were not approved by the Congress. Nevertheless this is one of the issues that the elected president considers a priority in his work agenda. The most conflicting issues are the introduction of industry wide collective bargain, the elimination of the possibility of hiring workers during a strike, and the extension of collective bargain rights to certain peasant categories (temporeros) that at the moment do not enjoy that right.

The Servicio Nacional de Capacitación (SENCE, workers training program) law was reformed, in order to ease labor skills upgrading activities. Entrepreneurs were actively against a provision giving labor unions a voice on the subject. During 1998, the Congress approved the ILO Conventions dealing with forced labor, child labor, collective negotiations and freedom of

⁹ Corporación de Fomento de la Producción, created in 1939 as a development corporation.

¹⁰ Export promotion agency, created in 1976.

associations, four of the five internationally recognized core labor standards, the two latter with strong opposition from the right wing parties and business community.

iii) Infrastructure and transports

Allowing private sector participation in road construction and maintenance is a promising change of the nineties, both in policy orientations and institutional arrangements. This reform was skillfully played, in order to avoid an ideological argument: private participation in fact enhances the investment in more “social” infrastructure. Nevertheless, several regulatory shortcomings have emerged in the context of the Asian economic crisis, putting some question marks in terms of the concrete role this system can play in a finance restricted scenario.

In 1998 new mechanisms to improve the financing of the system were created. For the domestic financing an infrastructure bond was introduced establishing the requirements for the issuance in Chile, and for international financing, an Exchange Rate Coverage mechanism for concessions was created. For projects with a high social impact an Infrastructure Fund was approved.¹¹ In 1999, for the concession of the “Costanera Norte” first project in Santiago, worth US\$ 300 millions adjudicated to foreign investors, the government committed to build additional infrastructure for US\$ 80 millions and the review the minimum guaranteed income schemes.

Investment requirements in ports infrastructure led the government to propose a new institutional setting for this activity. Right wing parties were in favor of privatization, while EMPORCHI workers and hard-liners inside the Concertación were in favor of reforming the State-owned enterprises (SOE). The final text of the law gives green light to private operation within the port infrastructure of the now autonomous port enterprises, through the mechanism of concessions.

This process has been delayed by the private sector opposition to the pro-competitive regulations established by the public companies in conjunction with the antitrust authority, to prevent vertical and horizontal integration. Also, ports workers demand warranties to the government to prevent from possible dismissal in the sector. In 1999 the main ports, Valparaíso, San Antonio and San Vicente were auctioned, meaning US\$ 294 millions of fresh resources for the government. This will imply an estimated reduction of 30 percent in charges for certain port services. The Port of Arica and Iquique are scheduled to be auctioned next. In the case of airports, the government policy allows private participation in the administration through the concession framework

The complete deregulation of urban transport made by the dictatorship has been partially replaced by a regime of competitive concessions within a regulatory framework. Tariffs are fixed through a preestablished formula, considering real input prices. The policy regarding the run-down railways system is to allow private investment in its modernization. Part of the freight transport is already privatized, but that of passenger service has resulted harder and more expensive. There is no agreement on how should the fiscal break-even point be determined.

iv) Environmental policy

Environmental policies had to be designed from scratch; there was no inheritance or fixed framework here, except for a prevalent *laissez-faire*. On the other hand, the Concertación had no clear-cut designs on the subject and internal disagreements have been strong. Businessmen and right-wing parties argue against green extremism and in some government quarters the feeling is that environmentalists are against everything. The weakness of governmental institutionality, coupled

¹¹ The resource of this fund will be available after the year 2000.

with disagreements on important issues within the Concertación, has failed to secure a working policy on the subject matter.

The Chilean water rights system is the less regulated in the world. It is the subject of a reform proposed by the government in order to prevent speculative rights accumulation, through patent payment. Right-wing opposition has changed from a frontal opposition to a more nuance one, asking for the protection of proprietary rights.

b) Competitive markets

Clear rules of the game are not enough, if they do not satisfy certain substantive conditions; the existence of competitive markets is key to governance. Free markets promote efficiency, leading to better quality and lower prices when all the players have adequate information and contracts are adhered to rigorously. Full operation of the marketplace requires competition, information and transparency.

Beyond making clear and consistent rules, it is, therefore, imperative to stimulate competitive markets. This has been the case in Chile, but within definite limits; there is a clear disequilibrium between the institutions in charge of sectoral regulation and the large firms within each sector.

Some strategic markets are still imperfect: capital, human resources, technological innovation and management; or need to be made more competitive, especially non-tradable goods and services. One policy lesson is clear enough: regulation must precede privatization, as changes in the structure of a given sector often preclude posterior changes in regulation. Otherwise, the regulatory activity may become a bargaining process where the relative power and influence of interest groups has a great impact on the outcome, leading to the development of rent-seeking activities.

The temptation to support “national champions” should be avoided, especially when it means to deviate from transparent policies. Sound incentives must be developed from the perspective of social benefit and productivity that are geared toward optimizing the operation of the marketplace. This can be accomplished through deregulation and corrective action aimed at insufficient, fragmented, or non-existing markets.

The Chilean experience confirms that markets results from the aggregate of various institutional frameworks, including legal institutions and public powers of the State, but also customs in transactions, business practices, etc. (Okuno-Fujiwara, 1997). Market creation is easier said than done, mainly due to the opposition of entrenched interests: urban transport and the fostering of productive development are examples in the Chilean case. It takes time; concepts are far from clear cut, unexpected developments do happen. The introduction of market criteria in social policies’ design and management is a hard task, both from a conceptual and a political point of view.

Consumer rights are the subject of a law passed during the democratic governments. It aims at improving the public information on goods and services provided by the private sector; the rights of users and buyers of goods and services provided by the public sector are not the subject of a specific norm.

Public utilities privatization and regulation

There has been a subtle but noticeable emphasis change in the Chilean regulation-deregulation environment since the country returned to democracy. The new emphasis is on promoting competition, including ex-ante competition, i.e., auctions (Bitrán and Serra, 1997). Some examples that support this claim are the new regulation on gas pipeline concessions and the 1993 legislation in telecommunications that has already created competition in long distance calls and will probably lead to competition in local services. But the bulk of the regulatory process of the energy and telecommunications sector, which remains basically unchanged since 1990, is becoming a bargaining process where the relative power and influence of interest groups has a great impact on the outcome of the regulatory process. This environment has led to the development of rent-seeking activities, as it becomes profitable to devote resources to develop influences, with the purpose of favorably affecting the regulators' decisions.

Moreover, during 1998 the country was affected by a very severe drought that had reduced the supply of water in reservoirs to a historically low level that, in conjunction with production problems in a number of thermoelectric plants, forced the rationing of the electric consumption. From these disruptions have emerged new regulatory deficiencies, in particular the lack of coordination and information sharing among the generating companies, the distribution companies and the government. The government's short-term response was a draft law to strengthen the regulatory legal powers and to impose heavier fines in case of system failure as a consequence of companies' lack of due diligence. In the very near future the government will submit to the Congress a new draft law to regulate the electric sector target to overcome the main deficiencies of the current regulatory framework.

On the other hand, important amounts of resources are devoted to settle disputes arising in an ambiguous regulatory framework between regulators and firms and between firms (Bitrán and Serra, 1997). The failure to distribute the efficiency gains of the reforms is leading Chile to what may be one of its most demanding policy challenges, as it prepares for its new round of infrastructure privatization in the water and port sector.

The project on the privatization of waterworks confronted the opposition parties, which urged the complete and immediate privatization of the activity, with hard-liners inside the Concertación who, fearing higher prices, supported the continuity of state-ownership in this sector. The law as finally approved allows a gradual privatization, within a new regulatory framework: the public sector retains a golden share; horizontal integration is forbidden while vertical integration is restricted.

At the end of 1998, 40% of ESVAL¹² was sold; in 1999, the government continued the privatization process with EMOS¹³(42%), the most important firm that represents around 40% of the "market", ESSAL¹⁴ (51%), and ESSEL (42%). The private sector controls now 60% of the sector, this meant resources for US\$ 1.400 millions to the government: more than previously expected. Nevertheless, there are some question marks regarding the effects of the privatization of EMOS and ESVAL due to the fact that there was no agreement between the government and the firms with regard to the charges for the next 5 years; this aspect will be resolved by arbitration. Preliminary estimates show a possible increase of 20% in charges for consumers.

¹² Empresa Sanitaria de Valparaíso, water supply and sewage system companies.

¹³ Empresa Metropolitana de Obras Sanitarias, water supply and sewage system companies.

¹⁴ ESSAL, Empresa Sanitaria de los Lagos and ESSEL Empresa Sanitaria de la Región del Libertador, water supply and sewage system companies.

The privatization of the electricity companies during the mid-1980s, under the military dictatorship, is widely regarded by government supporters as having enriched and empowered a small group of former government officials. There were fears that the water companies could be taken over by the same groups and in particular the Enersis group, the single biggest electricity holding which also has real estate interests. Under the new law, owners of the water utilities may not simultaneously own a monopoly power distribution or phone service in the same area.

Economic and social regulations are relatively scarce and ineffective as shown by the ENERSIS affair, where a small group of insiders negotiated with ENDESA-Spain and received a huge premium in detriment of common stockholders. The operation was finally redressed and managers were sacked and fined, but only after the Minister Secretary General of the Presidency took a firm stand on the issue: the strict application of the law had to be furthered by a government intervention.

A technical committee on regulatory matters was created to devise a new institutional framework for regulation –including environmental matters– and the fostering of competition. At the end of 1998, this committee presented a number of recommendations, among them, the creation of an autonomous institution that would concentrate all regulatory aspects of all sectors with a comprehensive view, financed by regulated industries. This proposal is a result of the number of overlaps and loopholes that the current institutionality presents.

c) The quality of the Government action

The State is an irreplaceable player in economic governance, since it devises and enforces the required transparency and predictability in transactions. The Chilean experience shows the need to define the role of the State and of the government and to address the reforms of the public sector with these roles in mind. A clarification of these roles and of a fiscal pact is a political task (Lahera, forthcoming).

The introduction of performance requirements and incentives across the board, as well as of wages improvement, are steps in the right direction, but they are clearly insufficient; the resulting aggregated and dynamic efficiency effects may be weak or lacking. It is necessary to make the statute of the public sector and public employees more flexible; otherwise, many specific tasks will be increasingly difficult to accomplish; this has not even been tried in Chile. On the other hand, administrative and fiscal decentralization is still in need of a strong initiative on its behalf.

The legal regime applicable to public servants is highly rigid, especially in relation to the private sector's labor legislation. Although the law contemplates "inamovilidad", it also includes a number of cases to dismiss employees, but in practice it is not used for different reasons, among them to avoid conflict and political problems.

The interaction of the public and the private sectors has been limited and bumpy, even though some sector-specific agencies have often tried to play an active role in the promotion of new investment opportunities, the forging of links with foreign suppliers and investors, and the support of technological upgrading efforts (Montero, 1997).

Governance also requires that the administration in general, and bureaucrats in particular, become highly professional, responsible and accountable to the people. Lack of responsibility, combined with obscure and arbitrary administrative processes are frequently the root cause of corruption and waste. In Chile this requirement often lacks proper administrative channels. One step

in that direction is the developing of criteria to measure administrative performance and goals and indicators devised to measure success, as in Chile's experience. On the other hand, several public sector roles are sometimes mixed-up, making accountability more difficult: regulators and regulated; buyers and producers; State conditions also mix-up the role of the State as provider and as regulator.

Evaluation and oversight mechanisms are needed to ensure that objectives and established standards are met, but they are still lacking in Chile; these systems must evaluate public policy and government activity with a view towards identifying and implementing measures to improve performance and optimize public spending. In 1996 a governmental project evaluation program was promoted and cover 20 programs in 1997, 40 in 1998 and 20 in 1999. Nevertheless they do not consider a systematic follow up procedure for them.

The government should enhance public participation, but this is a hard task when the majority rule does not hold, like in Chile. Everybody agrees on the need for the State to protect and encourage the creation of social capital, including the organizations of civil society and non-governmental institutions. This has been a hard task in Chile, due to consensus policies, which do not favor social participation.

i) Reform of the Judiciary

Swift and efficient public justice is a decisive component of socioeconomic governance. Private justice can make part of the job, but it is costly, mainly applicable to economic affairs and amounts to a loss of credibility for the system as a whole. The majority of the population perceives the judiciary in Chile, as ineffective and often corrupt; there is a pressing need for this second-generation reform.

Steps in that direction have been the constitutional reform of the penal system allowing the creation of the Public Ministry, the shift from written to oral procedures, and the setting of age limits for the Supreme Court members. In the meanwhile, private justice is on the rise, based on conciliation and the use of *bona fide* arbiters, and limited to those who can afford it. By contrast with public justice, it is contractual and it works.

ii) Social policies

Social expenditure has risen, probably to a realistic maximum share within public expenditure. The growth of public expenditure has favored particularly the health and education sectors. Nevertheless, a major percentage of the overall expenditure –40% of social public expenses in 1997– corresponds to payments of pension obligations under the “old” system within which the level of discretionality or focalization is very limited. Also, the main contention on social expenditure is management: while the opposition emphasizes the importance of expanding private management and using vouchers, the civil society, the unions in the public health and education sectors, and some groups within the governmental coalition, would like to reinforce a central public presence, both in terms of regulation of the “private sector” system and the quality and quantity of the provision by the public sector of health care and education services.

The privatizations of the health sector and of the pension funds have conformed a dual structure. In the first sector, pushing poor and old people to the public system and, in the second, by the exclusion of a significant share of the labor force. The private health insurance system has high administrative and sales costs, it practices a risk selection, linked to the existing regulation; freedom of choice is not effective in the face of a multiplicity of insurance plans which are not comparable.

Most of the changes proposed reforms to the public health sector, and are related to how Fonasa (the public insurance system) operates. That Fonasa, rather than the Ministry, is leading the reforms has much to do with the power that control over the bulk of the health budget brings. Some groups within the Ministry also oppose some of the reforms, since they involve ceding to Fonasa the right to contract providers directly, thereby reducing the role played by public sector services. Initially, the doctors' lobbying organization, the Colegio Médico, opposed the government's proposals, but is now prepared to accept and negotiate certain changes. The overriding objection is the proposal to separate purchasing and providing functions and to give Fonasa a key role in the former. Any proposal that would give Fonasa the ability to buy in private services runs contrary to the interests of the medical establishment. The Colegio is committed to the public health system, and concerned about the implications of reforms on staffing levels and the incomes of its members.

The pension fund system is often presented as a model to be followed by other countries. Less often the deficiencies that this system is showing are mentioned. In a recent World Bank report an analysis is presented in which a number of necessary reforms are proposed. Some of the points were already in the agenda, but those points may be of future importance. Aspects worth mentioning are the coverage of very high cost levels of marketing and sale, and the decrease in profitability shown by pension funds. These aspects are of great importance, for lower income and young workers are heavily affected by these two characteristics. Another point is related to the increase in conflict of interest regarding the management ownership and the concentration of economic power created by the system: pension funds represented more than 50% percent of GDP in 1998. For instance, the AFP¹⁵ representatives are openly discussing share concerns regarding the sale and transfer of the companies in which they are investing, although it is prohibited by law.

iii) State-owned enterprises

One of the most radical policy and institutional changes that took place during the Pinochet regime was the one related to the role of the State as the main economic engine for growth. Since 1939, the State, through CORFO and the creation of a number of "core" public companies, oriented the economic activity of different sectors. In 1973, the role of the State became passive, creating room for the flourishing of the private sector. In terms of privatization, two episodes took place in this period. The first one was oriented basically toward the "returning" to private hands of the companies nationalized during the Allende period. The second one, from 1985 to 1989, was oriented towards the privatization of the "core" public companies created by the State, in particular, in the electricity, telecommunications, and transport industry, and agricultural sectors (Bitrán and Sáez, 1994).

Since 1990, privatization have proceeded at a slower pace, some SOE have been completely or partially transferred to the private sector: four within the energy sector (COLBUN EDELNOR, EDELAYSEN and TOCOPILLA), one railways carrier, FERRONOR, TRANMARSHILAY and four water supply enterprise, ESVAL, EMOS, ESSAL AND ESSEL. These privatization processes have been transparent, with real financial gains for the public sector; they did not reinforce the economic concentration of the respective sectors, and they have not favored public agents in charge of the privatization process.

The long delayed closure of the loss making Empresa Nacional del Carbón (ENACAR) is the only case of SOE disappearance. Mine workers gave a protracted struggle against the closure and

¹⁵ Administradora de Fondos de Pensiones, responsable for the pension funds management.

they got public opinion support. But the final message is clear: there will be no non-viable productive public enterprises.

The legal reform of the largest Chilean firm, the Corporación del Cobre (CODELCO) has been caught between two fires. The right-wing opposition wants to put in a privatization drive, while conservative groups within the Concertación do not approve the private partnership policy being implemented for new developments. However, Codelco management has been successful in a modernization and cost reduction policy. This case raises an important point: legal reform is not always a prerequisite for action. On the other hand, CODELCO has initiated an active policy of association with privates for new investments.

From a fiscal point of view, CODELCO remains a world apart of private copper producers. Through different ways and channels, some of the private firms pay very low taxes: they are not constituted by shareholders, but by individuals. These societies do not publish financial statements, do not sell shares in the Stock Exchange and they are not bound to inform on their results. Last, but not least, there is no tax on the mining rent. According to a study, copper production in Chile is furthered not only by a strong competitive advantage, but also by the highest after-tax rates of return. (Institute for Global Resources Policy, 1997.)

The future development of the Empresa Nacional de Petróleos (petroleum) is under consideration, as the workers resist the partnership with the private sector for necessary investments. Again, the right-wing opposition recipe is privatization; private firms within the sector would prefer a permanent, if subdued, public activity. The reform of the Empresa Nacional de Minería (mining) involves the end of subsidies for small and medium mining firms and the establishment of a holding, including private sector participation. This is resisted by the business association, SONAMI, and by small miners.

A special case of SOE is that of military enterprises, where there has been no serious discussion on the subject. They are the Empresa Nacional de Aeronáutica (Air Force), Astilleros de la Armada (Navy), and the Fábrica de Material de Guerra del Ejército (Army). The concept of strategic firms seems to apply without further analysis here.

7. The need of a new framework

Almost a decade after the agreements of the late eighties, the political and economic framework is still in place, although it has lost much of its strength and in fact its validity and usefulness is being widely discussed. Throughout these years, some issues have remained unresolved and different tensions have accumulated; the external context changed for worse during 1998-1999. As some divisive issues have surfaced, the consensus on the economic strategy has lost some of its luster. Social capital is low: several fundamental institutions are suspect and Chileans do not trust each other. The tacit consensus on the economic strategy has lately also lost some of its luster, as some divisive issues have surfaced. In spite of an outstanding set of achievements, there appears to be some apprehension today in diverse circles regarding the future (Lahera, 1997).

Today it seems evident that the existing institutional framework at this point constricts the development of Chilean society: sometimes by its rigidity, sometimes by its inability to articulate new institutional answers. The governance of the economy has weakened.

According to a well-known *dictum*, institutional development used to go ahead of economic progress in Chile (Pinto, 1962). Today the mismatch has been reversed, and it is institutional

development that is lagging behind economic progress. Regardless of its intrinsic merits and successful results until now, the Chilean institutional framework needs to be renewed. The political and economic assurances –though restrictive institutions– given by the end of the eighties are not needed anymore, years after the beginning of the Concertación governments. It seems necessary to look for a long-range agreement on the development strategies and the sequence of policy and institutional innovations between the principal political and social players, either progressively or through negotiations.

Within Chile, there are two ways of looking at the political economy of the necessary reforms. For some, the economy's automatic pilot must be allowed to determine the economic policies: the role of politicians is not to interfere with the process: politics should be residually defined. “Second generation” agreements with the military and the right-wing parties should be reached disregarding the constitutional issues (Tironi, 1998). But a tacit consensus on conservative economic policies –suggested by the business community this time– is not possible. Besides their technical weakness, they would not resist a public debate or become part of a democratic agenda.

For others, there is no democratic agenda and no sustainable social governance without the public and simultaneous definition of both political and economic goals. It seems necessary to look for a long-range agreement on the development strategies and the sequence of policy and institutional innovations, between the principal political and social players, either progressively or through negotiations. The diverse demands must be channeled into timely decisions produced by participatory democracy.¹⁶

In the case of Chile, except for the Aylwin government, all administrations have been succeeded by some party or alliance of its respective opposition since the Radical Party governments of the 1938-1952 period. Thus, the perspective of a third Concertación government (2000-2006) amounts to a challenge of historical proportions. The ruling coalition is experiencing some strains, in part as a reflection of jockeying for the presidential succession. But also because it's original programmatic content has run its course: what could be done seems to be done already, while other subjects have proved unmanageable (Lahera and Toloza, 1997)

The conventional concept of governance is under stress in Chile. Democratic leadership must make the difference for democratic governance. The articulation of a program, the choice about how to sequence the achievement of goals may depend on its existence. Leadership is important for a consensus regime, and for a post-consensus one, even more so. The third Concertación president, Ricardo Lagos, has two priorities: to modernize the country's institutional framework and to spread the benefits of economic growth more widely.

8. The political economy of the reforms

The political economy of the required institutional changes looks difficult, for five reasons.

One, because the business community distrusts any government initiative and stands either for the *status quo* or for *laissez faire* economic policies. The new challenge of going beyond basic

¹⁶ The literature on the issue of the sustainability of economic reform analyses the interaction between institutional and political actors and macroeconomic and microeconomic policy formation, by using the tools of economics and of the new political economy, including game theory. On economics, see (Williamson ed., 1994); and (Rosales, 1996). On politics, see (Desvaux, 1995) and (Lechner, 1997).

products' exports and into increased productivity and improved management does not seem to be taken by them.

Two, because conservatives politicians have fiercely opposed change for ten years. This conservative stranglehold on the political agenda bred a stifling conformism in public life. A modern, democratic, conservative party showed no sign of emerging, until the 1999 presidential election, when the Lavín candidature put a heavy emphasis on *el cambio*. The absence from Chile of Pinochet, who was detained by the UK's judicial system following an extradition request from Spain, gave impetus to this alternative.

Three, because of the biased electoral system, and the rigid rules for constitutional change. Although the Concertación has won all the elections during the last decade –including three subsequent presidential elections– the restrictive institutional framework has been preserved: except for minor changes, the 1980 Constitution has not been modified.

Four, because of the remains of a Cold War ideology within the Armed Forces, which shields a corporative stand.

And five, due to the lack of programmatic work by the political and social organizations. The political agenda still has to evolve its mostly anti-Pinochet rhetoric to transform itself into full-fledged program for democratically based development. The Concertación seems to have a divided soul on its perception of the future.

The prospects are still unclear. The Lagos presidency (2000-2006) will confront two options: either more of the same, with only marginal changes to accommodate day-to-day circumstances; or a certain redefinition of the institutional framework. The future governance of the Chilean economy depends on the quality and strength of such a framework. Centrifugal forces will be at work, but the most probable outcome is one of stability based on a renewed social agreement. But this will require a strong leadership and some changes within the political scenario. From now on, democratic leadership must rest on government programs openly and freely discussed (Palma, 1998).

CONCLUSIONS

What lessons can be extracted from the Chilean experience?

One, that “right” policies are not enough; they must be combined with matching institutions and functional political processes.

Two, that the rules of the game must be clear, but also transparent and perceived as fair by all the relevant political and social actors. Approaches to governance are not neutral, as regards the interests of major groups of economic and social players.

Three, that both institutions and policies must strengthen competitive markets and not accommodate with uncompetitive structures.

Four, that the quality of governmental activity, including its accountability, must be judged in the dynamic context of specific roles for the public sector and not on across-the-board performance indicators.

And fifth, the most important of all, that the political economy of reform is chiefly based upon the relationship between the government and the governed. This includes how the political agenda is set and how public policies are specified. This should be achieved by a broad coalition, which agrees on a representative, consistent, and financially sound program. This implies putting together the technical and political aspects of every public policy. In the medium and long term, good economic governance is a democratic one, which allows for both stability and flexibility to evolve and confront the new challenges.

For the concept of governance to have a future, it should not be defined on an *ad hoc* basis; otherwise its definition will go as “what works, works; while it works”. We have to learn from the Asian and the Chilean “miracles” and not condone their shortcomings.

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Tables

Table 1
CHILE: MACROECONOMIC PERFORMANCE 1980-1998

		1980	1985	1990	1995	1997	1998p	Avg 81-89	Avg 90-98
<i>Economic Activity</i>									
GDP per-capita	(US\$)	2546	1368	2315	4589	5182	4922	1898	3814
GDP Growth	(annual % ch.)	7.7	3.5	3.7	10.6	7.6	3.4	3.3	7.3
Inflation	(dic-dic)	31.2	26.4	27.3	8.2	6.0	4.7	19.5	11.7
Unemployment	(%)	12.1	14.5	7.8	7.4	6.1	6.3	13.8	7.0
<i>Public Sector</i>									
Total Government Expenditure	(% GDP)	27.2	32.8	21.0	20.3	21.7	23.2	29.9	21.6
Fiscal Surplus (central gov.)	(% GDP)	6.1	-3.7	0.8	2.6	2.0	0.4	-0.7	1.7
<i>Saving-Investment</i>									
Fixed Investment	(% real GDP)	20.9	17.7	24.2	30.6	32.1	31.7	18.7	27.9
Public Savings	(% GDP)	8.8	0.4	2.5	5.4	5.6	4.0	1.0	4.6
<i>External Sector</i>									
Trade Balance	(% GDP)	-2.7	5.2	4.4	2.3	-1.7	-3.4	3.5	0.6
Exports + Imports	(% GDP)	35.9	41.0	50.8	47.2	46.4	44.3	39.6	46.2
Exports	(MM US\$)	4.705	3.804	8.373	16.140	16.923	14.895	4.820	12.375
Quantum of Exports	(1991=100)	50	66	100	163	205	220	67	155
Imports	(MM US\$)	5.469	2.955	7.037	14.655	18.218	17.391	4.183	12.378
Quantum of Imports	(1990=100)	70	46	100	200	258	262	64	178
<i>Prices</i>									
Real Exchange Rate	(1986=100)	61	91	113	89	78	78	86	93
Terms of Trade	(1980=100)	100	77	96	116	98	85	89	96

Sources: Central Bank, National Bureau of Statistic (INE), Ministry of Finance and De Gregorio (1998).

P = provisional figures.

Table 2
NUMBER OF SOEs BY LEGAL REGIME, SELECTED YEARS, 1970-1999

<i>Type of SOE</i>	1970	1973 ^a	1983 ^b	1990	1999
<i>CORFO subsidiaries</i>					
Enterprises	46	228	21	27	22
Banks	0	18	1	0	0
Seized firms	0	259	0	0	0
<i>Created by law</i>					
Enterprises c	20	23	22	13	12
Banks	1	1	1	1	1
<i>Total</i>	67	529	47	41	35

Sources: Bitrán and Sáez (1994); Ministerio de Hacienda "Estadísticas de las Finanzas Públicas 1988-1997"; Contraloría General de la República "Informe de Gestión Financiera del Estado 1997"; Sistema Administrador de Empresas 1997.

- a Includes enterprises and banks in which CORFO had a minority or small share of ownership.
- b Does not include banks and enterprises taken over as a result of the economic and financial crisis of 1981-93
- c Includes the Corporación del Cobre (CODELCO) beginning in 1973.

Note: Table 2 shows that the number of public enterprises decreased only from 47 to 41 in 1990. However, this is misleading for two reasons: 1) some enterprises were created out of government services and not all of them privatized (the water and sewage services being an example); 2) several enterprises were divided at the beginning of their divestiture. Thus the number of privatizations after 1985 is large relative to the number of SOEs shown for 1983.

