

# Chile: the governance perspective

*By Jorge Marshall Rivera*

## DOCUMENTOS

**There is ample evidence of policies that promote growth, but in every case, the agenda must be defined according to each country's specific conditions, within the diversity of development experiences. Institutions and political agreements are essential in establishing this agenda, so pragmatism is key to the success of every reform agenda.**

**Jorge Marshall Rivera** has a Ph.D. in Economics (Harvard University), Commercial Engineer (University of Chile), Undersecretary and Minister of Economy of Chile between 1990 and 1993, Vicepresident of Central Bank of Chile between 1993 and 2003, Consultant of international organizations and professor of economy at different universities such as Catholic University of Chile, Alberto Hurtado and University of Chile. He has published several articles on the Chilean economy, with special reference to macroeconomic policy, financial economy and economic growth.



He is Director of Expansiva and member of CADAL's Academic Council. Currently, Dr. Marshall is Vicepresident of Banco de Estado and he is one of the economic adviser of the President candidate of Chile, Michelle Bachelet.

A frequent hypothesis for the positive performance of the Chilean economy is the implementation of a “correct set of policies”, like those outlined in the so-called Washington Consensus. A different perspective states that the positive results stem from good governance, which entails reasonable degrees of consensus, institutions that are able to adapt to changing conditions and policies able to align decentralized decisions with the common good. The interrelation of these factors (with their inevitable setbacks) has made possible the permanence and fine-tuning of the Chilean development model.

Consensuses on basic aspects of development, such as democracy and openness to the world economy, provide the decision-making framework. Then, economic and political institutions follow the route traced by basic consensuses, assuring coherence in the decision-making processes. The final results are specific policies that define incentives and constraints for economic development, so they must be under constant technical and political scrutiny.

### Three Phases of the Chilean Experience

The return of democracy in March 1990 marked the beginning of a phase that emphasized political and economic stability in midst of a period charged with high new hopes as well as fears and uncertainties. The idea was not only to offer a path of renewed unity so as to leave behind the sorrows of the authoritarian period, but also to deal with the transformations that most of the world’s economies were going through; in the case of Chile, they were reflected in the opening that took place in the 70s, after almost five decades of frustrations brought about by the inward development strategy.

The new government’s economic policy sought to guarantee stability, reinsert Chile into the world community and strengthen social policy. The dialogue among the new administration, workers and private sector was sealed by a social pact that enabled the creation of reciprocal trust; this was positively valued by the population who perceived the stability’s political and economic dimensions as mutually reinforcing each other. The initial emphasis on consolidating basic consensuses picked up on lessons from the transition experiences of other Latin American countries during the second half of the 80s. In this way, every sector of society embraced the path of democracy and openness, easing the implementation of policies that are currently a credibility asset for Chile.

The 1989 electoral campaign raised expectations about the possibility of reverting the previous decade’s deficit on social policies. This created a sense of a kind of “social debt” that had to be relieved by increasing public spending, which received the population’s support and deferred structural social policy reforms that reviewed the programs quality and their incentives. It was not until the mid-90s when the idea

of structural reforms in social sectors gathered strength, but at that point there were less financial resources and political support for them.

The phase of stability ended with high growth, indicating that the aim of dispelling uncertainties had been fully achieved. In these conditions, the priority gradually shifted to microeconomic policies offering an impulse of modernity. This was manifested mainly in structural reforms in sectors such as ports, water, privatization, and private investment on highways and airports.

In spite of significant progress in most social and economic indicators, the advancement of the new agenda of microeconomic reforms faced the inconvenience, around the mid-90s, of excessive confidence in the growth capacity of the country and an underestimation of the difficulties regarding reform processes. The fact that the Mexican crisis in 1995 had no effect on Chile seemed to confirm this sensation of immunity.

In this scenario, long before the Asian crisis, the Chilean society became less tolerant of the costs associated with the new policies, and this was evident in the weakening of consensuses and fragmentation in decision-making. These events even occurred within the governing coalition itself and resulted in a divorce between the outstanding economic performance and the political environment. The situation led to a delay in the implementation of reforms, excessive compensation for interest groups, weakening of fiscal discipline and focus on short-term policies. This phenomenon did not affect the basic principles of the economic framework (such as trade liberalization, macroeconomic stability, or use of markets) as much as it affected the agenda of microeconomic and social reforms during the modernization phase.

After the Asian crisis, the international economic scenario remained unfavorable until mid-2003 and blocked many of the initiatives put forth by the new government that came into office in March 2000. It took almost two years to reassume the path that led to a renewal of the internal confidence, including a shift in society’s mood towards progress, which would no longer seemed to be automatic. The population followed the neighboring countries’ crises closely and observed the new threats the world was facing. Now, uncertainties and fears did not come from adversaries within the country but from outside and this consequently changed the attitude towards setting a new, common agenda. It is important to note that this new attitude translated into a renewed agenda of reforms due to the institutional capability and the pursuit of consensus. Regarding consensuses, the most striking phenomenon was the incorporation of new players into the elaboration and discussion of policies, including business organizations, academic centers and opposition parties. This strategy broke the vicious circle that thwarted new reforms and prepared the conditions for

rebuilding confidence that would generate greater benefits from the external setting that improved as of mid-2003.

Three issues stood out on the new agenda of reforms. First, the implementation of a renewed framework for macroeconomic policy that emphasized enforcement of rules with a margin of flexibility, market trust in policies and better coordination between fiscal and monetary policies. Second, microeconomic reforms were put at the top of the agenda again thanks to business organizations' initiatives. Third, a broad agreement with the opposition parties enabled an important State reform. These issues managed to prevent the fragmentation that threatened the political decision-making environment.

The new agenda of reforms rebuilt confidence to face new challenges. This is evident in the strong consensus regarding the priorities that the political system should concentrate on, such as the persistence of social inequalities and the productivity gap with developed countries. In this way, the horizon within which the public policy debate took place was extended once again.

### Governance lessons

Chile's results are built upon reasonable degrees of consensus, institutional capability and good policies. These three elements reinforce each other and if one of them fails it increases the probability of stopping the rhythm of progress. This conclusion differs from the simple hypothesis that assumes the existence of optimal recipes without taking into account the interaction with other factors that provide governance. Good governance calls for a balanced and pragmatic agenda that simultaneously reinforces these basic elements. This analysis offers a number of lessons.

First, there is ample evidence of policies that promote growth, but in every case, the agenda must be defined according to each country's specific conditions, within the diversity of development experiences. Institutions and political agreements are essential in establishing this agenda, so pragmatism is key to the success of every reform agenda. It is a mistake to think that public policies are only a matter of technical design. Economic governance is strengthened by institutional capacity and consensus-building, which are mechanisms that prevent excessive fragmentation in policy decision-making and enable further exploration of new opportunities for reform.

Second, given the complexity of the world economy, the most important contribution of macroeconomic policies is to promote internal stability, which is accomplished with credibility, commitment and trust in markets. This role is radically different from the case of a closed economy, where it is usually aimed at maintaining the dynamism of aggregate demand. Policy rules, in turn, are mechanisms that provide stability in a small and open economy. The absence or weakening of rules reduced credibility during the international financial crisis in 1998-1999 and affected the policies' effectiveness.

Third, high quality public policies are built on an institutional framework that has the ability of exercising checks and balances, and thus producing better decisions. There are no automatic mechanisms that lead to better institutions; rather, their quality tend to be persistent on time. The fragmentation and excessive centralization of decisions threaten the quality of policies. The institutional basis of public policies in Chile is solid but it lacks sufficient checks and balances.

Fourth, the strengthening of institutions and promotion of good policies require broad political agreements with solid technical support. It is not possible to reach lasting consensus in a democratic society without technical support. Interest groups tend to block reforms, so improving the interaction between the technical work of public institutions and the political debate helps to lift this obstacle. In some countries, this has been achieved with policy analysis and evaluation units that work together with the Executive and Legislative branches, enabling an informed and transparent debate. Governance and the development of institutional capacity must follow the path of democracy.

In short, the Chilean experience proves that the interaction of good policies, institutional capability and reasonable consensus is far from being linear so it reinforces a pragmatic approach that takes advantage of opportunities to push reforms. This approach calls for new styles of leadership, negotiation and consensus-building. The new pragmatism must be open and transparent. In other words, economic governance is built on three basic elements that reinforce each other and create a virtuous circle: good policies, reasonable consensus and institutional capacity.



Eugenio Tironi - Jorge Marshall - Cristián Larroulet  
Raúl Ferro - Ricardo López Murphy - Raúl Sanhueza y  
Ángel Soto - Carlos Gervasoni - Pedro Isern Munné

# LA EXPERIENCIA CHILENA

## Consensos para el desarrollo

Prólogo de Mauricio Rojas

Pedro Isern Munné y Gabriel C. Salvia (Comp.)

There are too many failures and problems to keep ignoring the one country that is taking enormous strides in leaving Latin America's endemic problems behind. The confirmation of democratic Chile's success in terms of poverty reduction is enough to turn a serious analysis of its development into a basic duty of solidarity towards the two hundred million-plus Latin American poor.

This is the perspective that frames CADAL's valuable initiatives regarding the Chilean case. CADAL's purpose is to study Chile with the seriousness it deserves, free from destructive ideologisms and with the help of renowned experts. This book is an excellent example of its ambition to take Chile seriously. The reader who seeks easy praise or condemnation will no doubt be disappointed. The reader who wishes to seriously understand how many of Latin America's ills can be overcome is, on the other hand, in for a generous reward.

*Mauricio Rojas*

On sale at CADAL's headquarter \$25.-

The Center for the Opening and Development of Latin America (CADAL), with headquarters in Buenos Aires, Argentina, was created as a Foundation on February 26, 2003 with the aim of promoting the strengthening of democracy, rule of law and economic liberties in the countries of the region. With this purpose, CADAL organizes activities related to analysis, research, diffusion and training in the following areas: Latin American Politics; Human Rights; Journalism and Democracy; Economics and Rule of Law; Modernization of Political Parties; and Development and Institutional Communications. CADAL is member of Red Interamericana para la Democracia (Inter-American Network for Democracy) and Network of Democracy Research Institutes. For its work, CADAL has received two international awards: "2005 Templeton Freedom Award Grant for Institute Excellence" and "2005 Francisco De Vitoria Prize for Ethics and Values".

Av. Roque Sáenz Peña 628 piso 2º Of. R  
C1035AAO - Buenos Aires - Argentina

Tel/Fax: (54 11) 4343-1447 - e-mail: [centro@cadal.org](mailto:centro@cadal.org)

[www.cadal.org](http://www.cadal.org)