

One Year in the Government: Evaluation Time

When making quantitative comparisons with former governments on legislative effectiveness, macroeconomic achievements and fight against delinquency, the government of Sebastián Piñera shows positive results. It is also worth underlying that it has succeeded in laying the foundations for improving education and the celerity to rebuild the public infrastructure after the earthquake. Nevertheless, in other 2010 targets, it has not been possible to communicate and articulate quality public policies at the political level.

A year has passed since Sebastián Piñera assumed the presidency of the Republic and hereon this document presents, in the first place, a quantitative evaluation with performance comparisons of former governments in issues concerning legislative and macroeconomic achievements and fight against delinquency.

In the second place, we analyze certain milestones of these 12 months which illustrate how the new government is facing the economic climate and the program's fulfillment.

Legislative assessment

At the end of one government year, it is possible to point out that the legislative practice has been positive: from 94 projects introduced until the closing of the legislative year (January 31st, 2011), 50% has already been approved.

Therefore, when comparing these data with those of former governments, we appreciate that only the government of President Patricio Aylwin gets close to this legislative effectiveness; its government was characterized by the policy of agreements and was highly superior to the legislative practice of Presidents Eduardo Frei, Ricardo Lagos and Michelle Bachelet, as we can observe in Table 1.

Table 1

COMPARATIVE LEGISLATIVE EVALUATION OF THE FIRST GOVERNMENT YEAR

President	Introduced projects	Approved projects	Legislative effectiveness
P. Aylwin	154	73	47%
E. Frei	125	28	22%
R. Lagos	76	19	25%
M. Bachelet	89	33	37%
S. Piñera	94	47	50%

Source: Self-preparation.

Macroeconomic Result's Assessment

It is also relevant to compare the macroeconomic figures with those of the previous governments, even though it is necessary to clarify that the achievements in these matters are very much related to adverse or positive international scenarios which escape the presiding administration's control. For these comparisons, the annual averages of the four governments of the Concertación were considered, and they were compared with Piñera's first year (see Table 2).

Table 2

COMPARISONS WITH FORMER GOVERNMENTS: GROWTH AND PRODUCTIVITY

Period	GDP Growth (% Var.)	TFP Growth (% Var.)
P. Aylwin	7.7	2.3
E. Frei	5.4	1.5
R. Lagos	4.3	0.1
M. Bachelet	2.8	-1.1
S. Piñera	5.2	0.3*

Source: LyD based on data from the Banco Central and the Ministry of Finance.

*Estimation of the Trend GDP Consultant Committee, Ministry of Finance, October 2010. TFP: Total Factor Productivity.

In macroeconomic terms, it is worth underlying the strong employment creation in 2010, and the change in the productivity

trend which, after years of being in the doldrums, showed a rebound in 2010, as can be appreciated in Table 3.

Table 3

COMPARISONS WITH FORMER GOVERNMENTS: UNEMPLOYMENT

Period	Employment Growth Gran Santiago – Universidad de Chile (thousands of people)	Unemployment Rate Gran Santiago – Universidad de Chile (%)
P. Aylwin	73.0	7.3
E. Frei	37.7	8.2
R. Lagos	31.5	12.7
M. Bachelet	28.1	9.5
S. Piñera	113.2	8.9

Source: Microdata Center of Universidad de Chile.

Table 4

COMPARISONS WITH FORMER GOVERNMENTS: INFLATION

Period	Inflation (% Var. Dec-Dec)
P. Aylwin	17.6
E. Frei	6.1
R. Lagos	2.9
M. Bachelet	4.0
S. Piñera	3.0

Source: LyD based on data from Banco Central

Assessment of Citizen Security Issues

In 2010, a break was observed in the trend of the delinquency figures and the Chilean's fear sensation in security matters. The percentage of people feeling great fear was substantially reduced from 17.8% to 12.2%, and victimization fell from 37.5% to 33% (Paz Ciudadana Survey), a fact with no precedents if we consider the outcomes of the first government years of Lagos and Bachelet (no measurement existed before 2000).

The greatest increase in the citizens' positive evaluation towards the government concentrates in the security issue, with an increase of 9.5% (Adimark Survey). Noteworthy is the fact that during this time no substantial legal change has occurred, which demonstrates that it is possible to better attack this scourge with the existing laws – but with a better management of resources and the commitment of the authorities involved. We hope that the new institutional framework with the Ministry of Interior and Citizen Security starts operating soon, so that the figures shown in Table 5 may further increase.

Table 5

COMPARISONS WITH FORMER GOVERNMENTS:
DELINQUENCY INDEX

Period	Victimization	Accusation	Great Fear	Perception of "Great" Level of Delinquency in the Commune
First Government Year Ricardo Lagos (2000)	30.8	43.2	15	26.5
Last Government Year Ricardo Lagos (2005)	37.9	46.8	15.4	33.8
First Government Year Michelle Bachelet (2006)	37.7	46.6	18.4	36.7
Last Government Year Michelle Bachelet (2009)	37.5	46.6	17.8	36.7
First Government Year Sebastián Piñera (2010)	33	56.9	12.2	24

Source: Paz Ciudadana-Adimark Index, January 2011.

*There are no measurements available before 2000.

First Government Year Milestones of President Sebastián Piñera

The approval of an important law package to improve education in Chile, after an agreement negotiated with the opposition in last January, is no doubt one of the most outstanding achievements of the first government period.

These reforms introduce improvements in the incentives for teachers and principals. The latter will follow a more complete selection and they will be granted more faculties but, at the same time, they will have to show results, since now they can be dismissed if they have a bad performance. Likewise, it will be possible to remove up to 5% of the teachers who do not comply with the minimum quality requirements.

These modifications imply a trend change, since during the past decade, the education policies were based on greater resources allocations, without taking into account the inadequate incentives for good performance in the municipal education. In spite of the huge expansion of the education spending, these policies had very modest effects on quality.

In more general terms, this agreement is a positive sign, since it opens the doors to new legislative agreements in other key issues for the country, which are part of the reforms promoted by the government for the next years.

Another achievement of the first year of Piñera's government deals with the post-earthquake reconstruction management, especially in public infrastructure matters. On February 27th, 2010, the country suffered an 8.8^o earthquake in the Richter scale, followed by a tsunami which caused considerable damage, estimated in around US\$30,000 millions by the Ministry of Finance.

The destruction of public infrastructure after the earthquake was devastating: 212 bridges presented problems; damages were seen in: 1,554km of roads; 9 airports; 28 fishing coves; 748 rural drinking water systems; 41 works belonging to water storage, rainwater drainage and watering channels, and 53 port works. By February 27th, 2011, 100% of Route 5's connectivity was achieved, including the installation of a meccano bridge over Rio Claro. 100% of the roads presenting problems are in use, the same as aerodromes and airports, a condition which took only 4 months. In relation to the coves, 86% is fully operative and 14%, partially. When reaching a

year since the earthquake, the Route of Caletas del Maule will be in the works execution stage.

The rural drinking water system is fully operative; the same as the urban drinking water – 2 months after the disaster. From the water storages, 98% is fully or partially operative; the port works are 100% operative.

In other fields, such as education, the reaction of the first months was quick, since 45 days after the earthquake, 100% of the children were attending school. When the school year 2011 starts, it is estimated that only 32,000 children will be sharing infrastructure once the classes begin.

In the health area, the earthquake destroyed 4,249 hospital beds; 171 hospitals were completely unusable and another 22 showed medium and severe damages.

A year after the earthquake, 100% of the beds was reestablished, either with definitive or temporary solutions, and there are 9 hospitals being currently built.

Even though this matter has been largely discussed in the last weeks, the government's commitment after the earthquake concerning housing issues was to grant subsidies in 2 years and rebuilt all the damaged houses in a 3-years term. Even though this term may seem rather long for the damaged people, if compared with other natural disasters, and if we consider the magnitude of the catastrophe, we believe that it is a reasonable one.

If we compare the celerity in the subsidies' delivery between the catastrophe of Tocopilla and F27, we observe that the response capacity of the current government is far superior. In the case of Tocopilla, 7 months after the tragedy, 21% of the housing requirements had been satisfied. This means, at a 3% rate per month. Then, if compared with the number delivered by April 2010, that is 29 months after the earthquake, the subsidy delivery rate descends to a monthly average of 2.8%. This delivery rate implies that only after 3 years all the subsidies will have been granted. Then, if compared with the earthquake of F27, 8 months after the tragedy 34% of the required subsidies have been granted. That is, a monthly average rate of 4.25%. If this rate is maintained, all subsidies will have been granted in 2 years.

In spite of these achievements, there also certain milestones in the first government year which were not properly handled. In chronological order, the first one of them was precisely the financing formula for the reconstruction mentioned above.

After the earthquake, the government announced a reconstruction financing plan which included a raise of several taxes. It was a wrong decision at that moment, since it was unnecessary, besides from not being included in the government program. The government tried to justify it in several ways. Nevertheless:

- a) Not so many resources were required.
- b) The Chilean fiscal situation was and still is extremely “comfortable”, and especially after the copper price increased as expected.
- c) The proposed budget reallocations were limited (1.6% of the fiscal budget), a very positive financing source since it directly attacks the other catastrophe faced by the Chilean economy: the productivity earthquake.
- d) The mentioned concern for the macroeconomic balances when proposing tax raises was not such, because at the end they increased in the same measure as the spending levels, just the contrary of what we could have expected; in order to influence the aggregated demand and not leave the adjustment burden to the Banco Central, we should have contracted the public spending and/or directly impose a tax on the individuals’ spending.

Despite the strong recovery of the activity and the employment post-earthquake, which is partly due to a temporary and not permanent condition, they ended up giving a wrong signal at the beginning of a government that promised precisely a new way of solving the problems, not reducing spaces for the private sector development. To this effect, we should not forget that the most important social policy has always been to guarantee an elevated, sustained and sustainable growth.

Almost a year after, and with very high copper prices which have increased the fiscal collection, it is clear that the reconstruction financing way was not the right one. Furthermore, the actual fiscal expansion announced for 2010, which will exceed the GDP in almost

2%, at the end it not contribute to the macroeconomic balances, since it will imply an additional fall of the exchange rate and a more restrictive monetary policy.

Another wrong signal was given when President Piñera became involved to avoid the construction of a coal power plant of DGF Suez, in the area of Punta Choros.

The questioned project complied with regulations and had been approved by environmental authorities, which means that the institutional framework in force was not considered when deciding to get directly involved due to the opposition of certain pressure groups. If this change in the game rules for the energy companies is repeated in the future, it could lead to question the convenience of embarking in new processes, putting at risk the development of future investment projects in the country.

With regard to the substance of this matter, recent news about the domestic energy situation, which include a rationing possibility further on this year, clearly show that it is necessary to build “large” power plants so as to maintain the necessary supply to satisfy the increasing energy needs of the country, and to guarantee that the prices stay at reasonable levels. The recent approval of the Castilla Thermoelectric Power Plant and the progress in the permits for the coal project in Isla Risco are good signs for the country’s energy future.

It is important for the coming years to avoid the uncompromising opposition from certain pressure groups which only tend to retard the necessary progress required by the country in energy matters. This is not a minor thing, since if we additionally take into account the long terms required to put into service any power generation project, it could cause a shortage situation in the medium term.

Due to the relevance of energy supply for the country’s development, we should rely on an energy strategy which guarantees a long-term availability of power supply, at a cost which allows us to increase our competitiveness.

Finally, we have to mention the “gas crisis” in Magallanes early this year, because it means a lesson for the rest of the government period. The government announced a benefit reduction in the gas prices which favors the inhabitants of Magallanes. After several days of standstills and violent incidents in the area, showing their

opposition to this measure, a change of cabinet was made and the new authorities conducted a negotiation in Magallanes which at the end reduced the benefit only marginally.

This episode reflected that a reasonable and necessary public policy was finally discarded, due to an inadequate communication with the population and lack of coordination among the different authorities.

Conclusions

The first government year of President Sebastián Piñera was marked by a series of events which altered its original route. The earthquake and the rescue of the miners trapped in the IV Region, among other circumstances, were properly endured and it was even possible to achieve some progress in key issues, such as education and delinquency. Nevertheless, the absence of free market reforms, aiming at improving productivity and growth, was felt. In the long run, it will be the only thing which will enable to keep the ambitious promises of poverty uprooting and employment creation made by the government.