

Bachelet's Government Program: Concerning Signals in Other Areas

Bachelet's program opens the gate to modifications regarding the Central Bank of Chile, the *Isapres* (Private Health Insurers) and the AFP system (Pension Fund Managers), which have not yet been described in detail. It is concerning that the candidate aims at strengthening the SERNAC (National Consumer Service) without guaranteeing its independence, sidestepping the energy challenges and totally distorting the concept of focalization, which has allowed taking the social policy to those who really need it.

Only two weeks before the elections, the programmatic debate continues with regard to the relevant subjects that have defined the campaign. As we already analyzed in Public Issues N° 1,134 (1 November 2013), the three central themes of the program from the former president and current candidate of the New Majority, Michelle Bachelet, pose both a substantive and adjective concern. In brief, the proposals mean a turn to the left in relation to what the Concertación had represented in the last decades, and we evidence an alarming ambiguity on how these ambitious goals will be achieved, in terms of a new Constitution, fee-free education and modification of the Chilean tax system.

In the previous document, the focus was put on her candidacy's great reforms. Here, we will revise other worrying signals contained in the rest of the program, which includes 33 additional matters. In this second review, we confirm the spirit of radical change and the statist bias observed in the constitutional, educational and tax proposals.

The measures examined in the following lines are dispersed throughout the text, but for analysis purposes we have grouped them in two impact areas: first, uncertainty for private investment and weakening of the "rules of the game"; and second, government spending excesses and risks.

Proposals that affect private investment and weaken the rules of the game

1. The chapters referring to Energy and City and Housing mention a **Territorial Planning**. No details are given as to how this cadastre will take place, which aims at “identifying the places allowing productive or energy generation activities without adversely affecting people, and where projects will be carried out with the agility that Chile requires. The plan shall identify the zones where project facilities will be allowed for each type of technology, under strict environmental regulations and standards”.

This proposal creates expectations that are hard to meet and it would not be the most proper way of unblocking the portfolio of large energy and productive projects. First, the implementation presents deadline problems: mapping the country to identify the areas liable to be interfered by projects is complex and takes a long time. The investment decisions could be paralyzed while waiting for the territorial definition, whose debate can go on for years. Furthermore, nothing guarantees that projects localized in these areas will not be subject to claims and delays by the communities, even if it is through the informal pressure of takeovers and protests. In fact, it is expectable that there will be a strong social and political opposition in the process of defining the lands that are liable to localization of generation centrals, which will strongly reduce the options.

Second, in conceptual terms, it does not seem proper for the central authority to define the most convenient use of the land. A better alternative is for the authority to collect data to better evaluate the convenience of certain localizations above others, for example, by providing information of areas that are specially suitable for locating investment projects and also regarding lands with specific environmental values, but not by declaring exclusive zones for certain activities and forbidding the use of the land for other purposes. The proposal should neither block the development of investment projects in other places that have not been identified as suitable for investment. Both the investment and localization decisions should remain in the hands of the private sector, which in general has more capacity and information to define the proper localizations and the technology to be developed in them. All this in compliance with the regulations that the master plans will establish.

2. It mentions changes to the **current scheme of the Central Bank of Chile** in a short sentence that does not specify the type of reform: “The Central Bank, the Council for Transparency and the supervising institutions are situated within the institutional Administration, their autonomy is acknowledged and the law will establish the measure of the autonomy and of the configuration of their competences”. Although it contains no details, it opens the gate to a legal change relating the current status of autonomy and competences.

The Central Bank, autonomous since 1990, has been successful in remaining a technical organism not contaminated by politics. It would be a huge mistake to allow again discretionary-natured spaces within this organism, which has been recognized at international level for its contribution to the macroeconomic stability of Chile.

3. The **arrival of mining private investment could be debilitated** while introducing the word “full” when referring to the State’s control over the mines, water resources and radio electric spectrum. The current Constitution formulates the State control over the mining resources in a different manner. The wrong interpretation or legal development of the “full” concept, plus the annulment of the Decree Law 600 could undermine the interest of large mining private investment.

4. The program proposes to give the tenure of **collective bargaining to trade unions**, which in practice means to end with the negotiating groups and give the trade unions the monopoly of workers’ representation. This could extend and aggravate the conflicts, since now the negotiation processes are often unblocked through them.

5. It proposes to end with the multiple trade names (**multi-Rutⁱ**), a matter that is currently under proceeding. The statement is vague – “we shall end in the shortest period of time with the contrived use of the multi-Rut or trade names for labor effects” – without detailing how it will be determined, in which cases it is correct and in which it is not. In the current legislative debate, the parliament members of the *Concertación* have expressed their opposing view regarding the fact of leaving this decision in the hands of an independent technical commission.

6. In **energy** issues, the concern lies rather on the omissions. In the current scenario of generation shortage, the measures seeking to unblock the projects are sidestepped and, once more, the aim is giving the State a more active role, without guaranteeing a further impulse to project schedules in any way whatsoever. The State’s role is strengthened by multiple channels, such as establishing a long-term development strategic plan, strengthening the ENAP (Chilean National Oil Company), identifying zones that are suitable for energy development by type of technology, increasing the powers to define the expansion of the trunk network, and promoting a larger share of Non-Conventional Renewable Energies (NCRE) than the recently approved one (it aims at 30%, although in undefined terms). Measures of this kind suggest a greater centralized planning, which does not only entail inefficiency and supply security risks, but does not fulfill the main objective, which is to unblock the investment to overcome the country’s obstacles in energy matters.

Moreover, some of these measures are hazardous, like the 30% share of NCRE without duly weighing the costs that it may entail for the system, and bidding NCRE energy for the supply of distributing companies without mentioning the adaptation problems of the intermittent energy sources to the demand profile.

7. In consumer and competition matters Bachelet's program **seeks to provide the SERNAC (National Consumer Service) with authority to supervise, penalize, interpret the law and promulgate regulations.** This measure points at the wrong direction, because it turns this agency into both "judge and jury" with all the discretionary character that comes along. Instead, the program of Evelyn Matthei aims at providing the SERNAC with more autonomy and powers, and that both penalty powers and damages are defined by a specialized court. Bachelet's program privileges the excess of powers in a single agency without counterweight, above the alternative of strengthening the institutional framework by reducing the political discretionary nature in a body that is so much inclined to the utilization, given the impact of their spokespersons on public opinion.

8. **Commissions are summoned to define formulas in systems that, although perfectible, do not need refoundations.** The fact of opening the gate to new mega reforms in the system of *Isapres* (Private Health Insurers) and AFP (Pension Fund Managers) introduces uncertainty in the industry and to the users. The program promises to end with the "abuses of the *Isapre* system", for which the government would summon an expert panel with the order of drafting a law for the *Isapres* (*Ley de Isapres*). There is no information available regarding the reform's central elements, but it enables a change in a system that is being currently discussed in the Congress and was considered by a presidential commission during Piñera's government. In turn, the AFP system is also strongly criticized and promises a commission to discuss the subject. It should be recalled that Bachelet already summoned a commission in her former government, which made a significant social security reform. There is a broad technical consensus regarding the fact that pensions are under the expectations, and that the issue here is low and irregular contributions. Measures should point in this direction, without opening the gate to another big reform to the AFP system.

9. **A minimum wage of CLP\$250 thousand is guaranteed in the middle of the presidential period.** The minimum wage goal announced half-way through the presidential period (2015) introduces a significant degree of vagueness, since it does not specify if the value is in nominal Chilean pesos or in today's currency. If it is a nominal variable, we are talking about a nominal average adjustment in the next two years of slightly over 9%, which although it is high, in a dynamic economy context it is almost unacceptable (it is obviously complex if the economy is significantly

decelerated). But it would be a rather deceiving promise, since workers understand that it is a value with constant purchasing power. However, if the latter were true, the announcement is clearly irresponsible and populist, because it is quite possible that a real adjustment of 9% for two years will increase unemployment and/or the labor informality condition, especially given the probable scenario of economic deceleration.

Risks related to efficiency and government spending level

1. “We shall **capitalize CODELCO...**” It does not determine how much nor under what social evaluation parameters this capitalization will take place, and neither, and still more important, from what sources will the funds for this capitalization come from. CODELCO’s investment projects amount to US\$25 billions, without which this company would stop contributing with financial resources to the Public Treasury in a rather short time.

2. It enables a **new negotiation for public employment**, which considers the institutionalization of the public sector collective bargaining, without introducing more dismissal flexibility as a counterweight. A public sector that already repeats illegal standstills annually will then open the gate for strikes that will paralyze the services and proceedings that the citizens need. If collective bargaining is offered, it should come along with a labor system in accordance with the Labor Code, and certain restrictions to prevent excessive substitutions each time the government changes.

3. **Goal of 60 hospitals.** The program “includes the construction of 20 new hospitals, leaving another 20 under construction and advancing in the architecture and engineering technical studies, as well as in the bidding of civil works for another 20 hospitals”. Current hospitals do not offer a satisfactory service to their users. In fact, people make efforts, within their economical possibilities, to have access to private health services. Before building new public hospitals, a deep reform should take place in their corporate governance which leads to their better management. The program involves US\$4 billions, but it lacks a diagnosis on the health infrastructure deficit. It does not either envisage the use of public-private alliances, which have demonstrated to be a successful model in the entire world to attract investments efficiently, and thus be able to reduce the infrastructure deficits.

4. **New social characterization record card, new poverty measure and focalization “the other way round”.** It proposes to revise the poverty measurement without taking into account that there is already a commission that is doing it. It is important that these initiatives are maintained over time and that the performance metrics are not modified according to each government’s convenience. The idea of changing the

nature of focalization, by giving everyone State benefits (Welfare State) unless a high-income family is identified, is concerning. This means a radical change regarding the role of the State in poverty matters, since it does not identify poor families any more. If this direction is followed, the fiscal cost would be unapproachable due to the pressure to keep extending the State benefits. It means to take the opposite way of the Ministry of Social Development (MDS) with the Social Record Card (Ficha Social, FS), which is going to improve the identification of the most vulnerable families and prevent the abuse of social benefits. The focalization of expenditure has been one of the pillars that have sustained the progress in Chile and the reduction of poverty in the last decades.

Conclusion

The government program proposed by Michelle Bachelet does not only promise three radical reforms in constitutional, tax and educational matters, but also introduces other uncertainties. The fact that she opens the gate to still unspecified modifications in the Central Bank, the *Isapres* and the AFP system is worrying. Strengthening the SERNAC without guaranteeing its independence and sidestepping the real energy challenges are also matters of concern in view of the investments' necessary dynamism.

Government spending issues, the commitments of CODELCO's capitalization and hospital investment also generate a warning. Additionally, the aim is to completely distort the concept of focalization, which has until now allowed to take the social policy to those who really need it.

In brief...

- To guarantee a minimum wage of CLP\$250 thousand is irresponsible. It is quite possible that a real adjustment of 9% for two years will increase unemployment and/or the labor informality condition.
- The arrival of mining private investment could be debilitated while introducing the word "full" when referring to the State's control over the mines, water resources and radio electric spectrum.
- The idea of making a radical change regarding the role of the State in poverty matters is concerning, since it ceases to identify poor families.

ⁱ The restructuring of businesses into multiple corporate entities in order to avoid labor and other costs (TN).