

LECTURE

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Chile's Path to Development: Key Reforms to Become the First Developed Country in Latin America

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Abstract

As the first South American country to join the OECD, Chile has led South and Central America in The Heritage Foundation's annual Index of Economic Freedom since 2000. Chile continues to be a beacon of economic freedom in South America, standing firmly against efforts to undermine free markets by populist governments in Argentina, Venezuela, Bolivia, and Ecuador. As the South American continent undergoes a period of transition, Chile remains committed to the promotion of economic growth through the principles of freedom. As a leader in free trade and open markets, Chile is participating in negotiations with the U.S. and nine other countries to sign a Trans-Pacific Partnership. Under the leadership of President Sebastián Piñera, Chile is dedicated to limited government and respect for the rule of law. On March 28, 2013, Cristián Larroulet, one of Chile's highest-ranking policymakers discussed his country's performance in the 2013 Index of Economic Freedom with an audience at The Heritage Foundation.

Finding the best path to lead Chile toward economic development has been a continuous task of Chilean governments and leaders during the last century. The mission of building a society of opportunities—where each person has the chance to reach personal fulfillment, and can live with dignity and without poverty—seems now closer than ever before.

After a period of economic slowdown in terms of competitiveness, job creation, and growth during the second half of the past decade, a new center-right government was elected. President Sebastián

KEY POINTS

- Chile has pursued development for more than a century. Numerous Chilean presidents and other national leaders have sought to transform Chile into a country without poverty and with high levels of economic prosperity and human development.
- President Sebastián Piñera and his center-right coalition have implemented key economic, educational, social, and institutional reforms that have put Chile on the path to economic and social progress.
- The reforms are based on (1) an economic model that relies on the initiative and strength of the private sector; boosts entrepreneurship, competition, trade, investment and savings, with moderate taxes; (2) a social policy focused on the most vulnerable people, with services provided by both public and private agencies; and (3) a representative democratic system.
- If Chile is able to sustain this momentum through public policies, at the end of this decade it will probably become the first fully developed country in Latin America.

This paper, in its entirety, can be found at <http://report.heritage.org/hl1236>

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Piñera's key reforms in the economic, educational, social, and institutional fields are showing that Chile is again progressing at a faster pace and in the right direction. Despite the extra challenge of having to deal with reconstruction after the damages caused by the February 27, 2010, earthquake and tsunami, the country has regained economic growth, expanding opportunities through employment and education, a new social policy based on autonomy, responsibility and dignity, and the building of modern and reliable institutions.

If the country is able to sustain this momentum and conviction through current public policies, at the end of this decade it will probably become the first fully developed country in Latin America.

Pursuit of Development Not New for Chile

Chile has pursued development for more than a century. Numerous Chilean presidents and other national leaders have sought to transform Chile into a country without poverty and with high levels of economic prosperity and human development.

For many Chilean leaders, development had become, in spite of historical efforts, impossible to accomplish. These leaders marked out some structural obstacles that seemed very difficult, if not impossible, to change. Some examples of these obstacles were Chile's remote geographic location, the characteristics of its long territory, and sometimes even the Chilean culture. At that time, the structure of our society and how the property was conformed was often viewed as what made the difference between prosperity and poverty.

However, reality was much better than what some leaders and citizens believed. Increasingly robust empirical evidence (such as by David S. Landes, Robert Barro and Xavier Sala-i-Martin, or Daron Acemoglu and James Robinson) shows that reaching development is not related to the apparent obstacles just mentioned. Instead, development is a consequence of the adoption of well-designed institutions and accurate public policies, which is good news as both are variables that remain within our range of influence and action.

In the last 25 years, Chile has rapidly progressed on the basis of economic freedom, democracy, and rule of law. Consensus exists on the idea that positive results achieved in the last 25 years are due to a set of institutions and public policies in the economic,

social, and political fields which have structured our country toward a path of stability and progress, and that in general terms Chile has evolved for the better. Three main issues sustain this consensus.

First, an economic model where the main drive of economic progress relies on the initiative and strength of the private sector. Therefore, an economic system that boosts entrepreneurship, competitiveness, investment, savings, and innovation with large degrees of economic freedom; moderate taxes as well as regulation, open borders for international trade and a strong commitment for responsibility on our fiscal and monetary policies.

Second, a social policy focused on the most vulnerable people, and where the public services are generally provided by both public and private agencies, so that beneficiaries can have the freedom to choose among different competing alternatives.

Third, a representative democracy. Since 1990, one of the central features of this democracy is its electoral system—the presidential, parliamentary, and municipal levels—that has fostered the conformation of two main political conglomerates, which in broad terms, have tended to moderation, providing important degrees of institutional stability.

Well-known achievements support this perspective. For example, between 1944 and 1960, income per person increased at an average rate of 1.8 percent annually; between 1984 and 1997 it reached 5.4 percent annually. In 1980, Chile had the seventh-highest per capita income in Latin America—today it has the highest of the region.

Certainly, this did not benefit only a few. When the first national poverty census was done in 1986—the Survey of National Socioeconomic Characterization (CASEN)—45 percent of the population lived in poverty. By 2006, this figure had decreased to 13.7 percent, slightly increasing to 15 percent in 2009. However, in the last two years we were able to regain a downward trend again, reaching 14.4 percent at the latest measurement in 2011.

Even in inequality, the situation is less dramatic than it appears to be. It is important to keep in mind that Chile has been, at least for a century, a very unequal country. As it usually occurs in initial phases of transition to a model based on economic freedom, between 1974 and 1985, our levels of inequality, measured by the Gini index, rose from 0.46 to 0.61. Since then, inequality has been decreasing slowly, reaching a level of 0.52 in 2011, still undeniably high.

One of the most fundamental factors in decreasing inequality levels has been the reduction of educational gaps, mainly due to the increase in higher-education enrollment, which has risen from 200,000 students in 1985 to more than one million nowadays.

At the same time, Chile experienced a distinguished transition to democracy, characterized by its peacefulness and high degree of collaboration and consensus. Thereby, our system of governance advanced progressively to higher levels of consolidation and stability. These advances have brought higher freedom for our citizens, reaching historic levels, to a point that Freedom House has granted Chile the highest scores in constitutional and civil rights since 2004, an achievement in Latin America matched only by Uruguay.

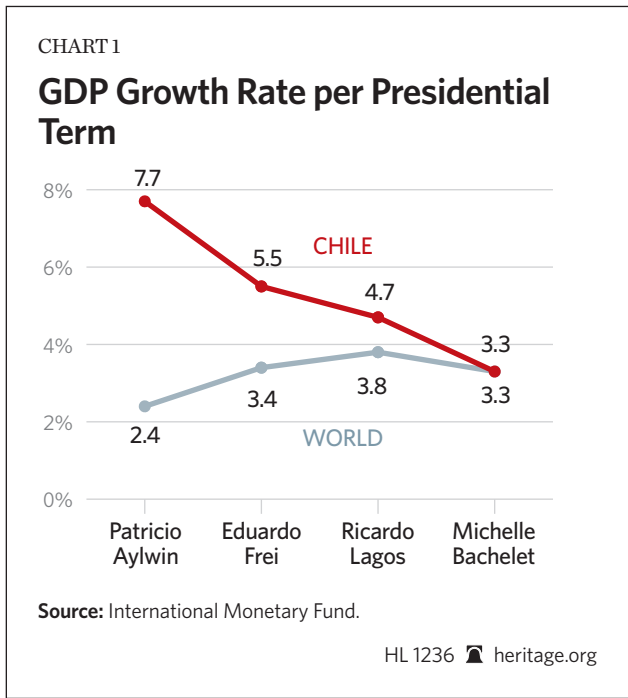
Without doubt, these achievements are echoed in the general well-being of Chilean people. A life satisfaction survey by the Centre of Public Studies (CEP) in the middle of student mobilizations in July 2011, showed that within 16 years, those who felt generally satisfied with their life had increased from 62 percent to 77 percent. This rising tendency was also confirmed by the results yielded in the 2012 U.N. Human Development Report for Chile, where 80 percent of Chileans declared that they feel happy or very happy. This report also reveals that the level of human development has been steadily growing since 1980, reaching a peak score of 0.805 (out of 1) in 2011, a result that puts Chile in the first position among the Latin American and Caribbean countries.

Summing up, this economic and democratic model has allowed Chile to progress at an unseen pace in national history, with poverty decreasing at an unprecedented pace, a fall in income inequality, a stable democracy, and a significant rise in general well-being.

However, in the second half of the past decade we had lost the path due to lack of reforms and ineffective social and economic policies. During that time Chile lost the path of progress and started showing clear signs of fatigue, mainly due to a lack of capacity to lead the key reforms and improvements—both in our institutions and public policies—leadership that we all knew the country needed.

The “Chilean Nap”: Decline in GDP Growth, Productivity, and Job Creation

In the economic field, Chile entered into a period dubbed the “Chilean Nap,” characterized by a



substantial decline in GDP growth rate, with the Chilean economy growing at a slower rate than Latin American and global growth rates. If from 1990 to 1999 our economy grew an average of 6.4 percent annually, from 2000 to 2009 this expansion only reached an annual 4 percent, and has been declining.

Additionally, very few jobs were being created, and an increasing amount of families were forced to experience the effects of unemployment. In the meanwhile, wages were practically stagnant.

The situation was no better for investment and productivity. Rates of investment, a critical component for building solid foundations in order to sustain future growth, were decreasing. Likewise, productivity rates entered a persistent deterioration, showing increasingly negative growth, reaching at its lowest point a growth rate of *negative* 2.3 percent in 2009, according to the Chilean Ministry of Finance.

Furthermore, as mentioned, after more than 20 years of systematic reductions of poverty levels in our society, in 2009 this tendency was interrupted and poverty began rising again, which meant that inequalities would remain in Chilean society.

In 2010, Chilean society reacted and voted for change, electing President Sebastián Piñera and a center-right coalition for the first time in 50 years.

New Government Pledged to Build Basis for Development in this Decade. The mission of this

new government was to lay the foundations that would allow Chile to reach development by the end of this decade. These foundations and key reforms were based on values and ideas of a modern center-right coalition, strongly centered on confidence in people. Among these values are:

- **Freedom and personal responsibility.** In the center-right sector, freedom is understood both as a goal in itself and as a means to achieving socially desirable objectives. It is a goal in itself because only through freedom do we treat people as human beings endowed with dignity. Freedom is also essential for human creativity, whose outcomes are spread to others by voluntary exchanges that increase overall prosperity, giving people the opportunity to achieve individual happiness.

Nevertheless, freedom must be accompanied by personal responsibility and respect for the freedom of others, understanding that we are citizens with a set of rights, but also with a set of responsibilities to fulfill.

- **Equality of opportunities.** The goal of increasing and extending opportunities is at the core of the actual government program. The ultimate aspiration is that everyone can have a reasonable opportunity of personal fulfillment, in order to advance toward a society based on meritocracy and social mobility, where, regardless of socio-economic origins, people could get as far as their talent, effort and free decisions can take them.
- **A vigorous civil society.** Regarding the role of government and civil society, we strongly believe that is neither possible nor desirable to have a state that pretends to solve all of our problems, since even if it could, it would end up blocking the creative energy of society. Dynamic and innovative nations are characterized by the possibility for their citizens to create institutions to organize themselves to better meet their innumerable needs. Those institutions are the soul of society, because besides the prolific results that come with the decentralized and spontaneous search of solutions to our numerous problems, they build a sense of community based on freedom, which is certainly a healthy outcome. Examples of these contributions are the tremendous help and

dedication that people and organizations of the civil society delivered in the reconstruction of the country after the 2010 earthquake, the important contributions to development of culture and arts, as well as increasing activity concerning social responsibility of private companies.

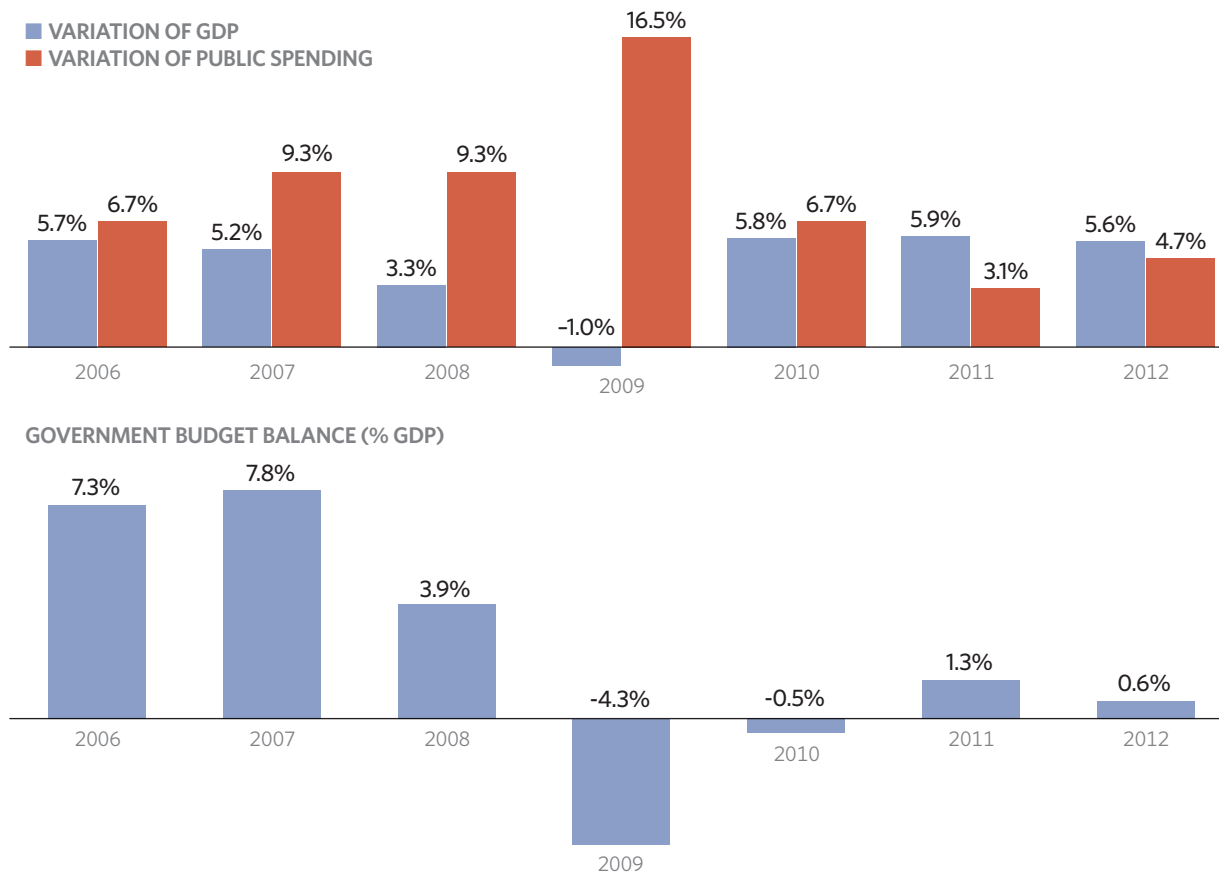
- **Solid and inclusive institutions.** For several decades, various authors have been revealing the critical importance that institutions represent in the development of countries. One of them is the economist Douglas North, who argues that societies that reach development are the ones with institutions that make generation of knowledge and wealth less costly. More recently, economists Daron Acemoglu and James Robinson highlight that the key point for success resides in having solid and inclusive institutions, which can offer clear and stable rules of the game, allowing everyone to compete for the creation of wealth.

Bearing in mind the above, the government program of President Piñera puts clear emphasis in strengthening and improving our fundamental institutions—both public and private—in three main areas: the family, the civil society and the state. The family and civil society, which make up the environment in which people develop, are much promoted by this administration, understanding that they are key factors for the development of people's talents and creativity, as well as in the search for personal fulfillment. With reference to public institutions, there has been a persistent effort to enhance and refine our democracy, making it more participative and transparent. Likewise, substantial initiatives are taking place to modernize the state, by delivering services more efficiently and making them more accessible to our citizens. Besides, important improvements are in process regarding the country's decentralization—another key point for accelerating our path to development—addressing administrative, financial, and political decentralization.

A Major Challenge on the Road: The February 2010 Earthquake. On February 27, 2010, only 12 days before the new government took office, Chile was hit by the sixth-strongest earthquake followed by a tsunami, in recorded history (8.8 on the Richter scale), with the very significant loss of 526 Chileans and the disappearance of another 25 people, adding

CHART 2

Public Spending and Government Balance



Sources: International Monetary Fund and Central Bank of Chile.

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to devastating consequences along a stretch of 700 km of our territory.

The disaster struck an area of Chile extending between the Valparaíso and Araucanía regions. The area affected is inhabited by almost 13 million people—75 percent of the Chilean population. The earthquake damaged more than 50 cities and 900 towns with rural and coastal communities. More than 222,000 homes were seriously damaged or destroyed. Over four thousand schools were badly damaged, which meant that more than a million young students were unable to start the school year (considering that in Chile the school year goes from March to December). In addition, 40 hospitals were damaged, 17 of them to the point they were rendered unusable, and public infrastructure was damaged on nearly 2,500 points across the country. The devastating effects of the earthquake resulted in

estimated losses of \$30 billion, equal to 18 percent of Chile’s GDP.

Given the scale of the catastrophe, many politicians of all sectors suggested abandoning the government’s original program and to focus the four-year presidential period mainly on the reconstruction. But the government’s decision was to accomplish both. President Piñera did not hesitate to pledge to reconstruct in four years the entire infrastructure damaged and destroyed by the earthquake, not only repairing the material losses, but also designing a reconstruction plan closely focused on the human interests of the Chilean people. Additionally, despite the additional challenge it implied, he decided to keep the government program unchanged and develop it fully in order to make the needed reforms that would set the basis for reaching development at the end of this decade.

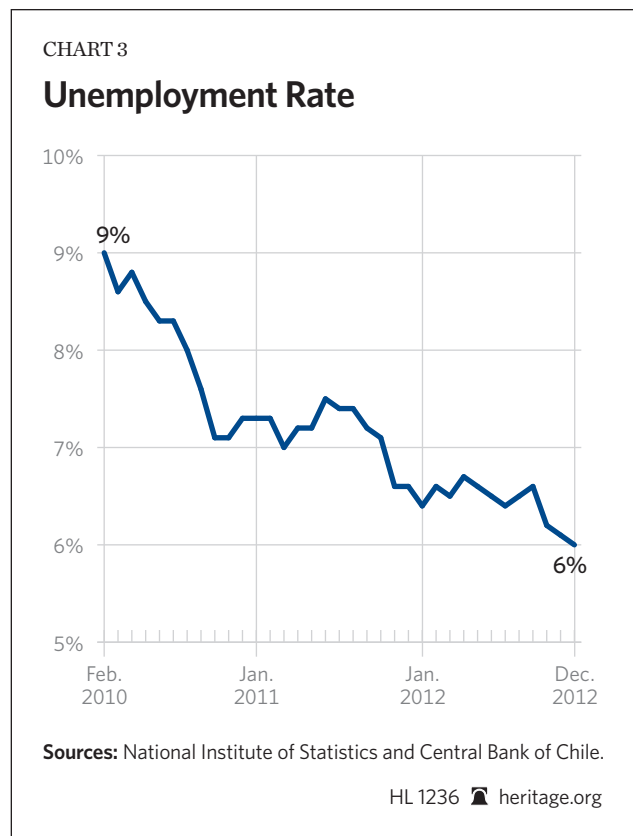
The reforms were implemented to increase economic growth rate to 6 percent and create one million new jobs between 2010 and 2014. Despite the substantial decline of GDP growth rates between 2006 and 2009, and the deterioration of fiscal discipline with high levels of public spending, we have been able to recover the capacity of the economy to grow at high rates and based on solid foundations. From 2010 to 2012, the average growth rate rose to 5.7 percent annually, the second-highest growth rate among OECD countries.

The government has been implementing a set of actions to increase growth by enhancing economic freedom:

- **Fiscal discipline and reduction of inherited budget deficit.** The importance of sustaining a moderate and responsible public expenditure in order to guarantee a sustainable economic growth is well known. In this way, if the treasury has more savings than debts, the country will be better prepared for periods of crisis, and both the state and the private sector would be able to obtain loans at lower costs. Likewise, moderate public spending helps to contain inflation, which produces substantial harm for vulnerable people as it reduces the purchasing power of their salaries.

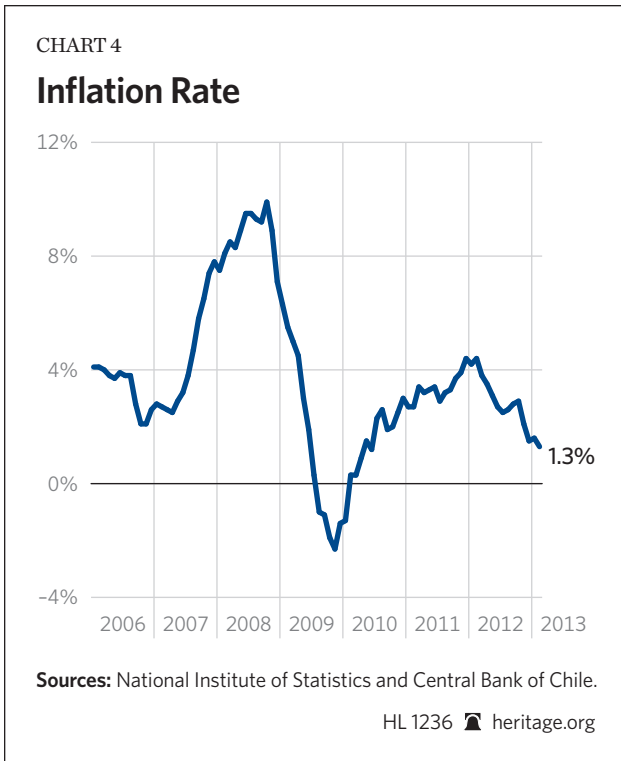
Unfortunately, partly because of the economic crisis that affected our country and the world, especially in 2009, the past administration's outcome was a structural deficit of 3.1 percent. We have been able progressively to reduce this deficit to 0.6 percent today, despite having to finance the earthquake reconstruction process and the execution of important social reforms. Chile reached the highest growth rate among OECD countries in 2012 and government spending is again on a sustainable path.

- **Creating a million jobs between 2010 and 2014.** Undeniably, employment is one of the most powerful tools for extending and expanding opportunities. Thanks to the strong growth rates of our economy and the persistent promotion of entrepreneurship, it has been possible to create more than 817,000 new jobs between 2010 and March 2013, in line with the achievement of the ambitious goal that President Piñera established



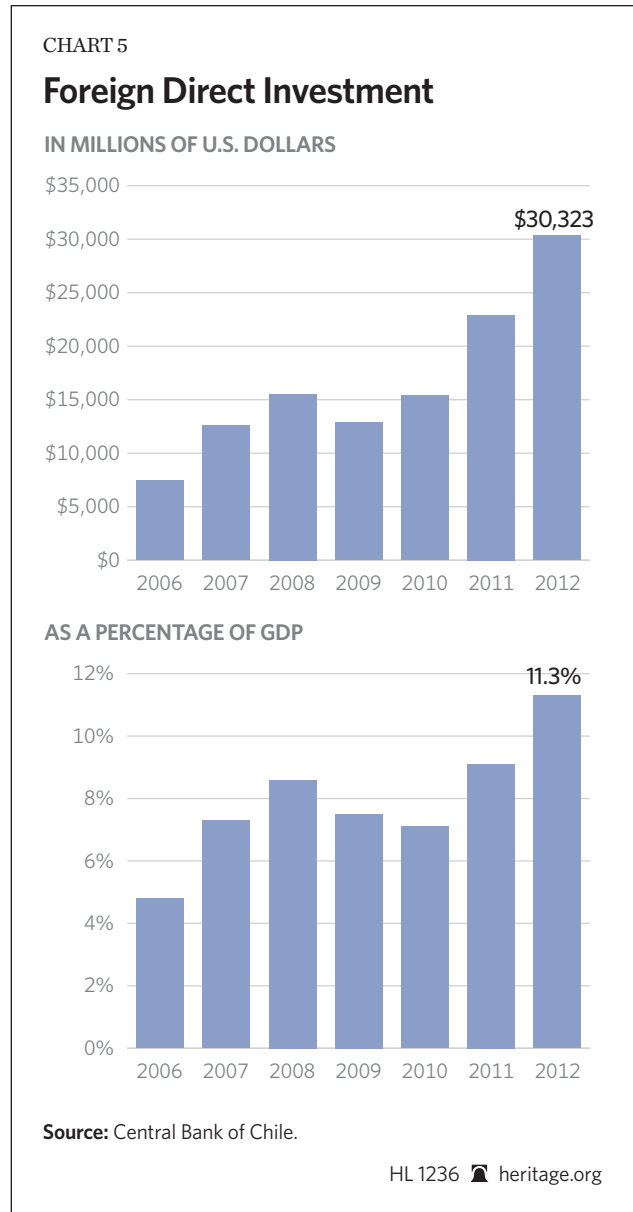
for his mandate: creating a million new jobs. Even more, high levels of employment in our country nowadays are complemented by better salaries, and a majority of jobs created are better quality jobs, with contracts, social and job security.

- **Inflation has remained under control.** Keeping stable macroeconomic equilibriums and a responsible management of public spending has helped control inflation. From 2010 to 2012, public expenditure grew an annual average of 4.8 percent, substantially less than the average growth of GDP, which reached 5.7 percent. This contributed to reaching levels of inflation of 3 percent in 2010, 4.4 percent in 2011, and only 1.5 percent in 2012.
- **Major levels of investment.** Another critical factor to assure sustainable growth is investment, both public and private. The higher the percentage of GDP intended for infrastructure and machinery, the stronger the basis for future economic growth. In this way, investment rates went from an average of 21.9 percent of GDP between 2006 and 2009 to an average of 24.1 percent between 2010 and 2011. This has been possible

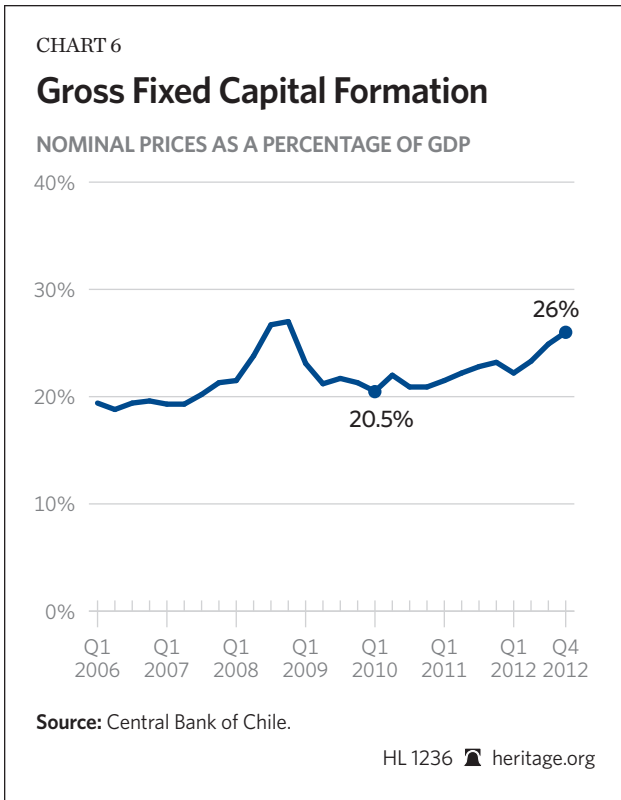


due to a strong growth of investment—measured as gross fixed capital formation—which in this administration has increased by 16 percent annual average, more than three times our economy’s growth.

- **Tax relief for workers, and small and medium-sized enterprises.** Aiming to stimulate investment, tax benefits were approved for small and medium-sized enterprises. A new law allows tax exemptions for the first 2,500 UF (nearly USD\$121,000) of earnings for these companies, whenever they are reinvested.
- **Tax credit for R&D expenditures.** In order to enhance the competitive capacity of Chilean companies, a tax incentive was established for R&D expenditures, which will allow companies to use as tax credit a total of 35 percent of funds assigned to R&D activities. This new law has driven a large increase of investment in R&D. From 2008 to 2012—before the new incentive—around \$15 million was certified; in the first *four months* since the new incentive came into effect, nearly \$10 million was certified—two-thirds of the total amount of the last *four years*.



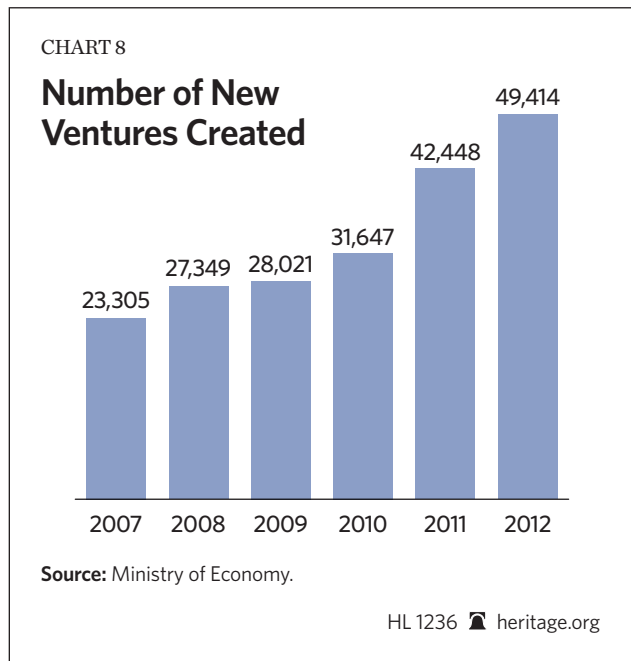
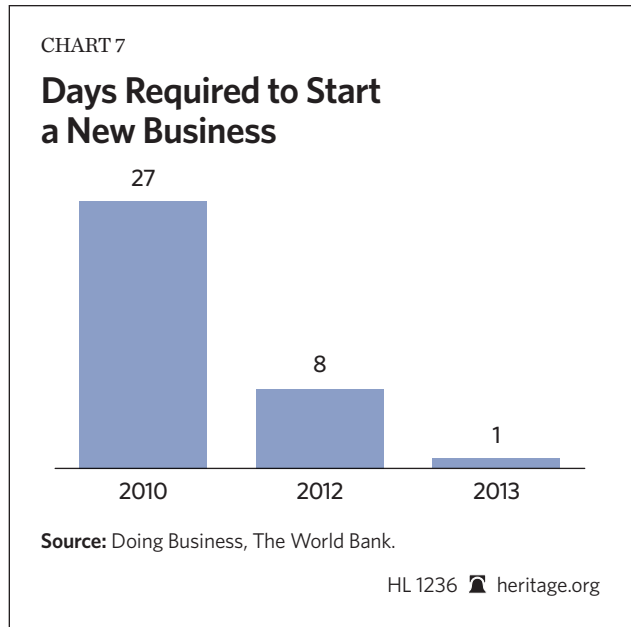
- **Microeconomic reforms to increase competitiveness.** The Competitive Impulse Agenda (Agenda de Impulso Competitivo) is a set of 60 microeconomic reforms that seek to remove bureaucratic and regulatory obstacles in order to incentivize entrepreneurship, innovation, free economic competition, and the rise of productivity in the economy. Currently, 51 initiatives are already implemented; the rest are in progress.
- **Entrepreneurship.** Reforms to reduce red tape and increase economic freedom have produced a boom in new ventures. We are conscious of the tremendous relevance that entrepreneurs have



for building a competitive and healthy economy. Entrepreneurs bring innovation, creativity, and competitiveness. They also bring more and better job opportunities, and an increasing competition between them usually leads to lower prices for goods and services. In order to promote the emergence of entrepreneurs, we have reduced the time it takes to start a new company from 27 days to only one day.

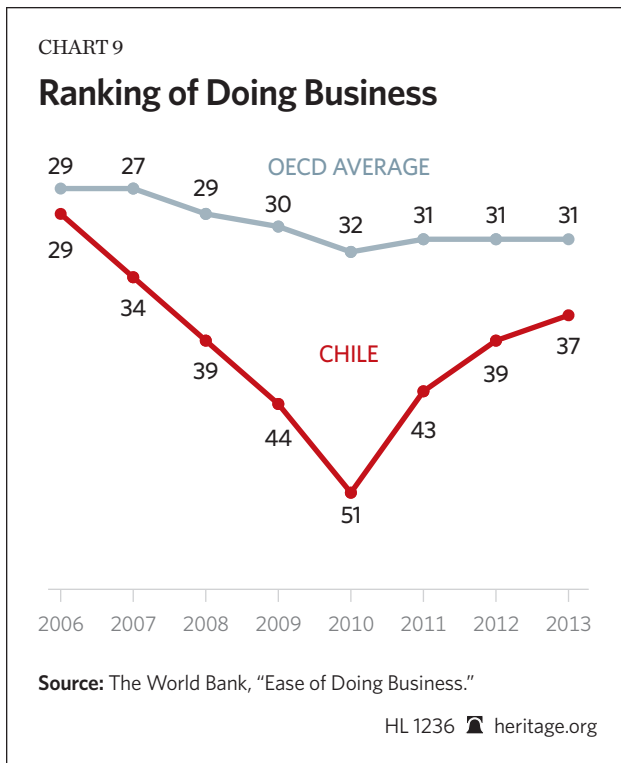
In consequence, these incentives, added to the improvements introduced through the Competitive Impulse Agenda, are showing the desirable effects: The number of new businesses has been rising systematically. These efforts are being recognized by international organizations, situating Chile as one of the best places in the world to start a new business.

- Capital markets and international trade.** Capital markets are also being examined in order to improve regulations and increase levels of financial freedom in these markets. Significant enhancements are being developed in three areas: protection and better information for consumers, improvements on institutional framework of



financial markets, and the modernization of the financial system.

In the trade area, new free trade agreements (FTAs) and international trade associations have taken place with Turkey, Malaysia, and Vietnam. We are negotiating a comprehensive FTA with India. In addition, the Pacific Alliance (Peru, Mexico, Colombia, and Chile) was founded in 2012. It aims to become a common trade platform for the Asia-Pacific market. Lastly, the Trans-Pacific



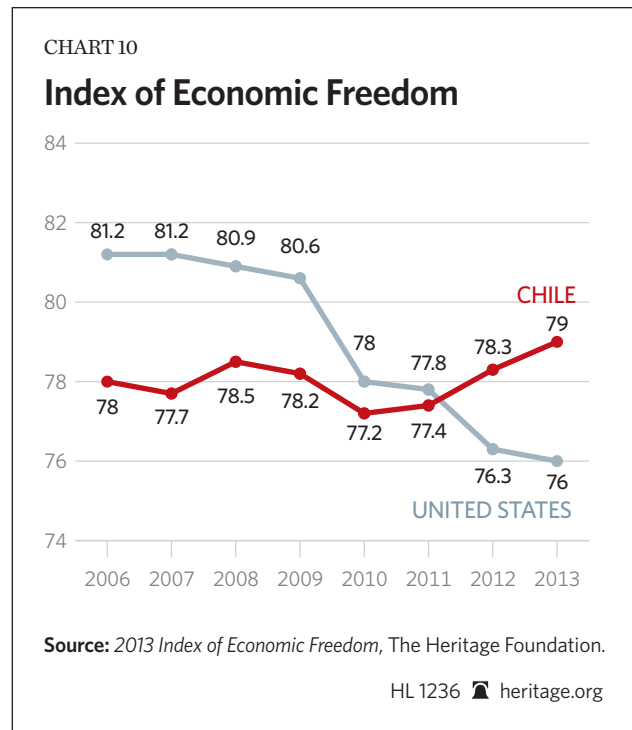
Partnership (TPP) is currently being negotiated among 11 economies from Asia and the Americas. As a result of these open-market policies, Chile already has 21 FTAs with 58 countries, which represent 70 percent of the world's population. These numerous improvements—that were implemented in order to enhance competitiveness and economic freedom—are showing valuable results.

Reforms to Increase Human Capital Based on Freedom of Choice

Education. The key role that education plays in the generation of opportunities is well known. When President Piñera took office, education was the area where most clearly the country had left aside fundamental reforms. This resulted in an increasing and cumulative frustration that ended in the massive student protests of 2011. There were also student protests in 2006.

During the last decade, governments did not enact needed educational reforms for better quality, access to, and funding of our educational system, and many people felt high levels of cumulative frustrations, which led them to support the massive protests of 2006 and 2011.

Aspects of the educational model in Chile have been questioned, including:



- **Higher education as a right and hence the end of university fees (end of targeted policies).**

One of the main demands expressed by student leaders in 2011 was the idea of moving toward totally free higher education, which would mean funding higher education entirely through taxes. This would be a bad solution to the problems of higher education: It is a highly unfair policy since it benefits much more the wealthy segments of society, destroying the fundamental principle of targeted public spending. Almost 25 percent of needed funds would end up being transferred to the 10 percent of the population with the highest incomes, which would receive almost six times more in funds than the 10 percent of lowest income. Likewise, 54 percent of funds would benefit the 30 percent of the population with the highest incomes (the high- and mid-level socioeconomic groups of society). In light of these facts, therefore, the proposed policy of totally free higher education comes to be seen as strongly regressive.

- **Pressure to end for-profit education in Chile.**

During the educational debate in 2011 some said it was time to eradicate private education and move toward a single public educational system, where the state plays the role of the sole provider

of education. We believe this would be an enormous mistake, as the system will tend to evolve towards a single standard for education that would reduce diversity of viewpoints, freedom of choice, and incentives for creativity and innovation, all of them important elements of progress. Our center-right coalition believes firmly in educational freedom, and in a state that recognizes and promotes the right of the private sector to provide education, as well as the freedom and responsibility of parents to choose the education they want their children to have.

- **Demand to abolish complementary contributions from parents to schools (a serious restriction to freedom of choice of parents).** Complementary contributions from parents to schools play a significant role since they add extra involvement in the role of parents in their children's education. As it is a contribution that comes from their own income, it is useful in order to generate more interest by parents about the quality level of education provided to their children. Moreover, abolishing these complementary contributions will produce a restriction to parents' freedom of choice to pay a certain amount of money to the school to which they want to send their children.
- **Funding institutions versus funding students.** Financing students through state-funded vouchers has the significant benefit of promoting competition among institutions to provide better education, since the more students they recruit, the more funding the state provides through the vouchers.

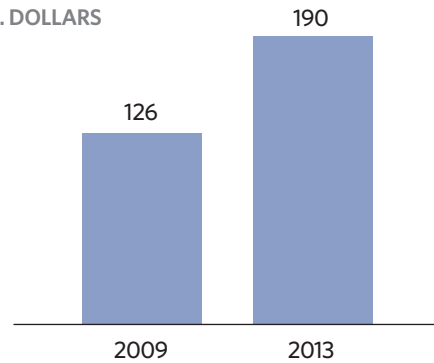
The government agenda has retained the strengths of our educational model: freedom of choice, public and private provision of education, and a subsidiary role of the state. For preschool and elementary school:

- **More funds per student: extension and expansion of vouchers.** Improving quality and equity in education is far from being just a money-based problem. However, increasing the amount of funds that municipal and private schools receive for each one of their students is essential, when the funds are accompanied by the appropriate

CHART 11

Monthly School Vouchers for Vulnerable Students, 7th-Grade

IN U.S. DOLLARS

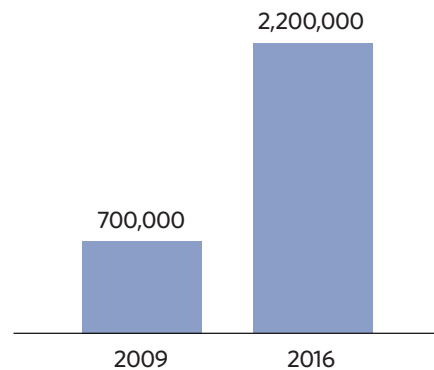


Source: Ministry of Education and CASEN Survey.

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CHART 12

Number of Students with Preferential Voucher



Source: Ministry of Education and CASEN Survey.

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public policies and initiatives, such as the ones addressed below.

It is worth noting that the government pledged to double the amount of money of the school vouchers within eight years.

We have increased preferential subsidies by 21 percent, directed to all the students of middle and high school that belong to the 40 percent

most vulnerable of our society. Additionally, for students in fifth and sixth grades, the preferential subsidy was increased by 50 percent, an increase that went even further for students in seventh and eighth grades, reaching a rise of 100 percent.

- **New institutions for ensuring quality.** Other priorities are to promote quality, transparency, and information through new institutions: a Quality Assurance Agency and an Education Superintendency. These institutions aim to ensure high standards of quality by schools, as well as to guarantee a good use of public resources, conditioning a portion of the subsidies and funding on the successful attainment of basic standards of quality and operation—to be monitored rigorously by the new Education Superintendent.

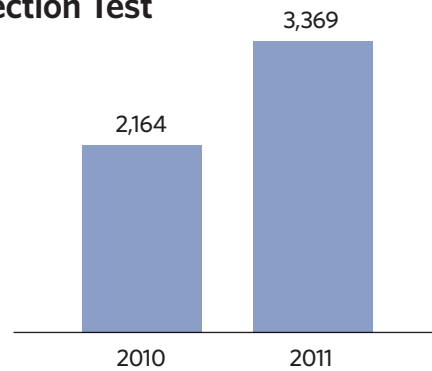
New policies were introduced to improve teachers' careers by introducing flexibility, higher standards, and incentives. In 2011, we enacted the Quality and Equality in Education Law to make improvements and add flexibility to the teaching profession and strengthen the leadership of our schoolteachers, along with better rewarding the continuous responsibility of being a good teacher. Additionally, this law introduced flexibility and incentives for teaching careers—for the first time, directors had the authority to remove the lowest five percent of the worst performing teachers.

- **Improvements in the classroom: new quality standards for teachers and Vocation Grant for students of pedagogy.** We sent to Congress a law that creates a new program of Quality Standards for Teachers (“Carrera Docente”), which includes new criteria for evaluating and promoting teachers, as well as substantial improvements to salaries based on performance and results rather than years of service, thereby raising the quality standards expected from our teachers.

The government also implemented the Teacher Vocation Grant (“Beca Vocación de Profesor”), which gives a full scholarship and other benefits to students majoring in education (Pedagogy) who have demonstrated academic merit. This will allow the training of talented young people as teachers at no cost to them, with the benefit for our education system that when they graduate,

CHART 13

Students Enrolled into Pedagogy with a Score Over 600 in University Selection Test



Note: A score of >600 is approximately in the top 35th percentile of performance in the Standardized University Selection Test.
Source: Ministry of Education.

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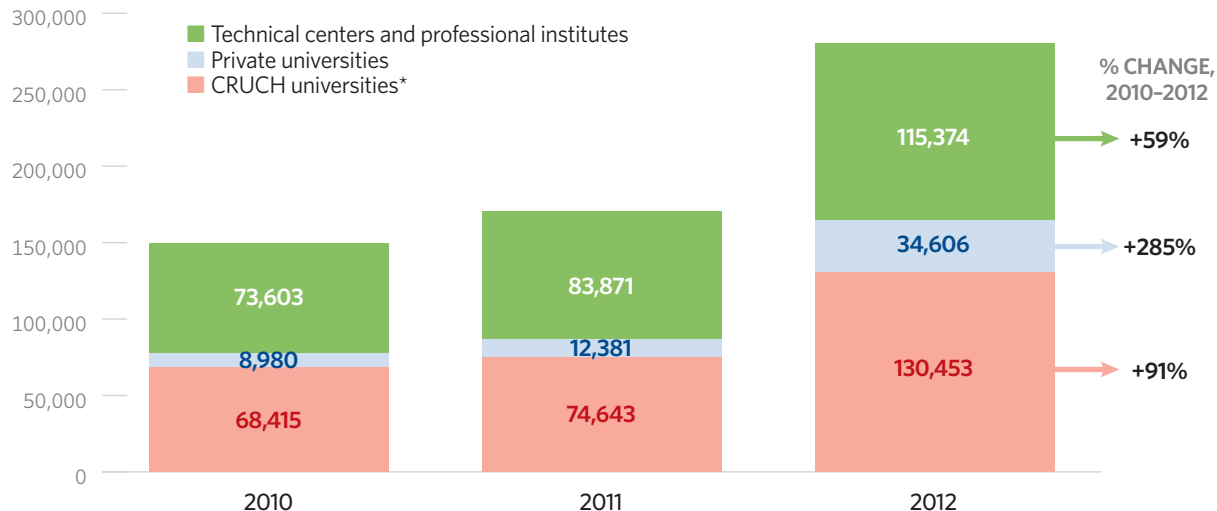
they will go to teach at our municipal and private grant schools. Reforms in tertiary education gave priority to financial support for students and not for institutions.

- **New scholarships and loans.** In higher education, we have implemented new scholarships and a loan system that provides equal amounts of financial support for students from traditional and non-traditional institutions. (“Traditional” universities are those public and private universities that existed before the 1981 reforms that liberalized higher education. All private universities founded after that date are referred to as “non-traditional.”)

We have also focused on increasing significantly the number of scholarships available, from the 118,000 that existed in 2009 to 314,000 in 2013. These scholarships are reserved for students from families in the 60 percent of the population with the lowest income. In addition, the minimum score required for the application tests was reduced for those students that come from the 40 percent of lowest income. We will continue raising the number of scholarships to meet our target of 400,000 scholarships by the end of our term in government, which represents an increase of more than three times since 2009.

CHART 14

Number of Scholarships, by Type of Institution



* Council of Rectors of Chilean Universities. These are public and so-called private universities created before the educational reforms of 1981.

Source: Ministry of Education and CASEN 2011.

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The government has led a major reform in the student loan system, extending coverage of loans and equalizing financial support for students from traditional and non-traditional institutions.

These improvements mean that every young person in Chile, with the exception of the wealthiest 10 percent, will be eligible for student loans. To prevent these loans from becoming a burden for students, the new system subsidizes loans to reduce interest rates to only 2 percent per year, which is one-third of the former interest rate. This will reduce monthly repayments by almost one half and, once a student starts working, required repayments will never be more than 10 percent of his or her earnings. Additionally, there will be a maximum of 180 monthly installments and, after this period, any remaining debt will be automatically written off.

Poverty

Reforms to reduce poverty are based on values such as autonomy, responsibility, and dignity. The goal is to move away from a welfare state toward “promotional” policies, meaning those policies that can help people overcome vulnerability and poverty by themselves (e.g., by promoting an entrepreneurial

society). The foregoing is based on the idea that the pride of a nation cannot rely simply on having a social protection network; rather, it must be based on the idea that this assistance network should be cut down to the minimum: fewer people dependent on government for the shortest possible time. It is certainly reassuring to know that those who pass through the misfortunes of life won’t be abandoned; however, it is even more reassuring that social protection networks don’t get to act as an obstacle, but rather as a springboard that encourages progress by means of personal effort and capacities, thanks to timely and well-designed assistance from the state.

An example of this is the new social policy designed by this government: the Ethical Family Income (“Ingreso Ético Familiar”), an instrument that plays a key role in the commitment to eradicate extreme poverty by 2014. This is an innovative conditional cash-transfer program, aimed at families in extreme poverty, based on three pillars: dignity, duties, and achievements. Each of these pillars is accompanied by monetary transfers, based on both the poverty level of the families and on their fulfillment of certain duties, goals, and achievements in areas of education, health, and job search. The objective of this program is twofold:

- On the one hand, it seeks to supplement incomes for those families living in extreme poverty, giving them access to a minimum level of quality of life. These transfers entail a base transfer and further transfers conditioned to the fulfillment of duties and achievements in education and health, such as health-clinic check-ups for children, school attendance, graduation from high school for adults, and formalization of employment. These conditional transfers, as well as supplementing the incomes of families living in extreme poverty, seek to attack the long-term causes of this condition, generating incentives so that people can themselves overcome their difficult circumstances.

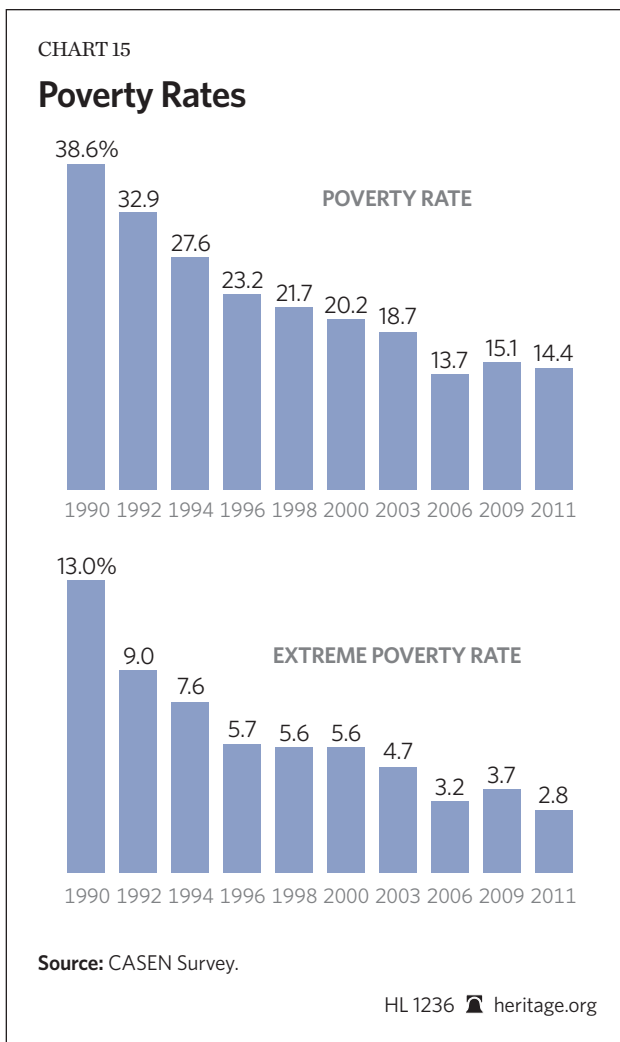
The focus of these transfers is directed to families living in extreme poverty—below the destitution line—and will reach 170,000 homes (640,000 people).

- On the other hand, in the “achievements” pillar, the program includes the Female Employment Bonus (“Bono al Trabajo de la Mujer”), which allows families to overcome poverty in an independent and permanent way in the short and medium term. In this way, it recognizes the fact that work is the most effective and sustainable way to overcome poverty, especially in the case of female-led vulnerable households, who have lower participation in the workforce.

The focus of this subsidy has greater coverage, reaching women between the ages of 25 and 60 who belong to the 30 percent most vulnerable households, and will be extended gradually to reach 40 percent of the population by 2015. This will benefit between 300,000 and 400,000 women per year, increasing their salaries by 20 percent, which in practice implies that the minimum wage for women receiving this benefit will be \$227,000 Chilean pesos per month (approximately \$471). The pursuit of targeted and effective social policies, accompanied by a robust increase in employment and salaries, has allowed poverty rates to fall once again.

Reconstruction Plan: Freedom of Choice and Dignity of Beneficiaries

President Piñera presented the Reconstruction



Plan six months after the natural disaster of February 27, 2010, in the city of Concepción. The four-year plan detailed the specific objectives and actions for rebuilding the earthquake-damaged infrastructure and ensuring that Chile would be in a stronger position to face any future adversities. The Reconstruction Plan has focused on addressing the human costs of the disaster, helping victims and respecting their dignity, rather than simply recovering material goods. Costs and deadlines would have been much more easily met with the construction of uniform housing on empty lots.

Within the plan, guiding principles were established for each area of reconstruction. These principles relate to the provision of support to those most affected: respect for the dignity and freedom of choice of the families—who were given the opportunity to rebuild their homes on their original site—and their involvement in the process; re-establishing

infrastructure to allow production in Chile to continue at full capacity; the preservation of the heritage of Chile's original people and towns; taking the opportunity of the reconstruction to improve infrastructure in the affected areas, and ensuring that the reconstruction process would have strong moral and social components in addition to the rebuilding of infrastructure.

President Piñera set out a roadmap that would enable the country to overcome the disaster and emerge from it strengthened through an inclusive plan of public, private, and citizen support, where the role of civil society and the private sector has been very significant from the beginning of the emergency.

In fact, organizations of civil society made great contributions to providing assistance to victims, building emergency houses, repairing schools, among many other initiatives. Additionally, the government passed a bill in 2010 to encourage private contributions.

After three years, our nation can feel proud that more than 87 percent of what was destroyed or damaged in the earthquake is now rebuilt or repaired. In the most significant and sensible area, the reconstruction of houses to families who lost their homes, more than 215,000 of a total of 222,000 houses have been either repaired or rebuilt, or are well along in the process of reconstruction.

Reforms to Improve Institutions and Modernize the State

Improving Our Democracy by Increased Participation and Transferring Power to Citizens. During the last 25 years, our country has experienced a continuous reduction of people registered in the electoral system. Between 1988 and 2009, the population with the right to vote increased by 4 million, while people registered to vote rose only by 850,000, which is mainly explained by the very limited number of young people (18 to 29) who enrolled in the electoral registers. In order to advance towards more vitality for our democracy, the government promoted two key improvements.

In 2011, we approved automatic registration and voluntary voting. This initiative allowed us to add more than 5 million people to the electoral roll, and for the first time in our history every Chilean citizen with the right to vote would be included in the electoral registers. With this reform, the presence of



people aged 18 to 29 increased more than five times in the electoral roll.

Additionally, automatic registration and voluntary voting is in tune with the notion of personal freedom and responsibility for our own acts, ideas promoted by our sector. We have removed disincentives for a free approach to politics and potential sources of resentment and distance toward it, by removing obstacles for electoral participation and, more important, letting people decide to participate on each electoral process. Besides, this change will force political leaders to make bigger efforts for offering attractive proposals, capable of mobilizing the support of Chilean citizens.

In 2012, we approved a law that introduced primary elections into the democratic system. International experience has demonstrated that introducing primary elections generates in citizens more confidence and interest in politics, since the voter is no longer limited to a choice between candidates pre-selected by political parties, because now the voter has the possibility to get actively involved in the processes by which political parties choose their candidates. This way, a system of primary elections established by law increases citizens' freedom to choose their representatives, and encourages higher levels of competitiveness on nominations for the election of representative authorities.

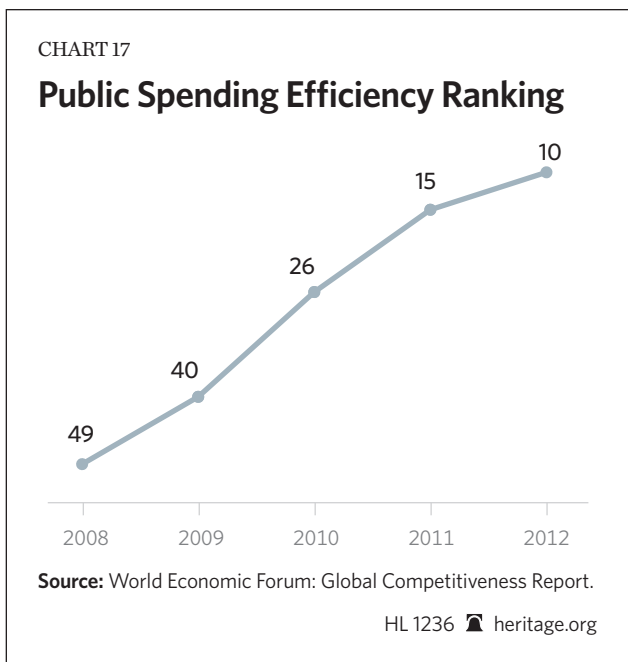
Moreover, the government is promoting a substantial legislative agenda toward higher levels of transparency and integrity. Our significant advances in transparency and providing public information are reflected in our positive evolution regarding perception of corruption.

Chile's center-right coalition has a deep conviction of the state's role in the development and well-being of society. We are supporters of a state that respects and ensures life, freedom, and other fundamental human rights; a state that fosters wide space for creativity, entrepreneurship, and dynamism of individuals as well as from institutions of civil society, that are the main source of innovation, development, and prosperity. This coalition also strongly believes and acts to build a transparent and efficient state, in service to citizens and subject to their control; a state that makes good use of every collected cent and that, in short, does more using less.

Among the key issues for getting the public administration to operate better and more efficiently, is to provide it with appropriate instances of coordination, so that the efforts can focus effectively on the accomplishment of the objectives set on the government program, without duplications or useless actions, and with rigorous systems of evaluation and control. Example of the above is the creation by this administration of a Delivery Unit, whose purpose is to monitor the fulfillment of predefined specific goals and performance indicators. In addition and in order to simplify processes of coordination, interministerial coordination committees were reduced to four main areas: (1) political, (2) economic development, (3) social development, and (4) infrastructure, territory, and urbanism.

Additionally, with the aim of introducing operational efficiencies in public administration, as well as changing the way it relates with its citizens, throughout a more citizen-oriented administration, important initiatives are taking place.

The main one is "Chile Atiende," a multichannel integrated program that allows people to get any provided service from the state in a one-stop public office (either face-to-face or online), with the consequent savings in time and money for users. At present, Chile Atiende operates with 187 public offices around the country, providing access to more than 70 percent of the country's population. Already 23 different public institutions have joined the program, giving the chance to access more than 150



public services in just one place. Besides, we have implemented the program "Chile sin papeleo" (Chile without red tape), which intends to increase drastically the number of public documents that can be completed online. At the time this program was launched, in August 2012, this was possible only for 25 percent of the long list of different types of paperwork citizens can obtain from the state; the goal is to increase that amount to 60 percent by the end of 2013.

Conclusions

It is well known that during the last 25 years Chile has had positive results on its path of progress. Key factors were the development of an economic model where progress is led by the strength of the private sector, a social policy focused on the most vulnerable people, and the possibility to develop a stable and representative democratic system.

In the second half of the past decade, however, we lost our way mainly due to the implementation of ineffective social and economic policies, and to the lack of capacity to lead the key reforms and improvements—both in our institutions and public policies—that we all know the country needed. Chileans reacted and voted for a change, electing President Piñera and a center-right coalition for the first time in 50 years.

President Piñera and his government pledged to build the basis to reach development in this decade,

despite the fact that the country suffered the sixth-most devastating earthquake in recorded history. This major and noble task advances at accelerated pace due to the implementation, first, of key economic reforms that have allowed the country to regain its capacity to grow, generate opportunities through job creation, and stimulate entrepreneurship; second, driving the most ambitious educational reform of the last 30 years; third, putting into practice an innovative social policy where public assistance provides incentives for personal responsibility; and, finally, making a full commitment to deal with the extra challenge of reconstructing the damages and losses made by the earthquake of 2010.

But the significance of this center-right coalition administration goes even further: It marks the end of a long process of democratic consolidation, demonstrating that a center-right coalition is able to govern efficiently, and at the same time improve democracy, promote high levels of tolerance, and work with a deep social focus.

The existence of this government has enabled the emergence of a modern center-right coalition for Chile. A coalition that believes strongly in people, and values freedom and personal responsibility as two sides of the same coin. A coalition that understands that in order to give people the freedom to choose, a society must maintain healthy levels of transparency and competitiveness both in economics and in politics; provide basic securities that can allow taking advantage of opportunities and the enjoyment of freedom; and reduce the excessive socio-economic inequalities without sacrificing the economic growth needed to provide society the opportunity of reaching full development.

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