



SPECIAL REPORT

Chile: Bachelet's reforms

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1. INTRODUCTION

The first state-of-the-nation address of the second term of Michelle Bachelet, President of Chile, was marked by the announcement of a reform plan which includes, among its most complex challenges, reforms in the areas of education, health and energy, as well as the controversial Tax Reform, which is the centerpiece of its proposal. In total, 146 promises were made: 35 of them are new proposals announced during the state-of-the-nation message and the rest are part of the government's program.

The government's program is based on three main pillars. Firstly, a drastic Educational Reform at all levels. Secondly, a Tax Reform to raise more revenue and thus finance the educational reform and other social expenditures. Finally, a New Constitution in order to establish a new institutional framework in democracy.

Considering Chile's current political situation and the fact that Chilean citizens are more empowered and involved, it feels necessary to thoroughly explain why it is essential to implement the package of reforms. They are a response to what citizens have been asking for: a redistribution of the political, social and economic power. In that sense, it is important for the future to analyze how and to what extent Bachelet is willing to respond to growing and/or unmet citizens' demands.

Additionally, it was clear that the President has decided to work on an agenda with a large and varied number of items, including social and political debate, and even including the decriminalization of abortion in three specific circumstances: when the mother's life is at risk, fetal defects and rape. This last item attracted criticism from the more conservative parties of the Chilean political system and also from the former President Sebastián Piñera.

Finally, Bachelet reaffirmed her structural changes program and stated that the country is not "starting from scratch", acknowledging the work achieved by the previous Concertación governments. During her speech, she recognized that since 1990, democratic governments were able to "build a healthy economy, a stable democracy and a mature country". These statements provoked an internal debate at the ruling coalition, where there was some divergence between those who promote a re-foundational change and those in favor of building upon the results of the previous Concertación governments.

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2. TAX REFORM

After thanking the members of the Chamber of Deputies who processed the draft tax reform bill, President Bachelet announced that if the current pace is maintained, the reform will become a reality in 2014. As a consequence, the government's agenda funding will be ensured.

The reform will allow the regime to raise US 8,200 million, which will be mainly invested in the educational reform, among other social programs. The main idea is to progress in equity and solidarity in order to make the wealthy contribute proportionally more to the public good and to the social mobility of both the middle class and the most vulnerable citizens. It is the only way to take the last step and achieve the goal of inclusive development.

Thanks to the set of measures of the Reform, a fundraising goal of 3.02% of the GDP is expected, of which 2.5% will come from changes in the tax structure and 0.52% from measures aimed to reduce tax evasion and avoidance.

In order to ensure a better revenue collection, a new income tax system has been introduced. In this system, companies will have to pay taxes on their total profit, replacing the current system and ending the Fondo de Utilidades Tributarias or FUT (Taxable Profits Fund). In addition to this, new "green" taxes and incentives for savings and investment were created.

The opposition criticized the reform and, as a consequence, doubts were raised regarding the effects it would have on the middle class and small business entrepreneurs. Bachelet took the opportunity to explain that, conversely, both the middle class and small businessman will benefit from it. In fact, the President affirmed that her reputation is a guarantee, stating that "You know this President and you know that she promotes public policies in favor of the people". In addition to this intervention in favor of the draft tax reform bill, the President's cabinet has made several appearances to clarify any people's questions regarding the reform.

The President repeated her call for dialogue in order to improve the measures in favor of the general interest of the country and with a long-term view, but bearing in mind that these measures have to be geared towards the main objectives pursued by the reform. Finally, she asked the senators of all political sectors of the country for their willingness to process the reform quickly, with positive disposition, and with the future of Chile in mind.

She also called upon entrepreneurs and asked them to be confident; pointing out that this tax effort shall be accompanied by effective and opportune measures to increase the growth capacity of the economy. She recognized that considering the national experience, it is known that without a sustainable and healthy growth, it is impossible to build equity and sustainable quality of life.

La Moneda Palace, Santiago de Chile



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3. GROWTH, INNOVATION AND PRODUCTIVITY AGENDA

The economy is expected to become more diversified, competitive, productive and able to offer quality jobs and provide better salaries to employees. As a result, President Bachelet announced a growth, innovation and productivity agenda.

The economy of the current administration shows a slow deceleration and therefore it is urgent that the country returns to the path of economic dynamism and growth. To reach this goal, the government has proposed a strategic alliance between the public and private sector in order to sustain the Agenda.

This Agenda focuses on the diversification development strategy of the production matrix, bringing more people into the labor market, incorporating new sectors in the export basket, promoting strategic areas and creating quality public infrastructure. The resources of this Agenda will amount to around US 1,500 million between 2014 and 2018.

The SME's will play an essential role in this plan because they provide 66% of the country's jobs. The Banco Estado will also be essential as the main financier of the projects of female entrepreneurs.

4. THE ENERGY SECTOR

One of the most important elements for the strategic development of

the country is the energy sector. Bachelet acknowledged that this area is essential for people's life and for the development of the national economy.

Furthermore, she stated that investments were made at a slower pace than needed and also that public institutions must be reinforced to respond to the current scenario. To do this, the Ministry of Energy, represented by Máximo Pacheco, presented a specific Agenda for this sector.

The Ministry of Energy will try to encourage policies and actions to make substantial advances in the next ten years in various domains. To achieve this, they have laid down these objectives:

- Cut marginal costs by 30 % during this government's term.
- Reduce tendering prices for power supply for homes, businesses and small businesses by 20% during the next decade in relation to the prices offered in the last tendering processes.
- Boost the development of NCRE (Non-conventional Renewable Energy) to fulfill the 20% goal for 2025.
- Develop the efficient use of energy as an energy resource to reduce the foreseen consumption for 2025 by 20%.
- Turn the National Petroleum Company of Chile (ENAP) into a strong company that

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strengthens its balance sheet. To achieve this, a draft law that will modernize its corporate governance was announced, allowing an efficient business management. Furthermore, the company will be capitalized at US 400 million.

- Focus on participatory development through the incorporation of communities and regions, in order to develop in 2015 an Energy Development Strategy for 2035 and 2050 that is validated by the Chilean society.

5. STUDENT MOVEMENT AND EDUCATIONAL REFORM

Without question the main subject of Bachelet's first speech and one of the cornerstones of her term of office is the Educational Reform. This draft law was already announced by the Ministry of Education, Nicolás Eyzaguirre, and aims to create a structural change at all levels in the Chilean education.

Specifically, this reform will:

- Establish quality education as a right and not as a consumer good.
- Give back to public education the value and centrality it never should have lost in the first place.
- A long-term change that will transcend this government but

will bear fruit in 10 or 20 years and as a result Chile will be proud of having implemented it.

Bachelet's objective during her first year in office is to achieve the full processing of her draft law. Moreover, during her speech she detailed what specific measures will be sent to the Congress for processing, and made reference to the student movement, ensuring free higher education and a strengthening of public education.

Regarding political aspects, Bachelet stressed that the reform will only be possible if all sectors of the Chilean political system are capable of working together to achieve this goal. She stated this, because after the reform was announced, the opposition made the public opinion believe that the draft law made parents' decision making capacity to opt for a state-funded private school more difficult. These schools educate a high percentage of school age children.

6. OTHER ANNOUNCEMENTS

True to her style, the President announced seven new advisory boards which refer to the work policies promoted during her first administration. Among the most important are the following:

- A commission to propose a national lithium policy by the end of this year.
- A commission for disabled people.

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- The President defended the empowerment of regions and announced a presidential advisory board for the decentralization and regional development.
- A commission to evaluate education debts and create measures in order to improve the situation of those who had to fall into debt to study.
- Bachelet announced the creation of a commission that will draft a law for the Isapres to improve the benefits of its affiliates in order to regulate the alleged discriminations in the private health sector.

Bachelet spoke only a few minutes about the Constitutional Reform, suggesting that the reform will not be an item of her political Agenda until 2015. However, she spoke about a new concept: gradualness. "The main role of the government is to ensure that the Constitutional reform takes place with a sense of long-term, gradualness and governance". The current government expects to know what mechanism will be used to change or validate the new Constitution by the end of 2014.

It is worth stressing that an announcement was made regarding the reform of the Water Code, which implies a constitutional change that will seek to declare water a public good. In addition to this, the President announced the protection of glaciers and a strong investment in order to ensure

the supply of irrigation water to agricultural areas.

The need for another study concerning the Fisheries Act was raised due to two announcements related to it: the regularization law of the fishing coves, in order to allow fisherman to do long-term planning, and a mitigation program that will soften the effects of the reduction of the catch quota.

Another announcement regarded the strengthening and capitalization of CODELCO. The president also discussed the creation of a national fund for high-cost drugs (Fondo Nacional de Medicamentos de Alto Costo), in addition to the National Drug Fund, in order to help people who have to face more complex diseases.

Regarding agriculture, it is necessary to reinforce the institutional capacities geared towards the improvement of three crucial factors for export development: quality, health and safety. It is also necessary to strengthen the Agricultural and Livestock Service, the Food Safety Agency and the CORFO instruments to improve quality, as well as Prochile, to broaden and deepen the access to foreign markets. Finally, the President pointed out the need of a new population census, in order to rectify the 2012 incident and strengthen the institutionalism of the National Institute of Statistics and thus generate more credibility among people.

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