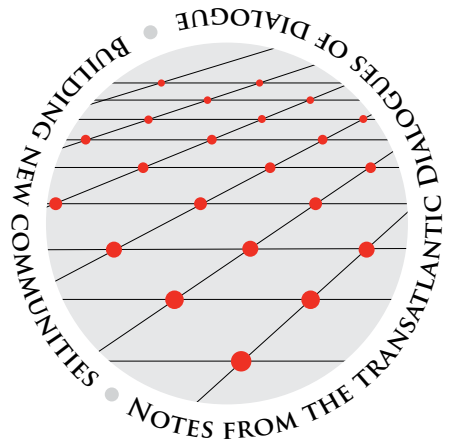




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## **Social democracy in the 21<sup>st</sup> Century. Some experiences from Chile.**



The defining characteristic of social democracy in the 21<sup>st</sup> century is that the citizenry, not the market, defines the basic characteristics of society. In neoliberal democracies, society is defined in terms of the market, on the basis of consumers' acquisitive power. This type of society reproduces the inequities of the market, since consumers with greater acquisitive power wield more influence. However, when a society is defined by citizenship, everyone is equal; a vote does not depend on capacity for consumption. Everyone has equal rights and obligations. It is the will of the majority, not the interests of those with the most resources, that defines public policies. Social democracy of the 21<sup>st</sup> century, in which the citizen plays a fundamental role, requires clear rules through which conflicts or different visions among the citizenry can be resolved. These rules, embedded in the constitution, allow society to adjudicate among a diversity of opinions and to ascertain the views of the majority, which is the essence of democracy.

The modern world is characterized by tensions between the market and the state. In neoliberal democracies, society is structured by market values. Public policies are viewed as unnecessary or treated as secondary in importance, because it is believed that the spontaneous, unregulated behavior of the market should determine the type of society that will emerge. This view of markets and society was that espoused by the Pinochet dictatorship in Chile. However, this model suffers from a central problem: because citizens are considered consumers, and consumers possess very dissimilar purchasing power, the market society reinforces existing inequalities. The Chilean experience supports this view; inequality increased during the dictatorship, and the neoliberal economic model was popularly viewed as benefiting only a few.

In a social democracy, in contrast, the market is viewed as a useful tool for allocating resources that is subject to the interests and wellbeing of a society and its citizens. In other

words, in a social democracy, citizens are equal and are heard in the same way through the representatives that they themselves have elected. The market is an efficient tool for allocating resources within the economy, but it is not useful for obtaining greater degrees of equality, fighting poverty in the short term, overcoming climate change, or promoting world peace. Certainly, some of these tasks can be performed through market mechanisms, but public policies are crucial and must be determined by citizens.

Moreover, there is a set of basic goods and services that citizens believe must be made available and affordable for everyone in order for society to be considered just. As Italian philosopher Norberto Bobbio explains, all societies define a minimum *civilizatorio*, a basic level of provision for all citizens without which civilization and democracy lose meaning. Needless to say, the minimum *civilizatorio* increases as a society becomes richer, leading citizens to believe that more goods and services should be available to everyone. Democracy and freedom are essential to achieve a minimum *civilizatorio*. To my knowledge, there are no “progressive” dictatorships.

While citizens must determine public goods, they need not necessarily be produced by the state. They can be produced mostly by the private sector, but the state may seek to subsidize those citizens who are not otherwise able to obtain them. This is a very important point. For orthodox leftists who believed that the state was omnipotent and that the goal of equality was worth more than freedom, the fall of the Berlin Wall in the late 20<sup>th</sup> century put an end to the ideal of extreme statism. Yet on the other hand, the crisis of 2008 and 2009 demonstrated that extreme neoliberal ideology, which ruled important developed countries in the world during the last 20 years, was mistaken in the belief that the market could regulate itself and hence that no public policies were required to seek the common good. The fall of Wall Street was to many neoliberals as the fall of the Berlin Wall was to communists. Chile during the last 20 years has avoided the extremes of both statism and neoliberalism.

## **Economic Growth**

The need to achieve economic growth is of paramount importance for all societies. Growth is particularly important in underdeveloped countries that require a greater amount of goods and services to improve the living conditions of their citizens. Growth is therefore necessary for distribution and the provision of a minimum *civilizatorio*. Growth in turn requires investment, and investment can only be secured if rule of law and guarantees for the private sector are established. Chile has provided these conditions, and private sector investment has accordingly reached high levels. The private sector accounts for 80% of investment, whereas



only 20% of investment is public. High levels of investment have contributed to very strong economic growth over the past 20 years, which has helped make Chile a paradigm of development within Latin America.

Because Chile is a country with a comparatively small internal market, insertion into the global economy has been critical for growth. Firms are not isolated entities; they interact with other firms at the international level. Chile has sought greater integration within Latin America and the rest of the world through free trade agreements that provide rules and regulations in the global commercial game. It must be understood that for small countries pursuing export-led growth, it is imperative to strengthen international institutions that are responsible for generating an international rule of law – in particular, the United Nations and regional authorities. Multilateral institutions are critical because they provide opportunities for small and developing countries to achieve a level playing field in the international arena on critical issues such as subsidies. Bilateral agreements, in contrast, leave small countries subject to prevailing imbalances of power. It was Chile's commitment to strengthening multilateral institutions that made the country unwilling to participate in an invasion of Iraq without prior approval by the United Nations. Beyond their importance for leveling the playing field for international trade, strong multilateral institutions are critical for addressing global problems such as climate change, disease pandemics, and terrorism. The social democratic vision does not entail utopian aspirations at the international level; it simply sees the strengthening of multilateral agencies as an essential step towards regulating multilateral relations.

While the social democratic vision embraces the need to promote investment and growth, it also emphasizes that growth must go hand in hand with well-targeted policies that distribute the benefits of growth among all citizens to avoid excluding disadvantaged sectors of the population. Distribution reduces social tension and builds a cohesive society, which is essential in the process of development. Growth alone is not sufficient to produce a trickle-down effect. Once growth has been achieved, the focus must be on social policies, defined by the citizens. Thus, through increased education, better healthcare, improved pensions, more equal opportunities, and better employment opportunities, growth will lead to better social welfare, particularly for the middle class and the poor.

## Social Policy

In the past 20 years, well-targeted public policies in Chile have allowed for great social progress and a strong decline in the number of citizens living below the poverty line. The population living in poverty declined from 40% in 1990 to 15% in 2010, according to govern-

ment statistics, or to 11%, according to the United Nation's 2010 statistics. There was also progress in educational indicators, health care, income support for poor families, access to housing, and access to social infrastructure.

In the past decade, new anti-poverty policy instruments have been designed with the goal of helping people overcome adverse economic conditions. The idea that social assistance was the first step for citizens to help themselves was a central element. Yet these new instruments also entailed responsibilities for the recipients of subsidies, including medical checkups, family counseling, and school attendance for children. At the same time, subsidies have been focused more precisely toward those in greatest need. Targeted anti-poverty policies have allowed not only Chile, but also many other countries in Latin America, to substantially reduce poverty levels over the past decade.

In education policy, the guiding principle was to provide primary and secondary education for everyone. As a result, a law in 2003 established 12-year compulsory education. Notwithstanding this effort, there is still a very close relationship between income level and educational achievement. The challenge has been guaranteeing quality education, specifically targeting the provision of more financial resources, teachers, texts, and food supplies where they are most needed. Some progress in reducing the gap has been highlighted in the Program for International Student Assessment (PISA) and the McKinsey Global Education reports. Nevertheless, the gap is still big with OECD countries, as testified by recent students' protests.

In the area of housing policy, the aim was to ensure access for low-income families. Progress was achieved in the first ten years through a mortgage system. In early 2000, it was deemed essential to reach out to the poorest 20% of the population, which due to precarious employment status could not qualify for loans from the private sector. State-subsidized houses were designed with less than 40 square meters of space. However, after a very low down payment, the property could be acquired without a mortgage. These houses were delivered with pre-approved plans for extensions, so that when their owners achieved higher and more stable incomes they could expand the size. This policy was a tremendous advance. So many houses were built per year that almost all campamentos, or slums, in Chile were eradicated by 2010. The February 2010 earthquake was a setback, but Chile's clear policy of ensuring decent housing for every family provides a framework for reconstruction.

Progress was also made in social security policy to ensure better retirement plans for citizens. Because social security had been based on a privatized capitalization system since 1980, not everyone was able to obtain a sufficient pension. Unemployed or low-income individuals and those who had not paid contributions for a period of at least



twenty years were not effectively covered. Chile recently introduced reforms that significantly extended pension coverage and improved minimum pension benefits. The state now provides a non-contributory “basic solidarity pension” to the poorest 60% of senior citizens.

Great strides have also been made in terms of healthcare. In the 1990s, the government made major investments in hospital infrastructure and primary healthcare centers. Beginning in the year 2000, a great emphasis was placed on the need to ensure access to healthcare on three different fronts for a wide range of pathologies: guaranteed treatment in quality hospitals, guaranteed treatment within a given timeframe depending on the disease, and guaranteed co-payments provided by the state when the patient’s income is too low. These three guarantees were implemented for a total of 56 pathologies that account for approximately 70% of hospital care. Implementation was carried out as realistically as possible given the state’s resources, and hence gradually. At first, three health conditions were covered; this number was expanded to 40 by 2006 and 56 in 2008. There have been difficulties with some waiting lists, but the guarantee ensures that if patients do not receive assistance, they may sue the state and seek assistance in the private sector, which will be paid by the public sector.

At the time, this healthcare reform was seen as very radical and highly complex. It had to include both the public healthcare system and the private healthcare system, in which private companies provide insurance. However, it was decided that in order for the reform to succeed, it needed to include all sectors, not just those most in need due to low income. The case of failed healthcare reform under President Clinton in the United States showed the importance of designing policies that draw support from broad sectors of society, not only the poor or uninsured. The development of social democracy in Europe also entailed providing widespread coverage and benefits, which generated solid political support for the welfare state.

The most significant changes in healthcare occurred at the primary care level. Only 12% of the health care budget in 2000 went to primary healthcare. Thanks to investment in infrastructure during previous years, it was possible to transfer a huge amount of resources, leading to an increase to 30% of the 2006 health budget for primary healthcare. The bulk of attention at the primary care level was devoted to disease prevention, with priority given to children under one year old and adults over 65 years old due to their assessment as higher-risk populations. Primary health care policy in Chile has not yet achieved levels similar to those in developed countries like the United Kingdom, where 50% of the healthcare budget goes to primary care. However, Chile’s reforms constituted a substantial advance in healthcare, an area in which the country has traditionally had very modern policies.

## Justice and Culture

Social democrats know that economic growth alone will never lead to a developed society. Development requires growth plus human development. To this end Chile has also made progress in improving the judicial system and promoting cultural development. Regarding the judicial system, a set of reforms promoted transparency in the criminal, labor, and family justice systems. Criminal justice reforms changed the system from the Spanish model to a model similar to that of the United States. The old system was based on written presentations of evidence, and the same judge who investigated the crime was charged with imputing the accused and, ultimately, resolving the case. The new Chilean criminal system is based on oral proceedings and prosecutors presenting evidence in front of a panel of three judges who decide the case. The accused has the right to a public defender. This reform improved the decision-making process by separating the role of the investigator or prosecutor from the role of the judge who issues decisions. The reform has made the criminal justice system more expedient and provides opportunities for settlement before cases go to trial. A conciliation mechanism was also established to resolve cases prior to trials in labor and family courts. Finally, a divorce law was passed in 2004; until then, divorce had not been legal in Chile.

In the cultural realm, social democracy has reconciled the market's role in promoting economic efficiency with the state's role in promoting the development of cultural industries. In this model, artists do not depend on the market alone; they help to define cultural policies themselves and ensure that these policies do not simply broadcast government propaganda.

An active cultural policy, through comprehensive measures developed by artists themselves, eliminates the temptation toward "state-led cultures." In a broader sense, a policy of expanding cultural freedoms stimulates the country's ability to look at past experiences. A stronger and more solid society dares to look at a past when human rights were violated and to learn from that experience. This is the reason behind the Truth and Reconciliation Commission with regard to those people that have been executed or disappeared (1991); and the Report of the National Commission on Political Prisoners and Torture (2004). It is also capable of understanding that it should implement policies that lead to greater gender equality, and acceptance of sexual minorities and ethnic diversity. In other words, the need to ensure freedoms and generate respect for minorities – in a context where they feel they have been marginalized – and the need to elaborate policies of affirmative action for these minorities are central goals for public policies.



## Challenges for the Future

Notwithstanding Chile's advances, the country faces multiple challenges for the future. Perhaps the most difficult is to improve the distribution of income, which has remained largely unchanged despite successful poverty reduction. Although some progress has been made – the Gini index showed a modest advance from 0.58 to 0.54 – the average income of the richest quintile in 2000 was 14.4 times the average income of that of the poorest and was reduced to 13.1 in 2006. A substantial rise in per capita public spending on education and healthcare, aimed essentially at the poorest quintiles, explains this reduction. Consequently, when corrected for non-monetary items, income distribution improves considerably, bringing down the gap between the richest and poorest quintile from 13.1 to 7.1 for the CASEN (National Socio-Economic Characterization) survey of 2006 (considering the monetary transfers such as pensions of non-contributory seniors, family allowances, and unemployment insurance). In contrast, in the United States, the difference between the richest quintile and the poorest is about eight times, whereas in Japan or Scandinavian societies it is only around four times. Achieving a more equitable distribution of income will require a new fiscal pact designed not only to increase tax revenue available for social spending, but also to make the tax system more progressive. At present, taxation in Chile leaves the distribution of income essentially unaltered.

In developing countries, increasing per capita income is a necessary requirement to improve social and economic indicators. This has been the case of most advanced Latin American countries. Nevertheless, beyond 20,000 dollars per capita income (which many of those countries are approaching), it is distribution of income that explain those social and economic indicators improvement, rather than the growth of per capita income. Therefore, social democrats have to take into account this fact to execute policies to improve income distribution of middle income countries. Social unrest in these societies is usually the new demands of an emerging and much empowered middle class. To satisfy them a new fiscal pact will be required.

Additional challenges should include electoral system reform, further improvements in education, and sustainable energy policy. Chile's "binominal" electoral system, which disproportionately favors the coalition receiving the second-highest vote share in parliamentary elections, must be reformed to better reflect the will of the voters and to deepen democracy. Further reforms are necessary to improve the quality of education and thus to ensure that all citizens have equal access to opportunities. Chile must also develop clean and renewable energy sources; the country's very high electricity prices currently constitute a major obstacle to competitiveness and development. Addressing the energy challenge will require joint



efforts on the part of the state and the private sector, as well as concerted efforts to move away from dependence on carbon-based energy sources.

## **Conclusion**

Social democracy, which emphasizes the importance of public policies in addition to market forces, has allowed Chile to make progress toward providing a minimum civilizatorio for all members of society. Targeted social policies have dramatically reduced poverty. The popularity of these policies is demonstrated by the fact that the new government has not sought to alter them in significant ways. While much remains to be done, the past twenty years will be remembered as a period of rapid progress.

Throughout this period, furthering freedom while generating increasing levels of equality has been Chile's goal. Freedom and equality cannot be antagonistic. In the 20<sup>th</sup> century, we learned the hard way that freedom cannot be sacrificed on the pretext of achieving equality, because individual freedom is the most important principle. Both must go hand in hand, and they must be accompanied by a third essential element, solidarity, which may also be necessary for promoting equity. Social policy ultimately seeks to end the fears that afflict society. We do not fear injustice because there is a rule of law. We do not fear ignorance because education is available to all. We do not fear disease or accident, thanks to a healthcare system to which everyone has access. We do not fear old age because there is a social security system for all. Fearlessness is the essence of progressive policies. And it is only through politics, with a capital P, that progressive policies can be implemented.

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