

February 22, 2015 12:42 pm

# Loan scandal clouds Chile president Michelle Bachelet's reforms

Benedict Mander in Buenos Aires [Author alerts](#) 

Michelle Bachelet, Chile's president, swept back to power in 2013 on the back of pledges to fight inequality and put an end to the deeply entrenched privileges enjoyed by the country's traditional elite.

So her government's credibility took a serious blow when the single mother's eldest son, Sebastián Dávalos, was earlier this month accused of using his influence - to secure a bank loan. The ensuing uproar was such that he was forced to resign last week as head of a charitable foundation normally run by Chile's first lady.

Lamenting this "bitter moment", Mr Dávalos admitted the scandal could "damage" not just the government, but also the president herself, whose popularity has already sunk to record lows amid an economic slowdown driven by lower prices of copper, Chile's main export.

At stake is Ms Bachelet's ambitious reform agenda aimed at tackling inequality, which has remained high despite exceptional economic growth in recent decades. Her agenda's more controversial elements, especially in education, have already been watered down by the

moderate faction of her centre-left coalition, whose support is required to push new laws through congress.

“With this scandal, the moderates will probably acquire more strength, as Bachelet is not going to be able to legitimately drive the coalition further to the left,” says Patricio Navia, a political scientist at New York University.

“Bachelet’s family was using the same type of privileged access that she was campaigning against,” he explains.

For many Chileans, Mr Dávalos’s ability to secure a \$10.4m loan for his wife’s small business from the Banco de Chile after meeting its vice-president Andrónico Luksic — who is one of Chile’s richest men and whose family controls the bank — is an eloquent example of the extent of privilege in the country. The loan was approved the day after Ms Bachelet won the presidential elections.

The scandal is a boon for Chile’s rightwing opposition alliance, which has pounced on what has been dubbed “nueragate” (*nuera* is Spanish for daughter-in-law). Not only is the opposition still reeling after being crushed by Ms Bachelet’s coalition in the 2013 presidential elections, but it has also been hit by a hugely damaging scandal of its own, over campaign finance.

But Mr Navia adds: “The real opposition to Bachelet is not the rightwing alliance, but the Christian Democrats in the senate.”

He says the most moderate group of the ruling coalition has succeeded in ensuring that Ms Bachelet’s reforms have been “far less radical than promised”.

Indeed, with its comfortable congressional majority, the opposition has been helpless to prevent the governing New Majority coalition from steamrolling important reforms through congress. Last year, a tax reform was passed that will allow the state to collect an extra \$8bn a year, mainly from businesses, while education reforms at the core of Ms Bachelet’s agenda are close to approval.

Now, businesses in particular have their eye on controversial labour reforms, which are due to be debated in congress later this year. Critics say the proposed reforms will simply enhance the power of trade unions, which only represent about 15 per cent of workers. Far from improving broader employment and productivity, the reforms risk increasing unemployment and labour conflicts, they say.

“It would be very difficult to do the reforms the government is attempting without running into problems and generating some uncertainty,” says José de Gregorio, a former central bank governor. But although the government has struggled to calm investor fears, especially over the

tax reform, “today many of those doubts are dissipating”, he insists.

Mr de Gregorio's optimism is shared by Wall Street institutions such as Standard & Poor's and JPMorgan, who have argued recently that the economy is turning a corner. JPMorgan bumped up its growth forecast for 2015 from 2.3 per cent to 2.7 per cent, as lower oil prices help to offset the fall in copper prices, after growing 1.8 per cent last year.

Nevertheless, Felipe Larraín, finance minister in the previous government of Sebastián Piñera, points out that the economy has suffered a “hard landing” after averaging 5.3 per cent growth from 2010-13.

“In this complicated scenario, the labour reform is just one thing more. With the tax reform, it's all going in same direction,” he says, arguing that the increasing cost of employment and production is acting as a disincentive for investment, which has fallen for the past six consecutive quarters.

“I think Chile can do much better,” he said.

**Printed from:** <http://www.ft.com/cms/s/0/ac42ad00-b6c6-11e4-a33b-00144feab7de.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

---

© THE FINANCIAL TIMES LTD 2015 FT and 'Financial Times' are trademarks of The Financial Times Ltd.