

Chile's Middle Class Flexes Its Muscles

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Chileans can live their entire lives without much interaction with a state institution. A middle class woman, born in a private clinic paid for by her parents' private health insurance, will attend a (government-subsidized) private voucher school. She will graduate from a private university paid for with government-subsidized student loans. If the young professional joins the mining sector, she likely will work for one of the private companies that control 70 percent of Chile's copper production. Her mandatory retirement contributions will be sent directly from her employer to the private retirement management fund of her choice. In all likelihood she will have private health insurance. She will send her children to private school. She'll pay her utilities to private companies, obtain a mortgage from a private bank, and even drive on privately operated highways in the capital city of Santiago.

Since the end of the Augusto Pinochet dictatorship in 1990, Chile has grown robustly and steadily. For 20 years, a center-left coalition, Concertación, led an impressive period of development. Poverty declined from 40 percent of the population in 1990 to 15 percent in 2009. Child obesity has replaced malnutrition as a leading public health concern. Primary and secondary education is now universal. And almost 60 percent of college-aged Chileans are enrolled in higher education institutions. More than 70 percent of them are first-generation college students.

Having regained their rights as citizens in 1990, Chileans increasingly are exercising their rights as consumers. Larger and more diverse, the middle class is testing its political muscle as it demands that social policies be redesigned to fit its needs. Indeed, Chile's new middle class has developed a sense of vertigo, fearing vulnerability and at the same time seeking to fly even higher. The social safety net, designed to aid those at the lowest 40

percent of the income ladder, is set too low for the next 40 percent. The high-flying middle class wants a safe place to land in case times get rough. But because the tax structure is not sufficiently progressive, the government lacks resources to fund programs for the middle class. Many Chileans thus want tax reforms to fund the expansion of government assistance, especially in higher education.

AFTER THE PROTESTS

The student protests that rocked Chile in 2011 fueled claims that the country's market-friendly model is crumbling. However, opinion surveys show that Chileans remain optimistic that their middle-class expectations will materialize. Chileans do not want to make a left turn in the elections scheduled for next year. They want to continue moving forward, faster and more securely.

The recent social mobilizations in favor of education, the environment, gay rights, consumer rights, and other post-materialist demands, far from suggesting political decay, show a vibrant civil society committed to democracy. After remaining steadily in the middle of the 50 percent range for about a decade, support for democracy among Chileans surpassed 60 percent in recent years, according to a *Latinobarómetro* poll. In a recent Diego Portales University survey, 78 percent of respondents said they believe future economic conditions will improve for their families. Education (32 percent) and crime (29 percent) rank atop the main national problems. Employment (8 percent) and inflation (2 percent) are at the bottom of the list.

However, Chileans increasingly worry that opportunities are insufficient and the playing field is not level. Historically low levels of trust in political institutions (10 percent trust political parties and the legislature) are now affecting the government generally (down from 33 percent in 2010 to 21 percent in 2011), according to *Latinobarómetro*. Even trust in the Catholic Church has declined—from 43 percent to 24 percent from 2010 to 2011—as a result of pedophilia scandals. Trust

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in private companies declined from 20 percent to 16 percent in the same period.

In 2009, a conservative businessman, Sebastián Piñera, won the presidential election on a message of change in the context of continuity. He promised to more efficiently lead Chile into the promised land of development. The social protests and active student movement of 2011 highlighted the caveats of Chile's successful experience of economic development. The protests also sunk Piñera's approval ratings to the lowest observed since democracy was restored. Some critics of the market-friendly model have prematurely declared the end of Chile's social market experiment. A more reasonable assessment suggests the need for increased effort to foster social inclusion and expand opportunities.

Two problems stand out. First, inadequate regulation and government oversight tilt the balance in favor of providers against consumers. Business concentration is high in several sectors of the economy. Private companies that provide formerly public services—utilities, health insurance, education, and private roads—often abuse their position and impose excessively high fees and penalties on consumers who miss payments. In some cases they even abuse consumers who pay on time.

Chileans want government institutions to step up their involvement and provide better consumer protection. Several of the grievances behind last year's student protests have to do with the government's inability—or unwillingness—to adopt stricter regulations to guarantee quality education and control skyrocketing university tuition costs. Chileans perceive that political parties side with business interests, and that democratic institutions do not represent people's interests well. Still, when asked about their political identification, a majority identify themselves as moderates. Chileans do not want to throw out the democracy- and market-friendly baby with the bath water.

The second problem is an insufficient safety net. Successive center-left governments focused on earmarking social programs and subsidies to the poorest 40 percent, leaving the middle class unprotected. Because the safety net is inadequately funded, expanding existing programs to the middle class would not suffice. The public sector tax take is slightly over 20 percent of GDP. Without a more progressive tax code, little progress can

be made to strengthen the safety net and expand opportunities for the middle class.

As a candidate, Piñera campaigned on leveling the playing field for the middle class. Though he has lost favor with the public, his initial message remains popular. Meanwhile, the Concertación opposition is divided among those who defend their 20-year government legacy of moderation and pragmatism and those who seek to follow the leftist populist model found elsewhere in Latin America. If the Concertación stays in the middle, calling for moderate reforms that will strengthen individual rights for citizens and consumers, it will likely retake power in 2013.

RISING EXPECTATIONS

Twenty days after his inauguration, Piñera bluntly encouraged higher expectations when he declared—mocking previous Concertación governments—that “what others failed to do in 20 years, we already did in 20 days.” The spectacular rescue of 33 trapped miners in October 2010 underlined the message of efficacy. If Piñera could

successfully rescue the miners, he could also address education, health care, and other pending—and admittedly difficult—challenges that Concertación governments failed to tackle.

Piñera's clumsy handling of the 2011 student protests has distracted attention from progress on other issues—including social programs; maternity leave reform; and electoral reform to make registration automatic, which will incorporate millions of previously excluded Chileans into the voting rolls. When he took office, Piñera successfully freed the right of its Pinochet authoritarian legacy and seized the social market economic model from the Concertación. Moderation, gradualism, and pragmatism are no longer Concertación trademarks. The center-right will remain electorally competitive if it sticks to Piñera's centrist policies. Even if he achieves little else, Piñera already has transformed the Chilean political landscape.

Last year's student protests tested his ability to deliver on his promise of expanding opportunities for the middle class. But the protests also showed that the middle class, having consolidated its electoral dominance, seeks to transform the social market economy into a more inclusive market-friendly model. ■

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