

The Rise of a Chilean Model of Economic Development

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CHILE'S *CONCERTACIÓN POR LA Democracia* has been highly successful in achieving its central objectives. Under the leadership of President Patricio Aylwin, who assumed office in March 1990, and under President Eduardo Frei (the younger) since 1994, Chile has implemented a development strategy that is essentially "social democratic" in character. This strategy has emphasized distributional equity and economic growth, together with national reconciliation and democratic consolidation. Virtually all indicators of social and economic development point to significant success in the achievement of improved equity and human development as well as strong economic performance. There is still a considerable distance to go, however. Popular dissatisfaction and impatience with the continuing inequities have helped to make improved equity a central concern of public policy.

The development strategy of the *Concertación* in the 1990s is of special interest for Latin America and indeed for much of the world. Many countries adopted a market-oriented development strategy in the 1980s or early 1990s, often not too dissimilar from that of Chile in the 1974-89 period under the military regime of General Pinochet. Under the Aylwin government, however, Chile was one of the first countries to

combine a strong market orientation with an equally strong focus on distributional equity and social justice. Its good results are of relevance to all countries which aspire to achieve sustained human development. Perhaps the Chilean approach might even be viewed as an archetypal development "model" worthy of examination by analysts of countries facing similar challenges.

Development Strategy Under the *Concertación*

The central socio-economic objectives of the *Concertación*, an electoral coalition of the Christian Democrat

well as political promise. An emphasis on economic growth was considered less of an end in itself and more as a means toward sustained and sustainable improvements in social development in the longer term.

To achieve growth and thence sustainable social development, the development strategy sought to maintain or improve macroeconomic stability. A coherent and sustained macroeconomic policy was viewed as essential for ensuring the stability, clarity and certainty necessary to win the confidence of the business community—something not initially assured when the *Concertación*

came to office—in order to maintain high and rising levels of domestic saving and investment. Inflation reduction, high levels of employment, and the maintenance of "external balance" constituted the specific macroeconomic targets.

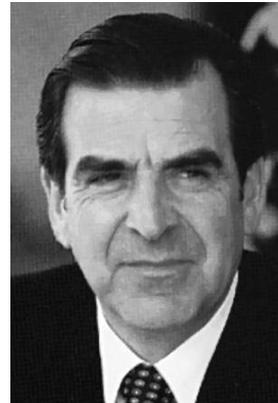
A second important element in the strategy was a continuation and strengthening of the opening, or *Apertura*, of the economy to world trade in goods and capital. It is of interest to note that this strategic orientation was supported by all major groups in the *Concertación*. For example, Sergio Bitar, then President of the Partido por la Democracia (and simultaneously a member of the Partido Socialista) supported this approach vigorously. The *Apertura* included a continuation of the promotion of export expansion and diversification, a broadening of export markets, a deepening of regional economic integration, acceptance of an important role for direct foreign investment and technological transfer, and continuing reductions in tariffs and



Salvador Allende



Augusto Pinochet



Eduardo Frei

Party, the Socialist Party (the party of former President Salvador Allende), the Partido por la Democracia and some smaller political parties, were the promotion of social justice and the generation of economic growth and modernisation. They also sought the "re-insertion of Chile into its historical place in the international system". While the emphasis on growth represented continuity with the previous military government, the emphasis on social justice was a reaction to the failures of the military government. Following the worsened poverty and income distribution prior to 1990, the *Concertación* viewed improving social justice as a central moral imperative as

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non-tariff trade barriers. Further aspects of the *Apertura* included a careful approach to management of the external debt in order to reduce the heavy debt-service burden which created a drag on economic growth, and a policy of exchange-rate management designed to maintain a reasonably stable and non-appreciating currency.

To achieve continuing economic growth and improvements in productivity, high and rising levels of saving and investment were reconfirmed as central parts of the growth strategy. These were to be supported by macroeconomic stability and the *Apertura* as well as policies promoting human-resource development, infrastructural development, continued support for technological improvement in small and medium-sized enterprises, and a balance in roles for the public and private sectors.

Finally, the overriding objective—improved socio-economic justice—was to be achieved by a range of social programmes and policies as well as sus-

tained economic growth. Sustained growth was seen as the foundation for high-productivity employment creation, reduced unemployment, and an increase in average real wages. But a range of more direct policy changes in labour law,

minimum-wage levels, and income-support payments—together with the elaboration and expansion of various types of social programmes—were also vital elements for the reduction of critical poverty leading to the strengthening of access to opportunities and improvements in the distribution of income.

Economic Policies

The new government came to office with a firm commitment to macro-

economic stability. Unfortunately, expansionary policies of the previous military regime had produced a seriously overheated economy by 1990. The regime had employed a programme of tax reductions and monetary expansion in an attempt to gain support for the 1988 plebiscite and 1989 elections. The effect was to produce a burst of inflation in 1989 and 1990 which the *Concertación*

believed had to be tamed quickly. One of the first macroeconomic policies of the *Concertación* in 1990, therefore, was to increase the rate on the value-added tax by 2 percentage points while the growth rate of the money supply was reduced. This contractionary policy led to a deceleration of economic growth from an overheated 9.6% in 1989 to 2.8% in 1990. The positive result of this, however, was that the increased tax revenues were dedicated largely to social programmes aimed at the lowest income groups. (This was also the case with revenue increases generated by improved tax administration.) From this beginning, in which it successfully won credibility for its determination to maintain macroeconomic stability, the government continued to maintain a gradualist but vigilant approach to reducing inflation, with steadily improving results.

As components of the *Apertura*, the Aylwin and Frei governments have pushed for trade liberalisation in multilateral fora. In March 1991, the government reduced tariffs unilaterally from 15% to 11%. To the surprise of many, it welcomed the “Enterprise for the Americas Initiative” proposed by President Bush in 1990. Chile has entered into a wide variety of regional and bilateral trade liberalisation agreements, including:

The emphasis on economic growth was not an end in itself—it was more as a means toward sustained and sustainable improvements in social development.

An Early Innovation in Pension Plans

In 1980, Chile's public pension system faced intense criticism and possible insolvency. In response, the government replaced the “shared financing” arrangement of the old public system with a “personal capitalisation” arrangement through the establishment of AFPs (*Administradores de Fondos de Pensiones*). Rather than contributions by current members of the labour force financing the pensions of the currently retired, members now make mandatory monthly payments into personal capital accounts in an AFP. Individuals essentially build their own fund for financing their own future pension payments. Care was taken to permit the gradual transfer of assets from the old to the new system. Financial management is undertaken within a strict regulatory framework designed to guarantee the solvency of the individuals' capitalisation funds.

By the end of 1995, there were 21 AFPs with 5.2 million members and a total capitalisation of approximately \$24.2 billion (US). The average real rate of return in the AFPs from 1990 to 1994 was a satisfactory 16.5%, though it fell in 1995 due to heavy investment in electric-power companies which performed badly that year.

The AFPs are an important innovation. One main advantage is that they establish a clear link between a person's contributions and the eventual pension benefits, thereby increasing the incentive for retirement saving. The competition among AFPs for contributors' retirement savings also should encourage prudent but productive investment. Perhaps most important, the new system promotes efficient use of retirement savings for investment in the economy. The AFP system has undoubtedly contributed to Chile's high and rising saving rate. Its investments have contributed to the emergence of new enterprises, industries and export “clusters” in the Chilean economy. The system is not without its critics, however, who question the quality of its investment portfolio and the wasteful expenditures on 17,000 pension-fund sales representatives who persuade about 5% of all members to switch funds each month.

The success of the system in Chile has led Argentina, Colombia, Mexico and Peru to establish similar systems; many other countries are examining it carefully. ♦

- bilateral trade agreements with Bolivia and Mexico;
- membership in the Asia Pacific Economic Co-operation forum in November 1994;
- associate membership with Mercosur with an Economic Complementation Agreement signed in June 1996; and
- a free-trade agreement with Canada signed in November 1996.

Chile also commenced negotiations in July 1995 with the European Union for a trade-liberalisation agreement.

Policies toward foreign investment remained largely unchanged. However, with the smooth transition to democracy, the maintenance of macroeconomic discipline, a well-designed economic and social development programme, a diminishing debt problem, high levels of human development, well-developed institutions and improving infrastructure, Chile has become an attractive destination for foreign investment. With respect to the foreign debt, the early approach of the Aylwin government was to renegotiate and work down the debt, with a diminishing recourse to debt-for-equity swaps. Chile aimed toward maintaining a stable exchange rate in real terms, but as exports expanded and as net financial inflows increased, the main objective became slowing the real appreciation of the peso.

Social Programmes and Policies

A variety of programmes and policies aimed at social development were instituted by the Aylwin government, including new labour legislation, increases in various social support payments, programmes to broaden support for vulnerable groups, and improved and carefully targeted social services for human development.

Labour legislation between 1990 and 1993 was designed to modify the balance in the relationships between workers and firms, a relationship which had become skewed in favour of the latter under the military regime. The legislation was designed to enhance the rights of work-

ers and to strengthen organised labour in negotiations with employers while simultaneously promoting quick and equitable conflict resolution and labour-market fluidity. Elements of the legislation were aimed at protecting workers from wrongful dismissal, at promoting the formation of unions and confederations, at permitting greater recourse to the right to strike, and they were aimed at providing for compensation in the case of dismissal and for such things as holiday determination. The *Concertación* was

from the state to individuals, the share going to the poorest 40% of the population increased from 50.5% in 1990 to 55.9% in 1992. The real value of the monetary support for the poorest 40% increased by 17% in the same period.

Additional programmes were designed to reinforce the provision of basic social services in low-income areas. For example, an initial educational programme was designed to improve the quality of infrastructure, equipment and teaching materials in the 900 poorest schools in the country. This programme was later expanded with the objectives of improving the quality of the physical plant in schools and raising teachers' salaries. Similar programmes of investment in the infrastructure of the health system were begun. This included an increase in personnel, in salaries and in preventive medicine. Housing construction for lower-income people was also increased, with special attention to parks and plazas, street-paving and sidewalks, as well as water and sewage systems in low-income areas. It is interesting to note that many of the resources for these pro-

grammes came from the increase in the value-added tax in 1990, together with loans of up to \$1.8 billion (US) from the Interamerican Development Bank and the World Bank.

In early 1996, the Frei government expanded the anti-poverty programme in response to criticisms that the reductions in poverty had been small relative to the continuing high rates of economic growth. This involved further increases in social expenditures targeted sharply toward the poorest groups.

The Development Record, 1990-1996

Chile's economic and social development record so far in the 1990s has been satisfactory by virtually all criteria. This record is summarised with a variety of quantitative indicators in Tables 1 and 2.

From 1989 to 1996, per-capita GDP increased by almost 40%—an average annual increase of just under 5.2%. This successful performance owed much to

Table 1
Chile's Main Economic Indicators, 1989-1996

	1989	1990	1991	1992	1993	1994	1995	1996
Per Capita GDP								
GDP Growth (%)	8.0	1.6	5.4	8.7	4.2	2.5	6.5	5.2
Export Growth (%)	14.5	3.6	6.8	11.9	-8.1	26.1	38.2	-4.5
Debt Service as % of Exports	18.5	17.8	14.7	11.3	10.2	8.2	7.0	6.9
CPI Inflation (%)	21.4	27.3	18.7	12.7	12.2	8.9	8.2	6.6
Fiscal Surplus as % of GDP	—	0.8	1.5	2.2	1.9	1.7	2.6	1.0
Average Real Wage (1989 = 100)	100	101.8	106.8	111.6	115.6	121.0	125.9	131.3
Real Minimum Wage (1989 = 100)	100	109.6	119.8	125.3	131.1	—	—	—
National Saving as % of GDP	16.8	17.5	24.1	24.8	23.9	25.4	27.6	25.4
National Investment as % of GDP	20.3	20.2	24.5	26.8	28.8	26.8	27.4	25.4

Source: UN CEPAL and Banco Central de Chile; 1996 figures are CEPAL estimates.

also able to reach annual agreements with labour and business by promoting greater labour-relations harmony along with significant increases in the minimum wage and family allowances. The increase in the real minimum wage of over 25% between 1989 and 1992, together with an impressive amount of employment creation, has been of undoubted importance in raising real incomes.

A variety of income-support programmes for lower-income groups were also strengthened after March 1990. Both the "family unified subsidy" (*Subsidio Unico Familiar*) and the "relief pension" (*Pensiones Asistenciales*) were increased significantly in real terms, and both were targeted more sharply to the poorest 40% of income earners. Other payments such as unemployment insurance, family and maternity allowances did not rise significantly in overall value between 1990 and 1992, but were focused more on the lower-income groups. Of the total monetary subsidies

high and rising levels of exports and foreign-exchange earnings (which almost doubled), which then permitted the high levels of imports of capital equipment needed for strong investment. Domestic saving and investment also reached high levels in the early 1990s—double the average levels seen in the 1970s and 1980s.

The pattern of Chile's exports continued to diversify in the early 1990s, although this had been well underway in some areas in the 1976-89 period. Whereas in the early 1970s copper accounted for 86.5% of Chile's total exports, by 1990 it represented 46% of total export earnings and by 1996 only 38% (despite a doubling of its value between 1990 and 1996.) Non-traditional exports of many types expanded quickly, including a wide range of agro-industrial products such as fruit juices, concentrates and preserves, chemical products, wood and paper products (including pulp, furniture and books)

Copper used to account for 86% of Chile's total exports—it now accounts for only 38%.

and other products. By destination, Chile's exports became more diversified as well, with the United States and Japan—the largest export markets—absorbing only 14.4% and 17.7% respectively in 1995, and with the remainder destined for a wide range of countries.

Undoubtedly, the fine macroeconomic stabilisation record of the 1990s provided an important foundation for the activities of all economic agents and contributed to the growth record. The fiscal balance was in surplus for the whole period, and inflation rates fell steadily, from a high of 27% in 1990 to 6.6% in 1996. Chile was also consistently reducing its external debt problem. With export earnings increasing rapidly and interest rates declining, the debt-service burden (interest as a percentage of export earnings) fell to 6.9% by 1996 from a high of 50.1% in 1984.

Increasing levels of foreign investment have also contributed to growth.

In the 1990s, foreign direct investment in Chile rose significantly, reaching \$4.7 billion (US) in 1994 for actual investment, and \$5.9 billion (US) for the volume approved that year but for subsequent implementation. These volumes were large multiples of those for most of the previous 1970-88 period. The principal recipient of foreign investment was the mining sector, though services and industry were also important. The major foreign investing nations were the United States (38.6%), Canada (17.7%), Finland (7.5%), the United Kingdom (4%), Japan (3.5%), and Australia (3.2%). Surprisingly, Chilean direct investment in other countries also expanded significantly in the decade, totalling \$9.3 billion (US) from 1990 to 1995, with 62% going to Argentina and 22% to Peru.

Chile's attempt to prevent a real appreciation of its peso was not completely successful. With the increases in export earnings and net foreign investment, the ability of the government to sterilise the inflows deteriorated and a real appreciation of 25.4% occurred between 1990 and mid-1996. To slow this appreciation,

Exports: A Sub-Culture of Entrepreneurship

Copper, which used to account for 86.5% of Chile's total exports, now accounts for only 38%. The development of a wide variety of non-traditional exports has been an impressive achievement. Chile has created new clusters of internationally competitive export-oriented activities with the particular sub-cultures of entrepreneurs and others required to make the activities successful in the international arena. These clusters have evolved on the foundations of some traditional domestic enterprises—such as wine and fruit—and in other cases have emerged in new sectors, with new enterprises and newly-acquired expertise—as in salmon farming. In most cases, the entrepreneurs behind these new export clusters have been Chilean, though there has been a foreign presence in some areas.

The role of the *Fundación Chile* in the process of export diversification is noteworthy. It was established with financing from the compensation payments made by the military government to AT&T for its expropriation by the Allende government. The mandate of the *Fundación* was to promote the transfer of new technologies to Chile to further its economic development. It has performed this role well in a variety of sectors. The *Fundación* may serve as a useful model for other countries, such as Cuba, which face similar compensation problems.

A remarkably successful new export activity for Chile is the farming of ocean salmon and trout (as well as fresh-

water trout) in the southern regions of the country. Neither trout nor salmon were native to Chilean waters, although trout was introduced early in the century and acclimatised successfully in the wild. Salmon was introduced in the late 1970s, though with little initial success. With financial and technological support from the *Fundación Chile*, new floating-cage techniques were developed successfully, and exports began in 1981. The industry expanded rapidly, and by 1993 reached a production of 77,500 tonnes, with exports of 61,000 tonnes earning \$292 million (US).

The impressive success of aquaculture in Chile is the result of a conjuncture of fortunate circumstances. First, Chile has excellent and uncontaminated salt and freshwater resources for aquaculture in its 1000 kilometres of sparsely inhabited coast, archipelago and land-mass south of Puerto Montt. Fortunately, non-native salmon and trout species from the North Atlantic and North Pacific were able to adapt to this habitat. The general structure of incentives in terms of the exchange rate and the taxation regime were appropriate for the emergence of the activity. Chilean entrepreneurs were able to move into the activity, although some foreign investors also entered aquaculture. Human resources were quickly developed with the education of skilled workers, managers and scientific personnel for aquaculture. Chile is able to produce high-quality equipment for the sector and the required fishmeal inputs. ♦

the government liberalised the outflows of financial capital by Chileans and permitted the AFPs (pension funds) to expand their investments abroad.

The successful performance of the economy in the 1990s resulted in rapid employment creation, low unemployment, and rising real wages:

- total employment increased by 16.3% from 1989 to 1996;
- unemployment remained in the 5% to 6.6% range;
- average real wages increased by 31% over the same period.

These were powerful forces contributing to improved income distribution and reduced poverty. Strong economic growth and the resultant buoyancy in the demand for labour relative to available supplies were creating upward pressures on employment and real wages, while rising productivity was making such improvements in incomes possible. Market forces were now on the side of rising real wages—a fortunate situation for Chile.

At the same time, the impacts of some public policies were also contributing to increased socio-economic equity. For example, the legislated minimum wage increased in real terms by 31%

between 1989 and 1993, apparently without slowing employment growth. In addition, tax revenues increased by 38% in real terms between 1990 and 1993, reflecting the 1990 tax increase, better tax administration and economic growth. The increased tax revenues then made possible increases in social expenditures of 47.7% in real terms over the same period. These expenditures led to increases in earned incomes, monetary assistance and social services provided to lower-income groups.

The combined result of economic forces and the social programmes was reduced poverty and an improved income distribution. In the 4 years following 1990, the level of measured poverty declined from 40% of the population to 28%; the measure of extreme poverty declined by almost 40%. This is a significant achievement in so short a time span. Unfortunately, it is too early for published poverty statistics for the 1994-96 period. But such data would likely show a continuing downward

trend in poverty measures due to the steady increases in average real wages, in tax revenues, and in the government's social expenditures.

The available information on income distribution indicates that the share of total income going to the poorest 40% of the population also increased from 1990 to 1992. In terms of "autonomous income" (earned income, private pensions, interest and profits), the share of the poorest 40% rose from 12.3% to 12.7%. When all monetary incomes (including direct transfers) plus public

but well-functioning public administration, health system, education system, non-governmental organisations, private enterprises and state enterprises of various sorts. Similarly, Chile had developed a reasonably strong infrastructure prior to 1990. Chile's resource endowment in minerals, agricultural land, forestry and fisheries is also generous. Chile's development experience in the 1990s owes much to these general circumstances.

The smooth transition to democracy in 1988-89 was also an important factor.

With democracy, the competing coalitions in the 1989 elections had to put forward attractive and convincing platforms in order to win support. The *Concertación*, with its platform emphasising distributional equity and sound economics, won the day with 56.6% of the popular vote, an achievement repeated again in 1994. The transition to democracy was a vital element in order to fulfil the social-equity dimension of Chile's socio-economic success in the 1990s.

The learning experiences of the previous 20 years were also important. One lesson from the Allende period, 1970-73, was that a redistributive programme which ignored real economic

constraints and careful economic policy could not be sustained for long (although this was but one factor in the complex interplay of economics, politics and international factors leading up to the military coup d'état of September 1973.) A key lesson from the military years (1973-89) was that a "neo-liberal" type of programme focusing on economic factors alone and ignoring distributional equity not only was exceedingly costly in human terms, but also was politically unsustainable under a democratic system. The analysts and government of the *Concertación* learned these lessons well and sought to combine a social-justice orientation with effective economic management.

One final factor which deserves recognition is the quality of Chilean economic and social-policy analysis and debate in recent decades. If wise policies have been designed and implemented, part of the credit must go to analysts in research institutes, universities, and in the government, who have explored and

Table 2
Chile's Socio-economic Indicators, 1989-96

	%Δ 1989-1993	%Δ 1993-1996
GDP Per Capita	21.3	14.8
Export Earnings	13.8	66.6
Tax Revenues	38.0 (1990-1993)	15.4
All Social Expenditures	47.7 (1990-1993)	—
Social Assistance Payments	38.8 (1990-1993)	—
Total Employment	12.7	3.3
Average Real Wage	13.5	13.6
Real Minimum Urban Wage	19.5	—
Estimated Poverty	- 18.5 (1990-1992)	- 14.4 (1992-1994)
Estimated Extreme Poverty	- 34.8 (1990-1992)	—

expenditures (health, education and housing) are included, their share rose from 15.8% to 16.5%. The lower-income groups' rising share of a rapidly rising total national income is impressive and consistent with the information on employment generation, real wages, social expenditures and estimations of poverty. However, the gap between the lower income groups and the better-off remained wide and of continuing political significance.

Explaining Chile's Socio-Economic Performance

Chile's socio-economic experience in the 1990s is based on a variety of factors. Of fundamental importance is the quality of human resources achieved over many decades of serious effort in public health and education, and the development of world-class entrepreneurs, managers, engineers, technicians and professionals in many areas. The level of institutional development in Chile was also high, with an imperfect

evaluated public policy alternatives with skill and dedication.

Can Chile's Performance Be Sustained?

Is the current trajectory of socio-economic policy and performance sustainable in environmental, economic, social, and political terms? Certainly nothing lasts forever. But Chile's approach should be able to endure for some time to come—although there are some risks.

Chile confronts the whole range of environmental problems faced by virtually every other country. Interestingly enough, the return to democracy and the revitalisation of economic performance has permitted Chileans to focus on the problems of the environment, problems which had been set aside in the drive for democratisation and during the depression of the 1980s. One environmental issue of current concern is the impact of the expansion of exports of forest, fisheries, and agricultural products on natural-resource stocks. While most of the forest industry is based on forest plantations, the lumbering of temperate-zone forests threatens a unique ecological habitat. Ocean fisheries have been under intensifying pressure and face declining fish stocks for a number of key species. Agricultural production for export creates ecological pressures and even human health problems. Clearly there are limits to the expansion of all such types of production or extraction. Careful management of these resources is of crucial importance. On the other hand, there can be little genuine fear that Chile's vast storehouse of mineral wealth is facing quick depletion. Chile should continue as a major source of mineral exports, especially copper, for many decades to come.

In the past, economic growth in Chile has been environmentally costly. However, current levels and patterns of economic growth and investment are permitting Chile to re-invest, replace, and retrofit the old capital stock in the transportation system, infrastructure, and industry generally, so as to improve air and water quality.

The most conspicuous environmental problem in Chile is urban air pollution, especially in Santiago which is home to about 38% of Chile's population. Santiago is surrounded with mountains which trap the pollution; widespread respiratory problems are the result. A master plan

for permanent reductions in emissions—including the upgrading of the stock of vehicles, the construction of an extension to the subway system, and industrial retrofitting—should continue to improve air quality. But the reduction in the number of days of serious pollution so far has been achieved in large part by emergency programmes, which shut down the heavily polluting industries and take 20% to 40% of the vehicles off the road.

Chile's trajectory appears to be economically sustainable for some time to come. The near consensus in Chile on the importance of sound macroeconomic management, the quality of the economic managers, and high saving and investment rates should continue to facilitate economic growth. The positive impacts of economic integration in the region and multilaterally should also help. The current symbiosis of private-sector entrepreneurship and public economic management also appears to be reasonably solid.

In social terms, the success of the approach in the medium term will depend on how well it succeeds in improving distributional equity in relation to people's heightening expectations. While equity has been a central focus of the political agenda of the *Concertación* and has improved significantly, there is still a long way to go. As a result of the great distance between the richest 20% and the lower-income groups, there has been dissatisfaction with the pace of improvement, which is viewed by many as being too slow. Were this understandable pressure and impatience to result in economically unsustainable redistributive programmes and policies, the approach of the *Concertación* could break down, as has occurred with other redistribution programmes accompanied by weak economic management elsewhere in Latin America in earlier decades.

The political sustainability of the *Concertación's* strategy is probably assured at least until the end of 1999 when the term of office of President Frei expires and new Presidential elections take place. However, the continuation of the centre-left coalition of the *Concertación* is certainly not guaranteed after the next presidential elections. If the coalition breaks down, there is a danger that the old three-way split between the Right, the Left, and the Centre might re-emerge. If this occurred, and either the Right or the Left were to win the Presi-

dency, there could be an abandonment of the equity-with-growth approach of the *Concertación*. A breakdown of this approach might then lead to policy orientations which would not generate sustainable socio-economic improvement. On the other hand, if the *Concertación* can maintain its cohesion for another term in office, then the current positive results should continue into the next century.

It is difficult to predict whether the cohesion of the *Concertación* can be maintained. An issue which could lead to its collapse concerns the selection of the next presidential candidate. The Socialist Party and the Partido por la Democracia argue that it is time for one of their members, namely Ricardo Lagos, to be the coalition candidate. The Christian Democrats, as the largest coalition partner, favour their own candidate (perhaps Alejandro Foxley, a former Finance Minister, or Jaime Ravinet, the mayor of Las Condes, a Santiago suburb). A disagreement on a common presidential candidate would lead to a split in the *Concertación*.

A number of other factors obscure the future. One of these is the return of the Communist Party. Although it lost popular support in the 1996 municipal elections, in the elections for the Federation of Students in the University of Chile it won with 34% of the votes. It also gained control of nine labour federations and three unions in the copper sector by 1996, and has been eyeing the Central Unitaria de Trabajadores, the labour federation. Another interesting development is the attempt by some of the Mapuche Indians, who make up about 7% of the population, to establish their own political party to further their claims and aspirations.

In summary, although there are uncertainties, imponderables and risks in Chile's future, especially after the end of President Eduardo Frei's period of office in late 1999, it should be possible to continue the current process of improving equity while achieving economic growth. Indeed, the achievement of both of these simultaneously is vital for the success of each in the long run. The understanding of this interaction by many Chileans and by most of the major political parties is perhaps the strongest force promoting the achievement of sustainable equity and growth into the future. ♦