

7-2010

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Evelyne Huber

Jennifer Pribble

University of Richmond, jpribble@richmond.edu

John D. Stephens

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Recommended Citation

Huber, Evelyn, Jennifer Pribble, and John D. Stephens. "The Chilean Left in Power: Achievements, Failures, and Omissions." In *Leftist Governments in Latin America: Successes and Shortcomings*, edited by Kurt Weyland, Raul L. Madrid, and Wendy Hunter, 77-97. New York: Cambridge University Press, 2010.

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The Chilean Left in Power

Achievements, Failures, and Omissions

Evelyne Huber, Jennifer Pribble, and John D. Stephens

In his introduction to this volume, Weyland locates the administrations of Socialist Presidents Ricardo Lagos (2000–06) and Michelle Bachelet (2006–2010) closest to the moderate pole among current leftist governments in Latin America. We concur and hope to contribute to the discussion by elucidating the sources of this moderation and examining the performance of these governments in the areas of political management, economic policies, and social policies and labor market reforms. The Lagos and Bachelet governments have pursued similar market-friendly economic policies to their predecessors. Although both presidents have made important progress in overcoming the political institutional legacies of Augusto Pinochet's dictatorship, moderate progress in labor market policies, and impressive progress in two social policy areas, very little improvement has been seen in the realm of fostering citizen participation and empowering labor and social movements through organization and linkages to political parties. We compare the Lagos and Bachelet governments to those of their Christian Democratic predecessors as well as to each other with the goal of identifying policy successes, failures, and omissions. We argue that the administrations' moderation stems from the political experiences of the leadership and their resulting approach to building relationships to the party rank-and-file and to civil society, the fact that these are coalition governments, and the constraints of the Pinochet political and economic legacies.

POLITICAL CONSTRAINTS AND MANAGEMENT

Political constraints in contemporary Chile originate from institutional design (the Pinochet-era constitution), political learning among left-party elites, the organizational weakness of left-leaning parties, and the fact that these are coalition governments. All four forms of political constraint have contributed to the moderation that characterized the left governments of Lagos and Bachelet. In this section we discuss the evolution of these constraints, paying particular

attention to the extent to which the two governments were able to manage and ease the political restrictions.

Lagos assumed office in 2000 as the first Socialist president since Salvador Allende. Just like his predecessor *Concertación* presidents, he found his political space constrained by the authoritarian enclaves institutionalized by means of the Pinochet-era constitution. One of the key constraints imposed by the constitution was the provision of appointed senators. These senators kept the *Concertación* parties from obtaining control of the Senate, thus forcing the left government to negotiate with the opposition on all important legislation. Other constraints imposed by the military-era constitution were the lack of civilian control over the chief commander of the armed forces and an electoral system that favors the minority right-wing parties.

Arguably one of the most important achievements of the Lagos presidency was the package of constitutional reforms adopted in August 2005 that – among other measures – eliminated the appointed senators, gave the president the power to remove the chiefs of the branches of the armed forces, and curtailed the powers of the National Security Council. The publication of findings of a commission to study torture appointed in 2004 indirectly helped prepare the ground for these constitutional changes by highlighting the horrors that had been committed by a military institution devoid of any external accountability. These reforms, then, essentially completed the transition to democracy by eliminating the last clearly antidemocratic legacies of the dictatorship.¹ Importantly, however, this package of reforms did not constitute a sweeping change to the overall institutional configuration of the Chilean state. The institutional continuity in Chile stands in stark contrast to the efforts made by Hugo Chávez in Venezuela and Evo Morales in Bolivia to fundamentally restructure the national constitution, which Javier Corrales and George Gray Molina examine in their chapters in this volume. In part, this difference is a result of the very long and strong tradition of constitutional rule in Chile and of the strength of the military dictatorship. The military regarded itself as successful at the end of its rule and still enjoyed significant support among parts of the population, which made renewed intervention in case of radical departures in the 1990s a real possibility.

A second important political constraint that has influenced the moderation of the Bachelet and Lagos administrations is the fact that these are coalition governments. The coalition is decidedly center-left, and maintaining the political partnership and negotiating candidacies have been key tasks for the top leadership. Various authors have emphasized the strong incentives for coalition formation built into the binomial electoral system (Carey 1999, Fuentes 1999),

¹ See Aguëro (2006) and Funk (2006) for a discussion of these reforms and their significance. The electoral system is another Pinochet legacy that has not been changed yet, but the reforms made it easier to change, and there are many electoral systems (including the American and British systems) that discriminate against smaller parties and/or overrepresent certain political forces, such as conservatives from rural areas.

but others have pointed to the incentives for the member parties to distance themselves from a potentially unpopular president and to the possibility of a collapse of the coalition (Siavelis 2005). So far, the coalition has held at the electoral level, but at the parliamentary level, the government lost a crucial vote for funding Trans-Santiago in November 2007 because of the defection of Christian Democratic deputies led by Senator Adolfo Zaldívar.² Clearly, this was a major setback for President Bachelet, and it highlighted the imperative of seeking compromise internally in the *Concertación* and, where possible, with the *Alianza* as well.³

Indeed, a major challenge to both Lagos and Bachelet relates to political management, the task of maintaining the coalition, and achieving agreement on policy initiatives. This challenge has been all the more difficult because of serious internal splits within the member parties of the coalition. The main ideological divide at the mass and the elite levels since the beginning of the transition has been between the prodemocracy and the pro-Pinochet or authoritarian camp rather than between the market-friendly and the state interventionist camp (Fuentes 1999, Luna 2006, Ruiz 2006). Yet, there are also consistent differences at the level of political elites between the *Concertación* and the *Alianza*, and within the *Concertación* parties between those embracing the market and those preferring a stronger role of the state. Data from three waves of interviews with members of parliament show that these political elites place parties and themselves on a left-right scale. The Christian Democratic Party (PDC) is located in a centrist position and the Socialist Party (PS) and the Party for Democracy (PPD) to the left of it. Both party placement and self-placement correlate with preferences regarding the relative weights of state and market (Luna 2006, Ruiz 2006). The differences between the *Concertación* and the *Alianza* are not large but very consistent over the three periods (1993–7; 1997–2001; 2001–05). There are no differences on preferences for state interventionism between the PDC and the other two *Concertación* parties in the first period. But in the second and third periods, the PDC members of parliament have a lower preference for state intervention than the PS and PPD members (Ruiz 2006: 91). There are additional factors that divide the *Concertación* parties: religiosity and moral conservatism. The PDC members of parliament indicate a higher degree of religiosity than even their counterparts in the RN; only the UDI members are more religious and morally conservative (Ruiz 2006: 93).⁴

² Zaldívar was expelled from the party in December 2007. In January 2008, Zaldívar and three other independent senators reached an agreement with the right-wing *Alianza por Chile* to share the presidency of the Senate for the following two years. According to the agreement, the group of independent senators would hold the presidency for the first year and the *Alianza* would hold the spot for the second year.

³ This imperative is responsible for the failure of a redistributive provision to be included in the final version of the AUGE health plan, for instance.

⁴ Certainly this division explains why it took until 2004 to legalize divorce and why abortion legislation remains the most conservative in Latin America (Blofield 2006).

Added to these programmatic divisions between *Concertación* member parties have been internal divisions within these parties. On the one hand, several authors have highlighted the existence of a *partido transversal*, that is, a set of political leaders from all the *Concertación* parties who share a commitment to the preservation of a market-friendly economic model and to a technocratic style of policymaking (Boeninger 1997; Fuentes 1999). This group of leaders has dominated the political process and held the coalition together. On the other side are politicians within each of the *Concertación* parties who would prefer more state intervention to address the problems of poverty and inequality more aggressively. They also would prefer a more open style of policymaking, more input from the base, and closer relations to civil society. So far, their influence has been weakened by historical legacies and structural factors.

Another constraint is generated by the fact that a large sector of the *Concertación* tends to exhibit an aversion toward popular mobilization. Indeed, the two main Chilean left parties, the PS and PPD, were formed during (in the case of the PPD) or reconstituted after (in the case of the PS) the dictatorship as elite-directed parties without strong base organizations or ties to civil society. The hegemonic elite groups in both parties, who had gone through the Allende years and the experience of persecution and exile, had concluded that uncontrolled popular pressures had been a major factor in the fall of Allende. Therefore, they deliberately kept their distance from party bases and popular organizations.⁵ The parties' resistance to open discussions and democratic procedures for the formulation of party programs and candidate selection stands in contrast to classic left parties in Europe, as well as to the Broad Front (FA) in Uruguay and the Workers' Party (PT) in Brazil. It weakens the organizational capacity of Chile's left. And, of course, this practice stands in stark contrast to the mobilization efforts of the contestatory left in Venezuela and Bolivia.

Chile's left parties do have statutes that regulate internal policymaking and candidate selection in principle, but in practice, party business is mostly done through negotiations among the leadership.⁶ As Pepe Auth, the secretary

⁵ See Roberts (1998) for an analysis of the experiences of these leaders during the Allende period and the dictatorship. See Pribble (2008) for an analysis of the structure of these parties since the transition.

⁶ The closed and elite-centered nature of the parties bears a significant part of the responsibility for the fact that the *Concertación* lost the Presidency in January 2010, when its PDC candidate and former President Eduardo Frei was defeated by Sebastián Piñera of RN. The victory was narrow, with Piñera obtaining 51.6 percent of the vote in the second round of elections. Despite the Right's electoral victory, Bachelet maintained record-high levels of approval and *Concertación* policies such as AUGE and the pension reform continued to enjoy strong support. Indeed, Piñera had promised not to roll back the *Concertación's* social programs. Thus, rather than a rejection of the *Concertación's* political program, the 2010 electoral defeat seems to be tied to the coalition parties' exclusive character and to a lack of renovation among the party elites (Siavelis 2009). The impressive performance of independent left candidate, Marco Enríquez-Ominami, who won just over 20 percent of the vote in the first round of the elections after campaigning against the lack of new leadership inside the *Concertación* coalition, provides clear evidence of public frustration with the nature of the center-left parties.

general of the PPD, put it: “The PPD went through a period that could be characterized as one of anomie, that is, of absence of norms that would explain, justify, and legitimize the decisions taken by the leadership bodies” (Auth 2007). In an effort to improve democratic procedures in a party originating in the fight for democracy, the PPD became the only party that finally made its membership list public. In 2007, it undertook a major renovation of its statutes to strengthen transparency and adherence to formal procedures.

The fact remains that neither left party provides for much input from the base and for transparent and democratic ways to resolve internal disagreements. The weakness of input from the base reinforces the tendency of officeholders to avoid radical departures from the status quo and instead seek compromise by moving toward the center. This has certainly increased the maneuvering room that left politicians enjoy in Chile, but it has also deprived them of the opportunity to mobilize popular support for reform policies that they favored but the right opposed. Labor law reform is perhaps the area where this became clearest. There is another potential danger inherent in this distancing. Leaders of social organizations have no trusted partners in the government with whom to negotiate and instead have to rely on mobilization in the streets if they want to achieve something. This puts the government on the spot – forced to choose between appearing weak in the face of pressure if it makes concessions and having to use repression if it makes none. The student demonstrations in 2006 and 2007 are a case in point. They did not bring much in terms of desired reforms for the students but damaged the image of the government. Certainly, this distance has prevented the formation of a strong proreform group of politicians within the *Concertación* able to build coordinated pressure from within and without to make progress in areas where reform has stalled.

One factor that keeps party organization weak is lack of resources. The parties do not have an income from dues that would allow them to work with a significant full-time staff in charge of building the party and directing internal party life toward greater institutionalized participation.⁷ The lack of a large dues-paying base and of close ties to popular organizations that could be mobilized at election time empowers the moderate sectors of the leadership in still another way. It renders the left parties dependent on large private donors for financing elections. This is a particularly serious problem in light of the very high cost of Chilean elections. Estimates show that the cost of a campaign for the Senate in 1997 and 2001 in districts with more than 500,000 voters, ranged from US\$850,000 to US\$5 million. For an average-sized district, the cost ranged from US\$250,000 to US\$3 million. The average cost of a campaign for the Chamber of Deputies ranged from US\$100,000 to US\$340,000 (Fuentes 2004). After years of failed efforts to provide public financing to parties and regulate campaign expenditures – efforts for the most part blocked by the right – in 2003 the Congress finally passed a law (complemented in 2004 with a law that established sanctions for violations) that regulated the financing

⁷ Garretón (2005) discusses party finances, campaign costs, and legislation.

of campaigns. The law was part of the “Agenda for the Modernization of the State,” which began to command support in the midst of a number of corruption scandals (Garretón 2005). The law established caps on expenditures for each candidate, as well as limits on private donations from each individual, and it provided for state reimbursement of campaign expenditures. However, the law did not provide public funding to political parties for their ongoing activities – only for election campaigns – and it did not provide public funding for presidential elections. Moreover, the ceilings on expenditures and donations were set very high, thus perpetuating the advantage of the right, which greatly outspends the left, and the enforcement capacity of the electoral administration has been limited. As a result, dependence on private donations – including from corporations – remains a factor favoring a proprivate sector policy orientation.

Indeed, the Chilean case is characterized by a high level of political constraints, including institutional design, political learning, organizationally weak left parties, and the need to govern in coalition. In the remainder of this analysis we provide an overview of the accomplishments, shortcomings, and omissions of the Lagos and Bachelet governments in the area of economic, social, and labor policy. We pay close attention to how political constraints moderated the speed and breadth of transformation.

ECONOMIC MANAGEMENT

The main goals of the *Concertación* governments have been to protect macroeconomic stability, generate economic growth and employment, invest in human capital, and alleviate poverty. In the pursuit of these goals they adopted conservative fiscal policies, strengthened the independence of the Central Bank, deepened Chilean integration into world markets, increased expenditures for education and health care, increased the minimum wage, and provided targeted programs for those in extreme poverty. The Lagos and Bachelet governments followed this set of commitments just as their Christian Democratic predecessors had, intensifying efforts in health, education, and poverty relief. However, they did originate two major departures away from targeting on extreme poverty and toward universalistic, rights-based social policy, with the Regime of Explicit Health Guarantees (AUGE) under Lagos and the pension reform under Bachelet, both of which will be examined later in this chapter. Put simply, Chile’s left governments have maintained the orthodox economic policies of their predecessors, but they have pursued a distinct form of social policy that moves toward a more universal system of social protection, inspired by left commitments to social equity, justice, and solidarity (see Weyland’s introduction).

In fiscal policy, the *Concertación* governments of the 1990s adhered to the unwritten rule of fiscal responsibility, stipulating that all new expenditures required new revenue. Under Lagos, the government established a rule that the primary balance should yield a surplus of 1 percent under conditions of expected growth and “normal” copper prices (Muñoz Gomá 2007). In September 2006, the government promulgated the fiscal responsibility law (Ley 20128)

that established (1) the requirement that each president at the beginning of her/his term establish the bases of fiscal policy for her/his administration and spell out the implications of this policy for the structural balance; (2) a contingency program to combat unemployment; (3) a pension reserve fund; (4) a fund for economic and social stabilization; and (5) capital transfers to the Central Bank. The structural surplus was to be channeled into these funds and the Central Bank. The Fund for Economic and Social Stabilization incorporated the existing stabilization fund based on copper revenue.

All *Concertación* governments justified fiscal austerity with the constraints imposed by international financial markets and the argument that macroeconomic stability is crucial to protect the poor and invest in human capital on a consistent basis. Of course, in the early years of the transition the government did have to prove to domestic and foreign investors that the *Concertación* would provide a stable economic environment. It is also true that high inflation and wild economic fluctuations hurt those without assets and stable employment the most, and that social expenditures are particularly vulnerable to recessions and budget deficits. On the one hand, one might question whether maintenance of macroeconomic stability and investor confidence requires a 1 percent structural surplus more than a decade after the transition. On the other hand, one might see the provisions of the financial responsibility law as a smart move to earmark revenue for pensions and counter-cyclical spending. One might even portray it as the opposite of Reaganomics – U.S. President Reagan created structural deficits and thus pressures to cut expenditures. Lagos invested the structural surplus and thus created resources to sustain expenditures during economic downturns.

To explain the fiscal conservatism of the *Concertación*, one certainly has to come back again to the political experiences and ideology of policymakers.⁸ There is clearly a visceral aversion among the hegemonic leadership group against any kind of populism, defined as expansionary economic policies in response to popular pressures. This aversion stems from their analysis of the failure of the Allende government. As one high official in the Ministry of Finance who was politically active during the Allende years explained it: “It is not about ‘levels’ of orthodoxy; once you cross the threshold you don’t know where you will end up. You cannot be half pregnant; either you are or you are not. I guess we probably have the feeling... that eventually the market will catch you” (Pribble 2006a).

The leadership group also firmly believes in the benefits of international markets and in the need to accept their constraints. During the early 1990s, Chile put in place controls on international capital flows in the form of a deposit requirement designed to discourage short-term flows (Ffrench-Davis 2002: 224). Arguably, these controls protected Chile from suffering even worse effects from the Asian crisis in 1998. Nevertheless, these controls were lifted

⁸ We use the concept of ideology here to include the following three components: an analysis of the deficiencies of the existing social order, a vision of a desirable social order, and a strategy to get there from here.

in 2001, along with the requirement of advance notification of the entry and exit of capital, as a signal to international markets that Chile was trying to attract foreign capital (Muñoz Gomá 2007: 122). Another policy that signaled a commitment to conservative monetary policy was the strengthening of the independence of the Central Bank by the Lagos government. Finally, in regards to international commodity markets, tariffs have continued to be lowered since 1990 and the *Concertación* governments signed a number of free trade agreements, most importantly with the United States, the EU, and Japan. The agreements with the EU and the United States were signed under Lagos. In short, it is clear that there was no deviation from the commitment to free markets and conservative fiscal and monetary policies under the Lagos government at all. If anything, liberalization of markets was deepened and the commitment to a structural surplus was strengthened.

However, the real significance of the fiscal responsibility law with its provisions for stabilization funds will only emerge over the medium and long run. In the short run, it has already facilitated the adoption of the pension reform, because part of the future funding is to come from the Pension Reserve Fund. This fund receives up to 0.5 percent of GDP from the fiscal surplus every year, and no less than 0.2 percent of GDP, to be invested and to grow for ten years, at which point it can be used as a complementary source to pay for basic solidarity pensions and for supplementary solidarity pensions. The program to combat unemployment does require budgetary funding each year, so it is not protected against declines in revenue. However, the Economic and Social Stabilization Fund, to be financed by the copper stabilization fund and what remains of the fiscal surplus after contributions to the Pension Reserve Fund and possible transfers to the Central Bank, could be used for counter-cyclical spending. In the wake of a public debate about the merits of the 1 percent surplus rule, in which prominent economists and members of the *Concertación* parties participated, the Bachelet government decided to lower the structural surplus rule to 0.5 percent in 2007 (Muñoz Gomá 2007: 112). However, due to the copper boom, the current surplus reached a high of 8.7 percent of GDP in 2007, up from the previous historic high of 7.7 percent of GDP in 2006. The Pension Reserve Fund received US\$1.5 billion and the Economic and Social Stabilization Fund US\$14 billion (figures from Government Budget Director, reported in Infolatam 2008). In 2008, following a significant decline in the price of copper, Chile's budget surplus was smaller, equaling about 5.2 percent of GDP (EFE 2009).

The importance of the *Concertación's* fiscal surplus policy was made acutely clear in January 2009, when the Bachelet administration drew on national savings to fund an economic stimulus package worth 2.8 percent of GDP (Moffett 2009).⁹ The stimulus seeks to minimize the negative consequences of the global economic crisis and economists project that as a result, Chile's GDP

⁹ As a point of comparison, the stimulus package passed by U.S. President Barack Obama was equivalent to about 2 percent of GDP (Moffett 2009).

should decline by less than 1 percent during 2009 (Moffett 2009). The ability of the government to respond quickly and decisively to the economic crisis appears to have had positive political consequences, with President Bachelet's approval reaching a record level of 67 percent in May 2009, making her the most popular president since Chile's return to democracy (CEP 2009: 20). Moreover, the same poll revealed that Finance Minister Andrés Velasco is currently the second most popular politician in Chile, with 50 percent of the population expressing positive sentiment about his work (CEP 2009: 37). This is a notable turnaround from 2007, when many citizens, politicians, and members of the media called for Velasco's resignation because of his refusal to spend the windfall copper profits. These numbers suggest that the *Concertación's* commitment to prudent fiscal policy may have provided long-term political returns.

In order to shed some light on the relative role of international economic forces, the coalition with the Christian Democrats, and the market-friendly orientation of the *Concertación's* top economic advisors, we can compare the macroeconomic policies of the Lagos and Bachelet governments with those of European social democracy in general – and those of Nordic and Austrian social democracy in particular – where social democracy has been very strong and thus least constrained by other political forces (e.g., coalition partners). During the golden age of postwar European capitalism, before the end of the Bretton Woods system and the first oil shock in the early 1970s, these countries were faced with an open trading system, both low tariffs and high dependence on manufactured exports, and closed international capital markets. Contrary to commonplace assumptions, social democratic governments carried out austere fiscal policy during this period, running budget surpluses in most years (Huber and Stephens 1998). They did this in large part to counterbalance the stimulation they were applying on the monetary side. With government control of central banks and a range of capital controls in place, they were able to set interest rates below international rates in order to stimulate investment and economic activity.

All advanced industrial countries moved to reduce the controls on international capital flows after the end of the Bretton Woods system. In this environment, it was impossible to control exchange rates and interest rates at the same time. Eventually, all European countries opted to pursue stable exchange rates, thus tying their hands in monetary policy. It was only a small additional step to make central banks independent of government as the governments had little monetary latitude anyway. Thus, the experience of European social democracy suggests that the Lagos and Bachelet governments could not have followed very different macroeconomic policies had they been freed from the constraints of their coalition partners and/or had they had economic advisors of a more neo-Keynesian bent. The most that would have been possible would have been to set somewhat lower interest rates and thus accept a lower value of the peso.

In the area of infrastructure investment, much has been done, primarily via concessions to private enterprises; the financing has come from a combination

of state and private investment and user fees. This seems to have worked very well in the case of toll roads. For instance, the connection from the airport to downtown (and uptown) Santiago is much faster than it used to be. Similarly, the expansion of the Santiago Metro to poorer areas further from the center is an area of important success. On the other hand, Metro prices are high for low-income people who have to take it to work. Even worse, the attempt to reduce congestion, noise, and exhaust fumes from minibuses by substituting large modern buses connecting to the Metro, known as Trans-Santiago, was a spectacular failure. The new system lacked the capacity to transport all the passengers, and public frustration reached boiling levels. In order for Trans-Santiago to work, massive additional investments in buses would have been required. The government asked for additional financing but suffered a major defeat in the Senate when Christian Democratic senators defected in late 2007.

The overall economic performance seems to vindicate the *Concertación's* policy commitments. Inflation was brought down from the two-digit range in the early 1990s to below 5 percent in the period 1998–2006.¹⁰ Economic growth has been high, with only 1999 being a year of negative growth. Growth rates of GDP per capita from 2003–06 were in the range of 3–5 percent. This remains a high rate of growth, even though observers have pointed out that average growth rates declined from 7.3 percent of GDP under Aylwin to 5.3 percent under Frei, 4.3 percent under Lagos, and 4.2 percent under Bachelet (Muñoz Gomá 2007: 20). Investment rates (gross fixed capital formation) have been high – between 20 and 25 percent – among the highest in Latin America. Of course, copper prices helped greatly in the past few years. Chile's terms of trade jumped from 103 (index 2000 = 100) in 2003 to 184 in 2006, an increase only rivaled by Venezuela's terms of trade among all the Latin American countries. Some of the benefits of this growth clearly trickled down. Real average wages had increased by 11 points (index 2000 = 100) by 2006. The minimum wage increased in nominal terms by 640 percent from 1990 to 2003, while the consumer price index increased by 280 percent (Marinakos 2007; BADEINSO/ECLAC). It kept increasing, from 127,500 pesos to 135,000 pesos in 2006 and 144,000 pesos in 2007. Poverty decreased from 39 percent in 1990 to 19 percent in 2003 and 14 percent in 2006 (CASEN 2006).

Still, weaknesses in the economic model remain that do not augur well for a future when the present commodity boom will be over. Most importantly, the export-led growth is heavily based on copper, wood products, and agricultural goods. Very little technological upgrading has taken place. Investment in research and development (R&D) is low by international comparison, and in particular, private participation in it is low (Muñoz Gomá 2007: 165). In an effort to boost funds available for research and development, the Lagos administration passed a royalty tax on private copper mining companies operating in Chile. Although Chile was one of few countries not taxing the profits of private firms, the 5 percent tax on companies with output of more than fifty

¹⁰ The data in this paragraph are all from ECLAC 2007, unless otherwise noted.

thousand tons faced fierce opposition from the right. Therefore, its approval is an important achievement.

Essentially, the *Concertación* governments have stayed away from an activist industrial policy, preferring a horizontal (not sectorally focused) and demand-driven approach, following the lead of the private sector (Peres 2006). This of course has been the approach preferred by neoliberals (if they conceded the need for any kind of industrial policy at all), but it is not the approach that successful developmental states or successful parts thereof have used (Evans 1995). Without strong incentives provided by the state, one should not expect major Chilean investors to develop new industries. The Chilean economy is highly concentrated, with ten large and highly diversified corporations controlling 89 percent of all corporate assets in 1999 (Agosín y Pastén 2003; cited in Muñoz Gomá 2007: 31). As long as the current economic model produces growth and lets them profit handsomely, they have little reason to take major risks by breaking into uncharted territory and investing in high-technology manufacturing. A strong indicator of the lack of interest among Chilean employers in upgrading is the fact that more than 60 percent of the resources made available by the state to enterprises for labor training are not used (Muñoz Gomá 2007: 172). This is particularly remarkable given the comparatively low average quality of the human capital base in Chile (OECD/Statistics Canada 2000: 136–7).

In the political discussion about the best ways to make use of the copper windfall, the proposal for an innovations fund has attracted considerable attention. There is wide agreement on the need to prevent “Dutch disease,”¹¹ and the Ministry of Finance under Bachelet proposed to use the Social and Economic Stabilization Fund in part for investment in education and technological innovation. Other proposals abound, such as proposals from the political right to lower taxes and finance social expenditures with copper revenue, which of course would make them highly vulnerable to copper price fluctuations.

A further weakness in the Chilean model that is rarely mentioned is the low labor force participation rate, fluctuating around 55 percent since 1999. This is one of the very lowest participation rates in Latin America (ECLAC 2007: A-16). It is heavily due to the very low female labor force participation rate – the lowest in Latin America – with only 42 percent of women in the labor force in 2000. The female economic activity rate as a percentage of the male rate was 57, tied with Mexico for the lowest (Abramo and Valenzuela 2006: 375). The reasons for this state of affairs are complex, stemming from both the demand (job creation) and the supply side (making it possible for women to combine work and family obligations, and changing attitudes about gender roles), but

¹¹ Dutch disease is the decline of the manufacturing sector caused by large inflows of foreign exchange and thus an overvaluation of the exchange rate. Generally, this inflow of foreign exchange is due to the discovery and export of natural resources, but it could also happen because of a large inflow of foreign direct investment. The term was coined to describe the experience of the Netherlands after the discovery of a large natural gas field in 1959.

the first change on the supply side came with Bachelet's plan to greatly expand public child care.

Certainly a persistent and fundamental weakness of the Chilean model – if we take the commitment to growth with equity or simply to investment in human capital seriously – is the low tax burden. In 2005, the tax burden was 19 percent of GDP, clearly lower than countries in other regions with comparable levels of development. In 1990, the Aylwin government succeeded in negotiating with the right a tax increase of 2 percent of GDP to finance social expenditures. Thereafter, however, business and the right strenuously opposed an increase in direct taxation, forcing the *Concertación* to rely on more regressive indirect taxes. Despite a 2001 law that managed to reduce tax evasion to some extent (Muñoz Gomá 2007: 113), legal tax avoidance remains a major problem. The major vehicle is the formation of corporations and the channeling of personal income and expenditures through these corporations, with a tax rate of 17 percent compared to a top marginal income tax rate of 40 percent.

Tax policy is one area where constraints resulting from an overrepresented right and a powerful business lobby become very clear. In the negotiations in 1990, the *Concertación* wanted to increase the corporate income tax from 10 percent to 20 percent but had to settle for 15 percent. President Lagos emphasized that total taxes had to increase, but he was only able to raise the corporate income tax rate to 17 percent. This compares to a Latin American average of 30 percent (Fairfield 2007, based on data from Price Waterhouse Coopers).

SOCIAL POLICY AND LABOR LEGISLATION

Whereas economic policy was characterized by continuity between left presidents Lagos and Bachelet and their Christian Democratic predecessors, social policy was propelled forward in innovative ways, albeit under the constraints of the coalition and a powerful right. The key reforms introduced under Lagos were Plan AUGE in health care, Chile Solidario in the fight against poverty, unemployment insurance, legalization of divorce, and an attempt at changes in labor legislation. Bachelet continued to expand Plan AUGE and to seek better protection for workers through regulation of subcontracting. She implemented a far-reaching reform of the pension system and proposed an ambitious expansion of child care and preschool education.

When the *Concertación* came to power, they inherited a two-class health care system established by Pinochet. Employees could choose to direct their mandatory contributions to the public health care system FONASA, or to a private health insurance company, an ISAPRE. ISAPREs are free to require additional contributions, decide on different contributions for different categories of subscribers, and determine coverage of services. As a result, they attract particularly upper income, younger, and healthier subscribers. In 2003, 72 percent of users used the public system and 16.3 percent relied on an

ISAPRE (Lenz 2005: 288). Despite significant increases in public health care expenditures during the 1990s, the differences between the public and the private health care sectors remained large. In 1999 ISAPREs spent an estimated 177,633 pesos per person compared to 99,308 pesos per capita by FONASA (Titelman 2000: 17). Moreover, when ISAPRE subscribers got seriously ill, they would often seek treatment in the public sector because of coverage limits in the private sector. AUGE was conceived as universal coverage for the most common illnesses for users of both public and private sector health care, to be financed in part by directing a part of everybody's health care contributions to a national solidarity fund.

The plan was launched in 2002, but negotiations delayed adoption until 2004 and resulted in several curtailments. Originally, fifty-six illnesses were to be covered immediately, but finally they were phased in, beginning with twenty-five illnesses in 2005 and reaching the full fifty-six in 2007. Importantly from a point of view of equity, the solidarity fund was eliminated and replaced with an inter-ISAPRE risk-pooling fund. There was internal opposition in the coalition against this fund, coming from sectors of the Christian Democrats, as well as strenuous opposition from the ISAPREs and the parties of the right (Dávila 2005). The proposed financing through a tax on alcohol and cigarettes was replaced with a 1 percentage point increase in the value-added tax and by new copayments (Espinosa, Tokman, and Rodríguez 2005). However, income-related caps were put on the total copayments for AUGE illnesses from families (Pribble 2008). The law also created a new regulatory agency (*Superintendencia de Salud*) in charge of enforcing the guarantees of timely treatment of these illnesses. The Bachelet administration extended the illnesses covered under AUGE to sixty-two by 2008 and committed to a goal of eighty illnesses by 2010.¹² AUGE clearly was and remains a big step toward guaranteeing universal affordable health care to all Chileans, but it failed to correct the highly inequitable allocation of mandatory contributions to the health care system and thus do away with the two-class health care system. Moreover, it left a hole in coverage insofar as the poor enjoy free access to public health care, but informal sector workers above the poverty line – who mostly do not contribute to FONASA – are left out of the system.

As in the rest of Latin America, noncontributory social transfers, or social assistance programs, have been poorly funded in Chile. In the fight against poverty, the *Concertación* relied primarily on economic growth and adjustments in the minimum wage for the short and medium run, and investment in human capital for the long run. Despite the impressive achievements in lowering poverty rates overall, there remained a sector of indigents outside the reach of the support mechanisms and human capital investments offered by the state. Chile Solidario was established in 2004 as a program that would bring some income support along with counseling from social workers to families

¹² As of May 2009 the presidency and the finance ministry were finalizing details of the bill that will expand the illnesses covered by AUGE to eighty.

in extreme poverty. It gives access to a small cash benefit, paid to the female head of household, for participating in the program that consists of psychological and social counseling, visits to a health center, and school attendance of children. It also offers access to the family-assistance subsidy, social-assistance pensions, and water subsidy, along with entrance into public preschool, drug and alcohol rehabilitation, and public employment programs (Serrano and Raczynski 2004). Preliminary evaluations indicate a high degree of support for the program among the participants (Perticará 2004) as well as an increased uptake of social assistance benefits, improved school attendance, and an expansion in the use of primary health care services among Chile's most vulnerable citizens (Galasso 2006). This program was set up in an extremely targeted manner, and to magnify its impact, President Bachelet proposed its extension to the homeless. The cost of the program is difficult to calculate. It depends on whether the preexisting state subsidies like the family-assistance subsidy, social-assistance pensions, and water subsidy are included in the calculations. Even if they are, the total costs of noncontributory social transfers in Chile remain low, with spending totaling 0.7 percent of GDP in 2003 (Lindert et al. 2006: 95).

A third innovation that started on a very small scale but could potentially become important if extended is unemployment insurance. It was introduced in 2002 and now covers about half of the Chilean labor force (Muñoz Gomá 2007: 223). However, coverage will not grow under current labor market conditions because it is restricted to formal sector employment. Moreover, half of the labor force is an overestimate, because even in the formal sector job instability is high, so workers do not easily accumulate the necessary length of service to qualify for meaningful benefits. It is funded by contributions from employers, employees, and the state. As of now, the dominant protection in case of job loss in Chile remains lump sum compensation for the years of work in a job. That system has two major problems: First, it is inadequate for an economy with high levels of employment instability. Most workers do not have a chance to accumulate years of work with rights to compensation. Second, we know from comparative research that high levels of job protection or high costs of layoffs have a negative effect on employment (Bradley and Stephens 2007). Thus, it would be preferable to replace the present system with a universal unemployment insurance scheme.

Labor law reform has been on the agenda of every *Concertación* president, but progress has remained highly limited. Pinochet's labor legislation was designed to keep unions weak by restricting bargaining to plant-level unions, encouraging multiple unions in an enterprise, and making it possible for employers to replace striking workers and fire workers without cause by claiming "business reasons" (Winn 2004). One of the key demands of unions since the transition has been legalization of bargaining above the plant level in order to strengthen worker solidarity and leverage. Another key demand has been the elimination of the right of employers to replace striking workers. Aylwin's labor law reforms of 1991-2 did not meet either one of these demands.

Frei proposed a reform package that included elimination of the right to replace striking workers, but militant opposition from business and the right led to a rejection of the reform by the Senate. Despite years of negotiations, major concessions by the government, and passage of a reform package by the Chamber, the right remained intransigent and used its overrepresentation in the Senate to reject reforms a second and a third time (Frank 2004). President Lagos launched another attempt at labor law reform, and again the attempt ran into very stiff opposition from business and the right. Initially, the government announced that the prohibition on replacing striking workers was nonnegotiable, but under intense pressure from business, internal tensions in the *Concertación*, and in a situation of lingering high unemployment, this change was dropped (Frank 2004). As long as employers offer wage increases to keep up with inflation, they can replace striking workers and pay a small amount of money to each replaced worker. The 2001 reforms introduced additional protection for unionization and a reduction of the work week from forty-eight to forty-five hours as of 2005. The official figures indicate an increase in the unionization rate from 16 percent in 2001 to 19 percent of the employed labor force in 2005, but unions have remained weak as economic and political actors.¹³

The struggle over legalization of divorce deserves some comment as it exemplifies most clearly the constraints on the left stemming from its Christian Democratic coalition partners and from the overrepresentation of the right in the Senate, even on an issue for which there is overwhelming public support. As noted previously, in the three surveys of members of parliament carried out since 1990, Christian Democrats self-classified as markedly more religious than PS and PPD parliamentarians, and they were even more religious than members of the RN (Ruiz 2006: 93). The Catholic Church has consistently opposed legalization of divorce. Public opinion, in contrast, has long favored legalization, with various surveys showing two-thirds of the public being in favor of legal divorce even before 1990, and in 2002, 85 percent favored legal divorce on the basis of mutual consent (Blofield 2006: 97). Despite this overwhelming public support, it took until 2004 to pass legislation. The law allows couples to file for divorce after a one-year separation, but the judge takes up to three years to process the filing, a process that includes mandatory mediation (Blofield 2006: 101-3).

The most important achievement of President Bachelet as of early 2009 was the pension reform. For some two decades, the Chilean pension reform, rammed through under the dictatorship, was the poster child of neoliberal social policy reform. Its architects, sometimes with the support of the World

¹³ These figures have to be discounted. They are based on official membership figures from unions, which tend to be inflated. Data from the World Values Survey of 2000 paint a different picture. They show that only 4.8 percent of "employed workers" reported being a member of a union in Chile, the same level as neighboring Peru, clearly lower than Mexico with 9.8 percent, and Uruguay in 1995 with 16.7 percent and Brazil in 1995 with 25.2 percent (Martin and Brady 2007: 569).

Bank, traveled the world with missionary zeal to convince governments confronting pension systems under stress that privatization would be the solution to all their problems. The reality looks quite different. Despite the initially high returns on the investments in the pension funds, which were broadcast by the neoliberal reformers, the results in the longer run have failed to meet promises of reformers in virtually every respect. Effective coverage, that is, the proportion of the workforce making contributions to the pension system, did not increase. Administrative costs are very high, mainly because of marketing expenses. The system of commissions and fees weighs particularly heavily on lower-income earners and significantly lowers the real rate of return compared to the one claimed by the private Pension Fund Administrators (AFPs) (Mesa-Lago and Arenas de Mesa 1998: 69). And there is no evidence that the new system caused an increase in the national savings rate (Uthoff 1995).

Given the instability in the labor market, the low wages, and the size of the informal sector, a large percentage of the workforce at their age of retirement will not have contributed for the required twenty years and thus be dependent on social assistance pensions. Another large percentage will not have accumulated sufficient funds in their accounts to get beyond a subsidized minimum pension. In other words, the state will have to subsidize the pensions of low-income earners without having the benefit of the contributions from middle- and high-income earners.

The new system will offer two kinds of solidaristic pensions for old-age, disability, and survivor benefits to individuals who have lived at least twenty years in Chile, including four of the five years immediately preceding their request for the pension. Old-age pensions can be requested by those sixty-five years and older. One kind is a basic universalistic pension for all those who have not contributed to a private pension fund and who are in the bottom 60 percent of income earners. The other one is a solidaristic supplementary pension for all those whose accumulated pension funds yield a pension below a defined limit. All benefits will be phased in between 2008 and 2012. The basic universalistic pension in 2008 was set at 60,000 pesos per month, the equivalent of \$120, the total supported by a solidaristic supplementary pension at 70,000 pesos. In 2009, the basic pension will increase to 75,000 pesos and the supplementary pension will be paid to people with pensions lower than 120,000 pesos. Pensions supported by a supplementary pension will reach 255,000 in 2012. There remains, therefore, a strong incentive for people to contribute to the pension system.

The basic and supplementary solidaristic pensions will be financed by general revenue and by the Pension Reserve Fund set up under the Financial Responsibility Law. The reform also contains some gender egalitarian elements, such as a bonus for time lost in the labor market by women due to the birth of a child. It further abolishes fixed commissions charged by AFPs, which weigh particularly heavy on low incomes, and it requires more transparency from the AFPs. It also contains some tax incentives for the middle classes whose pensions are above the limits that would entitle them to a supplementary pension. The

reform also allows AFPs to invest more abroad. The original bill approved by the Chamber included the establishment of a state-run AFP, but that provision was eliminated by the Senate. In sum, this is a major innovative reform because it establishes the right of every Chilean to a basic minimum income in old age and because it reintroduces the principle of solidarity into the individualistic Chilean pension system. It was one of Bachelet's priorities in her campaign, and she was able to get it passed.

A second major theme in President Bachelet's campaign and her reform efforts was gender equity. In her program of government, she promised to increase women's labor force participation by creating a universal net of child care and preschool education, and to seek a national accord to get enterprises to offer more part-time work.

Chilean policy toward working mothers is actually among the most generous in Latin America when it comes to maternity leave. Women have the right to eighteen weeks of paid leave from their job, six weeks before and twelve weeks after the birth of a child (U.S. Social Security Administration 1999). The leave is paid for by the state. They also enjoy protection from firing from the time when they inform their employer of their pregnancy until twelve months after the end of the maternity leave. Moreover, all employers who employ twenty or more women are required to offer day care for children of up to two years of age, either on the premises or by contracting with a child care provider elsewhere. Whereas women are well informed about their maternity leave rights and demand enforcement, the picture with day care is murkier (Stephens 2008). Some employers try to stay below the limit of twenty women, others pay some money directly to mothers instead of offering day care. And of course the huge proportion of women who work in the informal sector or in the formal sector without contracts have no access to any of these benefits.¹⁴ And it is among low-income women where labor force participation is particularly low. Therefore, President Bachelet focused on expanding provision of public day care places and as of May 2009 the administration had created 3,500 new public facilities (*El Mercurio* 2009). In January 2008, the minister in charge of SERNAM declared that women's labor force participation had increased significantly, from 38 percent to 40.3 percent, and she attributed this increase to a combination of increases in day care places, increasing levels of education among women, and the high economic growth environment (SERNAM 2008).

The most obvious difference between President Bachelet and her predecessors was her emphasis on gender issues, in particular her initial insistence on gender parity in all cabinet appointments. The women's movement (or movements, that is, there was not one united movement but different groups) played a visible role in the push for democracy, and initial expectations for progress

¹⁴ Low-income women in Chile are much less likely to have access to contracted work than middle- and upper-income women. In 2000, about 86.5 percent of females in the formal sector with earnings in the top-income quintile were contracted, while only 29.7 percent of women in the bottom income quintile had contracts (Pribble 2006c: 90).

toward gender equity under democracy were high. President Aylwin created SERNAM, a ministry in charge of women's issues. Under Christian Democratic leadership, SERNAM concentrated on protection for women in their roles as mothers and spouses or partners, staying clear of controversial issues related to sexuality or women's equality in the labor market. As noted previously, Bachelet's campaign emphasized the issue of public day care and preschool education to enable women to join the labor force. In a demonstrative gesture to underline the availability of highly qualified women and her administration's commitment to bringing them into leadership positions, she appointed women to half the cabinet and undersecretary positions.

The evaluations of the success of this attempt are complex. In subsequent cabinet reshuffles, some prominent women leaders were replaced with male politicians with longer political experience. However, so were some of the initial male appointees. As insiders see it, Bachelet attempted a rejuvenation of the political elite and brought in not only women but also men with limited prior experience in top governmental positions.¹⁵ She herself is not a member of the inner circle of the renovated Socialist leadership. There is a generational difference and a difference in social networks. Given the importance of personal connections in getting things done in Chile, this put her and her new appointees at a disadvantage, particularly when dealing with difficult political projects where concessions and compromises had to be obtained. Still, despite the difficulties encountered, there is no doubt that her presidency and her appointment strategy constitute a major symbolic advance for women. That symbolic advance is complemented by substantive advances in women-friendly policies such as in the pension reform and the expansion of public day care and preschool education.

The Pinochet legacy in education has been a three-tiered system with extreme quality differences. The *Concertación* governments have greatly increased expenditure on education but have not made much progress in reducing quality differentials. Schools are administered by municipalities and receive a per pupil subsidy from the national government. The subsidy from the national government is not sufficient to provide a high-quality education. Poorer municipalities are not in a position to supplement education expenditures. As a result, the quality of public schools in poor municipalities is very low. The chances for students who attended all public schools to make it into university are close to zero. In the 2008 PSU, Chile's university entrance exam, about 57.6 percent of students from public (municipal) schools scored above 450 points, while 92.6 percent of students from private schools did (*El Mercurio* 2008). Publicly subsidized private schools may select students and they may levy additional fees, which of course excludes the poor. It was the *Concertación* government under Christian Democrat Aylwin that introduced the additional payments in

¹⁵ This information is based on interviews done by Huber in November 2007 with a former high-level official and with outside experts who work closely with the government.

these schools (Cox 2006: 13), a practice that clearly contributes to increased inequality. Socialist Bachelet attempted to reverse this practice but failed.

Presidents Frei and Lagos did not enact major changes to the administration of education, but they did increase funding significantly. Additionally, the Frei administration passed an education reform that created a full school day. Lagos oversaw the implementation of this reform and extended mandatory education to twelve years. President Bachelet initiated a major discussion on educational reform, in part in response to large and partly violent student protests in 2006. The attempt to draft a reform law brought severe tensions to the surface, and the result was an interparty/intercoalition agreement that omitted the key issues of municipal control of schools and of extra payments in publicly subsidized private schools.¹⁶ This agreement formed the basis for the new education law, which was passed in April 2009. In a separate piece of legislation, the public subsidy for vulnerable students was increased.

Another major campaign theme of Bachelet's was citizen participation, or open and participatory government. Rhetorically, the commitment to political inclusion has been a theme for all *Concertación* governments, and under Lagos, a law on citizen participation was passed. However, as noted previously, all these governments have kept organized groups at arm's length. Rather than attempting to strengthen civil society and build organizational ties to various groups, the *Concertación* parties have kept their distance and have discouraged mobilization. The following quote from interviews conducted by Pribble illustrates this well:

"In the 1980s Chile was full of strong and organized social groups . . . Beginning in 1990, however, all of that changed because the *Concertación* worked to de-mobilize and disarticulate these groups. This process of demobilization was achieved by bringing people into the bureaucratic apparatus, but also by ensuring the political parties cut off all relations with social groups and didn't help such organizations extend their power . . . The political parties in this country aren't concerned with strengthening organization and mobilization" (Pribble 2006b).

CONCLUSION

In sum, the Socialist-led coalition governments under Presidents Lagos and Bachelet have notable achievements to point to. Certainly the completion of the democratic transition, with the abolition of the designated senators and the reestablishment of civilian control over military appointments, was fundamental symbolically and in practice for making progress in other crucial reforms. Plan AUGE and the pension reform constituted major departures from the neoliberal model of narrowly targeted and market-driven social policy.

¹⁶ The agreement makes only a vague commitment to eliminating admissions standards. It states: "norms will be established to ensure that admissions processes in each educational establishment are transparent, objective, and do not discriminate arbitrarily" (Government of Chile 2007, translation by authors).

The key here is that the left presidents implemented programs that benefit large majorities of the population and thus leave a policy legacy with a strong political support base that will make it difficult for successor governments to curtail the programs. We know from the comparative literature on welfare state retrenchment that the programs with the largest reach are the most difficult to cut. Moreover, the Pension Reserve Fund constitutes a major step toward putting the financing of the solidaristic pensions on a firm basis.

Prominent among partial achievements in crucial areas, where improvement is still needed, is campaign financing. Reducing the influence of large donors on campaigns is critical for curtailing the advantage of the right and the powerful influence of business on the political process. Critical areas from the point of view of a successful left project where business and the right have been intransigent and able to block progress are labor law reform and tax reform. Reform of the electoral system could be a further step toward reducing the advantage of the right, depending on the type of reform introduced. Electoral reform is being put on the agenda, but it will be exceedingly difficult to reach consensus within the *Concertación*, not to speak of an intercoalition agreement.

The clearest general failure of the left governments, at least up to 2007, has been a reduction of inequality in income and wealth. The figures for 2007 show a very slight decrease in income inequality, but it remains to be seen whether this is a solid trend. The governments tried in several ways to reduce inequality, such as through the AUGE solidarity fund, efforts to reduce the quality differences in education by making it impossible for publicly subsidized private schools to select students and charge additional fees, and the tax reform. However, they could not generate sufficient support to overcome opposition to these redistributive reforms. Another case of failure is labor law reform, which would have indirectly contributed to lowering inequality by giving workers more leverage to demand wage increases. Together with labor law reform, arguably the most critical area of failure is tax reform, because a significant increase in tax collection would allow for an equally significant increase in social expenditures that could be directed at the lower three quintiles of the income distribution.

We would argue that these critical failures are related to omissions, that is, areas where the governments did not develop any initiatives, specifically in strengthening unions and other social movements and in establishing links between parties and civil society. Leaving these movements weak and disconnected from left parties means that the governments failed to shift the balance of power in society by establishing a counterweight to the powerful business sector. The top political leadership circles also have not strengthened their parties as organizations with an internally participatory and democratic life, and a strong ongoing recruitment effort. On the one hand, these omissions have protected the maneuvering room of the top leadership, but on the other hand they have deprived the leadership of a larger organized base and of institutionalized channels for internal conflict resolution that would produce decisions accepted as legitimate by the members. They have also deprived the leadership

of relationships to social movements and unions characterized by mutual trust. Accordingly, if these social actors want to exert pressures for change, they need to resort to mass mobilization and confrontational tactics, and confrontation carries the potential of escaping the control of the leaders. As a result, both the government and the social actors may get locked into postures that obstruct progress on reforms and hurt both sides in terms of support among the population at large. Comparative evidence shows that the most successful social democratic projects were carried by alliances between left parties and social movements.