



D3.3.1 The Chilean transition from non-corrupt economic underperformer to most developed and least corrupt country in Latin America

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Introduction

Chile stands today as Latin America's most developed economy and the least corrupt country in the region. Fifty years ago, Chile was an economic underperformer in Latin America but was already regarded as one of the least corrupt countries in the hemisphere. Here, I trace the historical roots of Chile's low tolerance for corruption and analyze how the country has successfully remained free from significant corruption scandals despite the greater access to information and more demands for transparency that often result in uncovering corruption in areas that were previously inaccessible to the press and civil society. I pose how the economic transformations that Chile began to undertake under military rule (1973-1990) and consolidated once democracy was restored in 1990 have created a stronger civil society, a freer press and have increased demands for transparency. As a result, there is more information on corruption scandals today than ever before as the number of relevant and influential social and political actors has increased and there is less room for corrupt practices that involve those with access to power. As power is more widely distributed, there is less opportunity for covert corrupt practices and more pressure to end formerly common practices such as traffic of influence, patronage and illegal campaign financing. Thus, I argue that while Chile has generated more economic growth and thus there are more opportunities for corrupt practices as the economy expands—both in per capita and total national GDP—tolerance for corruption has remained low and a stronger civil society has raised probity standards in the public sector.

Economic Development in Chile and the emergence of a middle class, 1960-2015

In 2014, Chile had consolidated as the most developed country in Latin America. Since the return of democracy in 1990, the country has experienced solid economic growth that propelled it from being an underperformer in the region—by the already less-than-stellar Latin American standards of economic development—to the most advanced economy in all of Latin America. Chile's economic success, achieved together with democratic consolidation, stands as even more impressive as poverty was reduced from 40% to less than 7% between 1990 and 2015. Though it remains high—even by Latin American standards—inequality has also decreased in the last decade. As a result, Chile is often referred to as the most successful case of both democratic and economic development in the third wave of democracy in Latin America.

However, the way in which Chile made that successful transition is rooted in the controversial legacy of the Augusto Pinochet military dictatorship (1973-1990). Because the structural reforms behind Chile's economic success were undertaken by the authoritarian government that also committed widespread human rights violations, Chile's economic miracle is tainted by the illegitimate origin of the government that first implemented the market-friendly model.

During the first half of the 20th century, Chile experienced the typical boom-and-bust cycle in its quest for economic development. Typical in commodity exporting countries, boom-and-bust cycles result from rapid economic growth and government spending in periods when terms of trade are positive—in times of high prices for exports and low prices for imports—and periods of economic crisis driven by the decline in exports that feed a trade deficit that eventually turns into a foreign debt crisis and an economic adjustment in government spending at the time when unemployment is already high as a result of falling

exports. The case of Chile as an example of frustrated development (Pinto Santa-Cruz 1959) is well documented and often highlighted as an example of a highly pro-cyclical country (Meller 1998, Mamalakis 1976).

The ups and downs in Chile's economy resulted in high levels of poverty and inequality and insufficient government services. During most of the 20th century, Chile's developed was below the Latin American average and poverty and inequality rates were high. Chile's underperformance triggered a number of intellectual inquiries into the reasons behind Chile's inability to achieve development (Ahumada 1990).

More importantly, the high levels of poverty and inequality also resulted in efforts by reformist and revolutionary political parties to bring about change that could help promote economic growth and reduce the high levels of poverty that were so prevalent in the nation. Among the most important political developments were the rise of the reformist Christian Democratic Party (PDC) in the late 1950s and the coalition formed by the Socialist and Communist parties behind the presidential aspirations of Salvador Allende starting in 1952. The PDC eventually won the presidential election in 1964, with its leader and popular candidate Eduardo Frei who governed for the 1964-1970 term and attempted a number of reforms to reduce income and wealth inequality and to restore economic growth. Though President Frei made some significant progress in reducing poverty and expanding opportunities by implementing an agrarian reform, pushing for an educational reform to expand coverage and by partially nationalizing copper production—Chile's most important export commodity—by the end of his administration, rapid population growth and growing urbanization proved to be a challenge too complex to solve. Frei's PDC was unable to retain power in 1970. In that presidential election, Socialist candidate Salvador Allende, leading a broad front of left-wing parties, including the Communist Party, won a plurality vote and became President, promising to implement a Chilean road to socialism. Allende's Popular Unity government attempted a radical transformation of economic policies, by nationalizing several economic sectors and establishing price controls. The agrarian reform process was accelerated and other reforms aimed at reducing inequality were implemented. The high levels of political polarization that already existed in Chile worsened as the government pushed for the transformation of the economy into a socialist state-led model and the right-wing opposition—with support from the United States—resisted the effort to lead Chile away from the capitalist camp. The Allende socialist experiment came to a drastic end when the military stepped in and took power on September 11th, 1973. President Allende committed suicide and a military junta, led by Army General Augusto Pinochet, took power. After 41 years of interrupted democratic governments, Chile joined other Latin American countries under military rule. Backed by the U.S. government, those authoritarian rulers aimed to prevent the spread of communism in Latin America.

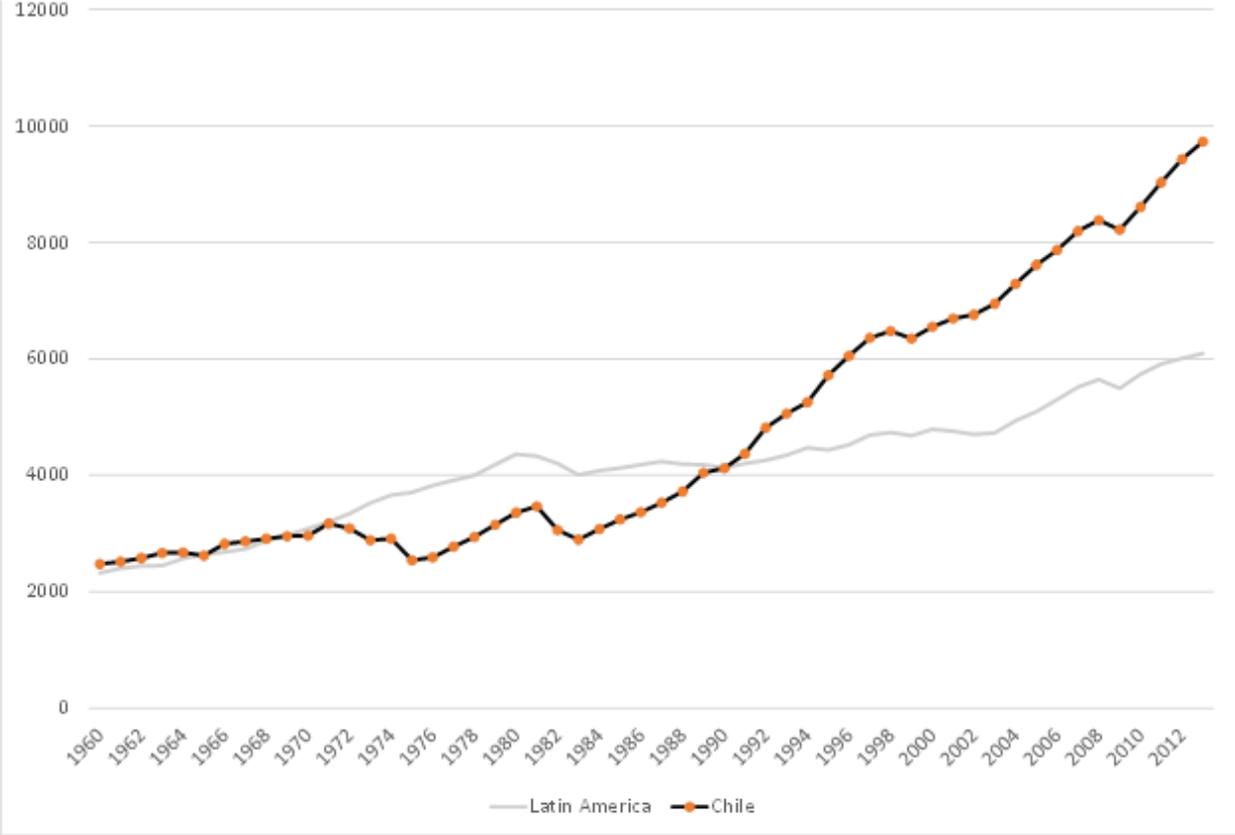
The military dictatorship lasted for 17 years in Chile. In addition to human rights violations, the dictatorship implemented sweeping economic reforms aimed at restoring a market-friendly economy. In fact, the economic reforms implemented under military rule went far beyond previous democratic governments in adopting reforms that minimized the size of the state, reduced regulations and offered market solutions to many problems that were historically addressed by government policies. As Figure 1 shows, the rise of Chile began under military rule. After a recession triggered by the military government's decision to adopt a shock treatment to put the fiscal house in order when it took power—drastically reducing government spending, eliminating price controls and freezing wages to control run-away inflation—the economy experienced robust in the late 1970s. A new economic crisis,

resulting from deregulation and excessive private borrowing triggered a new crisis in 1982—when the economy shrank by more than 13%. But starting in 1985, the economy began to grow again. By 1990, the year democracy was restored; Chile's economy reached the per capita level of the average for all Latin American countries. Since then, the economy has continued to expand rapidly, making Chile the most developed country in Latin America today.

Thus, although it is an inconvenient fact for advocates of market-friendly policies, the Chilean economic model dates back to the brutal Augusto Pinochet dictatorship (1973-1990). The original sin of the so-called Chilean miracle raises results from its illegitimacy of origin and the authoritarian conditions under which the reforms were first implemented. Moreover, it transforms Pinochet into the father of today's Chile. As in the epic Star Wars film series, Chile can be described as a Luke Skywalker having to deal with the trauma of being the son of the villain Darth Vader. Building the strength to move past the traumatic origin—without forgetting the atrocities of human rights violations—has been a difficult task for Chile. While on the one hand the economic model has allowed lifting millions out of poverty, the legacies of human rights violations perpetrated by the military dictatorship still haunt Chileans and will always be an indelible mark on the nation's history.

As Figure 1 shows, compared to Latin America and the world, the Chilean economy was an underperformer in the 1960s. In the 1970s and early 1980s, the country experienced two severe economic crises. Since 1983—ten years into the authoritarian period—the Chilean economy entered into a stable growth pattern that has lasted for more than 3 decades. Because the growth trajectory of the economy began under military rule, the origins of the three-decade long period of economic expansion cannot be disassociated from the controversial legacy of the Pinochet dictatorship. However, since Chile only surpassed the Latin American average after democracy was restored—and because the period of economic growth has survived the authoritarian regime by more than two decades—the credits for the successful performance of the Chilean economy must also go to the democratic governments that implemented reforms to, in their own words, transform the neoliberal economic model into a socially-oriented neoliberal model, or as it neoliberalism with a human face (Navia 2010).

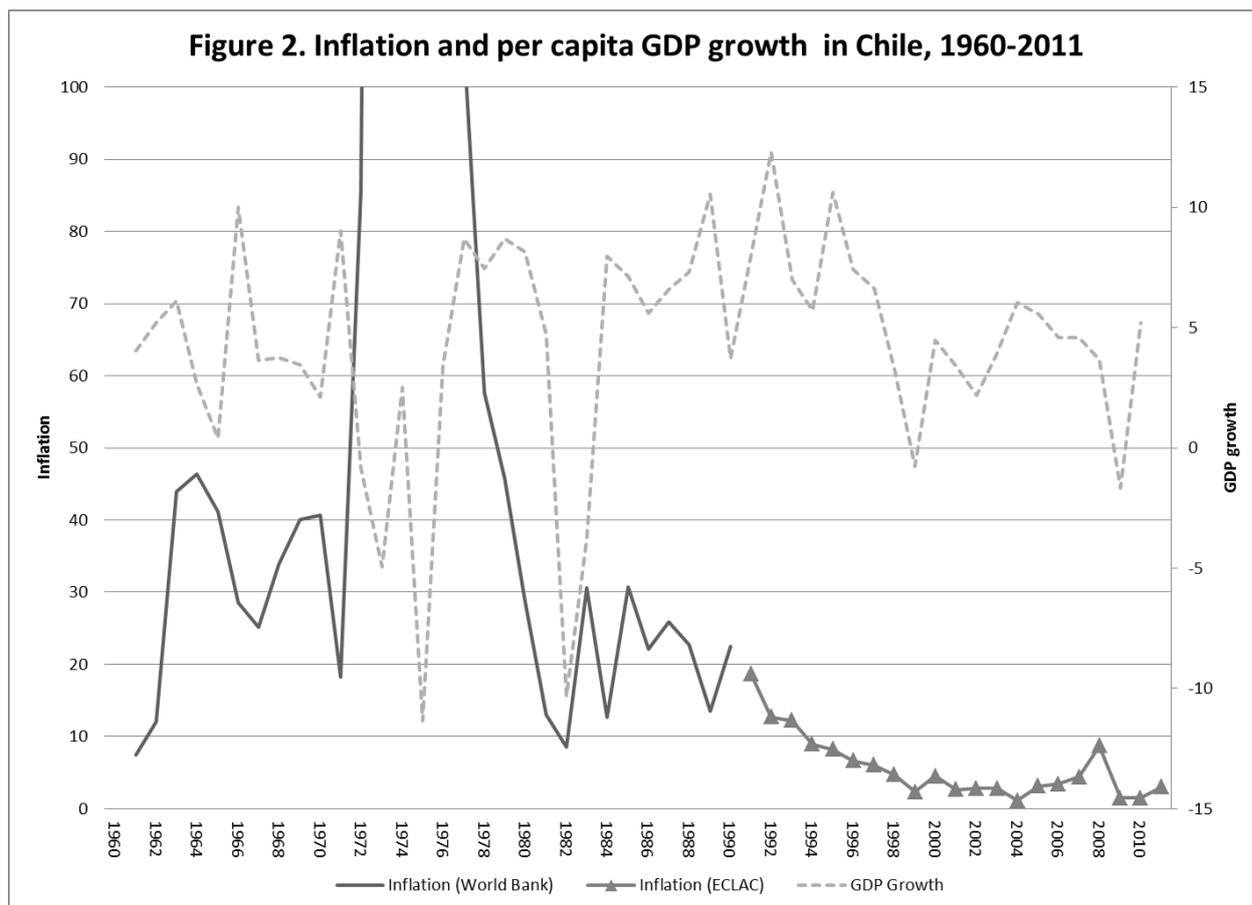
Figure 1. GDP per capita (constant 2005 US\$) in Chile and Latin America, 1960-2013



Source: author with data from World Development Indicators, World Bank

Starting in the 1930s, Chilean governments championed Import-Substitution Industrialization (ISI) policies with mixed results (Drake 1993, Meller 1998, Ffrench-Davis 1973). Protectionist policies fostered the emergence of an industrialized and manufacturing sector, but negatively impacted competitiveness. Protectionist policies favored the organized labor sector at the detriment of the large majority of the population that remained in the informal sector or in rural areas. The state strengthened its control over the formal sector with regulations and labor legislation that protected workers, but the limited dynamism of the private sector and the falling competitiveness of the Chilean economy prevented economic development and condemned a majority of Chileans to a life of poverty and destitution. As Figure 2 shows, the Chilean economy presented a common pro-cyclical pattern in the 1960s, with boom-and-bust periods.

After taking office, the military government began to implement policies that sought to stabilize the economy. As Figure 2 shows, it took a few years to bring inflation down from its record levels of 1973. Although it first simply focused on reversing the nationalization initiatives implemented by Allende, the military government soon went further beyond and began to implement market-friendly policies that ended up becoming Pinochet’s biggest legacy (Fontaine Aldunate 1988, Cavallo, Salazar, and Sepúlveda 1997, Valdés 1995).



Inflation in 1977-77 was 414%, 665%, 335%, 251% and 106%.

Source: author with data from World Development Indicators, World Bank

After the economy was stabilized, from the late 1970s until it ceded power to a democratically elected government in 1990, the Pinochet dictatorship implemented sweeping neoliberal economic reforms (Bosworth, Dornbusch, and Labán 1994, Larraín and Vergara 2000, Ffrench-Davis 2002). Promoted by a group of young economists trained in the 1960s at the University of Chicago (the Chicago Boys), the neoliberal policies sought to reduce the role of the state in the economy. Thus, state enterprises were privatized, legislation that gave the government oversight powers was repealed and new legislation that promoted private and foreign investment was adopted. As Figure 3 shows, the size of the state began to decline rapidly after the country came out of its 1973-1975 recession.

The military was able to implement all the reforms under authoritarian rules, repressing the opposition and labor unions that were adversely affected by the market-friendly policies. The implementation of the reforms is intrinsically associated to the massive human rights violations that characterized the Pinochet regime. The overwhelming discretionary power the military had allowed General Pinochet to build a new institutional setup. The 1980 constitution, custom-made for Pinochet, established a protected-democracy framework (Loveman 1994, Loveman 1986) and also established the foundations for the market-friendly economic model (Cristi and Ruiz-Tagle 2006, Cristi 2000). However, the constitution also became a trap for the military dictatorship. As even custom-made shoes bind, the 1980 constitution became the roadmap for the restoration of democracy in Chile (Barros 2002). In fact, though most of the authoritarian components of the 1980 constitution have been amended and modified after democracy was restored in 1990 (Fuentes 2013, Heiss and Navia 2007), but the institutions and constitutional prerogatives on which the

market-friendly economic model is based remain intact. In that sense, Pinochet remains as the father of the neoliberal economic model in Chile. Though the democratic governments that have ruled the country since 1990 have further deepened the model and have also legitimized it, by introducing reforms to reduce poverty, increase social spending and strengthen the regulatory role of the state,

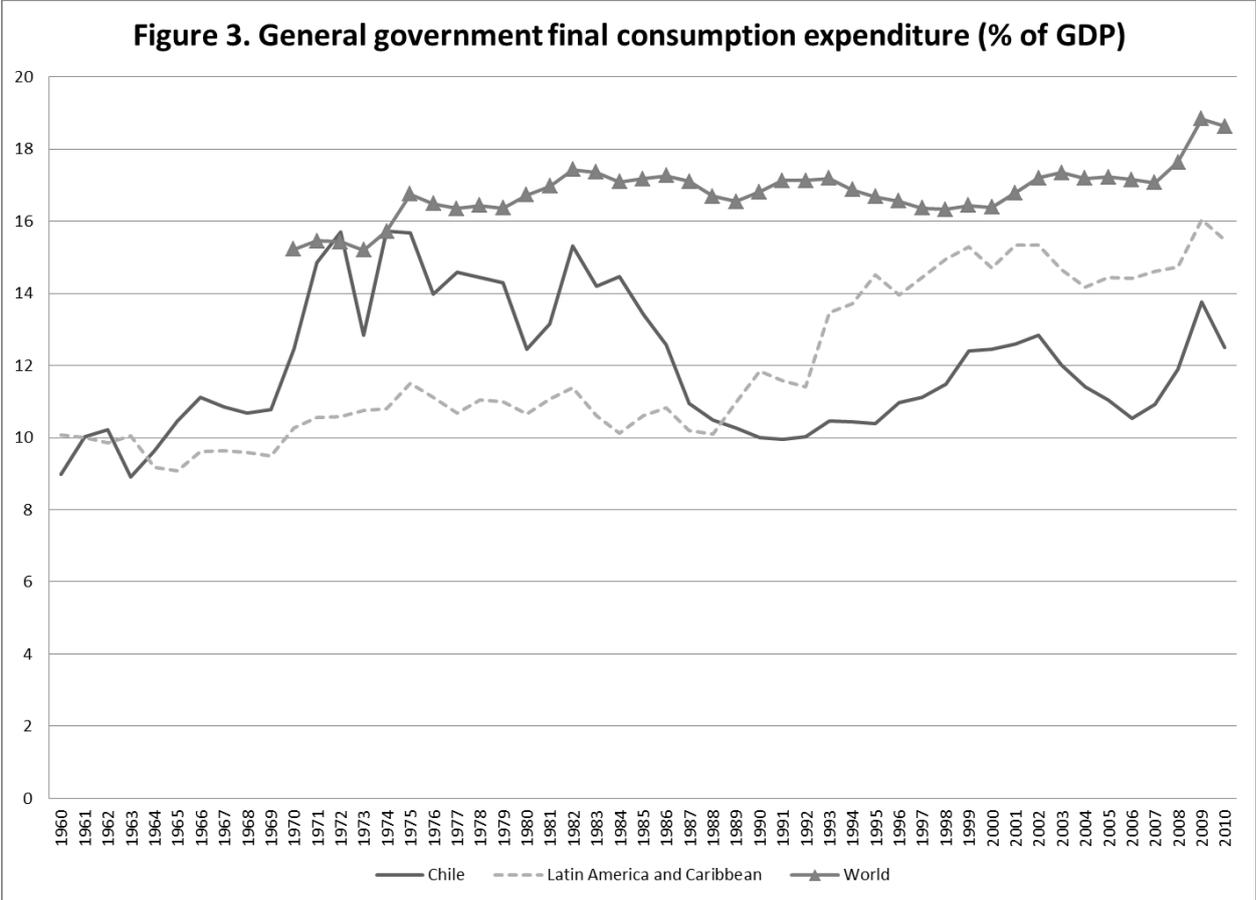
The main tenant of the neoliberal reforms implemented under Pinochet was that the state was an obstacle for economic development. Thus, by reducing the size of the state and limiting its functions, the *creative destruction* power of capitalism would be unleashed and economic growth would bring about development. As Figure 3 shows, after increasing in the 1960s, central government consumption expenditure substantially decreased under the authoritarian regime and remained low until democracy was restored. Since then, there has been a gradual upward trend, but the Chilean remains relatively weak compared to the rest of Latin America and to the world in general. Because Chile's growth has been driven primarily by the private sector and because the state has a limited role in affecting economic output, the Chilean model can be properly characterized as a neoliberal model. The market-friendly focus on institutions and government policies is intrinsically associated to the growth experienced in the past three decades. However, as critics repeatedly argue, the limited role of the state on the economy has also allowed for income and social inequality to remain high. The cost of the economic expansion experienced by Chile has been high levels of inequality. That remains Chile's largest social unmet challenge. If it is not addressed properly, it can also constitute a threat to Chile's long term stability and to the country's chances of becoming the first Latin American country to enter the elite of industrialized nations.

One of the most important early reform in the 1970s was the Foreign Direct Investment Statute (Decree Law 600 of 1974), designed to attract foreign capital and to reverse the negative effect of the nationalization effort championed by presidents Frei and Allende. By building an institutional setup that protected foreign investment, the military government sent a clear signal of commitment to market-friendly policies. The reversal of several nationalizations enacted under Allende and the privatization of other public sector companies was also intended to attract foreign investors as the country was in dire need of capital. Low domestic savings and high government expenditures had stalled economic development. The stabilization phase in the mid-1970s set the foundations for more innovative and controversial reforms adopted later.

Among the important reforms implemented by the dictatorship in the 1980s were the educational overhaul that transferred schools from the national to municipal governments, the privatization of the pension system, the partial privatization of health care and the nationalization of public sector companies. Deregulation of several economic sectors also fostered the growth of private enterprises and restricted government's ability to block private initiatives, though it also limited the regulatory power of the state to protect and enforce consumers' rights.

The economic plan of the military focused on promoting market-based mechanisms and limiting the role of the state in economic activities and social interactions. As a result, the Chilean state today has a limited—and sometimes non-existent—role in areas where the state is the leading economic actor elsewhere, like elementary and secondary education or pensions. In Chile, the role of the state is mostly limited to a regulatory oversight power. Though some key public sector companies were not privatized under the military dictatorship (most notably the copper producing CODELCO), the sweeping economic reforms

implemented by the Chicago boys substantially reduced the size of the public sector and limited the role of the state as an economic engine.



Source: author with data from World Development Indicators, World Bank

This neoliberal paradise is built on an intricate set of institutional features put in place in the 1980 constitution. The constitution explicitly bans the state from participating in productive economic activity and establishes broad protections of private property. Though a number of key reforms were introduced by the military in the 1970s, the most important reforms were adopted after the 1980 constitution was approved and General Pinochet began an 8-year presidential term in March of 1981.

The constitution stipulated that at the end of that 8-year term, the military junta would nominate a presidential for a new 8-year term. Chileans would decide on a plebiscite to accept or reject the nominee. If rejected, a competitive election would be held in 1989, together with legislative elections, to fully restore democratic rule. As it turned out, Pinochet was nominated by the Junta in 1988 as the sole presidential candidate. Chileans rejected him on a plebiscite held on October 5th, 1988, and that paved the way for a transition to democracy.

A center-left coalition—known as the Concertación—won the 1989 elections. Christian Democratic leader Patricio Aylwin became the first democratically elected president after military rule. He took office in 1990. Since then, the Concertación won all presidential and legislative elections until 2009, when the candidate of the center-right Alianza coalition, Sebastián Piñera, became the first non-Concertación president in contemporary Chilean democracy. Yet, in 2013, the Concertación regained power when former president Michelle Bachelet (2006-2010) became the first person to win a second term as president in Chile

since the restoration of democracy. Under Bachelet, the Concertación renamed itself Nueva Mayoría, adding the Communist Party to the existing coalition of centrist and leftist parties.

Despite its left-wing credentials, Concertación governments kept the basic tenets of the market-friendly model in place. By adopting targeted reforms aimed at expanding government subsidies and earmarking government spending to those in most need, Concertación governments were successful in drastically reducing poverty and marginally lowering inequality while keeping a robust pace of economic growth between 1990 and 2010. Yet, despite their calls to transform the economic model inherited by the dictatorship, the Concertación governments deepened and consolidated the market-friendly economic model. Thus, when the Alianza came to power via democratic elections in 2010, there were few economic policy changes implemented in Chile. After all, the Concertación had legitimized the economic model first implemented by Pinochet.

Today, the role of the state in Chile is limited. A Chilean child can be born in a private clinic paid for by her parents' private health insurance. The child will attend private daycare and spend her entire elementary and secondary school years in a private school partially funded by a public voucher program. She will attend a private university. When she starts working, her monthly mandated retirement deduction will go directly to a private pension of her choice. She will drive an automobile through privatized highways and will pay her utility bills to private companies that bring electricity, gas and telecommunications to Chilean homes. When she dies, she will be buried in a private cemetery. She can go her entire life with minimal interaction with the state. To be sure, the state does have regulatory power over most of sectors, but its regulatory muscle and its enforcement power is limited.

Still, despite the limited role of the state, Chile has seen the formation and consolidation of a large middle class. Economic growth has lifted millions out of poverty and, as they join the middle class, they have begun to exercise their rights and to demand greater participation in decision making and a larger share of political power. As I discuss below, the growth of the middle class has come to represent the biggest challenge to the historic division of power among the elites and, indirectly, have called into question Chile's reputation as a country with low levels of corruption. Since the emerging middle class strives to acquire more political power, it has challenged existing power distribution arrangements and has demanded that the elites put an end to practices that were common in the past but that are now considered as evidence of traffic of influence and even corruption. The penetration of social media and a freer press have also put pressure on elites to adapt to a new reality and to begin to leave behind some practices that were common in the past but that are now rejected as corrupt practices.

How Chile came to be regarded in the 19th and 20th century as an honest country

Although there is no verifiable evidence—no transparency international reports or country-based comparative analyses to speak of—Chile came to be considered an exemption in Latin America in terms of corrupt practices that were a common practice in governments in the region after independence was secured in the early part of the 19th century. Historians who studied Chile and those who specialized on regional comparisons agreed in that Chile—for different reasons—was unique in that governments enjoyed low levels of corruption and government officials were held to high standards of probity. The perception survived well into the 20th century, when Chile was regarded as one of the few countries in Latin America where police officers—the Carabineros police—were not normally bribed and where government

officials were not prone to demand payments for special treatment. Corruption was widely believed to be much less common in Chile than in neighboring countries.

The stylized facts were associated with several untestable causes. Two stand out. One associated with the colonial legacy and a second one linked to the creation of a strong, depersonalized and centralized state after independence.

First, the little importance Chile had during the colonial period, as the country was located far away from the Caribbean, the economic center of colonial Latin America. Second, because of its geographic distance and the absence of abundant gold deposits, Chile never evolved into an economic power house in South America. Thus, the country never attracted the kind of gold diggers that flooded other Spanish colonies in the region. As a result, the landed oligarchy of Chile never developed the kind of taste for excessive wealth that became common in colonies blessed with gold and silver deposits or in those whose agricultural exports made their landed oligarchies extremely wealthy. Scarcity and sobriety became the norm among government officials under colonial rule and, thus, established a precedent that survived after independence was achieved.

A different—yet somewhat related cause—is often associated with the prominent figure of Diego Portales, an entrepreneur turned statesman who emerged as Chile's most prominent politician after independence and who is credited with the establishment of a strong non-personalist and institutionalized state in the 1830s. After independence was secured in 1818, Chile underwent—as other South American countries—a period of instability and political chaos. Several constitutions were enacted and quickly replaced by other documents. Independence leaders fought over political control and a number of civil wars ensued with liberal and conservative factions vying for power. The period of instability came to an end with the emergence of Diego Portales, a minister in the cabinet of several presidents who became Chile's most important politician after the 1829 civil war that gave power to conservatives. Portales served in different cabinet positions until his assassination in 1837. As he consolidated his power position, he was an influential force behind the 1833 constitution—that ruled the country for almost a century until it was replaced by the 1925 constitution. The 1833 constitution reflected Portales' views in favor of a strong central government that could prevent chaos and secure order in the emerging nation. Because Portales distrusted politicians—he always rejected the possibility of becoming president himself, even though he was more politically influential than the presidents he served under—the 1833 constitution sought to establish strong institutions that would prevent the concentration of power in the hands of a single individual. As a result, Chile avoided the emergence of *caudillos*—strongmen—that was so prevalent elsewhere in Latin America.

These two explanations are commonly used by intellectuals and politicians when asked about the reasons why Chile acquired its reputation as a non-corrupt country in the 19th century. Some historians have cast some doubt on the validity of these explanations, but they continue to be the dominant reasons behind the alleged culture of probity that has characterized the Chilean state since shortly after independence in 1818.

Throughout most of the 19th century, the Chilean economy experienced periods of rapid economic growth and sharp decline, always associated to export booms and fluctuating demand for agricultural and mineral exports. Still, the country managed to emerge as one of the most stable countries in Latin America, with a strong and highly centralized state. Despite its smaller economy, Chile was successful in a war against Peru and Bolivia (1879-1883) that

resulted in a territorial loss for Peru and a larger and more significant loss for Bolivia that left it landlocked. The territories incorporated by Chile were rich in nitrates (saltpeter) and triggered a period of rapid economic growth in the late 19th and early 20th century.

A civil war in 1891 resulted in the weakening of the presidency, but not the central state. A period known as the parliamentary republic—given the weak formal powers of the presidents—lasted from 1891 until 1925. In the 1920 election, when the growth of the working class in mining areas and a growing middle class in the capital city of Santiago and other urban areas was putting pressure on the existing political party system, a populist candidate, Arturo Alessandri, won the presidency on a platform aimed at representing the emerging working class. Alessandri, who was a member of reformist Radical Party, attempted to undertake a number of reforms, but he was blocked by a powerful Congress, dominated by the landed oligarchy and resistant to change. Eventually, a constitutional crisis ensued and Alessandri was forced to resign in 1924.

Alessandri's resignation represented the end of the parliamentary republic and the foundation of the new order that would result from the adoption of the 1925 constitution. A series of events led to the restoration of Alessandri in power and the adoption of a more Presidentialist constitution in 1925. Drafted by Alessandri supporters, the constitution attempted to restore power to the executive and undermine the power of the landed oligarchy represented in Congress. However, after the adoption of the constitution, the country fell into a period of political instability. The 1929 depression negatively affected Chile and further deepened the political crisis. However, by 1932, stability had been regained and Alessandri was once again in power after being elected President. Since then, Chile experienced a long democratic period that lasted until the military coup of 1973.

Interestingly, one of Chile's institutions most commonly mentioned when explaining the country's low tolerance for corruption and the high levels of probity present in government officials dates back to the period of instability that ensued after the adoption of the 1925 constitution. The Contraloría General de la República (Comptroller General) was created in 1927, at a time when Chile was undergoing a political crisis. Between 1925 and 1932, Chile had 7 different governments, the highest turnover in the nation's history. It was in that period when the Contraloría was created.

Interviewees cite the existence of the Contraloría as a leading cause behind Chile's low levels of corruption, but the history behind the creation of the Contraloría calls into question why the Contraloría came to be such a strong force to combat corruption. The Contraloría was created in 1927 as a result of a suggestion made by an American Economics professor at Princeton University Edwin Walter Kemmerer. Kemmerer travelled to several Latin American countries between 1917 and 1931—including Mexico, Colombia, Chile, Ecuador, Bolivia and Peru (Drake 1989). In all those countries, Kemmerer recommended the creation of a Central Bank and the consolidation of different government offices into what is known in the United States as the General Accounting Office—a National Comptroller. Though Colombia, Bolivia and Chile created such offices, the Chilean Contraloría is the only one that evolved into being such a strong force in preventing government corruption. Thus, there must be some prior conditions in Chile—or some developments posterior to 1927—that explain why the Chilean Contraloría evolved into such a powerful and influential government agency.

Since its creation, the Contraloría has had 16 different heads—or Contralores. Five of them served between 1927 and 1932, when the country was undergoing a period of political instability. Since 1932, 11 Contralores have served on average 7.5 years. The longest tenure belongs to Osvaldo Iturriaga (1978-1997), who was appointed under military rule and who retired in 1997 when he reached the maximum age of 75 allowed in the 1980 constitution. The shortest term belongs to Sergio Fernández, a civilian minister of the Pinochet administration, who was appointed in December of 1977 and resigned in April of 1978. Sergio Fernández's appointment reflects the complicated relationship that the Pinochet dictatorship had with the Contraloría. When it took power, the military junta closed Congress, the Electoral Institute (Servicio Electoral) and many other government agencies. Yet, the military dictatorship did not intervene at the Supreme Court or the Contraloría. Contralor Hector Humeres, appointed in 1967, was confirmed in his position. For the most part, the Contraloría was not seen as an obstacle by the military dictatorship. In fact, the Contraloría was perceived as an independent non-political institution whose administrative duties would facilitate the functioning of the government under military rule.

However, in late 1977, when the Pinochet dictatorship decided to convene a national referendum on January 4th, 1978 on support for the government—as a response to a United Nations decision to condemn human rights violations in Chile—Contralor Humeres decided not to sign some documents that would give the Contraloría's validation to the referendum. As a result, Pinochet pressured the Contralor to resign and named his Interior Minister Sergio Fernández as a replacement to make sure that the Contraloría would go along with the referendum. That act by Pinochet would call into question the independence of the Contraloría under military rule. After all, the one time that the Contralor stood against Pinochet, the military junta had him removed. Yet, the fact of the matter is that Contraloría did exercise some limited accountability on the actions of the military government, particularly among cabinet ministries and other agencies that are required to report their budgetary operations and administrative decisions to the Contraloría.

Although there are no publicly available studies that report on the level of independence exercised by the Contraloría under military rule, most interviewees suggest that the Contraloría continued to exercise its administrative control over government spending and procedures during the military government. In fact, Sergio Fernández himself resigned from the Contraloría a few months after he was appointed. He was replaced by Osvaldo Iturriaga, a lawyer who had worked at the Contraloría for many years. Iturriaga served for the remaining of the Pinochet dictatorship and stayed in his position—given a constitutional provision that made it almost impossible for the democratically elected president to remove him—until 1998. Since then, 3 men have been named as Contralor following the rules established in the 1980 constitution. Those rules include a non-renewable 8-year term with a complicated procedure for impeachment.

Once democracy was restored in 1990, the Contraloría has acquired more power and independence and has actively exercised its mandate to review administrative decisions made by different government agencies and to oversee that government spending complies with regulations and budget allocations.

The emergence of the middle class and demand for more accountability and transparency

Since democracy was restored, the consolidation of democracy, economic development and the growth of the middle class has generated new challenges to the way in which government functions. In recent years, technological development has facilitated access to information and an increasingly freer and more heterogeneous press has stepped up its investigative role. As the quality of democracy has improved—according to independent organizations such as Freedom House—demands from more transparency have resulted in institutional reforms that have limited the discretionary power of the executive and have opened access to government information to citizen organizations, think tanks and NGOs.

A number of government reforms have attempted to keep up with the increased demand for transparency and information. The adoption of a new law to regulate access to public information in 2008 (Law #20285) also created a Council for Transparency, an autonomous body charged with ruling on freedom of information petitions made by citizens to access public information. The rulings of the Council for Transparency have not always met the expectations of whistleblowing organizations but have undeniably increased access to government information in Chile to unprecedented levels. That increased access to information has occasionally led to some corruption scandals that have captured the news and resulted in criminal investigations. Though there are no publicly available reports that quantify the scandals that have resulted from increased access to information, it would be fair to state that the greater access to government information has produced positive results, both as some scandals have been uncovered and as the behavior of government officials who might have participated in corrupt practices in the past has changed as the likelihood of being caught has increased.

Similarly, a judicial reform that began to be implemented in the late 1990s and was fully implemented by 2005 has also had positive consequences in combating government corruption. The judicial reform created an independent prosecutor's office to replace the old system where the judicial power was in charge of both the investigations of criminal wrongdoings and delivering justice. The creation of a Fiscalía Nacional—the prosecutor's office—was met with some resistance by the political elite that feared the emergence of an unchecked power that could target elected authorities for investigations of wrongdoings. Although there is no quantifiable evidence of the prosecutor's office singling out politicians or elected authorities in criminal investigations, there is some anecdotal evidence that some prosecutors have gone after individual politicians overzealously. Two recent cases of campaign finance violations—the Penta and Soquimich case—that involve tax fraud as illegal campaign contributions were made by two companies using fake contract services and invoices issued by friends and associates of candidates in exchange for resources for campaigns—which the companies then discounted from their taxes as expenditures—triggered the biggest political crisis in recent years. Those scandals were caused by the diligent investigations of an independent prosecutor whose is reportedly believed to have political aspirations of his own and whose political career might in fact be aided by his prosecution of sitting legislators. As the two cases are still ongoing, and some politicians have been indicted but no trials have yet taken place, it is too early to tell what the consequences will be. Yet, it is evident that the illegal practice of making campaign contributions and disguising them as company expenditures is not something new. Rather, it has been a common practice in campaigns in Chile for many years. The only new thing is that there are now independent prosecutors willing to go after those bad practices. Thus,

rather than evidence of growing corruption, those cases represent a more demanding civil society that is less willing to tolerate corrupt practices that were common in the past.

Another campaign scandal that broke in 2002, associated with the use of government funds to overpay high government officials—including cabinet ministers—triggered a political crisis that resulted in a comprehensive legislation on campaign finance. Before the so-called MOPGate scandal (named after a company that was used to disguised government salary supplements as private consulting made on the side by government officials), there was simply no campaign finance legislation in Chile. Campaign spending was a black box that everyone knew existed but no one knew the extent to which campaign donations influenced the political process. As a result of the scandal, a broad political agreement was reached between the center-left Concertación government of Ricardo Lagos and the right-wing Alianza opposition to implement a campaign finance reform. The new legislation adopted before the 2004 municipal elections provides for some public campaign finance to political parties and candidates based on their electoral results from the previous election—thus marginally favoring incumbents over challengers—and it regulates private donations, creating three types of such donations. First, some donations can be anonymous. They are intended for small donations made by individuals to candidates. Those donations cannot account for more than 20% of all campaign contributions to any one candidate. Then, other donations are reserved. That is, they donor privately deposits the money to the Electoral Service and informs the name of the candidate who should receive the donation. The Electoral Service gives the donation to candidates in different amounts in different days so as to hide the identity of the donor and prevent a quid-pro-quo relationship between the donor and the candidate that wins an office. Finally, bigger donations are public and are intended to dissuade large donations by private companies to individual candidates. In addition, the law established campaign spending limits associated to the number of voters in each district.

The campaign finance legislation has been in place since 2004 and has been used for three consecutive presidential and legislative elections. Though some problems have been identified—including the use of tax fraud schemes to make illegal donations to candidates such as those in the Penta and SQM scandals—the fact that there is campaign finance legislation means that citizens now have much more access than they did when the entire campaign finance issue was a black box. Those, even though there are heated debates about the role of private donations—which include private companies—to campaigns and the influence money has on the political and democratic process, the fact of the matter is that, since 2004, Chileans have more information on how many goes from donors to candidates than before. Moreover, precisely because there is regulation now, the legal cases and criminal investigations on illegal campaign finance are a sign of a positive development in terms of curbing corruption rather than evidence of increased corruption. Just like a patient who already had a life-threatening condition before going to the doctor but is only made aware of it after her doctor visit, the cases of corruption associated to campaign finance in Chile have been uncovered only since a new campaign finance legislation was promulgated in 2003.

Two other institutional reforms implemented in recent years have helped uncovered additional corruption scandals, though in most cases those scandals are associated with private companies. However, since many of the services normally provided by the state in other countries are provided by the private sector—with government subsidies—in Chile, those cases can also be associated with some form of government corruption. The Fiscalía Nacional Económica—the special prosecutors' office charged with safeguarding fair

competition—and the Tribunal de Defensa de la Libre Competencia—the tribunal in charge of ruling on antitrust cases—are two organizations whose powers and attributions were widely expanded in recent years and whose investigations and rulings on oligopolistic practices have rocked the country. The fact that these two institutions have taken on a much bigger role in securing free competition and fighting price-fixing and market cartels has also fed on the perception of growing corruption and traffic of influence among politicians who have protected those unfair competition practices. However, there is no reason to believe that those practices are new. If anything, the fact that two independent and powerful agencies are empowered to go after unfair competition and to protect consumers' rights is an indication of progress, especially in a country where the limited reach and attributions of the state in the provision of some public goods—such as education, health, housing, transportation and utilities—makes the private sector the leading provider of many public goods.

Finally, the increasing power of the press—and the more pluralistic nature of media outlets aided by the lower entry barriers for new media—and the growing influence of social media has also had positive effects in consolidating a culture of intolerance to corruption among the middle class. The growth of Non-Government Organizations that serve as watchdogs to combat corruption has also resulted in the uncovering of more corruption scandals and in the greater diffusion in mass media and social media of corruption scandals involving government officials.

Conclusion

Although in recent months Chile has been shaken by a number of corruption scandals involving high government officials and legislators, there is no evidence that the number of corruption cases has actually increased. The cases are now more likely to be uncovered by the many instances created to combat corruption—beyond the office of the Contraloría General de la República—and by a more vocal and demanding middle class empowered with new technology tools that give it more access to information and more power to disseminate the information and publicize government corruption scandals. Yet, the higher prevalence of news associated to corruption scandals in the Chilean media in recent months should not be seen as an indicator of worsening levels of corruption in Chile. Instead, given that these scandals have been uncovered by the existence of a stronger and more comprehensive institutional structure designed to promote and protect probity, the fact that the corruption scandals have been uncovered should be seen as positive news coming from a country that established a low tolerance to corruption since shortly after independence and that has held its authorities to increasingly higher standards of probity as its democracy has consolidated and its economy has grown to make Chile the most developed country in Latin America.

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