

Executive Summary

95 Proposals for a better Chile
95 Propuestas para un Chile mejor
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Our country has come a long way in the past few decades. Chile's achievements offer lessons that are, in many dimensions, cause for national pride. But past progress gives no reason for weakening the sense of urgency to go further. In fact, the country's achievements stimulate the renewal and strengthening of our commitment to progress in all those areas where Chile lags behind. Therefore we Chileans must accelerate the pace and sharpen our senses to better understand the complexities of a society that is more demanding than in the past, expressing new aspirations and revealing shortcomings, inequalities, contradictions, and reasons for perplexity.

The purpose of Grupo Res Publica Chile is to contribute to our country's policy thinking, identifying gaps and weaknesses in the light of a technical and political diagnosis, and developing proposals for reform and change for a better Chile. Our aim is to enrich the public discussion needed to drive the reforms for Chile to be more broadly developed, socially more inclusive, politically more stable and better represented, and with happier people and communities. This book is the result of our deliberation and work, and presents 95 policy proposals related to our political, economic, and social reality.

Political system, regions and the State

The first section of the book deals with Chile's political system. We propose to adopt a **parliamentary government system** that reconciles better political representation and governance, with better incentives to encourage political agreements and to foster accountability of political parties. Public funding of **political parties** should be provided in exchange

for their adoption of **high standards of transparency, internal democracy, regional presence, and high priority of programmatic reflection**. We also aim at an election system that improves the balance between greater proportionality and governance, and between legitimacy of representation and legitimacy due to efficacy. To attain the latter objectives, we propose replacing the current binominal ("two-past-the-post) voting system by one of two alternatives: (a) a **plurality system** where members of Parliament are elected by simple majority in uninominal ("one-past-the-post) districts, or (b) a mixed system in which a fraction, usually half, of the members of Parliament are elected in uninominal districts and the rest according to the result obtained nationwide by each party or list. In this case, each voter would have two votes.

Chile should commit to **effective decentralization**, driven by popular **election of regional authorities**. Without the latter, Chile's regional governments would still depend on central government delegates (the "intendentes"), inhibiting regional development, efficient management, and political legitimacy. The election of all regional authorities (starting in 2016) would contribute to effective decentralization, making it irreversible and demanding further administrative and fiscal reforms that would enable autonomous and effective regional government coherent with popular mandates.

The last proposal for the political system is to reinvigorate the State modernization agenda, with priority in three key areas. First, we recommend adoption of an **Agency for Public Policy Quality**, autonomous from the Administration, that measures the impact of government policies and programs, assessing program objectives against the evidence of their results, based on a rigorous methodology. To **modernize la-**

bor relations within the government administration, we propose amending labor contracts to include the benefits provided by the Labor Code to private-sector workers (unemployment insurance, compensations, and regulations set forth in the collective labor law). We propose to adapt labor norms to the observed reality, correcting anomalies and regulating collective bargaining and strikes, considering, in some cases, compulsory arbitration. The third proposal is to reform **regulatory agencies' corporate governance**, establishing deliberative boards, autonomous from the government, and with strengthened powers. Another weak area is **state documentary management**, which requires improved regulation for print and digital formats, based on better accessibility and preservation.

Economic development, markets, and the environment

Section 2 of the book comprises proposals seeking higher and sustainable economic growth through reforms that encourage economic development, more efficient markets and more satisfied consumers, as well as mobilizing citizens engagement with a more sustainable environment. For growth, a host of complementary measures are proposed with the aim to raise GDP growth, including reforms to grow more by raising both “perspiration” (through larger saving, investment, and employment) and “inspiration” (through higher productivity gains). Reform proposals are developed for the **mandatory pension saving system**, the **cyclical-adjusted government balance rule**, complemented by adoption of an independent **Fiscal Council**, with the aim to raise private and public saving. For investment, we propose to amend the institutional **assessment of public investment projects**, introduce more flexible mechanisms for **investment in infrastructure**, and **tear**

down barriers and adopt better regulations to attract more private investment, including a **tax reduction on profit remittances of foreign investments**. To **raise productivity**, proposals are put forward to **foster entrepreneurship**, **reduce barriers to entry in particular markets**, and **boost innovation**, including **adoption of a productivity commission**.

Achieving high growth also relies on securing a reliable energy supply at competitive prices. This is not feasible today due to the cancellation of new energy investments in response to stronger opposition of local communities and major delays in investments in power generation. This situation not only has led to high energy costs but also to more adverse environmental externalities as power generation remains highly reliable on the most polluting technologies. Very high current prices and the backlog of investment projects are of such magnitude that urgent action is needed. Therefore we propose the government to assume a direct (but temporary) role in promoting **natural gas** as **the energy expansion technology**, as opposed to coal. This option better reconciles energy needs and environmental demands, and is geared to take advantage of the recent shale gas development. **Territorial planning for thermoelectric development** is recommended, such that the government collects rents and rebates them to users, so that coal will become the infra-marginal development option for energy. A third proposal on energy is **gradual development of the wind and solar energy potential**, introducing a new policy instrument: **biddings for price insurance**. The last proposal on energy is to declare unambiguously the strategic nature of the large hydropower potential in Chile's South, with the **government exercising an active role as co-investor in the development**

of a power transmission line. Our proposals are paramount to a “new deal” on energy policy, which seeks a balance between environmental demands, on one hand, and the energy supply expansion required to achieve economic development and meet minimum efficiency standards, on the other.

Economic growth also depends on the proper functioning of markets, with strong competition and effective protection of consumer rights. To strengthen market competition we propose to **increase fines and establish penal sanctions for corporate breaching of competition conditions**, and to **raise transparency in government decisions on corporate mergers and competition**. We also recommend establishing **competitive bids for the allocation of government rights over natural resources** to the private sector to avoid arbitrary decisions and corruption. Our proposals on consumer protection cover four areas: **consumer education, generation of independent reports on consumer goods and services, effective enforcement of consumer rights, and personal data protection.**

This section also presents our first tax reform proposal. The proposed changes aim at raising tax system efficiency and progressivity by improving the **integration of corporate and personal income taxation; replacing special tax regimes and exemptions for corporate taxes by a single universal exemption; and changing the tax base for individuals from income to consumption expenditure, with limited deductions for health and education expenses.** We also propose a **single unified law on tax-deductible donations, an increase in excise taxes on tobacco, alcohol and fuels; and abolition of import tariffs.** To contribute to horizontal and/or vertical equity of the tax system, we propose **symmetrical tax treatment of dependent and independent labor income, a rise of the top marginal tax rate on real-estate taxes, and more effective control by the tax authority of *inter vivo* transfers of real and financial assets, *inter vivo* transfers of shares in partnerships and investment companies, and personal expenses charged to partnership and investment companies.**

Economic development should not be at the expense of environmental sustainability and cleanliness of our

physical environment. A sustainable and clean environment is a public good. Therefore its care requires the commitment of the entire society. Selectively, we identify some areas neglected by public policies and citizens, which require public intervention. We propose a novel idea to develop the recycling of discharged goods, waste, and materials, based on establishing **specific (green) taxes on sales of goods, combined with tradable credits to recycling**, supplemented by incentives for developing **household habits of trash and waste separation at the source**, and extending **collection sites (green points)**. Another proposal is to **expand urban parks in districts with low per-capita density of green areas** and to adopt a **National Directorate of Urban Parks** to manage a **national fund for the development of urban green areas**. In order to strengthen citizen engagement with the environment, social capital and integration, we recommend starting a **public counterpart to private volunteer initiatives** and developing a **Voluntary Youth Service**.

The last chapter in this section addresses the challenges of private and public urban transportation in Chile. To increase their efficiency and effectiveness, we recommend progress in three complementary dimensions: **increasing the costs of private transport, improving the quality and efficiency of public transport, and encouraging the use of bicycles.** To raise the costs of private transport, we propose a policy package comprised by **road pricing, increased fuel taxes, differentiated charges on vehicle circulation permits and vehicle registrations, and car-use restrictions differentiated by car categories and specific pollution situations.** Improvement of public transport involves institutional reforms and investments that should be financed by a **more efficient design of the *Transantiago* subsidy and its mirror subsidies in regions.** The latter measures should be based on two broader institutional reform proposals: adoption of **saturated transport areas** and establishment of a **Public Transport Committee** to assist in policy implementation and evaluation.

Social development and inequality

The third section of the book comprises policy proposals that aim at a fairer and more equitable

Chile. Here we propose to extend government actions to reduce inequality and protect families from the risk of falling into poverty, focusing on **government transfers in those areas that supplement labor income**, especially of **young people and women**, strongly increasing government resources and coverage of these programs. This should be supplemented by **re-designing government programs and subsidies for worker training and job placement**, in order to facilitate finding new jobs and to raise productivity of workers and employers, which contributes to higher salaries.

The rules governing labor relations are key determinants of productivity and wage levels. Therefore we propose a **comprehensive reform of the Labor Code** that emphasizes **collective bargaining**, expanding **negotiation matters**, increasing both the **capacity of parties to negotiate working conditions within companies** and the **incentives to dialogue and negotiation**. At the same time, we propose **amendments to the definition of company for employment purposes** and the **process of union formation and membership admission** (with an intermediate proposal between automatic and voluntary membership). The expected gains in productivity and the political viability of this labor reform package are due to the overall strength of the complementary proposals and not only to their individual contribution.

The second tax reform proposal presented in this book assumes that income inequality in Chile is mainly due to the higher end of this distribution. Hence it puts forward a reform of the tax system to make it more progressive by way of **taxing accrued profits rather than distributed profits, unifying taxes for small businesses, and exempting personal income taxes from normal returns on savings**. Although this stronger progressivity is expected to reduce income concentration, the proposal is based not only on social equity grounds, but also on economic efficiency. Indeed, the proposed changes represent a more equal tax treatment for people of similar conditions and a broadening of the tax base, all of which will have positive effects on resource allocation.

Inequality goes well beyond income distribution. Therefore it is necessary to bring to the discussion issues such as dignity and social capital, often absent

from the design and development of public policies. Acknowledging the importance of these dimensions for public policy, we develop three proposals in the field of **corporate social responsibility, participatory communication on public interest issues, and development of microcredit programs**.

The final three chapters of this social policy section deal with sectoral issues: education, health, and housing and neighborhood. In education, a series of actions are proposed to expand the focus and include **socio-affective aspects in learning**. For the initial training cycle we recommend **institutional reforms, more resources, and teacher training policies**. On primary and secondary education, we suggest to **raise significantly school vouchers, to adjust preferential vouchers, and to adopt a special voucher for schools with public education features**. We also propose **changes to the public institutionalality of education, favoring decentralization but improving school management**. On higher education, we recommend to **raise accreditation standards**, acknowledging that there will be institutions providing teaching programs only. We also seek **greater flexibility and mobility of students across institutions**, and more public resources to favor admission of **vulnerable, underprivileged students**.

On health care, the focus of our proposals is on strengthening prevention and accelerating the transition from supply of services to new demands arising from Chile's new epidemiological profile, seeking to **boost more cost-effective preventive and curative interventions**. To improve health insurance, the first step is to **strengthen Fonasa** (the National Health Fund), which, with a clear legal mandate, better corporate governance, and full exercise of its "smart shopping" function, would contribute to better cost-effectiveness. Then, facing the judicial deadlock in which the *Isapre* (private health insurance institutions) system is, that threatens its viability in the long term, we propose a shift towards a **single universal public insurance**, complemented by **voluntary private supplementary insurance**. A third proposal seeks to **improve problem-solving and integration of the municipal primary care system** into the rest of the system. Finally, we present **geriatric care or coaching models based on**

the training of volunteers and their coordinated work with family health-care centers.

The last chapter of this section offers policy solutions to the severe problem of socio-spatial segmentation in large Chilean cities. The places where people are born and live determine their access to basic public goods, such as safety, education and health, as well as their employment opportunities. Moreover, the neighborhood where one is born and lives affects the expectations of families to face challenges and opportunities, closing a die-hard vicious circle. To break out of this situation, we propose a set of public policies based on a territorial and urban perspective. For existing homes, we propose high-intensity multi-sector interventions to transform isolated, dangerous, and poor neighborhoods into attractive places by **re-designing neighborhood environments (improving connectivity, accessibility, public spaces, facilities, and services)** and **improving housing quality**. For new social housing, we set out measures to integrate vulnerable families in well-located and connected neighborhoods, including **incentives for real estate developers and subsidy recipients, land management, integrated projects, and a subsidized rent policy**. Finally, the chapter addresses the pending challenge of **eradicating slums**, the need for a **new authority with tasks and responsibilities related to urban planning**, and a proposal to **enhance community participation in social interventions**.

Crime and drugs

The fourth and final section of the book addresses policies related with crime and drugs. In criminal matters—the public issue of greatest concern to Chileans—we propose reforms in four complementary areas: across the board institutional reforms, preventive policies, criminal prosecution policies, and convict rehabilitation policies.

First, **we propose to develop a comprehensive policy of improved coordination and transparency for the operation of the main public institutions involved in the fight against crime**. We propose to **improve crime prevention by Carabineros** (the police), to adopt measures to **prevent crime in urban design**, and to **engage citizens in crime preven-**

tion. To improve criminal prosecution, we develop guidelines for a **new Criminal Code**, as well as proposals for a **reform to the Code of Criminal Procedure**, reforms to the **National Prosecutor's Office**, and the creation of **Pre-trial Services**. Finally, regarding rehabilitation and reintegration of exconvicts, we propose a review of the role of the **Corps of Prison Guards**, **new incentive schemes for privately operated prisons** (including industry-prisons and contracts with incentives for reducing recidivism), **support programs and funds for offenders' families**, and introduction of a **temporary employment subsidy for ex convicts** to promote their labor-market integration.

Finally, we propose a **radical reform of the current drug policy**. Based on the recognition that the war against illegal drugs has been lost worldwide and that many of the problems associated with drugs have more to do with the prohibition than with consumption, we propose a drastic revision of the current policy of banning and repressing consumption, production, and trade of currently illegal drugs. The proposals involve changes that can be taken unilaterally by Chile, including adoption of a **new long-term national strategy and short-term legalization and regulation of a limited set of drugs, under restrictive conditions**. Once the first phase has been implemented, we propose, in a period of 3-10 years and under international coordination, a **radical revision of international drug control treaties that will allow countries to legalize currently illegal drugs, subject to strict regulation and control of their production, trade, and consumption**.

Chile is running out of time. Now the country must take charge of many political, social, and economic demands. Not all policy problems identified in this book will be solved in the short term. But any virtuous policy roadmap should address systematic, urgent, and sequential reforms in many of the areas that we address here. Avoiding required changes and betting on inertia will move us away from a sustainable path. Therefore we believe that it is urgent to propose, discuss, and implement -- better sooner than later -- many reforms to make Chile a more equitable and developed country, even knowing that today's sowing will yield its fruits only in the long term.