

**REMARKS AS DELIVERED BY H.E. MICHELLE BACHELET, PRESIDENT OF THE  
REPUBLIC OF CHILE, AT THE BROOKINGS INSTITUTION**

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**SALUTATIONS**

Dear friends,

It is always a pleasure to return to the United States, which was my home for several years. A home where I learned important lessons and made close friendships.

I thank Brookings and the Institutions that have co-sponsored this meeting.

I am returning to Washington as President of the Republic of Chile, optimistic that we have initiated positive changes for the future of the country and confident that this is a worthwhile task.

In recent decades, Chile has embarked on a successful path of democratic changes. We have significantly reduced poverty and have also strengthened the country's stability, economic, political and social.

We are internationally recognized as a country with good practices, clear rules and working and I would say sound institutions. This has given us a solid anchor in the fluctuations of the globalized world.

In other words, ours is a steadfast stability; ours is a steady growth.

And the basis for this has been the stability of our domestic social, political and economic relations. Above all, our governance is based on identifying and addressing those issues which will lead to a more equal society and dynamic development.

Today the challenge facing Chile is the elimination of inequality dealing with this will enable us to achieve inclusive and sustainable development and to be counted among the most modern developed democracies.

We take up this challenge, not only because it is the right thing to do but also because it is the most intelligent and reliable way of banking on our future: with economic dynamism, political stability and social cohesion.

This challenge requires us to deal with three essential aspects:

- Tackling inequality, understood as disparity of opportunity, lack of access or discrimination and injustice among citizens.
- Encouraging harmonious, sustainable and inclusive growth.
- And achieving greater civic participation in decisions affecting all Chileans.

In other words, we are not talking about rewriting, but rather about consolidating our history of development and democracy, making improvements and changes where shortcomings still exist.

And this is not only my idea or that of the people who voted for me: it is a national consensus built up over years. Although there are legitimate differences regarding the best ways of achieving the transformations – and this is why we have launched a broad national debate – nobody in Chile denies the need for change.

Because, as in most nations on the planet, society itself has changed a great deal in recent years. Citizens have become more active, more critical, better informed and more demanding, if I would say also more challenging.

Millions of voices in a multitude of languages are calling for societies not to forget in their institutional dealings, in their economic management and in the design of their public policies what should be the focus of any social contract: the people.

Although from the Government's viewpoint this demand represents a challenge, it is an interesting and important one: the challenge of ensuring that people are more involved in decision-making on matters that affect them, so that development policies are translated into quality of life, social cohesion and democracy.

For us this means reappraising collective life and public interest, promoting dialogue with a civic sense and a respect for differences.

The challenge of eliminating inequalities has an ethical component, since it refers to a good life for all.

But it also has an economic component. That's why we are saying it's the right thing to do but also the smart thing to do.

Because we know that we need dynamic and sustained economic growth in order to tackle inequality, eradicate poverty, create opportunities for development and generate revenue for the implementation of social welfare policies.

And so it is in both senses that Chile has decided to assume and expand the undeniable progress made by the country since the return to democracy, recognizing today's new challenges and focusing on governance for growth and on stability of democracy.

Around 2020, Chile will have achieved a per capita income similar to that of the developed economies. But we shall not be a truly developed country if we continue to be one of the OECD countries with the highest income inequality.

And this inequality affects our social cohesion and our prospects for economic development. This is why we must tackle it decisively and, at the same time, opt for inclusion and growth. Like most Chileans, I am convinced that the biggest risk to the stability and progress of Chile is not making the changes that we need to make.

Because inequality undermines one of the most important foundations both of the economy and of democracy: trust. Trust in the markets. Trust in institutions and their stability. Trust in social relations.

And trust is a precious asset which today Chile has to decide to enhance, reducing inequality and fostering cooperation between the State, the citizenry and the market. This is the underlying meaning of the reforms. And we are optimistic, because this is the best way of building a better country for all.

We have a strong foundation on which to build. In recent years, Chile's economic growth has been positive and unemployment has declined. This allowed important progress to be made in the expansion of social rights and opportunities for people.

This reflects the global financial scenario, good copper prices in recent years and our monetary and fiscal response to the financial crisis.

These conditions are cyclical and difficult to replicate. When the factors underlying the dynamism of our economy disappear, growth prospects will recede.

Chile is currently experiencing a period of low growth, below its GDP potential, and we must respond to the challenge which this represents.

Chile's growth for 2014 is estimated at just over 3 per cent.

Starting in 2015 our goal is to resume the steady path of growth and, in the second half of the next administration's, for Chile's growth to be about 5 per cent, at its potential GDP level.

We have set ourselves ambitious goals, but we are taking a realistic approach to these economic conditions facing us.

We need to generate more economic growth, but not growth of any kind. We need growth that is socially legitimate and inclusive, environmentally sustainable and democratically oriented.

For this, we need to broaden the basis of our development by means of structural reforms. Chilean society, the citizenry and our economy indicate that now is the time to undertake such reforms.

What are the changes that we are proposing and that are already under way?

One: a structural reform of education focusing on quality, public education and inclusion;

Two: stimulation of economic growth and productivity, innovation and competitiveness. And this obviously involves also tackling the challenges facing us as regards energy.

Three: tax reform providing ongoing resources for the State and redistributing more equitably the efforts of common development. It must also lead us back to the path of fiscal responsibility, which is essential if the State is to honor its commitments in the medium and long term.

Four: a new Constitution, an up to date one, allowing more scope for democracy, participation and guarantees for people in all their diversity.

I should like to refer briefly to all these topics.

Firstly, education, which fosters equity, productivity and democracy.

Knowledge is essential in order to achieve ongoing prosperity in all these areas. And to generate this knowledge, countries must make education the focus of their development strategy.

This is what countries have done those countries that have achieved development, such as Finland or Japan, Singapore or the United Kingdom.<sup>1</sup>

Chile needs and loudly demands far-reaching change to improve the quality, scope and coverage of education at all levels.

You will undoubtedly recall hearing the news, three years ago, that thousands of students in Santiago issued a structural demand: the right to free and quality education.

That was the time when a lot of young people where in the street all over the world. I was here working for the UN and everybody would ask me in any meeting, how could you explain this? Because we understand that in countries that are doing bad in the economy but you are doing

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<sup>1</sup> The ten countries ranking highest in the 2014 Pierson's Global Education Index are: South Korea, Japan, Singapore, Hong Kong-China, Finland, United Kingdom, Canada, Netherlands, Ireland and Poland.

well in the economy, how do you explain that doing well in the economy and still people are demonstrating massively on the streets. I have to tell you that the demand that those students were posting

was echoed throughout a society anxious to ensure that all children and young people are given not only basic education but also appropriate standards of quality, over and above what a family can pay.

And I have to tell you that when a country is so if I would say proud of what we have been able to build, coming from a dictatorship, to build a sustainable, mature democracy, with good economic performance. Well people believe that well now it's our time. We really deserve to have quality education for all.

Chile has an important task here. Today we are the OECD country ranked as being most dependent on private funding for its higher education: exactly 85.4 per cent. In Korea, Japan and the United Kingdom, the reliance on family contributions is considerable, but much less than in Chile.

More State investment in education is therefore crucial for a society aiming at equitable and sustainable development. I know that there's also a discussion here in the United States about education and the debts that the students have now.

Chile must remedy the shortcomings of the existing system and provide guarantees of the principles underlying our right to education: that is integration, universality and quality.

This is why we have initiated this structural reform which is already under way. Our proposals concern various aspects:

- Improvement of public education.
- An end to discriminatory selection of students, an end to profit-making by establishments receiving public funds and an end to copayment by parents in institutions with mixed financing. In other words, we want families not to have to pay for their children's education in an establishment receiving State funding.
- Creation of two new State universities. There will be the creating of in regions where there's no public university.
- Institution-building and improved coverage of pre-school education.

In addition, we are guaranteeing access to college for the most vulnerable students through a special program of access to higher education. And we are improving technical education throughout Chile, under the auspices of regional universities and with education projects reflecting the economic and productive characteristics of each territory.

What is our goal?

To guarantee that all students in Chile without exception can obtain quality education free of charge.

What we really want is to not lose any of those talents, capacities that people have, and are not distributed according to the income of the family, so we need everyone to have the opportunity of a good education, and then to contribute to the country's development.

Private providers of education may continue to participate, if they meet quality standards, ban all forms of discrimination and assume the responsibility and the obligations incumbent on a public service.

Of course, the State must play the leading role in both the delivery and regulation of education.

This will produce better informed citizens, promote social mobility, equity and inclusion and allow Chile's growth to depend not only on its natural resources but also on the knowledge of its people.

And this brings me to another focus of my Government: development of production and competitiveness.

We know that productivity increases slowly in Chile. And we also know that innovation is the main trigger of long-term growth. We must therefore add more knowledge, more complexity and more innovation to our economy and also involve those who are not participating today or are participating below their potential.

We must also diversify our production matrix. In addition to the exploitation of our natural resources, and particularly copper, other production sectors must contribute relatively more to the generation of wealth and economic growth.

In order for this to happen, manpower training is essential. Accordingly, we have set in motion initiatives to expand the coverage, the contribution to productivity and the relevance of training for work.

Through specialized and targeted plans, we are making a special effort to generate suitable incentives to increase the participation of women and young people in the world of work.

In Chile, these two groups have the lowest rates of participation in the labor market: 54.6 per cent for women and 37.1 per cent for young people. These figures are respectively 7.7 and 10.3 percentage points below the OECD average.

In addition to investment in human capital, we shall increase investment in science, technology and innovation, offering incentives for their application to the solution of the country's problems.

We must implement a strategy that takes into account the conditions, strengths and needs of our country. A strategy based on research and innovation, in which public/private initiative is essential.

In this context, we have announced two powerful programs that go to the heart of economic activity: The Agenda for Productivity, Innovation and Growth and the Agenda for Energy.

The Agenda for Productivity, Innovation and Growth focuses the development strategy for diversification of the production matrix; inclusion of more people in the labor market; incorporation of new economic sectors in our basket of exports; stimulus of our strategic areas; support for small and medium-size enterprises; and creation of quality public infrastructure.

This extensive agenda includes a series of measures for which the experience of the United States will be very useful to us.

For example, this agenda envisages a national network of Business Development Centers, which will provide comprehensive advice to help small and medium-size enterprises to improve their business models.

I know that you have Small Business Development Centers, which are our inspiration, and we are already cooperating in connection with this project.

I shall not describe the whole agenda, which is lengthy and available to the public, but I do want to add that we shall also have a system of clusters to support the productive diversification of our economy and the expansion and strengthening of the sectors already consolidated.

Through these actions, we shall finance public goods to buttress significant investment projects, with a focus on sectors with high potential for growth and job creation.

However, while setting new productivity targets, we are also aware that Chile faces considerable energy challenges.

Chile imports 60 per cent of its primary energy. This means that our country is sensitive to price instability and volatility in the international markets and to supply restrictions.

We must invest in infrastructure and new generation and transmission projects in order to reduce this dependency. This has not been happening in recent years. And this means that we have not incorporated basic energy that we can use to guarantee a reliable supply in the short and medium term.

We are aware of the urgent need to encourage projects to reduce the energy deficit and we have said that we shall strongly support all initiatives that comply with the rules in force and are a good fit in our regions. In this area too, the State and the private sector must work together.

This is a key point, because one of the obstacles to the sector's growth is the lack of "social permits" for some projects.

There are two important challenges here: to strengthen the energy institutional structure and to work to reconcile the interests of local communities with those of the energy generation and transmission projects. This means working at an early stage, following clear rules, to ensure that the development of these projects is feasible in the medium and long term.

We are therefore working on a plan of territorial development allowing us to decide which projects can be located and where. We want to see all stakeholders together to define sort of an area of development so we can get into some agreements with that.

However, we also face the challenge of improving competition in the energy market and encouraging new players to enter the market.

On this visit, we hope to be able to study the experience of the United States, from which we have much to learn about gas distribution, renewable non-conventional energies, energy efficiency and good practices.

I want to stress this: it is urgent for Chile to ensure reliable and efficient energy development at competitive prices but at the same time to use our renewable resources in a sustainable and non-polluting manner.

This is the meaning of our energy agenda: ensuring that the country will have a diversified, balanced and sustainable energy matrix.

We aim to reduce energy prices, ensuring greater competition, efficiency and diversification in the energy market.

We shall ensure that 45 per cent of the electricity generation capacity that we install between 2014 and 2025 comes from renewable non-conventional energy sources, so that these account for 20 per cent of Chile's energy matrix within a decade.

In addition, we have proposed that energy efficiency should be a State policy, the rule rather than the exception. Our goal is for us to be able to reduce our consumption by 20 per cent by 2025. We are talking of a total of 20,000 GW/year.

And I know that, here too, you have much to teach us, since the Energy Policy Act of 2005 attaches great importance to efficiency.

Ultimately, the goal of this agenda is to give certainty to all relevant players, to increase predictability, to reassure communities and to introduce clarity into the rules for investors.

Dear friends,

I know that this is an extensive program of change. However, the point is that Chileans want to implement it while preserving the growth and democracy governance that we have built with considerable effort.

Consequently, our fiscal policy will continue to be guided by the policy of structural balance, because the commitment of new ongoing expenditure must always be linked to ongoing revenue. This is the first responsibility of a State towards its people.

For this reason, in view of the need to undertake a structural reform of education and other social welfare requirements, we shall be implementing a tax reform that will give the State the necessary revenue, on a sustainable basis, equivalent to 3 per cent of GDP.

In addition to providing ongoing revenue, the goal of the reform is also to improve income distribution and tax equity.

In Chile, we have a sad paradox: the gap between the income of the richest and the poorest households is not reduced after payment of taxes. This is a problem that we must solve as a country.

Under this reform, currently going through Congress, those with the highest incomes must make a greater effort to contribute to public revenue.

This is a well-structured reform, with well-designed incentives, to be introduced gradually.

Some have tried to describe this reform as anti-growth. I should like to say that, when the developed countries had a per capita income similar to that of Chile today, most of them had tax burdens considerably higher than Chile's and tax systems that helped to redistribute income.

Those countries developed as they collected higher taxes and provided their citizens with a much higher standard of living.

Chile has room for improvement as regards taxation. In 2010, Chile's tax burden was 18.4 per cent and the average was 21.6 per cent for OECD countries which at that time had a per capita GDP similar to that of Chile.

There is no reason why Chile cannot follow the same path. The tax reform that I have described may not please everyone, but it is essential if we are to tackle the inequalities and continue to develop.

It should be noted that, the expected effect of the higher taxation on public saving and training of human capital will be more than offset the short-term effects on investment.

Moreover, the income tax increase will have little or no effect on investment.

Chile is an active player in international financial markets, with a low level of risk. Thanks to our macroeconomic policies and fiscal soundness, we have a low risk classification at the global level and are the economy with the lowest risk in Latin America.

We have no reason to fear that a tax reform earmarked for investment in human capital would alter our economic development course.

Taxation is only one of the factors affecting investment. And it is far from being the most important one. Studies on the subject conclude that the most important factors for investment are: (1) social cohesion and political stability; (2) the quality and credibility of public institutions; (3) the accessibility and competitiveness of markets, including financial markets; (4) infrastructure; and (5) appropriate economic legislation.

And in all these areas we are meeting our challenges.

I shall not describe in detail all the tax reforms, but I do wish to say that they have four goals:

1. To increase the tax burden in order to finance ongoing expenditure with ongoing revenue: the educational reform in which we are engaged, other social welfare policies, and reduction in the structural deficit in fiscal accounts.
2. To improve income distribution and tax equity.
3. To introduce new and more efficient ways of encouraging saving and investment.
4. To implement measures to decrease tax evasion and avoidance.

I know that one aspect of this tax reform will be of interest to you: the repeal of Law 600 concerning the Foreign Investment Statute, new investment projects and a tax invariability clause.

This legislation was adopted in 1974, in a very different political, social and economic context, when there was a dictatorship in Chile and our international prestige was at a very low level. The lack of democracy, lack of freedom and unreliability of our institutions meant that mechanisms such as this were needed in order to encourage foreigners to invest.

After 25 years of democracy, with our solid international prestige, in a context of good governance, democracy and freedom, we no longer need this mechanism to make foreign investors look favorably on the idea of investing in our country.

The institutional stability of our country enables us to take the decision to discontinue this mechanism without affecting foreign investments in Chile.

I should like to share some figures with you.

Chile has trade agreements with 61 countries. These countries account for 63 per cent of the world's population and 85 per cent of global GDP. In addition, Chile ranks 34<sup>th</sup> out of 144 economies in the World Bank's Doing Business index.

As regards to Chile as a place for doing business, I should like to say that in 2013 our country was among the first 20 economies receiving foreign direct investment; it ranked 18<sup>th</sup>, according to the United Nations Conference on Trade and Development.

Our foreign policy has also changed, we are also trying to have new emphasis new focus, and we are looking at Latin America and the Caribbean as a very important option. Latin America is our natural space, and from there we shall reach out to the world. We realize that it is a diverse region, but we must respect the different paths to development. Differences are not obstacles to convergences. We believe that Chile can help to build bridges of understanding over and above differences of approach and that, as I have noted on so many occasions, the region presents the most united face possible to the world. This vision precisely explains our conception of the Pacific Alliance: an economic integration project that does not preclude or oppose other integration schemes. A few days ago in Mexico, I reaffirmed our commitment to the Pacific Alliance.

Similarly, we have promoted convergence and dialogue between the Pacific Alliance and the MERCOSUR countries, without watering down the Alliance's specificity or its rates of progress.

We shall pay special attention to Latin America and we shall continue to develop our excellent political, economic and cultural relations with our partners in Europe, Pacific Asia and, particularly, North America.

Our relations with the United States are characterized by their solidity, trust and maturity, reflecting important shared principles, values and interest. We believe in the strength and relevance of democracy and the rule of law; and we defend the rights of individuals and their fundamental freedoms. In addition, we share a common vision of the importance of free trade in ensuring development and stimulating investment and we are working together to create a multilateral trade system based on clear, predictable and transparent rules.

Chile and the United States must move forward in our relationship. I am sure that, after this visit, new dimensions and areas of understanding will emerge for a new association focused on scientific and technical cooperation, innovation, energy and education among other things.

Dear friends,

At the outset of this speech, I spoke of the importance of trust in ensuring a country's development.

This trust also depends on the continuous enhancement and expansion of the democratic rights of the citizens.

This is why I have advocated a new Constitution.

Our existing Constitution dates from 1980 and was adopted in conditions which today nobody could describe as democratic. Despite the numerous amendments introduced over the past decades, it still has this "deficit of origin", if I may use this term.

In addition, it contains provisions limiting electoral majorities, allowing minorities to tie with majorities. This is contrary to one of the basic tenets of any modern State: respect for the voice of the majority and not allowing a few to veto what a nation wants. In addition, this forced tie makes it difficult for the country to democratically resolve its differences.

A fully democratic social covenant is an essential prerequisite for trust in the institutions, trust in the State and trust in politics. And it is essential to a healthy society in which entrepreneurship flourishes and private initiative has certainty and stability for its action.

While we have been laying the foundation for a new Constitution, which is necessarily a lengthy process of dialogue and participation, we have not remained idle.

After more than 20 years of discussion, Chile has abolished a major exclusion: starting with the next presidential elections, Chileans living abroad will be able to vote.

In addition we have drafted legislation reforming our binomial electoral system, which in practice allows a tie between majorities and minorities in terms of legislative representation, replacing it with a proportional system providing for higher levels of competition and representativeness, especially for the smaller parties, and I should add also trying to introducing more balance, more gender balance in our parliament. We are very far away from that.

We are adopting this course because we are convinced that the enhancement of democracy is the key to a more solid society. A society anchored in respect for individuality and difference, but

which guarantees to each person appropriate standards of respect and wellbeing. And also a society which has legitimate institutional mechanisms for resolving its differences.

It is in this space of respect and trust that collective projects can evolve, linking individual expectations and initiatives with the great dreams of society.

The transformations that I have described here will require time and gradual introduction, so that they can mature with dialogue and democratic participation and can be anchored durably and legitimately in our society and in our institutions. So that they can enjoy the support of a sound economy and legitimate institutions. Many of them will last beyond a government term of office, because we are thinking about development in the long term.

Chile is not a populist country; we know that economic responsibility and democratic legitimacy are the only way to create lasting and equitable wellbeing for each of its citizens.

Dear friends,

At the Solstice, which occurred last week, the indigenous cultures of Chile celebrate the New Year, as is the case in many places. It is the beginning of a new cycle of collective work, organization and commitment, looking forward to a good harvest.

This is the task on which, in this new cycle, we have embarked as a society. And, like the seasons, it represents not disruption but the wisdom to recognize the tasks that are fitting for each time.

Thus we shall sow a seed of social capital, cohesion and wellbeing with deep roots, which is the basis of all solid and sustainable development.

I know that the great task on which Chile has embarked in my term of office will last for several calendars but it will be a harbinger of spring, in all its splendor. This is the reason for our optimism and our untiring work.

Thank you.