



Chile marches forward – into the unknown?

by Andrew Thompson

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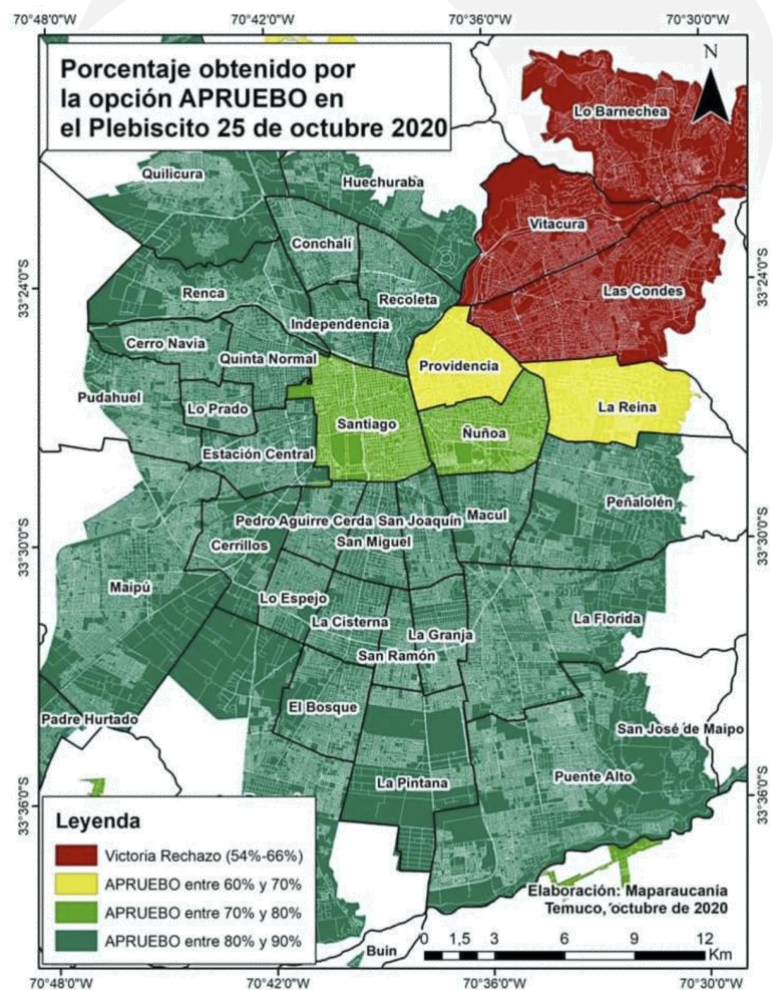
What happened?

Last Sunday 25 October Chileans voted overwhelmingly, with 78% support, for a new constituent assembly. It was a historic moment – but the stock market seemed unimpressed, with share prices dipping 2.7% on the following Monday.

The details

Santiago University economist Víctor Salas said the stock market’s “meh..” response spoke not of catastrophe but of moderate concern over what actually happens next to the economy. For a year the country has been swept by street protests against inequality and for better salaries, pensions, and health and education provision. The good news is that popular anger and mistrust of the political system has found a mechanism to make real changes. Compared to its peers Chile may be out in front in the race to rethink and reform ossified political systems and to find a more inclusive economic model.

The less good news is that the process will be complex and the outcome hard to predict. The business community faces a period of uncertainty. A 155-strong constituent assembly will be



Santiago goes green (% voting to ‘approve’ a new constitution in green, vs those voting ‘reject’ in red). Source: Latin America Risk Report

elected in April next year, using proportional representation and a 50:50 gender balance. It will have nine months, with up to a three-month extension, to write a new constitution, which must be approved by a two-thirds majority, and which will be submitted to a new referendum due in mid to late 2022. This two-year process will overlap with presidential and congressional elections due in November 2021.

While non-party independents and people outside the country's political establishment will be encouraged to stand, the likelihood is that the constituent assembly will be dominated by coalitions based on Chile's existing political parties. There is a danger that the assembly, without direct responsibility for government, may agree to incorporate wide ranging social and labour rights without considering how they will be funded. A case in point is Brazil's 1988 constitution which mandates high obligatory levels of public expenditure on specific items and thereby leaves very little room for budget flexibility. It also offers generous labour rights, but only on paper –these are denied to as much as half the labour force which is unprotected because it is employed informally.

In some ways the biggest challenge will be the one facing the new government that is set to take office in March 2022. Barring any mishaps, during its first year in office the new constitution will come into force. Based on current polling, the next government may be one of the centre-left; it is this future administration which will face major demands to deliver increased social spending in a sustainable manner.

What does it mean?

Chile has for long been seen as the “poster boy” for an economic system based on free market capitalism. The next two years may see it trying to find a pathway to a more socially inclusive, perhaps even “Scandinavian style” model, for a mixed economy. The experiment will be closely watched.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, [La Rambla Research](#).