

CHILE: Political implications of pension withdrawal initiative

- The government has suffered a heavy defeat by failing to block an opposition-led initiative that would allow people to dip into their retirement savings.
- While immediate-term governability can be restored by a likely cabinet reshuffle, President Sebastian Pinera is left permanently weakened, while the governing coalition is increasingly divided.
- The episode is an early warning indicator that populism has germinated out of Chile's unique double-hit crisis; the upcoming constitutional debate will determine whether populism takes root.

On 22 July, the Senate voted overwhelmingly in favor of an opposition-tabled initiative that would allow people to withdraw up to 10% of their savings from the private pension (AFP) system to support themselves through the economic crisis triggered by the Covid-19 pandemic. The government has strenuously opposed the initiative on the grounds that it is regressive and risks undermining retirement savings for the less well-off, while leaving the country worse off; the most recent government estimate is that the initiative will cost 2.3% of GDP. The Senate's approval follows two earlier votes in the lower house that also went against the government. In all three votes, members of the governing *Chile Vamos* (CV) coalition have defied orders and voted in favor of the initiative.

Next steps

The bill went back to the lower house on 23 July for a further vote that is expected to pass easily – possibly with even greater CV backing than previously. President Sebastian Pinera could in theory still veto the bill, though in practice this is highly unlikely given how unpopular a veto would be. The other route to block the bill would be to file a challenge at the Constitutional Court (TC) but neither the executive nor the CV will be keen to risk public ire by doing so; now would there be any guarantee that any legal challenge would be successful, especially as the 29 votes cast in favor in the Senate amount to a two-thirds majority.

Pinera

The 22 July vote is a direct blow to Pinera's already-weakened authority. The combination of the 2019 social unrest and the Covid-19 crisis has left Pinera looking increasingly adrift. The pension withdrawal initiative cements Pinera's political fragility. A cabinet reshuffle – now a question of when, not if – will help to restore some balance within the administration, but there is no getting away from the fact that Pinera is now a lame duck with 20 months still to go of his presidency. Any reshuffle would be the fourth since October. The focus now must be to improve the immediate health situation and then ensure next October's constitutional referendum runs smoothly.

Nicholas Watson

Managing Director
+44 20 7186 8875
nicholas.watson@teneo.com

Comite Político

By extension, the inner cabinet (*Comite Político*) led by Interior Minister Gonzalo Blumel, is left critically damaged following the Senate vote. Blumel and Claudio Alvarado, Secretary to the Presidency (Segpres), failed to persuade five CV Senators from voting for the bill. Finance Minister Ignacio Briones must also share some of the blame for failing to come up with a convincing enough economic support package for the middle-classes that might have averted this defeat. Blumel and Briones both suffered double-digit drops in their approval ratings from June to July.

Coalition troubles

At the same time, the initiative has sparked increasing fractiousness within the CV coalition. Two of the dissident CV votes came from National Renovation (RN) Senators, while three were from the Independent Democratic Union (UDI). Blumel and Briones both hail from the Political Evolution (Evopoli) party. Not only are the three parties at loggerheads with each other, but they also face internal divisions, while Pinera's weakness renders him unable to marshal them. The absence of a strong guiding pole is also fueling early jostling for the 2022 succession; the (very) early front-runner for the Right – the UDI's Joaquin Lavín (mayor of Las Condes) – stoked internal divisions by coming out in support of the pension withdrawal initiative.

Whether the more fragmented state of the CV is a sign of deeper changes for the future of the large coalitions that have dominated the political system since the return to democracy remains to be seen. Fragmentation has already been visible for some time on the Left; even though the pension initiative represents a rare example of opposition unity, divisions remain alive across the Left.

Populism

The other major takeaway from the episode is that Chile's unique double-hit crisis – an outbreak of pent-up social malaise followed by the Covid-19-induced economic crisis – is resulting in a flirtation with populism. Allowing people to dip into their pensions is tempting, especially as pensions are seen as inadequate anyway, but it defies most objective, technical advice, while failing to measure the long-term consequences. However, the 2019 unrest has made it much more difficult to make this case. The country is obviously also in the middle of an acute public health crisis and recession, which makes long-term arguments for prudence less convincing.

Last year's crisis also left the political class deeply discredited, which means many politicians from across the political spectrum are anxious to win back public favor. The latent threat of further unrest adds to the political pressure, while undermining the scope for more reasoned debate; on the night of 14 July ahead of the second lower house debate on pension withdrawals, there were around 60 reported acts of violence, including two attacks on police stations, despite a Covid-19 curfew being in place.

In this context, the key questions in the months and years ahead are a) the extent to which populist initiatives enter the future constitutional debate; b) whether and how they can be checked; and c) whether more measured public policy alternatives – if they can be implemented – can satisfy public demand for change. Before a constitutional assembly is set up in 2021, the referendum on a new constitution must take place; campaigning should begin in August.

[Client Portal >>](#)

Nicholas Watson

Managing Director
+44 20 7186 8875
nicholas.watson@teneo.com

© 2020 Teneo. All rights reserved. This material was produced by Teneo for use solely by the recipient. This communication is intended as general background research and is not intended to constitute advice on any particular commercial investment or trade matter or issue and should not be relied upon for such purposes. The views expressed here represent opinions as of this date and are subject to change without notice. The information has been obtained from sources believed to be reliable but no guarantees can be given as to its accuracy, completeness or reliability. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or otherwise, without the prior consent of Teneo.