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Chilean President Bogged Down by Concurrent Corruption Cases

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A spate of corruption scandals has grounded what had been a soaring start to the year for President Michelle Bachelet, pushing the center-left leader’s approval rating to new lows and leaving her ambitious reform agenda very much in limbo.

Complicating matters even more for the president are a series of natural disasters that have befallen the South American country in recent weeks. Freak flooding in northern Chile’s normally bone-dry Atacama desert killed more than 25 people and left thousands homeless in late March. More than 100 others are still missing. Earlier in the month, a major volcanic eruption took place near the southern city of Pucón, a popular tourist hub. Elsewhere in the country, authorities have had to battle late-summer forest fires, including one near the port city of Valparaíso, which suffered extensive damage in a separate inferno last April (NotiSur, May 23, 2014).

The overlapping problems contrast sharply with the high note Bachelet struck at the beginning of the year, when she oversaw passage in Congress of three major policy initiatives and submitted a fourth—a bill to ease Chile’s blanket ban on abortions—all in the span of just a few weeks (NotiSur, Feb. 13, 2015). Chief among those victories was passage of a bill amending the much-maligned but long-entrenched binomial majoritarian system that Chile alone uses for electing parliamentary representatives (NotiSur, Feb. 10, 2012). Congress also approved a handful of government-proposed education reforms and passed a civil-union law applicable to both heterosexual and same-sex couples.

The president’s hot streak coincided with an unfolding campaign-finance and influence-peddling scandal dubbed Pentagate, which has been particularly damaging for the hard-right Unión Demócrata Independiente (UDI), the largest of Chile’s two conservative opposition parties. The scandal involves the multibillion-dollar holding company Grupo Penta, whose principal shareholders, Carlos Alberto Délano and Carlos Eugenio Lavín, have close ties to the political right. An investigation into alleged tax fraud by the company also uncovered evidence of illegal campaign financing, mostly involving UDI-affiliated congressional and even presidential candidates.

The Bachelet administration was careful not to gloat, perhaps since one of its own high-profile affiliates, Andres Velasco, a 2013 presidential candidate who served as finance minister during Bachelet’s first term as president (2006-2010), was also named in the ongoing investigation. Still, the corruption issue seemed, for all intents and purposes, to be a burden the political right was destined to bear.

Inside information?

Several weeks later, however, a scathing magazine article alleging possible wrongdoing by Bachelet’s son, Sebastián Dávalos, saddled the president with a bombshell corruption scandal of her own. The February Qué Pasa piece suggested that Dávalos used his privileged connections to help his wife, Natalia Compagnon, secure a US$10 million loan for which she might otherwise not have
qualified. Banco de Chile issued the loan on Dec. 16, 2013, one day after Bachelet was re-elected and less than two months after Dávalos met personally with the bank’s vice president, Andrónico Luksic, one of Chile’s wealthiest business magnates and a Bachelet campaign supporter.

The case has drawn scrutiny in part because of how Dávalos and Compagnon obtained the loan but even more so because of how the money was spent. Compagnon owns 50% of the company Exportadora y de Gestión Caval Limitada, which used the money to buy agricultural land that it was able to resell, just weeks later, for a several-million-dollar markup. Why the quick price increase? Because the land in question was in the process of being rezoned for housing development. What investigators are now trying to determine is whether Dávalos and Compagnon had insider information about the zoning changes or whether Dávalos had any kind of influence on the area’s land-management decisions.

Dávalos insists he broke no laws but resigned on Feb. 13 from the post he had been given, following his mother’s return to power in March 2014, as a minor official in La Moneda, Chile’s presidential palace. "I understand the discomfort this situation has caused, and I accept that the damage done has harmed the president and the government of Chile," Dávalos announced. "I have no other option but to humbly seek forgiveness for this bitter moment." Several weeks later he and Compagnon resigned as members of the Partido Socialista (PS), the dominant party in Bachelet’s center-left Nueva Mayoría coalition.

President Bachelet responded to the scandal in a Feb. 23 press conference, saying she had no previous knowledge of the business dealings in question. "These have been difficult moments for me as a mother and president," she said.

Caso SQM
A month later, news of yet another percolating financial scandal began to spread, this time involving Sociedad Química y Minera de Chile S.A. (SQM), a mining company whose top shareholder, Julio Ponce Lerou, is a former son-in-law of Gen. Augusto Pinochet (1973-1990), the military strongman who headed Chile’s 17-year dictatorship.

Prosecutors suspect that SQM, like Grupo Penta, engaged in widespread tax evasion and illegal political campaign financing. On April 2, inspectors from the Servicio de Impuestos Internos (SII), Chile’s tax collection agency, presented prosecutors with a long list of companies and individuals, including government officials from the current and previous administrations, lawmakers from various political parties, and family members of politicians, who may have received illicit payments from SQM through the use of fraudulent invoices.

Bachelet, during a visit to communities in the north devastated by the recent flooding, urged the public to show restraint, to wait until the matter was properly investigated before jumping to conclusions. "[Don’t destroy] the reputations of people who perhaps never did anything," she said. "Let the investigation continue, and, if anything is discovered, then maybe the persons involved have a clear explanation. Why should there be any public lynching before we know what is going on?"

The scandals, nevertheless, continue to make headlines. They’ve also led to some significant soul-searching among observers who see the corruption issue as a systemic ill and a natural byproduct of the country’s grossly imbalanced economic and political structure. "Whether they’re from the left,
center, or right, the members of a small elite have the money and power in their hands," the Chilean magazine América Economía wrote in a late February editorial.

"Personal tragedy"

The situation is proving to be hugely problematic for Bachelet, who has even had to fend off rumors that she might resign. Support for the president now stands at 31%, down 13 percentage points in just two months, according to the polling firm Adimark. Only 29% approve of her administration as a whole. "This is a personal tragedy for Bachelet," Universidad de Chile political science professor Robert Funk told The New York Times earlier this month. "There was a sense of moral superiority around Bachelet, and now she’s struggling to regain legitimacy."

The president’s right-wing opponents, however, aren’t faring any better. Only 16% of respondents to the latest Adimark poll approve of how the conservative Alianza coalition is handling affairs. The Alianza groups together the UDI and more moderate Renovación Nacional (RN).

Fallout from the Pentagate scandal forced the UDI’s then party president Ernesto Silva to relinquish his post last month. Silva made the decision four days after the judge handling the Grupo Penta case ordered pretrial detention for the company’s primary owners, Délano and Lavín, two former managers, and Pablo Walker, who served under President Sebastián Piñera (2010-2014) as undersecretary of mining and is accused of accepting bribe money from the company.

One group that does appear to be benefiting from the suddenly ubiquitous corruption allegations is the Movimiento AC, a coalition of civil-society groups and left-leaning politicians who are calling for the formation of a constituent assembly to draft a new Constitution. Chile’s Constitution was drafted and implemented during Pinochet’s civil-military dictatorship. As such, say critics, the document is inherently illegitimate, regardless of the many revisions it has undergone since democracy was restored in 1990.

Members of the movement held a demonstration on March 22 in Santiago’s Plaza de la Constitución demanding the issue be put to a plebiscite. "We have a democracy that isn’t sustaining itself, a democracy that allows corruption, a model that was flawed [from the start]," rally participant Karol Cariola, a former student leader who is now a congressional deputy with the Partido Comunista de Chile (PCCh), told reporters. "The only way to validate a new Constitution, both in form and content, is by taking a popular, constituent, participative, and truly democratic approach."

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