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Corruption Scandals Prompt Extreme Cabinet Makeover in Chile

by Benjamin Witte-Lebhar
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Chilean President Michelle Bachelet is hoping a pair of nationally televised speeches and a major Cabinet shakeup—all delivered in a span of three weeks—will breathe new life into her flagging presidency, which has been thrown off course in recent months by a cluster of corruption scandals.

One case involves her son, Sebastián Dávalos, who is accused of using his privileged connections to help his wife, Natalia Compagnon, secure a US$10 million loan (NotiSur, April 24, 2015). Compagnon is half-owner 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.

The Caval case, as its been dubbed, coincides with two other corruption scandals: one involving Grupo Penta, a multibillion-dollar holding company; the other Sociedad Química y Minera de Chile S.A. (SQM), a mining firm whose top shareholder, Julio Ponce Lerou, is a former son-in-law of Dictator Gen. Augusto Pinochet (1973-1990). Both companies are being investigated for tax fraud and for using fake invoices to illegally fund political campaigns. Many of the politicians linked to the scandal are in the conservative opposition. But the cases are also presumed to involve members of Bachelet’s center-left Nueva Mayoría coalition.

The scandals, combined with a spate of natural disasters and an ongoing economic slowdown (the economy grew just 1.8% in 2014, the lowest rate since 2009, according to the Banco Central) have generated a sense among many Chileans that things just aren’t going well. The president’s approval rating has suffered as a consequence, dropping to 29%, down nine percentage points since last November, the Centro de Estudios Públicos (CEP) reported earlier this month. The situation has also taken a toll on Bachelet’s ambitious reform agenda, which is now very much in limbo despite a string of policy victories she was able to chalk up in January, just before the Caval scandal broke (NotiSur, Feb. 13, 2015).

Anti-corruption measures

Bachelet was vacationing when the allegations against her son and daughter-in-law first appeared in the press. Rather than cut her holidays short to address the issue, the president kept her distance—and silence—until Feb. 23, more than two weeks later. "These have been difficult moments for me as a mother and president," she acknowledged. She also took a wait-and-see approach to the SQM scandal, which began making headlines a month later. "Let the investigation continue, and, if anything is discovered, then maybe the persons involved have a clear explanation," she told reporters in early April. "Why should there be any public lynching before we know what is going on?"

But after weeks and weeks of constant corruption coverage in the media and constant impropriety talk in political circles, it became clear that both critics and allies wanted Bachelet to change tack, to send a message that she is somehow taking charge of the situation. "What’s needed to face this
crisis of confidence is a government with major political authority. ... Unfortunately that’s not what we have here," political analyst Sergio Muñoz wrote in an essay published April 20 on the Radio Cooperativa Web site.

The president finally answered those calls on April 28, promising in a nationally televised prime-time speech to take "severe measures" against corruption, influence trafficking, and conflicts of interest. "Some will want to resist [the changes] so that things stay the way they are," she told the Chilean public. "But my principle is clear: democracy and politics belong to everyone, and we cannot tolerate them being co-opted by the power of money."

Bachelet called for strengthening the oversight powers of bodies such as the Servicio Electoral and Tribunal Calificador de Elecciones; blocking companies from making campaign contributions of any kind; tightening restrictions on nepotism; cracking down on illegal business practices within companies; and establishing clear legal mechanisms to remove elected officials who engage in corruption-related transgressions. "All of those elected representatives who violate the public trust will no longer be able to represent us. ... They will lose their seats," she said.

The night’s biggest show-stopper, however, was Bachelet’s promise, starting in September, to begin a "constituent process"—a national dialogue of sorts—to replace the country’s Pinochet-era Constitution. "[The process] will be open to the public through dialogues, debates, consultations, and councils and will lead to a new Constitution, one that is fully democratic and citizen-oriented and that we all deserve," she said.

Cabinet overhaul
A week later, Bachelet again seized the political spotlight, this time with a Cabinet overhaul that she announced not, as might be expected, in a press conference or television address but during a friendly sit-down interview with famed variety show host Mario Kreutzberger. "A few hours ago I requested the resignation of all the ministers and I will take 72 hours to decide who will stay and who will go," she told Kreutzberger, better known as Don Francisco, whose stunned reaction, reproduced in numerous Internet memes, caused something of a social-media sensation.

Bachelet did not, in the end, send her entire staff packing, as her unconventional announcement seemed to suggest. Education Minister Nicolás Eyzaguirre and Foreign Minister Heraldo Muñoz, for example, were allowed to keep their jobs. But she did sack five ministers and shuffle another four into new positions, making it the most thorough Cabinet revamp since Chile’s return to democracy in 1990. Among those who lost their jobs outright were Rodrigo Peñailillo, the interior minister; Álvaro Elizalde, Bachelet’s top spokesperson; and Alberto Arenas, the finance minister, a position that has historically been immune to such midterm personnel changes. All three are considered close confidantes of the president and are members of her Partido Socialista (PS).

Bachelet turned the Ministerio de Hacienda (Finance) over to Rodrigo Valdés, an economist with a degree from the Massachusetts Institute of Technology (MIT) and a work history that includes stints at both the International Monetary Fund (IMF) and Chile’s Banco Central. She chose Deputy Marcelo Díaz (PS) to replace Elizalde as government spokesperson and gave the interior minister post to Jorge Burgos of the centrist Partido Demócrata Cristiano (PDC). Burgos had been serving as head of the Ministerio de Defensa, which is now led by José Antonio Gómez, a Partido Radical Socialdemócrata (PRSD) veteran who had been serving as justice minister.
Analysts say the appointments of Valdés and Burgos, in particular, signal a shift to the center for Bachelet, who swung noticeably left during her 2013 re-election campaign by promising deep reforms to tackle income inequality and by expanding her coalition, formerly known as the Concertación, to include far-left factions such as the Partido Comunista de Chile (PCCh). The coalition was rechristened the Nueva Mayoría. "Though she has not abandoned her campaign promises, it is clear that she has applied the brakes to her ambitious reform agenda and has accepted that restoring economic growth and expanding her support base is her first priority now," political scientist Patricio Navia, a professor at New York University, told The Wall Street Journal.

"Fascination with ambiguity"

The president made a third public appearance 10 days later, on May 21, a national holiday that is marked annually by a presidential State of the Nation address before Congress. The president’s strategy, in this case, was to offer a "very pragmatic, very concrete message," an administration source told the online news site El Mostrador. "The right had expectations regarding the economy and the left regarding politics, but the president opted for a social emphasis, a message that lets the people know that [the government] is working for them," the source added.

Bachelet dedicated much of her speech to highlighting the advances her government has already made, a list that includes passage last year of a major tax reform (NotiSur, Aug. 8, 2014) and approval earlier this year of initial education reforms, a bill to eliminate the binominal majoritarian system for electing congressional representatives, and civil-union legislation that extends marriage-like benefits to people (including same-sex couples) in common-law relationships.

She also outlined a number of very tangible, household-expenses-related measures she plans to implement in the near future. Among other things she promised to eliminate monthly health-care payments for retired people; reduce electricity prices for residents in areas where power plants are located; provide fixed contracts for nearly 9,000 public workers who currently work on a freelance basis; and, starting next year, guarantee free higher education for approximately 264,000 low-income students.

Bachelet’s May 21 address—together with the anti-corruption speech, "constituent-process" announcement, and Cabinet redo that preceded it—have succeeded in one major regard: for now, at least, Chile’s media outlets, talking heads, and political players have eased up on their night-and-day coverage of the various corruption scandals and have instead turned their attention to the president. What they are saying, however, isn’t necessarily flattering.

The political right, after being beaten so soundly in the last election (NotiSur, Nov. 22, 2013, and Dec. 20, 2013), is all too happy to kick Bachelet when she’s down. "To be frank, of all the [presidential] addresses I’ve been present for, this one was the weakest," Sen. Juan Antonio Coloma of the far-right Unión Demócrata Independiente (UDI) told reporters after the May 21 speech.

Perhaps more problematic for the Bachelet administration are complaints coming from within her own coalition, which is particularly divided regarding her plans for a new Constitution. The various Nueva Mayoría factions are keen to replace the existing Constitution, which dates back to 1980, but disagree on the mechanism to do so.

Many coalition members, particularly those on the far left, are calling for a constituent assembly to be formed. With her "constituent process" announcement, Bachelet seems to be proposing another
path, though what exactly her plan entails remains to be seen. "This government has a fascination with ambiguity that is bad for politics in general," Deputy Gabriel Boric, a former student leader who was elected to Congress in 2013, wrote in a May 21 Twitter message.

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