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Enhancing the Political
Feasibility of Health Reform:

The Chile Case

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Reform: The Chile Case

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ACRONYMS

Acronym	Spanish	English Translation	Sector
SEGPRES	Secretaría General de la Presidencia	Executive Office of the Presidency	Public
SNS	Sistema Nacional de Salud	National Health System	Public
SO	Seguro Obrero	Pension and Health Care Plan for Blue-collar Workers	Public
SNSS	Sistema Nacional de Servicios de Salud	National System of Health Services	Public
SERMENA	Servicio Médico Nacional de Empleados	White-collar Workers Medical Service	Public
MINSAL	Ministerio de Salud	Ministry Of Health	Public
SS	Servicios de Salud	Health Services	Public/Regional
CM	Colegio Médico	Medical Association	Professional Association
COAJ	Comité Asesor de la Junta	Advisory Committee for the <i>Junta</i>	Public
COAP	Comité Asesor de la Presidencia	Advisory Committee for the President	Public
ISAPRE	Intitución de Salud Previsional	Private Health Plan	Private
AFP	Administradora de Fondos de Pensiones	Pension Funds Third Party Administrator	Private
SERPLAC	Secretaría Regional de Planificación y Coordinación	Regional Office of Planning and Coordination	Public/Regional
ODEPLAN	Oficina Nacional de Planificación	National Office of Planning	Public
DIPRES	Dirección de Presupuesto, Ministerio de Hacienda	Office of the National Budget, Ministry of Finance	Public
FONASA	Fondo Nacional de Salud	National Health Fund	Public
OPLAP	Oficina de Planificación y Presupuesto, Ministerio de Salud	Office of Planning and Budget, Ministry of Health	Public
DFL	Decreto con Fuerza de Ley	Executive Decree	
DL	Decreto Ley	Act	
ANEF	Asociación Nacional de Empleados Fiscales	Civil Servants Association	Union
CEPCH	Caja de Empleados Particulares de Chile	?	
FENATS	Federación Nacional de Trabajadores de la Salud	National Federation of Health Workers	Union

ABSTRACT

INTRODUCTION

For almost two decades now, several countries in the Latin America Region have embarked in a period of State reform with consequences for their social, political and economic spheres. In the case of the health sector, while there has been increasing consensus among policy makers, providers and users about the need for structural change, there has been no similar understanding on the content of a health reform agenda. The definition of the problems to be solved, the means to solve them, as well as the speed and scope of policy change continue to be contentious issues, as they each affect the interests of different groups and individuals. As a result, the political dimension of health reform formulation and implementation has come to the foreground as it has proven to be a key factor in determining the feasibility of health policy change as well as its final outcome.

The Chilean health reform implemented in the early 80's has brought the attention of academics and policy makers alike. Although the fact that it took place under a military regime makes it an exemption in the Region, the Chilean reform process has been emulated to some degree or another, both in process and content. Discussions about the effectiveness and appropriateness of the strategies used by the team of reformers in contexts with more open political systems have not reached an end, and continue to influence on going policy processes.

The careful analysis of the political context and the policy process within which health reform initiatives evolved in Chile, as well as of the actors involved, hopes to bring to light important lessons about the political strategies that have been put in motion by policy makers elsewhere in the Region interested in increasing the political feasibility of current health reform efforts.

POLITICAL ECONOMY CONTEXT

The study of any aspect of the various socio-economic reforms which were carried out during the 70s and 80s in Chile must take into consideration the institutional context within which these reforms were formulated and implemented. There is widespread agreement that a fundamental factor in successfully bringing about the quite sweeping reforms of the period was the fact that Chile was governed by a military regime which was able to present itself as a cohesive unit. It must be stated at the outset, however, that the military regime's cohesiveness was only apparent, and that reform policy proposals had to go through a quite strenuous process of discussion and alteration within the state apparatus before they reached final form. It is indeed one of the greater successes of the military government that it was able to *appear* to its *opponents* outside of the state apparatus as a "monolithic, fissure-less entity." One of the factors which contributed to this appearance of lack of disagreement within the government was the fact that the group within the regime which most consistently resisted moving too quickly with socio-economic reforms, was composed precisely by members of the armed forces, who could hardly be considered as plausible interlocutors with the opposition. Although a significant sector of the military in governmental posts was highly suspicious of the economic reforms fostered by the regime's technocrats, it never sought the support of those opposed to the regime outside of the government in order to combat the increasing predominance of the economic team. In this way, the opposition did not, and could not take advantage of the different factions which coexisted throughout the period within the state apparatus, and even in many cases within specific agencies of the state.

This is particularly true of the reform in the health sector: the military regime took power with a quite impressive degree of preparation in most areas, but in the health sector it originally lacked long term or even medium term policy projects. In this sense, it is fair to say that the reforms of the health sector which took place were constructed virtually from zero during the second half of the 1970's. This lack of preparedness meant that the number of options offered to improve the situation was relatively higher than in other areas, and that there were relatively more pockets of resistance to the de-centralising and privatising policies which were finally implemented: since the military regime did not have a previously designed package of reforms or policies aimed at resolving the crisis in the health sector, it was forced to consider various policy alternatives, forcefully pushed for by sectors within the state apparatus which did not always share the liberalising mentality of the economic team which subsequently gained pre-eminence.

At the same time, the majority of agents and agencies close to the health sector, and quite probably the population at large, were in agreement as to the need for some sort of reform. The notion that the health sector was in disarray was a widespread assumption at the time of the formulation of the reforms, thus facilitating the original impetus for change. Albeit, agreement as to the need for reform was coupled with dramatic disagreements as to the shape, content, pace, and degree that the reforms should assume. This includes disagreements between the various actors involved, and within the various agencies of the military government.

The analysis of the political-economy context presented in this document evolves from the general to the particular, focusing initially on the institutional and ideological framework of the military regime, followed by a review of the role and relative weight of various formal and informal groups within and without the state apparatus. Given the institutional structure of

the military regime, and the relative liberty of action which it had *vis a vis* civil society, special emphasis is placed on the formation of ideological and power clusters within the state apparatus, and the ways in which these clusters vied for pre-eminence. Also, emphasis is placed throughout on those sectors relevant to the reform in the health sector, and thus passing mention is made regarding the effects of the various events, actors, and agencies described on facilitating or impeding reform in the health sector.

POLICY PROCESS

The health sector in Chile was subject to comprehensive reform during the late 70s and the early 80s. Among the reform initiatives was the creation of private organisations that were allowed to collect mandatory contributions for health care coverage: ISAPREs. The reform, passed in 1981, gave workers and pensioners the option to enrol in any ISAPRE or to stay in the public health plan (FONASA). ISAPREs were to substitute the public health plan in the financing and provision of health care. Initially, ISAPREs were mandated to cover as a minimum preventive services and sick leave payments, however the benefit package for curative care was established by an individual contractual arrangement between the parties. In theory, there is competition between ISAPREs on the basis of the benefit package each organisation is able to offer for a certain premium. Contracts are established on individual basis.

The creation of ISAPREs in 1981 was part of a comprehensive reform plan for the health sector. ISAPREs were the first step down a road to privatisation. In the long run, the intention was to privatise both provision and financing of health care, creating only a demand subsidy for the low income population. However, for economic and strategic reasons the reformers decided to phase-out the implementation of the plan and were not able to complete it.

The social security reform that preceded the health reform, opened the gate for the private delivery of social benefits (Piñera, 1991). It set forth the principle, crucial for health care reform, that mandatory contributions are patrimony of the employee, and therefore he or she should be free to decide among alternative institutions to administer his/her funds. Private for profit institutions were created to manage the pension funds on a competitive basis, and this was a precedent for the private health insurance system. It was expected that competition among institutions would promote efficiency. The social security reform also separated contributions for health care from those for pensions and other benefits, an important stepping stone for the creation of ISAPREs.

By the time the health reform finally reached the public agenda, there were several factors that made it politically feasible. First, the political capital of the regime was high in 1980. The economy was booming and the regime had attained certain "legitimacy", particularly after the enactment of the Constitution. Second, the budgetary situation was more stable and allowed for policy experimentation. Third, the power of the Medical Association, other health professional associations, and unions in general, had been severely hampered (Vergara, 1985; Tironi, 1990). Membership to professional associations was no longer compulsory, and unions were not able to negotiate at industry wide level anymore. Fourth, the pro State military factions, through the *Comité Asesor* had played their last card with the nomination of one of its members as minister of Health without being able to revert the reforms, nor to improve the situation of the SNS.

Implementation went relatively smooth at its outset, since implementation did not need the cooperation of the bureaucracy for its success. The involvement of the bureaucracy was minimal, limited to the registration of new institutions according to pre-established rules.

Regulation was also minimal so enforcement did not require much resources or managerial capacity. The problems faced by the ISAPREs in their early years had more to do with the deteriorating economic context –due to a major crisis – than to any effective resistance to their implementation.

However, when attempts were made to complete the comprehensive reform plan with the creation of ISAPREs Populares and the privatisation of public hospitals, the initiative failed due to its complexity and its tardiness. The issue was presented to the political leaders in 1988, when a plebiscite to decide the continuation of the regime was going to be held and both the military and the economic team were focusing on consolidating and protecting their economic model.

CHANGE TEAM AND OTHER POLITICAL STRATEGIES

During the military regime, a small group of highly trained economists joined the government in the top policy positions with a comprehensive reform agenda aimed at transforming both the State and the economy under the premises of a neoliberal ideology. It can be argued that the conformation and use of this team by the military regime was a strategy in an of itself, since it facilitated reform formulation and implementation at the margin of the internal and (limited) external political bargaining among military factions and interest groups affected by the policy changes. Upon their arrival, the economists constituted themselves as a tightly closed team that shared the same ideology and policy agenda. The team distributed the different roles needed to pursue policy change according to each member's comparative advantage – such as long term policy formulation, the design of short term operational policy and legislation, political brokerage and even the recruitment of suitable policy makers - and not paying close attention to the expertise needed to reform a particular sector.

In order to empower itself and give political feasibility to its reform agenda, the team resorted to a series of strategies aimed at embedding both the team and its project within the State. First, it established vertical networks or close and durable links with senior members of government that would give the team political backing and support its proposals against the persistent resistance of most factions of the armed forces and allied interest groups. Second, they established horizontal networks with peers and sympathisers who occupied key positions in veto points, or moments/places in which their reform agenda could be at risk. These included the president's Advisory Committee, the legislative commissions, and senior positions in core ministries such as Planning and Finance. Finally, once the core members of the change team had established themselves in top level positions, the team resorted to the strategy of colonisation or a highly systematic and coordinated scheme of recruitment and placement of very motivated and trained professionals that shared the same ideology and the mission to bring about radical change.

While the characteristics of the political-economy context of the military regime brought nearly to a halt society's participation in favour or against policy changes, factions pro and against the reforms within the government did resort to the support of the few groups who could still exert a certain degree of influence or at least manifest their support for one position or another – always within the limits drastically established by the military regime. Thus, the change team sought and constructed links with those groups in society that either shared their ideology or benefited from the reforms' outcomes (i.e. the new business groups who were to benefit from economic liberalisation and deregulation), establishing State-society networks

that helped them counter the resistance to change stemming from similar networks that were pro-status quo (i.e. physicians and the Medical Association).

The team maintained a very close control over the reform process in different sectors through the direct involvement of senior members, as well as an informal network that cut across the bureaucracy establishing informal command lines over junior members sent to “colonise” the sectors under reform. Some of this control was later institutionalised by putting all senior operational units –i.e. undersecretaries – under the direct supervision of the Finance Ministry. Change team members gravitated around the Planning Office (ODEPLAN) where policy was studied, formulated and dictated. Follow up was made with the help of change team members or colonisers established in the different sectors under reform. This centre of gravitation was going to move to the Finance Ministry during the second and last phase of operation of the change team or what could be considered its “come back” after the economic crisis of the early 80’s until the end of the military regime.

During the process of health reform and the creation of ISAPREs, the team resorted to a series of process strategies aimed at enhancing the political feasibility of its policy agenda. Among them, the deliberate obfuscation of intended policy changes in order to avoid possible resistance at key policy nodes – such as legislative commissions. The division of opposition members by a selective use of policy concessions affecting individual interests and compensatory measures for powerful interest groups with the potential to bring the reform to a halt - such as the armed forces. Also, throughout the reform process, the team made a systematic effort to educate and indoctrinate elite decision makers about the premises for their proposed policy changes and the ideology behind the model that was being followed. This strategy was also directed toward attention groups and the attentive public in society through the dissemination of their ideas and motivations via sympathetic mass media and academic and business fora.

Following its ideological precepts – freedom of choice, apolitical decision making, a residual State, among others -, the change team believed it was possible to apply the model and experience of the pension system reform to the health sector. It succeeded only partially. While the implementation of the first part of the ISAPRE reform was successfully completed, its second phase – which was to bring about a health insurance system with universal coverage – was abruptly brought to a halt. Several factors are considered in the Policy Process section for explaining this outcome. Among others, the fact that there were technical, fiscal and political constraints, since Chile faced a period of economic restraint and the military regime’s political capital was rapidly eroding. But also, the ISAPRE team members lacked the brokerage ability of those who had led the pension system reform - its policy brokers having abandoned the government immediately after ISAPRE initial legislation was enacted – and their efforts were tardy.

The team failed in its attempts to eliminate special interests from the sector. Notwithstanding the institutional changes introduced by the team, the MA recovered its power and continued to be an influential actor to this day. Also, counter to the team’s ideological bearings, the health reform it promoted created other special interests that have gained considerable power over the years: Notably the *Asociación de Clínicas Privadas* and most importantly, the *Asociación de ISAPREs*. Both interest groups have successfully halted policy changes and new legislation aimed at correcting the ISAPRE system – with some of these changes aimed at making it function in the way envisioned by the change team.

The strategies used by the change team and the conformation of the team itself as a political strategy, were to influence policy making in following administrations in Chile and

elsewhere in the Latin American Region. The democratic government that was to follow the end of the military regime resorted to a similar strategy to continue the health reform by conforming a change team with highly qualified professionals empowered to bypass most of the sector's bureaucratic red tape. However, the strategies used by the democratic government to enact legislation for ISAPREs were both similar and different from those of their predecessors. Similar in the sense that initiatives to advance to the privatisation of the system were originated outside the bureaucracy and led by a change team conformed of outsiders. Different in the modus operandi of the change team itself, since it favoured consensus building and concessions, instead of insulation.

The new change team's composition reflected the inter-party compromise established in the governing coalition, and thus its level of ideological cohesiveness was not as strong as the former change team's. This eroded the team's members' power to enact reforms - and even to agree in a basic common model of health system to work for. The radically different institutional context within which the new change team operated, also hindered its potential to insert itself in the policy process and impose a particular agenda. The democratic government's attempts at ameliorating ISAPRES regulation and furthering the privatisation of the health care system were not abruptly brought to a halt, but simply ignored and dropped out of the public agenda.

INTRODUCTION

For almost two decades now, several countries in the Latin America Region have embarked in a period of State reform with consequences for their social, political and economic spheres. In the case of the health sector, while there has been increasing consensus among policy makers, providers and users about the need for structural change, there has been no similar understanding on the content of a health reform agenda. The definition of the problems to be solved, the means to solve them, as well as the speed and scope of policy change continue to be contentious issues, as they each affect the interests of different groups and individuals. As a result, the political dimension of health reform formulation and implementation has come to the foreground as it has proven to be a key factor in determining the feasibility of health policy change as well as its final outcome.

This study focuses on the State's capacity to bring about health policy reform. It concentrates on the elements that enhance the political feasibility of formulating, implementing and consolidating health policy change. The working hypothesis is that the State's capacity to bring about policy change, and thus the political feasibility of health reform is affected by three elements: 1) the political economy context of the country: its institutions, its rules of governance, its key interest groups, 2) the policy process: State-society relations, policy makers and interest groups acting upon the opportunities and limitations of the political contexts to pursue their policy agendas, and 3) the political strategy used by the reformers: the change team's political strategies to buttress State capacity and thus enhance the political feasibility of their reform agenda.

When a health reform initiative reaches the public agenda, the country's political economy and the policy process that is unleashed within it, present a series of opportunities and obstacles to its successful implementation. Policy makers interested in promoting the reform will follow a succession of political strategies aimed at managing these opportunities and limitation in order to enhance the State's capacity to bring about policy change, and thus increase the political feasibility of the health reform.

As policy makers turn to the social sector in second generation reforms, they are shaping their political strategies with the knowledge baggage acquired during their experience on first generation reforms aimed at restructuring the economy and downsizing the State under structural adjustment mostly in the 80's and early 90's. Among these strategies stands out the conformation and use of change teams to formulate policy and direct the reform process. A second working hypothesis is therefore that the use of change teams in health sector reforms is a distinctive political strategy in the Region aimed at increasing the State's capacity to promote health policy change, and that it can be singled out – both by participants and observers of the health reform process – as an important element in determining the political feasibility of health sector reform.

The Chilean health reform implemented in the early 80's has brought the attention of academics and policy makers alike. Although the fact that it took place under a military regime makes it an exemption in the Region, the Chilean reform process has been emulated to some degree or another, both in process strategies and policy content. Discussions about the effectiveness and appropriateness of the strategies used by the team of reformers in contexts with more open political systems have not reached an end, and continue to influence on going policy processes.

The careful analysis of the political context and the policy process within which health reform initiatives evolved in Chile, as well as of the change team who directed it, hopes to bring to light important lessons about the political strategies that have been put in motion by policy makers elsewhere in the Region interested in increasing the political feasibility of current health reform efforts.

The present document is divided in the following sections. Part I introduces the political economy context of Chile during the military regime, which coincided with the period in which the health reform was formulated and implemented. Part II describes in detail the policy process the health reform followed paying particular attention to the actors involved, as well as the moments and places in which the reform faced the possibility of undergoing significant changes or of being halted, which we will call policy nodes. Part III introduces the use of a change team as a political strategy aimed at enhancing the feasibility of bringing about the health reform (among other sectoral reforms) and describes its nature and characteristics. It then analyses in detail the team's strategies aimed at embedding itself in the State and limiting opposition to its reform agenda. Finally, the ANNEX 1 presents a policy tracer that briefly looks into the stated goals of the reform and their measurable impact in Chile's health care system.

POLITICAL ECONOMY CONTEXT

1. INTRODUCTION

The study of any aspect of the various socio-economic reforms which were carried out during the 70s and 80s in Chile must take into consideration the institutional context within which these reforms were formulated and implemented. There is widespread agreement that a fundamental factor in successfully bringing about the quite sweeping reforms of the period was the fact that Chile was governed by a military regime which was able to present itself as a cohesive unit. It must be stated at the outset, however, that the military regime's cohesiveness was only apparent, and that reform policy proposals had to go through a quite strenuous process of discussion and alteration within the state apparatus before they reached final form. It is indeed one of the greater successes of the military government that it was able to *appear* to its *opponents* outside of the state apparatus as a "monolithic, fissure-less entity."¹ One of the factors which contributed to this appearance of lack of disagreement within the government was the fact that the group within the regime which most consistently resisted moving too quickly with socio-economic reforms, was composed precisely by members of the armed forces, who could hardly be considered as plausible interlocutors with the opposition. Although a significant sector of the military in governmental posts was highly suspicious of the economic reforms fostered by the regime's technocrats, it never sought the support of those opposed to the regime outside of the government in order to combat the increasing predominance of the economic team. In this way, the opposition did not, and could not take advantage of the different factions which coexisted throughout the period within the state apparatus, and even in many cases within specific agencies of the state.²

This is particularly true of the reform in the health sector: the military regime took power with a quite impressive degree of preparation in most areas, but in the health sector it originally lacked long term or even medium term policy projects. In this sense, it is fair to say that the reforms of the health sector which took place were constructed virtually from zero during the second half of the 1970's.³ This lack of preparedness meant that the number of options offered to improve the situation was relatively higher than in other areas, and that there were relatively more pockets of resistance to the de-centralizing and privatizing policies which were finally implemented: since the military regime did not have a previously designed package of reforms or policies aimed at resolving the crisis in the health sector, it was forced to consider various policy alternatives, forcefully pushed for by sectors within the state

¹ Interview with a member of the Board of Directors of the Medical Association who opposed the military government (April 3, 1998). This interviewee goes on to state that "even if one were to have recognized the fissures, it would have been impossible to determine the relative weight of each group."

² The only possible exception to this rule, is, as shall be shown the period during which Sergio Onofre Jarpa was Minister of the Interior, and during which the economic team's prestige was at its lowest due to the serious economic crisis of 1982-85.

³ Ellen M. Immergut makes a similar, albeit more general, point when she states that "whether one considers political culture to be the beliefs of individual citizens or the more elaborated doctrines of formally organized political parties or political movements, these sets of ideas rarely include well worked out proposals extending to specific details of the health care system." *Health Politics: Interests and Institutions in Western Europe* (Cambridge University Press, 1992), p. 11.

apparatus which did not always share the liberalizing mentality of the economic team which subsequently gained pre-eminence.

At the same time, the majority of agents and agencies close to the health sector, and quite probably the population at large, were in agreement as to the need for some sort of reform. The notion that the health sector was in disarray was a widespread assumption at the time of the formulation of the reforms, thus facilitating the original impetus for change. Albeit, agreement as to the need for reform was coupled with dramatic disagreements as to the shape, content, pace, and degree that the reforms should assume. This includes disagreements between the various actors involved, and within the various agencies of the military government.

To understand the relationship between factions, on the one hand, and between the power hierarchy and each faction in particular, on the other, it must be borne in mind that we are considering a dynamic process in which the relative weight of each of the sectors varied according to the perceived success, or lack thereof, of each group. Also, although the regime consciously attempted to free itself from the influence of interest groups outside of the state apparatus— as it was a central part of its ideological message to de-politicize state-society relations⁴— each one of the competing groups within the state can be associated with power enclaves which remained in existence outside of the government. In some instances, policy reformulation can be attributed to pressures emanating from movements in civil society, particularly with respect to the wave of protests between 1982 and 1986. In other instances, it is possible to recognize ideological affinities between the reformers in the state, and certain members of the business community, and media organizations; affinities which translated into public support and promotion of the policies pushed forth by the government.

This section shall be organized according to a pattern of description and analysis which moves from the general to the particular, focusing initially on the institutional and ideological framework of the military regime, followed by a review of the role and relative weight of various formal and informal groups within and without the state apparatus. A more or less chronological structure is maintained throughout. Given the institutional structure of the military regime, and the relative liberty of action which it had vis a vis civil society, special emphasis will be placed on the formation of ideological and power clusters within the state apparatus, and the ways in which these clusters vied for pre-eminence. Also, emphasis will be placed throughout on those sectors relevant to the reform in the health sector, and thus passing mention will be made regarding the effects of the various events, actors, and agencies described on facilitating or impeding reform in the health sector.

2. REGIME COMPOSITION AND GENERAL IDEOLOGICAL FRAMEWORK

The military coup of September 11, 1973 placed in power a regime which quite early on defined itself as a profoundly transformative entity. Its role would be not only to constitute a parenthesis between civilian governments, but also, and pre-eminently, to re-organize Chilean society in a top-down fashion, including institutional and economic reforms, as well as attempting what can without exaggeration be termed a veritable revolution in the political and

⁴ "The military Junta, as well as its administration, will not follow the banner of any ideology or political party, and thus the functionaries who shall be employed shall be apolitical, with only qualified exceptions, ex members of the armed forces, and military personnel and Carabineros." Acta Secreta Junta N 1, September 13, 1973 in Renato Cristi, "La Génesis de la constitución de 1980: Una lectura de las *Actas de la Honorable Junta de Gobierno*", in *Revista de Ciencia Política*, Vol. XIX N 2, 1998, forthcoming.

economic culture of the country.⁵ In this sense it is important to stress that the military regime saw itself as embodying an integrated view of society, constituted by political, economic, moral, and national values. Hence, it went about the business of governing not merely by formulating socio-political reforms on a case by case basis, but rather by pursuing a *national project*, understood almost in the literal sense of the re-making of a nation.

The regime explicitly blamed the politicians of the past for the crisis which culminated in the military take-over, and thus there was no question of quickly turning power over to those who had supposedly brought about political and economic disaster in Chile. In this sense, what was needed, according to the military government, was not only to put things back in order, but to actually transform the way in which Chileans viewed their relationship with the state: this project included the attempt to depoliticize this relationship, and "to ensure the independence and depoliticization of all intermediate associations between man and the state."⁶

Although the terms under which this transformation would take place were initially rather ambiguous (using nationalistic categories such as the "defense of *chilenidad*", etc.) the military Junta was very clear in its purpose of reverting the restructuring of the state apparatus which had been carried out by the ousted Socialist-lead government of the Unidad Popular. In this sense, the military government assumed as its mission the revision of the role of the state in its relation with civil society in general, and in particular with respect to the economy and the state's participation in social sectors such as public health.

Undoubtedly, one of the factors which facilitated the military regime's ability to produce the kind of changes it promoted was the fact that it quite successfully established a high degree of state autonomy: the workings of the state, its decision making processes, and even policy implementation, were, throughout the period, not open to question, and the possibilities for their public discussion were severely limited. We are speaking, after all, of a military dictatorship which did not tolerate opposition and which did not hesitate to use force to repress those who attempted to publicly voice dissent. Political parties were outlawed, Parliament was shut down, and freedom of expression and association were severely curtailed. Potential sources of dissent, such as workers' unions, student federations, and professional organizations were targeted by the government, dismantling them if possible, and often designating their leadership, thus ensuring friendly relations, if not open support.

The re-organizing role of the military regime, and also its degree of preparedness, is attested to by the fact that in its first meeting on the morning of September 13, the military Junta already had commissioned the study and preparation of a new Political Constitution, under the direction of Jaime Guzmán Errázuriz,⁷ Law Professor at the Universidad Católica, and founding member of a right-wing student organization of great significance, "Gremialismo",

⁵ Passim, Decreto Ley N° 1, September 18, 1973, in Luis Valencia Avaria, *Anales de la república*, Editorial Andrés Bello, 1986, Tomo I, pp. 268-69.

⁶ *Declaración de principios del gobierno de Chile*, included as an appendix in *Nuestro Camino*, a collection of essays commenting on this founding document of the regime authored by members of the more traditional and nationalistic right wing. Those who comment are: Héctor Herrera Cajas, Juan Antonio Widow, Gonzalo Ibáñez S.M., Juan Carlos Ossandón, Gerardo Cortés Rencoret, Luis Rafael Hernández, Carlos F. Cáceres, Tomás P. Mac Hale, Juraj Domic, and Mario Arnello R. Ediciones Encina, 1976. The passage cited is from p. 304. Our translation.

⁷ Acta de la Honorable Junta de Gobierno N° 1, September 13, 1973, in Renato Cristi, "Una lectura de las *Actas secretas de la honorable junta de gobierno*", *Revista de Ciencia Política*, Vol. XIX, N° 2, 1998, forthcoming.

which, as shall be shown, became one the most important sources of state personnel during great part of the period.

The military government was originally staffed by a rather heterogeneous group of people, which only gradually developed into a more cohesive unit ideologically speaking. As a whole, however, it never became a completely homogeneous entity. Not surprisingly, what united those who offered or were requested their collaboration was a profound rejection of the ousted government of the Unidad Popular, and support for the military take over as such. Relatedly, the military government stressed its distancing not only from "politics as usual", but also from politics as such: the military and the *tecnicos* who staffed the state apparatus shared the self-perception as apolitical in nature. However, in terms of actual conceptions of policy objectives, the regime's staff was in fact quite diverse. Moreover, although the social sectors in civil society which each of these groups within the government related to were in many cases overlapping, they were not necessarily identical.

Ideological differences were embodied by the various sectors which comprised the military regime. In the first place, the armed forces themselves, although generally speaking unquestionably supported the military regime in an instance of military discipline, contained within them sectors which were ideologically diverse. It is difficult to make stringent ideological distinctions between the different branches of the armed forces, but some general claims can be made. None of these claims is exclusive to each of the branches, nor are they meant to characterize the branches as a whole, but rather to indicate recognizable tendencies within each branch. The Navy had the closest contact with the ideas of the economic team which designed the socio-economic reforms of the period, and thus it was through the efforts of Admiral Merino that the economic team was incorporated in the government. The Army, albeit lead by Pinochet who tended to favor the economic team, contained sectors which, inspired in nationalistic principles, tended to favor a more centralized and "statist" orientation of the economy, particularly with respect to the social sector, partly for reasons related to stability and security. The Air Force was also quite suspicious of the economic transformations which were pushed forth by the economic team, at least until General Gustavo Leigh was forced to step down from the Junta in 1978. General Leigh also opposed the centralization of power in Pinochet and made public his view that the return to democratic rule should be quicker than the regime's official timetable. Carabineros' views were of less relative significance than that of the other branches, and its influence on the policy projects related to the socio-economic sector was less pronounced.

Some members of the Armed Forces thought of themselves as Christian Democratic sympathizers, at least at the beginning of the regime; before, that is, the Christian Democrats were marginalized from participation in the government. Christian Democrats, who as a political party had opposed the Allende government, had hoped that the military would implement policies which reflected the thinking of its members, if not indeed prepare the way for a civilian government lead by Christian Democrats. Nevertheless, these hopes were quite quickly dashed by the political persecution that certain Christian Democrat leaders were subjected to, plus the implementation of socio-economic policies which were evidently not inspired on Christian Democratic doctrine.

The nationalistic leanings of some members of the armed forces were also represented by civilian members of what can be called the traditional right wing, for example, members of the ex- Partido Nacional, as well as various other conservative movements which were scandalized by the course of events, leading up to the coup, during the Allende government. The combined presence of the nationalistic military and the traditional civilian and conservative right wing established itself as a united front which garnered support from social sectors in

civil society which had previously backed right wing political parties and movements, such as the government of Alessandri, and his candidacy in 1970. In general, the natural tendency of those with traditional right wing and nationalistic perspectives was to reject the ideas of the liberalizing economists, and favor a more closed economy, organized corporativistically, which would presumably be less dependent on the international market and foreign governments. More in general, the very ideas of young, overseas trained economists were viewed by the nationalists with suspicion, their "neo-liberal" ideology perceived as dangerously foreign and not constituted by the true values and traditions of "chilenidad."

It is clear, however, that *sectors* of the traditional right wing gradually adopted the economic view-point of the technocrats who staffed the ministries dedicated to the socio-economic transformation of the country. In this sense, the role of ex-members of the gremialista movement of the Universidad Católica is worthy of mention. Many of its leaders were recruited to take part at all levels of the administration, and their ideological orientation— though mostly conservative in political terms, and originally markedly influenced by corporatist and traditional Catholic lines of thinking— ended up accommodating the liberalization and privatization of the economy by the second half of the 1970's.⁸ One of the ways in which traditional Catholic thinking was thought to be consistent with the so-called neo-liberal policies of the economic team of the military government, was through the interpretation of the "principle of subsidiarity" first stated by Pope Pius XI in his Encyclical *Quadragesimo Anno*. Attempting to navigate the straits between an excessively individualistic liberalism, and an excessively collectivist socialism, Pius XI suggested that the state ought to fulfill a subsidiary role with respect to individuals and intermediary associations between the individual and the state; that is, the state should allow individuals and intermediary associations to develop freely, and intervene only in a subsidiary fashion, completing the efforts of individuals and intermediary associations. Although undoubtedly requiring a rather loose interpretation, this principle seemed to many Catholics to sustain the liberalizing reforms of the economic team, some of whom— most notably ODEPLAN (Organización de Planificación Nacional) Director Miguel Kast⁹— were themselves quite devout.¹⁰

Relatedly, the bureaucracy was staffed by highly skilled economists who viewed themselves as apolitical and whose allegiances in civil society were different, though somewhat overlapping, compared to those of the traditional right wing. Many of the technocrats who designed the socio-economic reforms of the period had participated in the gremialista movement, and thus, it is safe to say that, in terms of the backing of the regime as a whole, this sector was capable of garnering support both of sectors of the traditional right-wing in civil society, and of groups which were gradually persuaded by the liberalizing discourse of the economic team.¹¹ It also must be stated that the economic ideas of this team, and more in general, its philosophical view of the role of the state with respect to the individual, gradually gained support within the government, and, arguably even among those who opposed the regime.

⁸ In this regard see Carlos Huneeus, "Tecnócratas y políticos en un régimen autoritario: Los 'ODEPLAN Boys' y los 'Gremialistas' en el Chile de Pinochet", *Revista de Ciencia Política*, Vol. XIX, Nº 2, 1998, forthcoming.

⁹ See Joaquín Lavín, *Miguel Kast: Pasión de vivir*, Zig-Zag, 1986

¹⁰ For the gradual neo-liberalization of the gremialistas, see Pilar Vergara, *Auge y caída del neoliberalismo en Chile*, Flacso, 1985, pp. 168-75.

¹¹ For a more detailed analysis of the ideology(ies) of the military regime and its (their) evolution, see Pilar Vergara, *op. cit.*.

Table 1 Approximate composition of the right-wing in the military government (1973-1985)

GREMIALISTAS	TECHNOCRATS	EX PTDO. NACIONAL	"INDEPENDENTS"	UNCLASSIFIABLES
32%	30%	16%	16%	6%

Source: Enrique Cañas Kirby, *Proceso Político en Chile. 1973-1990*, Editorial Andrés Bello, 1997, p. 67.

3. INSTITUTIONAL ORGANIZATION OF THE REGIME

The institutional organization of the military regime can be broken down into two periods, that comprising the period 1973 to 1980, characterized by a rather looser structure, and that following the enactment of the Constitution, from 1980 to 1989. The Constitution more clearly specified the roles and attributions of the state agencies. In what follows both periods shall be discussed in regards to each of the institutions described.

A. The Junta and The Presidency

Institutionally speaking, the military regime concentrated all final decisions in the hands of the Junta, especially in the hands of the President of the Junta, General Augusto Pinochet, who subsequently became President of the Republic.¹² Having dissolved Parliament, the Junta declared itself not only in possession of executive power, but also assumed the legislative function, rendering unnecessary the existence of the Constitutional Tribunal whose primordial role had been to settle disputes between the Executive and the Legislative branches of government. Thus the Constitutional Tribunal was dissolved in November of 1973.¹³ Moreover, the military Junta assumed Constituent power, declaring explicitly that although the efficacy of the Judicial branch, the laws of the land, and the Chilean Constitution of 1925 remained in place, they did so only to the degree that the situation of the country allowed.¹⁴ Thus, the military government was placed in the quite extraordinary position of possessing discretionary power to determine when an existing law, or a precept of the Constitution was to be altered or simply eliminated. In fact, the Junta declared that if a decree of law put forth by the Junta in the exercise of the legislative power contravened an article of the Constitution of 1925, this ipso facto meant that the Constitution had been amended.¹⁵ In this way, the Junta in effect circumvented any source of resistance or conflict emanating from the Judicial branch, especially the Supreme Court, which on paper retained its independence, but which in fact had been stripped of its most important attributions.

The Junta also assumed the power, among many other specifications, to establish or modify the social security system.¹⁶ In general, the decision to legislate in any matter was an

¹² Decreto Ley N° 806, December 17, 1974. Valencia Avaria, op. cit., p. 288-289.

¹³ Decreto Ley N° 119, November 10, 1973. Valencia Avaria, op. cit., p. 269-270. This does not mean, however, that there were no disputes between the members of the Junta and Pinochet relating to legislative issues, particularly while Air Force General Leigh was in the Junta. Most of these power struggles were (obviously) won by Pinochet.

¹⁴ Art. 3, Decreto Ley N° 1, September 18, 1973. Valencia Avaria, op. cit., p. 268.

¹⁵ Decreto Ley N° 788, December 4, 1974. Valencia Avaria, op. cit., pp. 285-288.

¹⁶ Art. 5, Decreto Ley N° 527 ("Estatuto de la Junta de Gobierno"), June 26, 1974, Valencia Avaria, op. cit., p. 276.

exclusive attribution of the military Junta. Unanimity within the Junta was required in order to adopt any measure with force of law. In this sense, each one of the members of the Junta had the power of veto with respect to any and all legislative measures. Among the duties of the Ministries and advisory committees was that of presenting legislative proposals to the Junta. An important advisory committee created by the Junta towards the end of 1973, the Comité Asesor de la Junta de Gobierno (COAJ), was headed and staffed by military personnel, particularly members of the Army. This advisory committee had direct access to the Junta and to Pinochet, and represented to a certain extent the corporate interests of the armed forces. The President of the COAJ held the rank of a minister of state.

Moreover, the COAJ consistently represented a cautionary voice, tending to be rather conservative with respect to reforms in general, usually defending to a greater extent than the economic team the participation of the state in the economy and the social sector. It was composed mostly by high ranking officers of the Army¹⁷ in whom the Junta, and particularly Pinochet, placed a high degree of trust. Organized as a General Staff, with a military structure and system of analysis, the COAJ was almost entirely free from civilian influence, although it sometimes received legal advice from civilian collaborators. The COAJ was especially significant in the early years of the regime, when the proportion of military to civilian personnel within the government was high, but it continued to exercise its influence until the early 1980's. The COAJ produced, for instance, the basis for the first statement of purpose of the military government: the *Declaración de Principios del Gobierno de Chile* which appeared in March of 1974. The COAJ created an ad hoc committee to produce the *Declaración de Principios* under the leadership of Jaime Guzmán, and it also elaborated the document *Objetivo Nacional*, which appeared in December of 1975.¹⁸

The COAJ also participated, during the first semester of 1974, in the elaboration of the statute which defined the attributions of the Junta and separated the executive from the legislative branches.¹⁹ This statute was of great significance for it centralized executive power in the hands of the President of the Junta, that is, Pinochet.²⁰ It also established that ministerial posts and their staffs would be named by the executive, per agreement of the Junta, but would remain at their posts only as long as they counted with the President's trust. It is clear, therefore, that the COAJ actively participated in the gradual concentration of authority in the hands of Pinochet. Indeed, with time it became clear that the COAJ was more of a presidential than a legislative advisory body, and thus, in 1981 the COAJ became, as a result of Admiral Merino's instigation, the COAP, i.e. the Comité Asesor Presidencial.²¹

¹⁷ Although it contained representatives of all four branches of the armed forces, the Presidents of the COAJ always belonged to the army: Julio Canessa Roberts, Patricio Torres, Julio Fernández Atienza, Alejandro Medina Lois, and Roberto Guillard Marinol.

¹⁸ For the COAJ and the elaboration of the *Declaración de Principios*, see Ascanio Cavallo Castro, Manuel Salazar Salvo, and Oscar Sepúlveda Pacheco, *La historia oculta del régimen militar*, Editorial Grijalbo, 1997, pp. 28-31. For an analysis of the ideological and programmatic content of the *Declaración de Principios*, see Vergara, op. cit., pp. 36-55.

¹⁹ Decreto Ley N° 527 ("Estatuto de la Junta de Gobierno"), June 26, 1974. Valencia Avaria, op. cit., pp. 275-280.

²⁰ For an account of the passage of Decreto Ley N° 527 and the resistance offered against it by other members of the Junta, particularly Air Force General Gustavo Leigh, see Ascanio Cavallo Castro, op. cit., pp. 30-33. Later in 1974, Decreto Ley N° 806 granted the President of the Junta who exercised executive power the title of President of the Republic of Chile. See Valencia Avaria, op. cit., pp. 288-289.

²¹ See Ascanio Cavallo Castro, op. cit., pp. 304-305.

The COAJ, then, was granted access to policy formulation in all areas, and attempted to provide an integrated vision to the military government, including what can be termed political calculus of the effects of policy proposals. However, after the increased institutionalization of the regime which followed the enactment of the new Constitution in 1980, the significance of the COAJ/ COAP declined considerably. With respect to the health sector in particular, the COAJ played its last card when Army General Alejandro Medina Lois was named Minister of Public Health in December of 1979. Medina had been President of the COAJ, and Medina's brother, Dr. Ernesto Medina, was president of the Medical Association; and although Ernesto Medina left the presidency of the Medical Association when his brother became Minister of Health, they both shared a common distrust of the economic team, distrust which both had made known from their respective posts at the Medical Association and the COAJ. Alejandro Medina only lasted a year as Minister, being replaced in December of 1980. In 1983 the COAP became the Ministerio Secretaría General de la Presidencia, and its role as a counterweight to the economic team which had been so significant in the 70's virtually disappeared. This also coincides with an increase in the proportion of civilians in the government's staff after 1980.²²

B. The Legislative Committees

The Junta also created Legislative Committees as a mechanism for the legislative process. It is clear that the objective of these legislative committees was to reproduce the process of legislation which exists in a Democratic system, albeit ensuring a highly controlled and limited ideological pluralism: "Since political activity was proscribed, the discussions in the Committees and the Junta constituted *the* political filter of the proposals made by the government's economists. Since the range of arguments of political economy is quite limited [?] this 'closed' political process reproduced in fact many of the characteristics of open systems."²³ The legislative projects of the various ministries had to be reviewed by these legislative committees before they were submitted to the Junta. Four Legislative Committees were created. Each Legislative Committee was headed, and their members appointed, by a member of the Junta. Their roles were defined according to different policy sectors. The Army headed the legislative committee dedicated to Internal Affairs, Foreign Relations, National Defense, and Transportation and Telecommunications; the Navy headed the legislative committee dedicated to the Constitution, Economics, Finance, and Mining; Carabineros headed Agriculture, Housing, Public Works, and National Goods (Bienes Nacionales). The social sector was headed by the member of the Junta which represented the Air Force: Education, Justice, Labor, Public Pensions and Public Health.

²² "In effect, almost half of the ministers of the regime were members of the armed forces (47% between 1973 and 1984 and 48.3% between 1973 and 1990) and every ministerial post, with the exception of the Ministry of Justice, was occupied, at least once, by military personnel. Two moments can be distinguished: during the "non-constitutional" phase between 1973 and 1980 members of the armed forces occupied 63% of the ministries. With the beginning of the constitutional period, between March 1981 and 1985 their participation dropped to 28.7%." Enrique Cañas Kirby, *Proceso Político en Chile. 1973-1990*, Editorial Andrés Bello, 1997, pp. 61-62.

²³ Juan Andrés Fontaine, "Transición económica y política en Chile: 1970-1990", in *Estudios Públicos*, 50 Otoño 1993, p. 253. Juan Andrés Fontaine was placed as Research Director at the Central Bank when Hernán Büchi became Minister of Finance in 1985. He is an economist who received his MA at the University of Chicago and has taught at the Universidad Católica.

The government's strategy in general was to ensure that all policy proposals passed through the hands of the different points of view represented within the government. This strategy took various specific forms, most notably, the attempt to staff ministries with people who did not necessarily partake of the same background or points of view. Apparently, this practice had its origins in the workings of the General Staffs of the armed forces which possibly served as a model for the institutional structure that the government adopted.²⁴ For instance, when General Alejandro Medina Lois was named Minister of Health, Álvaro Donoso-- an economist whose allegiances were clearly in ODEPLAN and the Ministry of Finance-- was placed as his under-secretary. In fact, Donoso became Director of ODEPLAN once he and Medina left the Ministry of Health. Moreover, under-secretaries were designated by the President himself, and thus their allegiances were double: to the Minister, on the one hand, and directly to the President, on the other. Significantly, undersecretaries often originated from ODEPLAN which was consistently the most pro-reform institution within the government until the early 1980's, and it was often the case that the more technical aspects of any given ministry's tasks were designed and carried out by the under-secretaries, not by the Minister himself or herself. This is an important aspect of the long term continuance of the reform policies of the military regime, for although there was a relatively high degree of ministerial rotation, at the level of undersecretaries, the situation was more stable. In the health Ministry, for instance, although there were important changes at the level of the Minister, the government ensured that there was always somebody present representing the reform team whose source was ODEPLAN and which had the confidence of the Ministry of Finance. Significantly, Finance controlled the national budget.

Following the same logic, the legislative committees as well were staffed by people whose background could be quite different. They included people who not only possessed legislative expertise (lawyers, jurists, etc.), but also representatives of the various sectors which supported the government and who in some way were involved in the areas of concentration of each one of the committees. For example, the Second Legislative Committee, that in charge of the social sector, included Air Force Generals and Colonels, economists, members of the traditional right wing parties, doctors, businessmen, etc. Moreover, important pieces of legislation would have to be reviewed not only by the legislative committee of the area in question, but by other committees as well, and in some cases by all four. These committee meetings were characterized by serious discussion, and quite often legislative proposals originating from the ministries were significantly altered or amended at this stage. Ministers or their collaborators had to defend their legislative proposals in what often became quite heated discussions within the legislative committees. Members of the COAJ sometimes participated in these meetings, thus forcing the reformers to defend their proposals. In this way the Junta ensured that before it approved any piece of legislation, it had been reviewed and approved by at least 10 or 12 experts who "represented" in perhaps a rather corporate fashion the various sectors of civil society which supported the regime, thus forming virtual "pockets of efficiency."²⁵ Only rarely did the legislative committees communicate to specialized sectors outside of the government establishment, such as the Medical Association, and then

²⁴ "The norm, established by decree, was that the second man of a ministry owed exclusive allegiance to Pinochet, and frequently the method, following military tradition, consisted in naming someone from a different and even opposite line of thought from that of the person occupying the post of minister." Ascanio Cavallo Castro, op. cit., p. 184.

²⁵The phrase is borrowed from Ben Schneider, "The Career Connection: A Comparative Analysis of Bureaucratic Preferences and Insulation", 1993.

only through the presentation of documents to be commented upon, and in a very informal fashion.

The last hurdle to be overcome in the legislative process was the unanimous approval of the members of the Junta itself, which required that a final defense of the proposal were presented before it. At this stage, the role of the COAJ became quite significant, for, since it had direct access to the Junta and to the President, it had the potential to influence its decisions relative to any and all legislative proposals. Moreover, the Junta itself held weekly meetings, and could intervene in the legislative process at any time, making suggestions, amendments, or quite simply killing a legislative proposal.

A legal distinction which is important to bear in mind with respect to the creation of the ISAPREs (Instituciones de Salud Previsional) is that between a "Decreto Ley" (DL; Legal Decree) and a "Decreto con Fuerza de Ley" (DFL; Decree with force of law). Legal Decrees would have to go through the procedures outlined above, and thus were subject to considerable discussion, particularly in the sessions of the legislative committees. Ostensibly to simplify administrative processes, and to quicken bureaucratic procedures, Legal Decrees could grant the executive the prerogative to legislate without requiring the participation of the Legislative Committees, thus enacting a DFL. This system existed before the military coup (and in fact still exists to this day): Parliament could grant the President the power to complete the legislative function by producing the more technical and administrative aspects of a given policy project. The law which established the legal framework for the ISAPRE system was a DFL, not a DL, and thus it circumvented the kind of serious discussion that took place at the Legislative Committee level.

4. 1973-1980: THE ODEPLAN YEARS:

ODEPLAN (Oficina de Planificación Nacional) was at the center of the socio-economic reforms of the military government. Its importance is related to two main factors. In the first place, it was composed by a group of economists who were extraordinarily committed to the liberalization of the Chilean economy, sharing a common ideological outlook. Secondly, ODEPLAN Directors, who possessed the rank of ministers, created a network, both horizontal and vertical, of like-minded reformers throughout the government apparatus, including the Ministry of Public Health.

ODEPLAN was created in 1967 during the Presidency of the Christian Democrat Eduardo Frei Montalva. Its function was that of coordinating the projects enacted by the different ministries in order to sustain medium and long term consistency of government policy, as well as ensuring that ministries adequately implemented governmental mandates. But it was only during the military government that ODEPLAN became significant in the workings of the state's policy formulation and implementation. Neither the Frei nor the Allende administrations had given ODEPLAN much responsibility. ODEPLAN's role during the military government, however, is crucial to the understanding of the economic and social reforms of the period, particularly during the 1970's.

In fact, ODEPLAN was immediately recognized by the military government as an agency of great importance: during the second meeting of the Junta, on the afternoon of September 13, 1973, it was agreed that the "designation of the Director of ODEPLAN must be done with maximum care."²⁶ It is clear, then, that the military government was from very early on aware

²⁶ Acta de la Honorable Junta de Gobierno N° 2, September 13, 1973, in Cristi, op. cit.

of the importance of the role that ODEPLAN would play, since no other post with rank of minister was given this kind of consideration.

ODEPLAN's official role was to coordinate the tasks of the various ministries, but in fact it carried out many other functions, both formal and informal, consideration of which is indispensable to explain the government's formulation of reform policies, including the health sector reforms and the creation of the ISAPRES. Its functions can be summarized as follows:

1) Members of ODEPLAN worked in defining and refining the economic policies of the military government, particularly in its medium and long term dimensions, thus providing continuity to the socio-economic transformations of the regime. It was in charge of producing five year plans, the "Políticas de largo plazo," which applied to all socio-economic sectors, establishing objectives and strategies. It also produced what were called "Planes Indicativos" which were medium term in nature and defined investments of each sector. In this sense, ODEPLAN was considered as an idea-generating entity, especially regarding the social sector. For instance, its first task was to draw a "mapa de la extrema pobreza", an assessment of extreme poverty in the Chile of the early 70s.

2) ODEPLAN also fulfilled the role of coordinating the tasks of the different ministries involved in the socio-economic transformation of the country, submitting what were known as "ministerial tasks" ("Programas Ministeriales"). Eventually, these "ministerial tasks" became much more than a coordinating mechanism, in effect turning into directives of action which were known to all Ministers to have previously been granted Pinochet's approval.

3) At a more informal level, ODEPLAN served as a recruiting station for the military government, providing the regime with highly qualified personnel to staff bureaucracies in diverse sectors of the administration.

From early on ODEPLAN was given a high degree of autonomy within the administration, functioning as a sort of laboratory or think tank to research various alternative policy projects in all areas, thus producing the "planes indicativos" which contained investment strategies for each of the various sectors of the economy. Throughout the reform process, ODEPLAN was also characterized by a very high degree of ideological cohesiveness which facilitated the discussion and formulation of policy alternatives. In this sense, the recruitment role of ODEPLAN played a decisive part in the maintenance of a skilled reform teams throughout the military government. Moreover, ODEPLAN was consistently in ideological sync with the ministries of Finance and Economics. Since Finance managed the government's budget, its support of the policies originating from ODEPLAN's ranks was crucial to the implementation of the "ministerial tasks" which ODEPLAN distributed annually. An important tool in maintaining its influence was the fact that ODEPLAN had in its charge the production of the basic statistical information necessary for the economic direction of the country ("Cuentas Nacionales"), and, for this reason, ministerial budgets required ODEPLAN's research.²⁷ In this sense the fact that the post of Budget Director at Hacienda was occupied by Juan Carlos Méndez between 1975 and 1981, and who was one of the participants in the creation of the "Ladrillo" and had been at ODEPLAN, is quite significant. He was also a personal friend of Kast and Guzmán. The role of the Budget Director was of enormous importance, but his concerns were more immediate, and not directed at defining policy objectives in the medium and long term.²⁸ Furthermore,

²⁷ "Cuentas Nacionales" was transferred to the Central Bank in the early eighties, thus contributing to the gradual decrease of influence of ODEPLAN.

²⁸ It is interesting to note that there is widespread agreement that the importance of the Budget Director continues to this day under democratic rule, indicating the degree to which the style and strategies of conducting the economy are a legacy of the military government. In this connection see, Patricio Silva,

representatives of ODEPLAN supervised the adequate implementation of the annual ministerial tasks, by meeting with the ministries in question every three months.

The importance of ODEPLAN's recruitment role is easy to recognize, but not as easy to describe, since it combined both formal and informal elements. As has been stated, in the early years of the regime, government personnel was quite heterogeneous in ideological terms, both economically and politically. The most important task that the government applied itself to during these years, was to re-establish order within the country, and thus its priorities in 1973-76 were directed at "normalization" rather than what later came to be known as "modernization", i.e., the structural socio-economic reforms that took place mainly between 1976 and 1980. This distinction between normalization and modernization, however, must not be understood in a strict sense, for there was a great degree of overlap, both chronologically and conceptually, between the two categories. What can be stated with a relative degree of confidence is that it was not until 1975 that Pinochet put his trust in the ideas and policies of the group of economists from ODEPLAN, most of whom had been trained at the Universidad Católica and the University of Chicago. In 1975 Minister of Finance Jorge Cauas-- who had been Director of the Faculty of Economics at the Universidad Católica,²⁹ and in this capacity had had as students several of the economists who later became central in the economic transformation of the country-- was granted, through decree of law, the power to direct from his office the economic policies of the country. He implemented the drastic, shock-treatment "Programa de Recuperación Económica" whose objective was to lower inflation, reduce government spending, and pursue increased growth. Cauas was given a great degree of control over the economic direction of the country through Decree of Law 966-- reportedly written by Cauas himself-- which granted the Minister of Finance power over every agency related to the Ministry of Finance, plus ten other ministries: Economics, Mining, Agriculture, Public Works, Transportation, Housing, Public Health, Labor, ODEPLAN, and CORFO. DL 966 gave the Minister of Finance the power to name and remove all high level civil servants, with the exception of the ministers themselves, which were to be exclusively designated by the President. This was also a change in policy for till then the Junta could veto the naming of a minister.³⁰ At the same time, Sergio De Castro-- who had been dean of the faculty of economics at the Universidad Católica-- was placed at the helm of the Ministry of Economics, and Miguel Kast was named Deputy Director of ODEPLAN.

The decision to adopt Cauas' economic program, taken basically by Pinochet himself, was of great importance for it signified a vote of confidence not only for Cauas himself, but for the group of young economists lead by Kelly and Kast at ODEPLAN, and by De Castro at Economics. At the same time, this decision displaced at least three other sources of influence on government decisions in the socio-economic sector. First, members of the Christian

"Technocrats and Politics in Chile: from the Chicago Boys to the CIEPLAN monks", in

²⁹ Cauas had been an engineering student at the Universidad de Chile, and had received an M.A. from Columbia. He, and Sergio De Castro as well, obviously belonged to an older generation than those who became their students at the Universidad Católica and subsequent collaborators in the government. For a general account of the process through which the economic team gained preeminence in the military government, as well as a characterization of its members, see Arturo Fontaine Aldunate, *Los Economistas y el Presidente Pinochet*, Zig-Zag, 1988.

³⁰ For the passage of DL 966 see Ascanio Cavallo, op. cit., pp. 78-79. For a more precise description of its contents, see Jorge Precht, "La administración de la función pública", in Guillermo E. Martínez, ed., *Toma de decisiones en el Estado contemporáneo*, Corporación Libertas, n.d., p. 40. DL 966 remained in place until it was repealed in 1984 when Modesto Collados accepted to become Minister of Economics as long as the traditional hierarchical precedence of Economics vis a vis Finance was reinstated, although this precedence remained more at the level of protocol than anything else.

Democratic party who had opposed quite fiercely the Allende government, had initially offered and given support to the military. By 1975, however, most had profound misgivings regarding the repression of the government, directed not only at left-wing militants, but also at certain sectors of the Christian Democrats. The adoption of the Cauas plan, which they opposed mainly because of its social costs, finally proved to the Christian Democrats that their attempt to influence the course of the military government from the inside was bound to fail.

Secondly, members of the traditional right wing of Chilean politics, who had nationalist leanings and therefore were in favor of a more centralized and closed economy, also were alienated when the Cauas plan was adopted.

And thirdly, by placing civilian technocrats at the helm of the economy, Pinochet also set aside the misgivings of important sectors of the hierarchy of the armed forces, who favored a more statist oriented economy, with greater social leanings, concentrated, as has been stated, in the COAJ.

Although the "Programa de Recuperación Económica" constituted the final blow against the Christian Democrats, representatives of the traditional right wing, and certainly members of the armed forces, continued to offer internal resistance to the policies of the economists. The COAJ retained its direct access to Pinochet and continued to exercise its influence, offering counter-arguments to the policies suggested by the economists. Indeed, the fact that the COAJ eventually became the COAP (Comité Asesor de la Presidencia), reflected the fact that it was in effect a source of influence on Pinochet himself, and in turn demonstrated the degree to which decision-making had been centralized in Pinochet's hands. In accord with his general strategy of becoming aware of the different perspectives held by the different sectors within his government, Pinochet would always consult the COAJ/ COAP before taking a final decision, and the economists would often have to defend their policies against arguments which clearly originated in this body. Until the economic crisis of 1982-83, however, the economists' influence sustainedly gained ground within the state apparatus, and especially with Pinochet himself. One of the ways in which the economists gained pre-eminence, was through the "power of the paper": the economists would always bring to meetings their ideas in writing and often backed up by data and studies which benefited from the control over the already mentioned "Cuentas Nacionales." The COAJ/ COAP, on the other hand, would usually make its views known orally, and certainly more impressionistically and less "scientifically" supported. Apparently, most of the time discussions would revolve around the documents brought in by the economists; thus, they were able to take control of the agenda of many a meeting.³¹

ODEPLAN's recruitment strategies which ended up establishing a network of like-minded technocrats and bureaucrats, both horizontally and vertically in terms of hierarchical posts, varied slightly from the period in which Roberto Kelly was in charge to the period during which Miguel Kast took over as Director General starting in 1978. Kelly introduced the team of técnicos who originated from the Universidad Católica and Chicago, but he was rather latitudinarian in terms of recruitment, since he included personnel who had previous experience in various sectors, particularly expertise related to specific geographical regions. Kast more strictly recruited those with training in the Universidad Católica and to this effect he would have regular brown-bag lunches with students. Invitations to these lunches were subsequently extended to members of economics departments in other universities, but this did not happen until the these universities had incorporated professors who had been trained at the Universidad Católica. Miguel Kast was particularly protective of the direction of training

³¹ Interview with an ex-member of the economic team at the Ministry of Finance.

in economics in Chilean universities, and to this end he did all he could to staff the faculties of economics with those who had been trained in the Universidad Católica and in US universities.³² The object of these lunches was not only to disseminate and explain the government's policies, but also to identify possible recruits for the numerous posts to be filled throughout the central and regional offices of ODEPLAN (the SERPLAC's) all along the country.³³ ODEPLAN also provided fellowships to promising economics students for graduate studies in the US-- in exchange for spending at least double the time spent abroad working in governmental posts.

In this sense, it is worth mentioning that the Economics Department of the Universidad Católica had established an agreement with the University of Chicago in 1956 which translated into the admittance to the graduate program at Chicago of a considerable number of Chilean students, many of whom subsequently collaborated with the military government.³⁴ The combined training of the Universidad Católica and the University of Chicago, solidified the ties of the economic team of the military regime. Not of the least importance was the fact that one of the most important members of cabinet during the 70's (Economics, 1975-1976; Finance, 1976-1982), Sergio De Castro, had been dean of the Faculty of economics at the Universidad Católica in the late 60's and had been the only member of the University Council who had actively and publicly resisted the efforts of university reform. In this effort he was seconded by the members of the student gremialista movement, who later also became part of the government as ministers, under-secretaries, and mid-level bureaucrats at ODEPLAN and elsewhere. De Castro-- one of the first Universidad Católica students to do graduate work at Chicago-- can indeed be considered as the veritable leader of the economic team while he remained at the helm of the Ministry of Finance, contributing to establish and extend the power of the younger generation of economists who were gradually incorporated to the government.

These young economics graduates were placed, for instance, at all levels of public administration, including the system of Public Health, from occupying offices within the Ministry of Health, to administering public hospitals. The relative youth of these recruits is significant: it meant that the vast majority of them had no previous experience in public administration, and therefore had no misgivings about major system overhauls. It is understandable, then, that older members of the government bureaucracy, some of whom risked losing their posts due to the reforms, distrusted and even resented the ascendancy of the power and influence of the teams emanating from ODEPLAN. In the health sector in particular, doctors resented the interference in the administration of public hospitals of those

³² For a quite telling description of this aspect of Kast's role, see pp. 58-59 ("La persecución implacable") of the highly laudatory biography of Kast by Joaquín Lavín, *Miguel Kast: Pasión de vivir*, Zig-Zag, 1986. Lavín was himself a graduate of the Universidad Católica and Chicago who at a quite young age was sent by Kast to take charge of the Economics Department at the Universidad de Concepción. He was also recruited by Kast to work at Odeplan. Lavín's book also emphasizes the importance of the "almuerzos de Odeplan" organized by Kast.

³³ The Pinochet Presidency was the first in which there were more ministers who had been trained at the Universidad Católica than at the Universidad de Chile: approximately 55% of Pinochet's ministers studied at the Católica. Also, the majority of Pinochet's ministers had studied at private schools, and over 70% were below 50 years of age. Finally, the proportion of engineers and economists as opposed to lawyers in ministerial posts was markedly higher under Pinochet than under any of his predecessors. See Alfredo Rehren, "La organización de la presidencia y el proceso político chileno," in *Revista de Ciencia Política*, Vol XIX, N 2, 1998, forthcoming.

³⁴ For a detailed account of the relationship between the Universidad Católica and the University of Chicago, see Juan Gabriel Valdés, *La Escuela de Chicago: Operación Chile*, Grupo Editorial Zeta, 1989.

they considered to be unprepared: members of the Medical Association distrusted the economic focus of those in charge of the public health sector and of those sent by the government to implement policies. It is fair to say, however, that their complaints were virtually ineffective.

The members of ODEPLAN subscribed to a common code of ethics which included: 1) A "getting-things-done" ("hacer cosas"³⁵) attitude, which expressed itself in impatience with red-tape and with considerations relating to political calculations; 2) relatedly, a self-conception as politically independent; 3) a high degree of technical expertise; 4) an ethic of self-sacrifice, that is, for instance, a willingness to remain in lower paid civil service jobs working for "the benefit of the country", rather than accepting a higher paying job in the private sector.

Most members of ODEPLAN also shared a common background . Though there were important exceptions (notably Hernán Büchi, about whom more later) most members of ODEPLAN had studied at the Universidad Católica, and had close ties with the right wing student movement, "Gremialismo". One of the main ideological precepts of "Gremialismo" was (and still is) the de-politicization of student politics, that is, the concentration on issues of "real importance" to students, combating the influence of political ideologies on campus, which tended to polarize student life according to political ideologies. Undoubtedly, the military regime was amenable to the supposed apolitical attitude of the ex-gremialistas, since according to the military and its supporters, the excessive politicization of the country had brought about the coup, forcing the military to take action given an otherwise irremediable ideological polarization. This having been said, however, it is quite certain that the gremialistas vociferous opposition to the Allende government, and its Conservative slant, also facilitated the friendly relations within the military government.

Moreover the network of support did not limit itself to the economic or social sector. As has been stated, Jaime Guzmán, one of the architects of the legal and subsequent constitutional framework of the military government, was one of the founding members of Gremialismo. And Sergio Fernández, another gremialista, who was Minister of Labor between 1976 and 1978, and then Minister of the Interior-- the first civilian to occupy this post-- between 1978 and 1982, and again between 1987 and 1988, also had established close contacts with the economists at ODEPLAN while working in the private sector previous to his participation in the government. As Minister of the Interior Fernández headed cabinet meetings, and his support was considerable in granting the reform team time to explain their views, and in establishing a common economic and political front within the government.

³⁵ The phrase "hacer cosas," used to describe the motivation of those who worked at ODEPLAN, came up spontaneously in the responses of every ex-member of ODEPLAN interviewed while researching this section.

TABLE 2 Ministerial Changes (1973-1988)

MINISTRIES	9-73	7-74	4-75	3-76	12-76	3-77	4-78	12-78	12-79	12-80	4-82	9-82	2-83	8-83	4-84	10-84	2-85	87
Interior	Bonilla	Benavides					Fernández				Montero			<i>Jarpa</i>			García	Fernández
Foreign Relations	Huerta	Carvajal					Cubillos		(Rojas)				Schweitzer W.		Del Valle			García
Economics	González	Léniz	De Castro		Baraona			Kelly	Federici	Ramos	<i>Danús</i>	Lüders	Martin	Passicot	Collados		Délano	Concha
Mining	Yovane	Toro	Valenzuela					Quiñones		Piñera	(Errázuriz)	Lira						
Finance	Gotuzzo	Cauas			De Castro						de la Cuadra	Lüders	Cáceres		<i>Escobar C.</i>		Büchi	
Education	Navarro Castro	Castro	Troncoso		Neumann			Vial	Prieto		Cruz	(Arriagada)	Madariaga			(Aránguiz)	Gaete	Guzmán
Justice	Prieto	Musante	Schweitzer S.			Damilano Madariaga							Del Valle		Rosende			
Defense	Carvajal	Bonilla	Brady				Benavides			Forestier	(Carrasco)		Carvajal					
Public Works	Figueroa		León						(Torres)		Siebert							
Transportation	Figueroa	<i>Garin</i>		Vargas			Federici		Boisset					E. Escobar				Massa
Agriculture	Crespo	Vallejos			(Mackay)		Márquez de la Plata			Toro	Prado							
Housing	Vivero	Troncoso	Granifo			Ruiz		Estrada			<i>Guillard</i>			Collados	Poduje			
Land	Barba	Mac-Kay			(Recabarren)				Peri									Veloso
Labor	Mac-Kay	Díaz		Fernández			Costa	Piñera		Kast	Silva	Mardones		<i>Gálvez</i>		Márquez de la Plata		
Public Health	Spoerer	Herrera		Matthei				Jiménez	<i>Medina</i>	Rivera				Chinchón			Giaconi	
Secretaría General Gobierno	Ewing		Béjares				(Vidal)	<i>Fernández A.</i>	Badiola	Bravo	Errázuriz		Suárez	Márquez de la Plata		Cuadra		Poblete
ODEPLAN	Kelly							Kast		Donoso	<i>Danús Frez</i>	Pérez		Büchi	Buchi Figueroa	Figueroa Valenzuela	Ramírez	Melnick

Source: For the period between 1973 and 1983: Rehren, Alfredo, "La organización de la presidencia y el proceso político chileno", in *Revista de Ciencia Política*, Vol. XIX N° 2, 1998, forthcoming. Clear members of the change team are in bold-type. Italicized are the names of those clearly opposed to the process of reform.

By 1977 ODEPLAN had garnered a relative degree of confidence from the Junta, and thus, undersecretaries who had gone through ODEPLAN were assigned to different ministries. This is an important change in the policy of the military regime, for till then most undersecretaries belonged to the armed forces: indeed, 1977 marks an increase in the number of civilians vis a vis military officers in the government. The role of the ministerial tasks is important when trying to understand how ODEPLAN was able to staff ministries with bureaucrats and technocrats who favored the reform policies of the economic team, for it was often the case that Ministers objected to the contents of the ministerial tasks on the basis of lack of prepared personnel. Kast and Kelly as directors of ODEPLAN, would often offer to provide the staff needed to carry out its ministerial tasks, thus extending a network of support, and establishing an informal allegiance between ODEPLAN and mid-level civil servants in all sectors of the administration.

Table 3. Key positions occupied by change team members/allies during the military regime.

NAME	POSITION
Álvaro Bardón	CORFO official, President of Central Bank, Under-secretary of Economics (82), President of Banco del Estado, Editorialist of <i>El Mercurio</i>
Cristián Larroulet	Adviser to ODEPLAN, Chef de Cabinet at Ministry of Finance
Martín Costabal	Adviser at ODEPLAN, Budget Director at Ministry of Finance
Emilio Sanfuentes	Adviser at ODEPLAN
Jorge Selume	Adviser at ODEPLAN, Budget Director at Ministry of Finance
Andrés Sanfuentes	Adviser to Central Bank, Adviser to Budget Agency
José Luis Zabala	Chief of Study Department, Central Bank
JuanCarlos Méndez	Adviser at ODEPLAN, Budget Director at Ministry of Finance
Álvaro Donoso	Undersecretary of Health, Adviser and Director of ODEPLAN
Julio Dittborn	Adviser, Deputy Director at ODEPLAN, Chef de Cabinet Ministry of Economics
Álvaro Vial	Director of National Institute of Statistics (INE)
Felipe Lamarca	Director of Tax Agency (SII)
Álvaro Saieh	Adviser to Central Bank
Juan Villarzú	Budget Director
Joaquín Lavín	Adviser to ODEPLAN
Ricardo Silva	Chief of National Account, Central Bank
Enrique Goldfarb	Adviser at ODEPLAN
María Teresa Infante	Adviser at Ministry of Education, Adviser to ODEPLAN, Under Secretary of Social Security, Minister of Labor
Clio Kypreos	Adviser at Ministry of Health
Ernesto Silva	Adviser at ODEPLAN
Sergio Undurraga	Chief of Study Department at ODEPLAN, CORFO (New York Office)
Juan Ariztía	Finance Chief at Ministry of Public Health, Superintendent of AFP
Arsenio Molina	Adviser at ODEPLAN
Juan Manuel Ortiz	Director of FONASA
Mercedes Cifuentes	Adviser at ODEPLAN, adviser at ministry of public health.
Gerardo Jofré	Adviser at Ministry of Finance
Fernando Alvear	Secretary of Foreign Investment
Juan Andrés Fontaine	Director of Research at Central Bank
Luis Larrain	Deputy Director of ODEPLAN
Pablo Innen	Adviser at Ministry of Finance
Guillermo Ramírez	Banking Supervisor
Hernán Somerville	Director of Coordination of Foreign Debt
Ernesto Fontaine	Adviser at ODEPLAN
Hernán García V.	Adviser at ODEPLAN, Prorector Universidad de Chile
Joaquín Cortez	Adviser at ODEPLAN
Pedro Arriagada	Adviser at ODEPLAN
Gonzalo Valdés	Adviser at Central Bank
Rodrigo Mujica	Adviser at Ministry of Agriculture
Jorge Claro	Adviser at Ministry of Education
Eleodoro Matte	Adviser at Ministry of Health
Carol Rahilly	Adviser at Ministry of Health
Roberto Guerrero	Adviser at Ministry of Labor
Alfonso Serrano	Undersecretary of Labor
Hugo Obando	Adviser at Sinap
Fernando Córdoba	Adviser at Sinap
Daniel Tapia	Adviser at Central Bank
José Yuraszack	Serplac of XI region, deputy Director of ODEPLAN, General Manager of CHILECTRA
Patricia Matte	Adviser at ODEPLAN, Secretary of Social Work

By 1979-80, the economic policies of the regime, which had originated in ODEPLAN and Finance seemed to be working, and the first wave of health reforms which decentralized the public health system were already in place, although they had not been fully implemented. This gave the reform team some lee-way, since the social sector, including public health, was always viewed as a component of the liberalizing strategy of the economic policies. It can safely be said that the social sector was subordinated to the more general economic policies of the government.

5. 1980-1989: FROM OPTIMISM TO CRISIS AND REBIRTH

The early 80's, following the approval through plebiscite of the Constitution, was a period of considerable optimism within the government. The economy was apparently doing well, and several important reforms had been implemented, including the creation of the ISAPRES. The regime looked forward to remaining in power at least until the end of the decade, arguing that a renewed, more stable democracy required a betterment in the socio-economic condition of the population.

However, a serious economic crisis ensued in 1982, and the military quite quickly lost confidence in the architects of its economic policy. A series of protests emerged, especially in 1983, which for the first time seemed to put the government in a vulnerable position. The Government responded by removing from key ministerial posts those who were notoriously involved in the design of the liberalizing economic policies. Some, such as Sergio de Castro, who resigned in May 1982, would never return to the government. GDP fell in 14% and unemployment rose to approximately 25%. In these circumstances a serious financial crisis ensued, leading to the intervention of banking enterprises, including those which were controlled by sectors of the business community which had been most supportive of the government. Pinochet himself, and many of his military advisers, were always quite suspicious of the economic conglomerates (the "grupos"), such as those lead by Manuel Cruzat and Javier Vial Larraín. The economic conglomerates lead by Manuel Cruzat and Javier Vial controlled the banks of Santiago and Colocadora, and of Chile and BHC. Javier Vial had always been close to the military government, and in fact he funded Milton Friedman's visit to Chile at the end of 1974, during which Friedman spoke with Pinochet and the COAJ. According to a close collaborator at the BHC and later Finance chief at the Ministry of Health, it was Friedman who persuaded Pinochet to adopt Cauas's economic shock treatment. Friedman visited Chile again in 1981, this time invited by soon to be Finance Minister Carlos Cáceres. This second visit was preceded by Friedrich von Hayek's stay in Chile, an economist and political theorist of great influence on the economic team. It is important also to keep in mind that Cruzat had been at Chicago while De Castro was there, taught at the Universidad Católica, and was an important collaborator in the elaboration of the "Ladrillo". His thinking marked many a member of the economic team.³⁶

Interestingly it was Hernán Büchi who was given the responsibility to resolve the banking crisis. Büchi, an engineer, not an economist, had studied at the Universidad de Chile, not at the Católica, and done his graduate studies at Columbia, not at Chicago. He was perhaps the highest ranking member of the economic team who survived in the government once the economic crisis ensued. Büchi participated in virtually every major reform that the economic team produced, and held some of the most strategic posts in directing the economic policies of the government. He

³⁶ See, for instance, José Piñera, *La revolución laboral en Chile*, Zig-Zag, 1990, p. 21.

had been an adviser at the Ministry of Economics under De Castro (1975); Minister Economics Baraona's Chief of Cabinet (1976); undersecretary of Economics (1980); undersecretary of Public Health (1981); and Director of ODEPLAN (1983-84). He became banking superintendent in 1984, and in 1985 Minister of Finance.

As banking superintendent, Büchi pushed for the State's intervention of a number of banks, in a major bail out effort, in order to rescue the country's financial system. The relationship between the "grupos económicos" and the government became at this point rather strained, and moreover, the free market oriented policies of the economists fell in disrepute amongst experts, businessmen, politicians, and public opinion in general. In fact, the free market model was described by many as simply dead, and this was reflected and fed by the government's more interventionist policies of the period; these seemed only to confirm the notion that the De Castro and Kast years of privatization and deregulation were gone for good.

Table 4 Socio-economic Indicators 1973-1989 (%)

YEAR	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Growth of GDP	-4.3	5.5	-12.9	3.5	9.9	8.2	8.3	7.8	5.5	-14.1	-0.7	6.3	2.4	5.7	5.7	7.4	10
Growth per capita	-7.1	-0.6	-14.3	1.9	8.2	6.7	6.7	6.1	3.8	-13.9	-4.9	4.3	0.7	4.0	3.6	5.3	6.7
Inflation	605.9	369.2	343.3	197.9	84.2	37.2	38.9	31.2	9.5	20.7	23.1	23	26.4	17.4	21.5	12.7	21.4
Exports (in mill. of 1980 US\$)								4175		3706	3813	3650	3805	4199	5223	7049	8193
Imports (in mill. of 1980 US\$)								5433		3643	2845	3357	2954	3100	3994	4924	6734
Foreign debt (in mill. of 1989 US\$)			10165					13999	17856	19266	20004	21283	22336	23339	22568	19912	17518
Investment	14.7	17.4	15.4	12.7	13.3	14.5	15.6	17.6	19.5	15.1	12.9	13.2	14.8	15.0	16.5	15.0	19.0
Unemployment	4.8	9.2	16.4	19.9	18.6	17.9	17.7	15.7	15.6	26.4	30.4	24.4	21.4	16.0	12.2	9.0	6.3
Consumption per capita (annual growth in %)	-7.1	-15.7	-12.5	-1.3	12.1	5.9	5.4	2.7	6.9	-12.2	-4.6	-0.4	-2.7	2.1	2.1	7.2	6.4

Source: Enrique Cañas Kirby, *Proceso Político en Chile*, Editorial Andrés Bello, 1997, pp. 85 and 249.

The period of the economic crisis of 82-85 can be viewed as a parenthesis in the general economic policy of the government.³⁷ This had effects on the health sector, but not with respect to the creation and consolidation of the ISAPRE system. The resilience of the ISAPRE system can be attributed to several factors. In the first place, its scope and importance took some time to be recognized. Secondly, although the ministers of health of the period were not friendly to the ideas of the economic team which had fallen out of favor with Pinochet, the economists retained important posts at the level of undersecretaries. More in general, however, a veritable exodus of personnel ensued during the crisis. It is noteworthy that in the period of the crisis, the government opted to place in ministerial posts some of those who had participated in the COAJ: Army General Luis Danús Covián, who had been Director of the Economics Department at the COAJ, at the Ministry of Economics; Army General Bruno Siebert at Transportation; and Army General Roberto Guillard Marinot at Housing and Urban Planning.³⁸ In Public Health the government placed General of Carabineros Winston Chinchón; a more pro-reform leadership would not return to Public Health until Minister Juan Giaconi took over in 1985. During 1982, the proportion of civilians vis a vis military personnel in the cabinet was at its lowest since 1978, but it would only rise until 1987.

Interestingly, however, the opposition to the government did not take the form of resistance to the specific policies or reforms which had been implemented. Rather, the hope was that Pinochet could be toppled, and if there was any revision of the reforms to be carried out, it would happen after the return of a democratically elected government. At the Ministry of Interior, Minister Sergio Onofre Jarpa, a member of the more traditional right wing, ex-member of the Partido Nacional, began to hold conversations with political leaders of the opposition. Protests during 1983 made it seem as if the regime was incapable of completing the timetable inscribed in the 1980 Constitution and which called for a plebiscite only in 1988. Jarpa's conversations with politicians of the opposition only served to confirm this perception. Jarpa too was strongly opposed to the group of economists who had worked at ODEPLAN, Finance, and the Central Bank, and favored the inclusion of Escobar Cerda at the Ministry of Finance. Escobar Cerda had been dean of the faculty of economics at the Universidad de Chile, and he favored a more expansionist policy in order to reactivate the economy.

During the period of the crisis many of the collaborators of Kast and De Castro left the government. Those who remained were the younger generation of mid-level personnel who remained at ODEPLAN, the Central Bank, and other ministries. However, the combined efforts of Collados (Minister of Economics 1984-1985) and Escobar Cerda (1984-1985) did not produce the kind of economic recovery which was expected: indeed, Collados and Escobar Cerda did not see eye to eye on the direction that the economy was taking. More and more, Collados and Büchi became a united front against Escobar Cerda and Jarpa. It is also safe to say, that although the personnel which had become a part of the government at the instigation of ODEPLAN had fallen mostly out of favor during 1983-84, no alternative group emerged with the

³⁷ This view is consistent with the argument put forth by Thomas M. Callaghy in "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (Transaction Books, New Brunswick, 1989). See especially pp. 122-123. Callaghy sees even greater continuity in the economic policies, stressing that the interventionist policies during the economic crisis represented an effort to rescue the liberalizing direction of the economy. The difference in emphasis here results from taking into account changes in state personnel at the helm of the economic sector during the crisis. From this angle it seems correct to describe the crisis period-- or at least part of it-- as a "parenthesis."

³⁸ See Table 2.

same kind of single-mindedness of purpose and ideological cohesion. To most observers, the economic policies under Escobar Cerda appeared erratic and inconsistent.

At the same time, the Jarpa-Escobar Cerda duo did not offer the regime the kind of political inconditionality based on the Constitution of 1980 which was characteristic of the gremialista-ODEPLAN boys years. The combined effect of the relative political opening of Jarpa, plus the more expansionist economic policies of Escobar Cerda was to produce confusion in those who had supported the military government. The business community feared that the new policies could jeopardize the free market policies and the consolidation of property rights which had been so hard fought. Thus, "they soon showed their distrust in the [Escobar Cerda] reforms. The executive boards at the banks, the executives of pension funds, and the executives of large companies became a powerful group in favor of a liberal economy. Such posts were mostly held by young professionals with studies in economics and finance in the US, at the Universidad Católica de Chile, or in the Escuela de Negocios de Valparaíso, national followers of the Chicago line. All of them added their efforts to the political counter-attack headed by *El Mercurio* and *Economía y Sociedad*."³⁹ Within this sector one must add the board of directors of the ISAPRES, created, as has been stated, alongside the private pension funds. In this sense a powerful alliance was built within civil society in support of the economic team-- and of the political time-table, designed by the gremialistas, which required Pinochet's stay in power at least until 1989.

Thus, in 1985, Büchi was named Minister of Finance, and Collados-- whose allegiance to the original economic team was lukewarm -- was replaced as well. At the same time, Jarpa, who reportedly had a particular dislike for Büchi, was removed from his post at Interior, and the conversations with the opposition ended. With Büchi at the Ministry of Finance, the government admitted into its ranks what has been called the second generation of economists, mostly trained at the Universidad Católica. The confidence in the ideas of the economic team returned, although it was not until 1987 that the regime recovered completely, and the economic team consolidated its positions. During 1985-86 the perception of many opponents to the regime was that the government was still vulnerable. Again, opposition took the form of resistance to the government itself, and not to particular policies: the abrupt termination of the dialogue begun by Jarpa ended up persuading those in the opposition that the only route for change required the end of the military regime.

In any case, by 1986 the economy showed clear signs of recovery, and from then on the government's confidence in the economic ideas inherited from the *tecnicos* of 70's never subsided. Resistance offered to the economic team by military personnel was a thing of the past, and a widespread consensus within the government seemed finally to have been established. Also, 1987 marks the return of the gremialista presence in the cabinet with the return of Sergio Fernández at Interior, thus re-establishing the political-economic alliance

³⁹ Ángel Soto, *El Mercurio y el pensamiento político económico liberal*, p. 99-100, cited in Edgardo Boeninger, *Democracia en Chile*, Editorial Andrés Bello, 1997, pp. 305-306. *Economía y Sociedad* was directed by ex-minister José Piñera. In one of its editorials it argued, giving voice to the business community which viewed with profound suspicion the policies of the Jarpa/ Escobar Cerda period: "Ministers Jarpa and Escobar committed the grave error of thinking that to confront the economic and political crisis of the period 1982-84 it was necessary to become identical with the sectors which resisted the modernizing effort of the military regime. In fact their strategy seemed to consist in seizing the banners of the opposition: a) accepting its diagnosis of the crisis-- almost everything was done wrongly in the period 1973-1981--, b) adopting its style-- populist rhetoric, emotional discussion of public issues-- and, finally, c) copying its solutions-- economic interventionism and protectionism, and d) negotiations between traditional political elites to return to the old political system." "Estrategia equivocada," editorial, *Economía y Sociedad* N 34, February, 1985. Cited in Boeninger, op. cit., p. 306.

which had forged the policies of the regime as the 1988 plebiscite drew near. In this sense Pinochet seems to have offered recognition that this alliance constituted the ideological core of his administration, and in effect constituted a source of potential popular, and especially elite, support.

However, some things had changed. The importance of ODEPLAN had clearly disappeared, and the Ministry of Economics had become at best ancillary. It had long been the case that once the structural reforms of the 70's were in place, the economic team believed the Ministry of Economics was relatively unimportant, and that the direction of the economy should be concentrated in the Ministry of Finance. And, ODEPLAN's leadership had passed into the hands of military personnel during the mid-eighties: it was Pinochet's natural tendency to revert to the military in times of crisis. It is also true that most of the reforms which ODEPLAN fostered in the Kelly and Kast years were in the process of implementation, and thus ODEPLAN's think-tank qualities were less required by the economic team in the second half of the 1980's. The direction of the economy from 1985 onwards was without a doubt concentrated in the Ministry of Finance under the leadership of one of the architects of the structural reforms of the late 70's: Hernán Büchi.

At Finance Büchi applied a rigorous fiscal adjustment, curtailing public expenditures, applying a strong devaluation in order to stimulate exports and establish an equilibrium in the balance of payments, and adopting a relatively flexible monetary policy. At the same time it is unquestionable that the internal economic policies were from 1983 onwards importantly conditioned by the mounting foreign debt, and the inevitable relationship with the IMF which resulted. In general terms, and especially when Büchi assumed his post at Finance, the Chilean government took on a non-confrontational stance vis a vis the IMF, meaning that the government endorsed the debt of the local private financial sector, and it maintained total and punctual payment of the interests on the foreign debt. In fact, the economic team which takes charge under Büchi had as its top priority to comply with IMF objectives. In exchange, the government obtained a convenient and ordered re-scheduling of most of the capital. This policy was successful in the sense that it allowed the government to continue to receive loans from multilateral organizations.⁴⁰ By 1987, the foreign debt was not perceived as a central obstacle for the continuance of the regime's policies.

At the same time, Büchi was careful to maintain the network of support throughout the government, which was characteristic of the economic team in the 70's. Although Büchi lacked the extraordinary recruitment abilities of a Miguel Kast, the unquestioned predominance of the Minister of Finance in the socio-economic design of the regime's policies, plus the clear backing of Pinochet and the Junta gave Büchi the power to ensure that personnel loyal to the economic team was present at the different ministries.

⁴⁰ See Patricio Meller, *Un siglo de economía política chilena (1890-1990)*, Editorial Andrés Bello, 1996, p. 263.

6. DEMOCRATIC TRANSITION: CHANGE AND CONTINUITY

As is well known, Pinochet attempted to retain his post as President of the Republic in a democratic context. Thus, in 1988 he was the official candidate for the presidency, following to the letter the institutional time-table established in the Constitution of 1980. Pinochet lost the Plebiscite, thus making necessary a free and open election in 1989, as stipulated in the Constitution of 1980. In this election Christian Democrat Patricio Aylwin defeated ex-Finance minister Hernán Büchi.

Although the economic team-- as represented by Büchi-- lost in the ballot boxes, it won in a different sense. Most of the economic transformations which took place in the 70's and 80's remain in place till this day. "Despite Büchi's electoral defeat, it is likely that most of the structural reforms introduced by the neoliberal technocracy in the period 1975-90 will remain almost unaltered under the new democratic government. Even in the hypothetical case that the current authorities wish to do so, it is almost impossible to reverse the new pattern of capitalist development established by the Chicago boys. But what it is more important to emphasise here is that within the democratic political forces this desire has been absent."⁴¹ The democratic governments lead by presidents Aylwin and Eduardo Frei Ruiz-Tagle have not reverted the free market and mostly deregulated orientation of the economy, although throughout the Pinochet years most of the economic collaborators of the democratic governments were highly critical of the policies designed and implemented by the Chicago boys.⁴²

Several factors may account for this situation. In the first place, although many of the economists who became a part of the new democracy had been highly critical of the military's economic policies, by 1990 the economy seemed to be going strong, and thus the incentives to introduce profound changes was non-existent. Secondly, the nature of a democratic transition limits the degree to which an economic system can be altered. Although a relapse into an authoritarian regime is remote today, the stability of the democracy was not as unquestionable in the early 90's. In this sense, the socio-economic direction of the country required a certain degree of caution, implying a reticence to tamper in significant ways with the structural reforms which were, for the most part, consolidated aspects of the economic system.

Moreover, it must not be forgotten that there exist to this day powerful sectors of the population which favor the economic reforms of the military government. The newly elected government of Patricio Aylwin, in particular as represented by its Minister of Finance Alejandro Foxley, was perfectly conscious that moving in the direction of altering the economic legacy of the military regime would send a negative signal to the local and international business community. In this sense, Foxley and his team took on a highly orthodox posture with respect to the direction of the economy, avoiding every step that could be interpreted as an indication of "statism" or "populism." At the same time, under Foxley's direction, emphasis was placed on the payment of the social costs of the economic reforms of the 70's and 80's, but no

⁴¹ Patricio Silva, op. cit., p. 399. See also, Edgardo Boeninger, *Democracia en Chile: Lecciones para la gobernabilidad*, Zig-Zag, 1997, pp. 356-360.

⁴² See for instance Alejandro Foxley, *Latin American Experiments in Neo-Conservative Economics*, University of California Press, 1983; Alejandro Foxley et al, *Reconstrucción económica para la democracia*, Cieplan y Ed. Aconcagua, 1983; Edgardo Boeninger, "Desafíos económicos para la reconstrucción de la democracia," in Boeninger et al., *Orden económico y democracia*, Centro de Estudios del Desarrollo, 1985.

significant effort was made to revert these reforms. Thus, a tax reform was negotiated with some of the more centrist sectors of the right wing in 1990 constituting one of the first policy options decided upon by the new democracy. Its intention was to alleviate the tax burden of the poor, and increase the resources available for public spending in social projects. Its rationale was that, in the same sense that the Chilean government had to offer reparations for those whose human rights were violated, it had also contracted the obligation to offer reparations to those who had paid the social costs of the economic liberalization of the country.⁴³

Although not thrilled by these gestures, the local business community gradually set aside its profound distrust of the economic team. It did so only after receiving assurance after assurance that the economic system would not be altered in significant ways. Of extraordinary importance to the business community was the assurance that the Foxley team would not revert the privatizations which had taken place during the 70's and 80's and which were emblematic of the economic management of the military regime.⁴⁴

It is safe to say that the Aylwin government, charged as it was with ensuring a tranquil transition to a democratic system, was forced to contain two possible sources of instability. On the one hand, the military had to be kept in check and assured that it would not be put on trial as an institution for human rights "excesses" committed under Pinochet. On the other hand, it was no less important for the success of the transition on the socio-economic front, to persuade the business community that Chile was politically and economically stable under the direction of the new set of tecnicos. A clear attempt was made to staff the institutions linked to the economic direction of the country with technocrats trained in foreign universities, and who spoke the same language as their predecessors, albeit under a different ideological sign.⁴⁵ The legacy of the Chicago boys, then, remains in place, embodied in, say, the AFP's and the ISAPRES, in the irreversible process of free market development of the economy, and in the technocratic approach to the search for solutions to the social and economic problems of the country adopted by the economic teams of recent times.

⁴³ A much argued about statistic put forth by ECLA stated that 44% of the Chilean population was below the poverty level, thus putting a damper on the Chilean "miracle."

⁴⁴ As Rafael Otano says, privatizations constituted a veritable litmus test for business. *Crónica de la transición*, Editorial Planeta, 1995, p. 136.

⁴⁵ See Patricio Silva, op. cit., p. 407 for a list of members of the economic team of the Aylwin government, their posts, and their foreign university affiliation.

POLICY PROCESS

1. INTRODUCTION

The specific reform initiative that will be analyzed in this paper is the implementation of a system of private health insurance in Chile : ISAPREs⁴⁶. The reform, passed in 1981, consisted in the creation of private organizations that were allowed to collect mandatory contributions for health care coverage thus substituting the State in its role as insurer.

This paper will cover the period encompassing from 1973 to 1990, the duration of the military regime in which the ISAPREs reform took place. As a corollary, it will take a brief look at the democratic period that immediately followed, and its attempts at changing the ISAPREs regulation and furthering the health system's privatization.

The information was obtained from secondary sources and interviews with key actors and observers of the process. Due to confidentiality requirements, the expressions of interviewees are quoted without identifying the interviewees or their specific position.

The paper is organized as follows. Section II briefly describes the content, principles and goals of the reform initiative, and some historical background of the Chilean health system. Section III describes the four phases of the policy process as it occurred with this specific reform. It also identifies the actors, their level of influence and the arenas in which they operated. Section IV points out the role and vision of international agencies and experts regarding the ISAPRE reform. Finally, Section V concludes with an analysis of the key policy nodes and actors.

2. REFORM DESCRIPTION

A. Background

The health sector in Chile was subject to comprehensive reform during the late 70s and the early 80s. Among the reform initiatives was the creation of private organizations that were allowed to collect mandatory contributions for health care coverage: ISAPREs. The reform, passed in 1981, gave workers and pensioners the option to enroll in any ISAPRE or to stay in the public health plan (FONASA). While individuals stay enrolled in the private system they are no longer eligible beneficiaries of the public health plan. They could use some of its services, but under exceptional conditions that will be explained later. Therefore, ISAPREs were to substitute the public health plan in the financing and provision of health care (Artículo 1°, primer inciso, DFL 3, 1981). Initially, ISAPREs were mandated to cover as a minimum preventive services and sick leave payments covered by FONASA, however the benefit package for curative care was established by an individual contractual arrangement between the parties (Artículo 14 y 15, DFL 3, 1981). In theory, there is competition between ISAPREs on the basis of the benefit

⁴⁶ The Spanish acronyms will be used throughout the text. See table for the English translation of these acronyms

package each organization is able to offer for a certain premium. Contracts are on individual basis.

Currently, ISAPREs coexist with the public health system. FONASA offers the same benefit package for all its enrollees. It is financed on a pay-as-you go basis. FONASA also takes care of the low income population, for which it receives funding from general taxation. Both enrollees and low income population have the right to receive care in public hospitals and primary care facilities. Besides, at any time, FONASA's contributors can use private preferred providers affiliated to the system.⁴⁷ These are paid on a fee-for-service basis. The coexistence of two health care system with different financing logic has led to the segmentation of the population by income level. ISAPREs concentrate mostly middle and high income individuals, while the public system takes care of the low income population and of contributors who are not able to afford ISAPREs' premiums or are not accepted by the private system due to their health status.

The health care system in place before the military regime's reforms started to be implemented in 1979, included two main institutions: a National Health Service (SNS) for blue-collar workers, and the White-Collar Workers Medical Service (SERMENA). There was also a separate system for work safety and occupational health (*Mutuales de Seguridad*), and the Armed Forces had their own health plan and facilities.

The National Health Service (SNS) was created in 1952. This institution was established with the purpose of merging a number of health care services and related institutions that duplicated their efforts and caused inefficiency. The SNS was created to provide integrated care, including prevention and promotion, to blue collar workers and their families, and to the low income population (Vergara y Loyola, 1994: 43). It excluded white collar workers who obtained coverage through their own companies or through the medical services of the *Cajas de Prevision*,⁴⁸ and later through SERMENA.

In 1968, the health service for white collar workers created in 1942 (SERMENA) was extended to cover curative care. Until then it provided only preventive care and health promotion. The beneficiaries of SERMENA were the enrollees of the *Cajas de Previsión* and their families. The *Cajas* were public and semi public institutions, sponsored by the State and organized by professional associations, specific industry or sector.⁴⁹ The *Cajas* collected mandatory contributions for pensions and health care, and managed the benefits. The *Cajas* were financed on a pay-as-you go basis. However the rates of contributions were not uniform, and neither the benefits.⁵⁰ Health care benefits were usually contracted out on a fee-for-service basis. In 1968 curative health care benefits were uniformed under SERMENA (Ley 16.781, 1968). SERMENA was conceived as a preferred provider organization (PPO), where physicians in private practice and private facilities were paid on a fee-for-service basis. The enrollee would pay a copayment of 50% and SERMENA would finance the difference (Vergara y Loyola, 1994). In practice, the PPO provided almost exclusively outpatient care. Inpatient care continued to be provided mostly by public hospitals.

⁴⁷ To some extent the public system works as a Point-of-Service model.

⁴⁸ The *Cajas de Previsión* were public and semi public institutions in charge of collecting and managing social security benefits, including old age pensions and health care benefits. This will be explained in more depth in the next paragraph.

⁴⁹ As examples: *Caja de Empleados Particulares, Caja de Empleados Públicos y Periodistas, Caja Bancaria de Pensiones*. There were near 40 different institutions of this type (Vergara y Loyola, 1984: 37).

⁵⁰ The *Cajas de Previsión* were terminated in 1980 and replaced by private institutions that manage individual retirement accounts for pensions, and by FONASA for health care benefits.

This separation in health care coverage between blue collar and white collar workers was one of the first issues addressed by the military regime. In 1979 the beneficiaries of the SNS were allowed to use the preferred provider organization of SERMENA (DL 2575, 1979). Soon, the financing roles of SERMENA and the SNS were consolidated in only one institution: FONASA. Financing for FONASA came from a uniform mandatory contribution and from the Treasury. The mandatory contribution was a percentage of the enrollee's taxable income. FONASA also became the administrator of the PPO for its beneficiaries. At the same time the SNS was decentralized in 27 Regional Services that became part of the National System of Health Services (SNSS). Contributions to FONASA entitled both white and blue collar enrollees, and still does, to receive health care either at the facilities of the SNSS or through the network of preferred providers affiliated to the ex-SERMENA. The exemption are low income population who can only receive care within the SNSS.

Another milestone in the evolution of the health care system was the creation of the Workers' Compensation Funds (*Mutuales de Seguridad*) in 1958. These are non-profit organizations in charge of work safety and occupational health. Later in 1968, a financing mechanism and tighter regulation was enacted for these institutions (Giacconi, 1994, Miranda, 1990).

In sum, until the end of the 70s health care financing in Chile was essentially public, and health services were mostly provided by public hospitals and clinics (Miranda, 1990). All workers and pensioners were mandated to contribute a percentage of their wage or pension to the public institution in charge of health care financing (FONASA). Health care was funded through general taxes, contributions of workers and pensioners, and user fees.

The creation of ISAPREs in 1981 was part of a comprehensive reform plan for the health sector. ISAPREs were the first step down a road to privatization. In the long run, the intention was to privatize both provision and financing of health care, creating only a demand subsidy for the low income population. However, for economic and strategic reasons the reformers decided to phase-out the implementation of the plan and were not able to complete it.

The decentralization of the SNS in 1979, and particularly the creation of FONASA facilitated the ISAPRE reform. Later, in 1980 started the devolution of primary health care to municipalities. This process was completed in 1987 with more than 90% of primary care facilities transferred to municipalities. The establishment of municipal primary care may also be interpreted as a step in the comprehensive plan to privatize all health care in the long run.

Health care reform was consistent with other reform initiatives adopted by the regime in the social sectors during 1980, particularly education and pensions. In education, a school voucher system was introduced. Public schools were devolved to municipalities and forced to compete with private subsidized schools. In pensions, individual retirement accounts replaced the old pay-as-you go system, and the *Cajas* were replaced by private for-profit third party administrators (AFPs). AFP's were to compete on the basis of pension funds yields and administration fees.

For the economic team, health care reform was as important as education or pension system reform. The three occurred almost at the same time, being ISAPREs the last one to be enacted. After all, within the public budget the burden of health care was second after education, and the reforms were implemented during a period of fiscal restraint. But most important, all these reforms were seen as necessary to transform Chilean society and to prevent the return to a socialist regime or any restraint to economic freedom. The reform was consistent with the shared ideology of the reformers: Neoliberalism.

However, for the political leaders of the regime health care reform was “low politics”. Compared to pensions, the issue was less salient. The health system was not in bankruptcy or extreme crisis. Compared to education, the health sector was much more complex and the interests affected more powerful. The creation of ISAPREs did not have evident political benefits for the regime. Besides, there were also technical, fiscal, and exogenous political constraints that prevented the completion of the comprehensive plan conceived by the economic team.

B. Principles

The reform initiative enacted in 1981 was consistent with the neoliberal paradigm that the regime adopted as development strategy since the early 70s, and that was applied at all levels of the economy (Sanchez, 1982; Racynski, 1983; Vergara, 1985; Tironi, 1990). The principles underlying this approach were:

- **Subsidiary State:** The State should undertake only those activities or roles that the private sector is not able to perform. The private sector is seen as a legitimate and more efficient economic agent. Accordingly, “...the provision of social insurance should be left to the private sector as much as possible.” (Miranda y Scarpaci, 1989)
- **Freedom to choose:** Individuals should be allowed to choose, according to their preferences, among different and increasing number of options. This entails the termination of monopolies in the administration of social benefits and in the labor market (Vergara, 1985).
- **Equality of opportunities:** Every individual should be able to develop his skills to the maximum possible, and any inequalities that may emerge should be due only to different capacities or effort. The concrete expression of this principle was the targeting of public funds on extreme poverty, to ensure the satisfaction of basic needs, such as health, education, and housing (Raczynki, 1983).
- **Economic non-discrimination:** Rules and regulations should be non-discretionary, and consistent with the principle of a subsidiary State (Mendez, 1992). The purpose of these rules should be to strengthen the functioning of markets and competition. Regulation should be minimal and markets should prevail over regulation.
- **Technical character of public policy making:** Public policy making should value the voice of experts in the decisions adopted by governments (Piñera, 1979, quoted in Vergara, 1985:217).

C. Goals

According to official statements, the goals of the ISAPRE reform initiative were the following (Raczynski, 1983:35):

- To release health care capacity in public facilities by shifting demand to the private sector.
- To induce an expansion of private health care infrastructure.
- To concentrate the State’s efforts on the low income population.
- To allow the concretion of the principle of freedom to choose

In addition, a non explicit goal was to prove the ability of the private sector to undertake further responsibilities on behalf of the State, such as the management of public hospitals, and the provision of coverage for low and middle income population through a system of vouchers. The long term goal, explicitly stated since 1981, was to create a demand subsidy that would allow everybody to enroll in the private system, including the low income population, and to privatize public hospitals (Revista Vida Médica, Junio 1981:15; Memorandum 3G/435, ministerio de Salud, 1988).

D. Characteristics

The system of private health plans instituted in Chile has two unique characteristics (Quesney, 1996). First, it is funded by mandatory contributions that nevertheless are patrimony of individuals, and this grants them right to choose among systems and carriers. Second, the private system has characteristics of both social and private insurance. The State sets minimum benefits that all insurers must cover⁵¹, and at the same time, leaves the determination of additional benefits to a private negotiation between the insurer and the individual.

Notwithstanding, the system was loosely regulated in its beginnings and the few rules set in place afterwards are very difficult to enforce. For example, still there is no guaranteed issue⁵² and until 1990 there was no guaranteed renewal.⁵³ Health plans were allowed to deny enrollment renewal to an individual based on his age, gender or health status. Up to 1990 health plans were able to exclude or limit coverage for any disease or for any preexistent condition. The requirements to constitute an ISAPRE were minimal: capital of approximately US\$ 64,000, including reserves, and a deposit of one month of contributions as warranty. Until 1990 there was no specific regulatory agency to oversee the industry⁵⁴, and the institution created that year for this purpose (*Superintendencia de ISAPREs*) had limited prerogatives. Regulations and requisites were increased in 1995, but still it is very difficult to enforce them. There are loop holes to avoid the legal requirements.⁵⁵

⁵¹ Initially these minimum benefits included only preventive care and sick leave payments. Later, in the amendments introduced to the law in 1995, it was established that the benefits should include at least those covered by FONASA, with a minimum coverage of 25% of the fee paid by the public plan.

⁵² This means that ISAPREs were allowed to refuse the first time enrollment of any individual without having to explain the reason. This prevents the adverse/self selection problem. Health plans are still allowed to deny first time enrollment to any individual without explanation

⁵³ This means that, until 1990, ISAPREs were allowed to unilaterally terminate a contract with a former enrollee, after 12 months of enrollment, without any obligation to renew it. This was the vehicle used by ISAPREs for "cream skimming". In other words, ISAPREs were allowed to get rid of the bad risks among the portfolio.

⁵⁴ Until 1990 FONASA played the role of regulatory agency.

⁵⁵ For example, ISAPREs are allowed to change each year benefits and prices of a particular benefit package, but this changes should be the same for all the affiliates to that packages, without discriminating by health status and maintaining the relationship in premiums between age/gender groups. If the affiliate refuses the new contractual conditions, the ISAPRE is mandated to offer alternative packages to all affiliates. In practice, ISAPREs do offer worse packages for those they want to get rid off, and change the name of the original package for those they want to keep offering this alternative only to them. For the regulatory agency it is almost impossible to monitor the compliance with the law, unless the affiliate formally complains, and this rarely occurs.

Other features of the private system are the following:

- Enrollment is mostly on individual basis and there are no mandatory contributions by the employer. The employer only collects employees' mandatory contributions and transfers them to the ISAPRE that each worker has selected. As opposed to the US, it is the employee not the employer who negotiates and contracts with the health plan.
- ISAPREs are not mandated to have their own facilities or medical staff. Legislation allows any kind of contractual arrangement with private providers. ISAPREs can be organized as indemnity insurance, PPOs, HMOs, etc. What has prevailed in the market are the indemnity insurance model and PPOs based on discounted fee-for-service.
- Public hospitals are not allowed to contract with any ISAPRE as providers of inpatient or outpatient care for ISAPREs members.
- As opposed to the public health plan (FONASA) which is universal and funded on a pay-as-you go basis, there are no cross subsidies between members of an ISAPRE. Each individual is charged according to the benefit package he chooses and to his demographic profile.
- The system provides only short term insurance. Premiums and benefits can be adjusted every year by the ISAPRE. Initially, ISAPREs were able to terminate the contract after 12 months and enrollees at any time. Later in 1990, the contractual obligation became permanent for ISAPREs but benefits and premiums still can be adjusted every year. Therefore, the permanent character of the contract is relative.
- Individuals can enroll in FONASA at any time. Therefore, the public health plan acts as a safety net for everyone.

There are different positions about the system performance and the effects of the reform in both the public and private system. Unfortunately, the debate about ISAPREs tends to be driven by ideological premises both from those who support the system, and from those who criticize it (Bitrán y Almarza, 1997). Economists agree that the reform had several effects on equity and efficiency in health care, both positive and negative.⁵⁶ The reform created a segmentation of the population between a public system for the poor, and a private system for the wealthier.⁵⁷ However, the observed trend is that ISAPREs have been attracting more lower-middle class enrollees over time. Economists agree that the main issues that must be addressed in order to improve the system in the future are cost escalation, insufficient coverage for catastrophic diseases, lack of transparency for the consumer to make informed decisions, and the loss of mobility for high risk enrollees and chronic patients. Even the reformers acknowledge the need for changes to improve the system. One member of the economic team stated " If I have to do the reform again I would have created long term contracts. I would create long term contracts between the benefit package and the individual, instead of the ISAPRE and the individual. The benefits should be universal and homogeneous for all ISAPREs" (Interview, 06/02/1998). Another member of the team explained "ISAPREs are a step forward but they have problems, I would have recommended a different design" (Interview 2, 06/04/1998).

⁵⁶ A literature review about the strengths and weaknesses of the reform and ISAPREs performance is presented in the Annex: Policy Tracer.

⁵⁷ This does not necessary implies inequity, because inequality is not the same as inequity. There is inequity when a social group does not have access to socially acceptable level of services (Bitrán y Almarza, 1997). The definition of this minimum is still a pending issue within Chilean society (Oyarzo, 1994). Equity in health care is still a debated issue among academics all over the world (see Le Grand, 1991; Mooney, 1992).

Nonetheless, the ISAPREs system has achieved a certain legitimacy among social actors and the population at large. Only a few groups advocate for radical reforms. On one hand, the majority of economists, physicians, and politicians agree that the system has problems that need to be addressed. They disagree about the solutions. However, none of the solutions proposed implies radical changes or the straight forward elimination of the private system. On the other hand, the polls systematically show that the majority of ISAPREs beneficiaries are reasonably satisfied with the private system, and more satisfied than FONASA's beneficiaries with the public plan.

Based on several surveys conducted by CEP-ADIMARK, a right wing policy analysis center, two economists concludes the following: The degree of satisfaction increases with the income level. Insufficient coverage is a concern for ISAPREs beneficiaries, however the perception of insufficient coverage decreases when the premium is higher. When the samples used by the surveys include as universe the population at large, the proportion of beneficiaries of FONASA who prefer the private system is greater than the percentage of ISAPREs beneficiaries who prefer FONASA. In addition, ISAPREs beneficiaries show a more positive attitude towards their own system than beneficiaries of the public plan (Bitrán y Almarza, 1997:66).

A survey contracted by the *Superintendencia* to an independent market research firm in 1992 concluded that beneficiaries of the private system valued the efficiency and quality of service, and they regarded ISAPREs as a good alternative for health care that solved their health problems. The main failures perceived by the beneficiaries were the lack of coverage for certain diseases, the unwillingness to enroll low income individuals, and the lack of coverage for the elderly. They also disliked the for-profit character of ISAPREs, and that their profits were based on risk selection. They favored more regulation, monitoring and enforcement to increase the transparency of the market (Report Departamento de Estudios, Superintendencia de ISAPRE, 1992).

3. POLICY PROCESS

A. Problem Definition and Agenda Setting (1973-1980)

The Development of the Idea

The idea of private provision of health care had not been totally extraneous to the Chilean Health System. Interest representation of the middle-class always advocated for private provision of services. The continuity of SERMENA was a compromise with this group during the enactment of the National Health Service (Morales, 1984). The workers' compensation system was also created by private companies to take care of work safety issues (Giacconi 1994, Quesney 1996). However the absence of cross subsidies among members of different income levels, and the for-profit character of some ISAPREs was new. Both the *Cajas* and the *Mutuales* were non-profit institutions, financed on a pay-as-you-go basis.

Problem definition occurred at the early stages of the military regime and even before. At the beginning of the military regime there was consensus among social actors that the SNS and SERMENA were in crisis (Racynski, 1983: 12). The crisis of the SNS was already debated by the legislature in 1971 (Giacconi, 1994); however, the Congressional Committee did not advance any solutions. Before that, at the end of the 60s, a group of economists at *Universidad Católica de Chile* began to outline the basis for a comprehensive reform of the economic system and social policy

(CEP, 1992). The plan was called *El Ladrillo*. This was the basis for the development strategy adopted later by the military regime. Regarding health policy, the group proposed the decentralization of the SNS, and the organization of health care financing through institutions like the old *Cajas de Previsión*. Beneficiaries would have unlimited choice of health care provider, and health care would have been funded on a prepaid basis under the administration of these institutions. These institutions would replace SERMENA and were to collect both the contributions for health care coverage and other social security benefits. The assessment was that SERMENA was collapsed due to over bureaucratization, and to the diversion of funds for purposes different from health care coverage (CEP, 1992). However, the economists' proposal did not state, at least explicitly, that the institutions for health care financing would be private and would compete among themselves.

The particular form that privatization was going to take was not clear in the early proposals. The creation of private health plans was not introduced in the formal agenda of the regime until 1980. Apparently, the initial proposals were to privatize only the provision of health services, and to extend the preferred provider organization linked to SERMENA. A former high official at the MINSAL stated "privatization before 1976 was understood as the privatization of public hospitals" (Interview, 04/08/98).⁵⁸ The first development plan issued by the regime in 1974, stated that health care would be organized as a National System of Health Services (SNSS), where both public, private and semiprivate health care institutions would "play an important role" (ODEPLAN, Plan Indicativo de Desarrollo, 1974). The public sector would be in charge of the low income population and the semiprivate sector would cover the middle and high income segments through the development of insurance schemes under the supervision of the Ministry of Health. However, later in 1977 the strategies outlined for the health sector did not state anything about private insurance schemes. There the emphasis was on the participation of the private sector on the provision of services as contractor for SNS (ODEPLAN, Estrategia Nacional de Desarrollo, 1977). The Plan for years 1978-1983 stated the creation of a *Fondo Nacional de Compensación* that would pay providers, both public and private, on a fee-for-service basis (ODEPLAN, Plan Nacional Indicativo de Desarrollo, 1978-1983). Similarly, the Plan for years 1979-84 stressed as a mid-term goal to allow beneficiaries of the health system to choose health professional and facilities. Health care financing in this second phase would follow the beneficiary (ODEPLAN, Plan Nacional Indicativo de Desarrollo, 1979-1984).

The absence of explicit statements about the intention to create private health plans did not mean that the initiative was not in the agenda of certain groups within the government. The same economists that were in an academic setting before 1973 were appointed in key positions within the military government, including ODEPLAN, the Ministry of Finance, and the Ministry of Economy (CEP, 1992; Fontaine, 1988; Huneus, 1998). These recruited other economists to work for the regime. Starting in 1976, a few physicians with non-traditional views for the health system also occupied high level posts at the Ministry of Health. Several economists were also appointed at MINSAL since 1977, under the auspices of the Director of ODEPLAN and the minister of Finance. Informal meetings were held daily at ODEPLAN with the group of economists and physicians working at the MINSAL to discuss the policies that would be applied in the health sector. Economists at the Ministry of Economy who were working on the pension system reform, also attended these meetings. One of these will play the most significant role in the ISAPRE reform: Hernán Büchi.

⁵⁸ Throughout the text the quotations without a reference correspond to statements of our interviewees. Due to confidentiality requirements, the source is not identified.

According to one high official of MINSAL, back in 1976 the idea of private health plans was more or less defined but yet not adopted by the decision makers (Quesney, 1996: 104). Although, another high official at MINSAL during 1976/77 stated that "the proposals for creating a private health insurance system in those years were still incipient" (Interview, 05/26/1998). The idea of portability of mandatory contributions and choice of carrier was polished during the 1978 and 1980, under the auspices of ODEPLAN, the minister of Finance and the minister of Labor, and the contributions of a few economists and physicians at MINSAL, and economists at the Ministry of Economy and the Ministry of Labor. Among the policy alternatives considered were the privatization of public hospitals and the replacement of the SNS by a national health insurance similar to SERMENA. "This option was discarded due to the lack of interest of the private sector in managing public hospitals and because historically SERMENA was a source of intense conflict with the medical profession" (Interview, 04/06/1998). As stated before, for the economic team the long run goal was to privatize both financing and provision of health care. However in the short run, the decentralization of the SNS, the establishment of FONASA, and the creation of a parallel system of private health plans (ISAPREs) appeared as more feasible, both politically and technically. Although the ideas were proposed to political decision makers in several opportunities since 1975, the reform initiative did not attain formal status on the agenda until 1980. It took seven years for its proponents to introduce the issue and enact the ISAPRE reform (Racynski, 1983; Que Pasa, 8 al 14 de Enero, 1981).

Agenda Setting: Actors

The policy process to introduce an issue in the formal agenda followed what some scholars have characterized as the "inside-access model" (Cobb et. al, 1976). This describes a situation in which "policy originates within a governmental agency or within a group which has easy and frequent access to political decision makers". To introduce the issue on the formal agenda, the group seeks support among "particular influential groups which can be important in the passage and implementation of the policy", while at the same time, the initiators try to limit expansion to the mass public (Cobb et al. 1976:135). The strategies for attaining formal status on the agenda include the intervention of policy brokers, and agreements between groups to support each other.

Until 1981, the Director of ODEPLAN⁵⁹ was the critical actor to introduce an issue in the formal agenda. ODEPLAN was a sort of governmental think tank. It played a decisive role in shaping the overall economic and social policy (Huneus, 1998). However, in the particular case of ISAPREs, this institution played more the role of catalyst or coordinator than the role of promoter. Nevertheless, as will be seen later, one of its Directors, Miguel Kast, did play a very relevant role in the agenda setting process and the political maneuvering to adopt the reform. The minister of Labor between 1979 and 1980, José Piñera, who led the pension system reform, also played an important role as policy broker. In addition, indirect promoters included the minister of Finance and the Director of the Budget Office. In sum, more than a particular institution the relevant actor was the economic team: a small group of economists who led most of the structural changes in the Chilean economy during the 80s.

The power of ODEPLAN to influence the agenda stemmed both from formal institutional arrangements and from informal networking. The "National Planning System" was the formal procedure through which ODEPLAN was able to propose and control de agenda (ODEPLAN, 1977;

⁵⁹ *Oficina Nacional de Planificación*. This was the planning agency within the government and reported to the President.

ODEPLAN 1979-1984). Policies and plans were stated in documents that after being approved by the president were mandatory for the public sector. The long term development policies and goals were defined in *La Estrategia de Desarrollo Económico y Social (1977)*. The mid-term plans were stated in a document called *Plan Indicativo de Desarrollo*. These were updated every year and the planning horizon was six years. In addition, each year ODEPLAN presented to the president the specific tasks that every Ministry should accomplish during the period, called *Programas ministeriales*. The ritual was that the Director of ODEPLAN would bring all his team of economists to present the plans to the President. The president was accompanied by military aids, but not the Junta. However, it may be assumed that he received the opinions of other actors and factions within the regime before adopting his decisions: the Junta, ministers, and influential civilians. The president was the ultimate decision maker to introduce an issue on the formal agenda. Once approved by the president the programs became mandatory for the ministers and their teams. ODEPLAN was in charge of following-up progress on a quarterly basis. An ODEPLAN member stated: "There was a lot of resistance from the sectors to adopt these plans, sometimes the tasks were left undone (Interview (a), 04/09/1998)." Both military ministers and the bureaucracy, opposed resistance to the ministerial tasks issued by ODEPLAN.

The informal mechanism by which ODEPLAN tried to secure policy adoption was through the constitution of vertical and horizontal networks. ODEPLAN had strong ties with the top economists working at the Ministry of Finance, the Budget Office, and the Ministry of Economy. Most of these economists were former professors at *Universidad Católica* and graduates from Chicago University (CEP, 1992). The first Director of ODEPLAN, Roberto Kelly, was a retired Navy official who played a crucial role in linking the group of economists of *Universidad Católica* with the Navy, and in promoting the neoliberal paradigm among the military (Fontaine, 1988). He also hired Miguel Kast, a charismatic economist just returning from his graduate studies at *The University of Chicago* in 1973. Kast played a crucial role in recruiting young professionals committed with the regime and the neoliberal model (Huneus, 1998). He built a solid team at ODEPLAN and also arranged to place his recruits in key positions at several social Ministries. From the inside these professionals would push for the reforms within the particular sector in which they were appointed. These horizontal networks facilitated the adoption of policies recommended by ODEPLAN. In 1978 Kast replaced Kelly as Director of ODEPLAN.

ODEPLAN competed in influence and had a certain overlapped role with the *Comité Asesor* (Huneus, 1998). This was an advisory body for the Junta and later for the President. It was integrated by high ranking generals under the leadership of the Army. Their position was definitely against the liberalization of the economy, and particularly against the privatization of social services (Piñera, 1991). They were very critic of the performance of the minister of Finance. They also worried about the political costs that the reforms promoted by ODEPLAN entailed for the stability of the regime and for national security.

Within the government there were also prominent civilians who held traditional views of the State. Some were appointed as ministers or at other high level positions. Certainly they were also able to halt the passage of more radical reforms during the early years of the regime. This group "thought that the private sector was good to produce refrigerators or shoes but not to produce social services, such as education, health care, or pensions..." (Piñera, 1988: 27).

From the outside, the Medical Association (CM) was able to exert limited influence over the policy elite. Until 1975 the leadership, nominated by the government, eagerly supported a greater participation of the private sector in health care (Raczynski, 1983:12,13). The opinions expressed by the leadership, however, did not necessarily reflect the positions of the CM membership. In 1975 the CM board was censored by the membership and replaced by a new one, presided by Dr. Ernesto Medina. Since then, the CM leadership would adopt a more critic

attitude towards the regime's attempts to privatize the health care system (Raczynski, 1983: 15). One of its most influential allies within the government was the Air Force member of the Junta, General Leigh. The Air Force was in charge of health policy within the government's legislative body. The General shared with the CM the vision that the health care system should be public, and he was very critic of the liberalization of the economy in general. The CM new leadership also had strong ties with the *Comité Asesor*⁶⁰, and this may have helped to prevent the adoption of more radical reforms during the early years of the regime. They were invited to present their views to the *Comité Asesor* in several opportunities. The leadership of the CM was also received in three opportunities by the President. They expressed to the president their concerns about privatization. "The president would hear and take notes, but nothing changed after those meetings" (Interview, 04/15/1998). However, the fact that the reform was not introduced in the agenda until 1980 reflects that the president was being influenced by the medical profession and other opponents to the reform initiative within the regime. Therefore, although the CM as institution did not have much influence, individual physicians with easy access to key decision makers did play a relevant role in retarding reform adoption. In fact, there were doctors against the reform, both within and outside the government, who had personal connections to the president and to high rank military officials, and who used this proximity to bring to Pinochet's attention their misgivings about the reform in the making.⁶¹

The medical profession, however, was not an homogenous actor. Different positions coexisted regarding the reforms (Raczynski, 1983). "Probably one third of the board members were prone to privatization. The rest did not like the idea but thought that the initiative was unfeasible due to the low average income of Chileans; and most of the membership did not have an opinion at all" (Interview, 04/15/1998). In addition, the physicians who opposed the regime did not participate in the CM board until 1981. Several were exiled or prosecuted for their links with the ousted Allende government. These physicians started to regroup in 1979 under the sponsorship of the Catholic Church. They did not communicate with the CM leadership and did not know about its efforts to halt the reforms. They eagerly opposed the reforms but their actions were more focused on bringing down the regime than on halting specific policies.

Other interest groups who may have resisted the reform initiative did not play a significant role (Raczynski, 1983:11). The union of ancillary health care workers (FENATS) "had been brutally repressed by the regime and was afraid of demonstrating or of expressing their opinions" (Interview, 04/03/1998). Other health professional associations (Nurses; Pharmacists, etc.) occasionally intervened to support the CM positions regarding health policy, but they were not consulted by the policy makers on a regular basis. The beneficiaries' organizations (CEPCH, ANEF) did not have a strong position either.

From the outside, some business groups interested in expanding their activities to the health sector put pressure on the government to adopt more radical reforms (Declaración Colegio Médico, 13 de Enero 1981). One interviewee and collaborator of the team stated: "Business groups had influence and put pressure to advance more swiftly with the reforms through documents and papers, which did not arrive to the hands of the military but to other very influential people" (Interview, 05/27/1998). These business groups have flourished during the economic liberalization process. The most powerful were *Grupo Cruzat* and *Grupo Vial-BHC*. Its top

⁶⁰ Dr. Ernesto Medina, the president of the CM, was brother of General Alejandro Medina an influential member of the *Comité Asesor*.

⁶¹ Among these was the president of the CM, Dr. Ernesto Medina, and Dr. Schuster, who also occupied several positions at the Ministry of Health during this period. Schuster studied at the Army academy and later was Pinochet's grandchildren pediatrician. He had strong ties not only with Pinochet but with other high rank officials.

executives had strong ties with the economic team. Manuel Cruzat was one of the authors of *El Ladrillo* and classmate of the minister of Finance at Chicago University. Grupo Vial-BHC also had among its top executives several *Chicago Boys*. They constituted holdings involved in a variety of industries. Among these, they owned general and life insurance companies. The interests and ideology of these *Grupos* were consistent with the economic team, and the economists involved in the ISAPRE reform process. The success of the economic model was important both for the team in government positions and these business groups, and ISAPREs were part of the model.

In their attempts to promote and introduce the reforms, including the ISAPRE initiative, the economic team established alliances with these business groups, and with the media owned by these groups. The media linked to these powerful business groups persistently advocated for privatization of health care and criticized the slowness of the government in enacting the reforms (Editorials: *Qué Pasa* 8 de enero de 1981; *El Mercurio* 25 de noviembre 1980, 29 de noviembre de 1980, 5 de diciembre de 1980, 18 de diciembre de 1980, 21 de diciembre de 1980). *El Mercurio*, the most influential newspaper in the nation was owned by *Grupo Edwards*, which although was not involved in the health care industry, have promoted the neoliberal ideas since the 60s and owned other companies who required economic liberalization for their financial health.

Agenda Setting: Process

According to several interviewees, the ISAPRE reform initiative was presented to the president in several opportunities but with no success. The proposals of the economic team before 1975 were much more radical, including the creation of a demand subsidy for low income groups and the privatization of public hospitals. The president thought these initiatives were too risky. Accordingly, during 1975 the government gradually changed its policy orientation and began to acknowledge that the health system should be mostly public, and that the private sector would only play a complementary role (Raczynski, 1983:16). However, the reform initiative was not dead and its proponents continued to work silently on it, without informing the CM or the general public (Raczynski, 1983: 21). "The first time the CM heard something about private health insurance was in 1978" (Interview, 04/15/1998).

Until 1976 the health sector did not change much, and the situation was the same as in the last years of the Allende's administration (Sanchez, 1982). During the first three years of the military regime, the Ministry of Health remained under the control of military officials without any expertise in health policy, who sought advice in the Medical Association and military physicians. According to a physician involved in the reforms: "There was a sort of cogovernance with the CM" (Interview, 04/08/1998). Things started to change in 1976 with the appointment of Air Force General Matthei as minister of Health, and a special commissioner in charge of the SNS. The reform-minded minister gave the managerial flexibility to start the decentralization and reorganization process of the public health system that was finally enacted in 1979 (Giacconi, 1994).

On December 1979, the president appointed a former member of the *Comité Asesor* as minister of Health.⁶² This occurred after a crisis with the Medical Association, caused by the enactment of legislation affecting SERMENA (Raczynsky, 1983: 27). Almost the whole team working at the MINSAL was replaced. The new minister announced his intention to have an "open door" policy with the CM, other professional associations, and FENATS. He also guaranteed that the system would not undergo privatization (*El Mercurio*, *La Tercera*, *Las Ultimas*

⁶² The new minister was General Medina, brother of the former president of the CM.

Noticias, 19 de Diciembre 1979). According to one interviewee, "from his position at the *Comité Asesor* he had been very critic of the government's health policy, and the president decided to give him the opportunity to be in charge" (Interview, 04/15/1998). Although he was able to slow down the implementation of the previously enacted reforms, "nothing changed much" (Interview, 04/15/1998). This would be the last chance for the pro State group represented by the *Comité Asesor* to halt the reform process.

The continuity of reforms was ensured through the undersecretary, an economist graduated in Chicago and placed at the MINSAL by Kast.⁶³ As expected, the new Health minister "did not get along well with the undersecretary" (Interview, 04/16/1998). The undersecretary and his collaborators, economists who were placed at FONASA, continued working on the idea of private health plans with the support of ODEPLAN, and the Ministries of Economy, Finance and Labor. Simultaneously, during 1980 another reform initiative was being discussed in the Legislature: the reform of the social security system. As it will be explained in the next section, this reform, enacted on November 1980, prepared the road for the creation of private health plans.

Kast, Director of ODEPLAN (1978-1980)⁶⁴, finally convinced the president to introduce the creation of private health plans in the formal agenda in 1979. Kast was the one who played the role of policy broker, "he did the political job" (Interview, 04/16/1998). The minister of Finance, De Castro; the Director of the Budget Office, Juan Carlos Méndez; the minister of Labor, José Piñera; and top economists from the minister of Economy supported the initiative. Among the latter was Hernán Büchi, Economy undersecretary at the time, who had been leading the social security reform. The minister of Labor (1978-1980), José Piñera, convinced Pinochet to appoint Hernán Büchi as undersecretary of Health. He would be appointed as Health undersecretary in December 1980 to conduct the reform in health care. The effect of this nomination is reflected in the following statement of a former leader of the CM: "The CM had a reasonable relationship with the MINSAL until 1980. Afterwards policy orientations started to be dictated by the Ministry of Finance. The influence of economists within the government became hegemonic" (Interview, 04/15/1998)

There were several factors that made the introduction of the issue more feasible than in the previous years. First, the political capital of the regime was high in 1980. The economy was booming and the regime had attained certain "legitimacy", particularly after the enactment of the Constitution.⁶⁵ Second, the budgetary situation was more stable and allowed for policy experimentation. Third, the power of the Medical Association, other health professional associations, and unions in general, had been eroded (Vergara, 1985; Tironi, 1990). Membership to professional associations was no longer compulsory, and unions did not negotiate industry wide anymore.⁶⁶ Fourth, the *Comité Asesor* had played its last card with the nomination of one of its members as minister of Health without being able to revert the reforms, nor to improve the situation of the SNS. Its role had also changed and its influence diminished after the enactment of the Constitution in September 1980. Fifth, the member of the Junta who had been more critic

⁶³ The undersecretary was Alvaro Donoso. According to our interviewees, the president used to appoint in the health sector a conservative minister and a undersecretary that was prone to liberalization. The undersecretary did not report to the minister and could not be removed by him.

⁶⁴ Later Kast will become minister of Labor (December 1980-April 1982), and will also play an important role in the strategies adopted to enact the reform.

⁶⁵ A new Constitution was voted in a plebiscite in September 1980.

⁶⁶ The bill about Professional Associations was enacted on February, 1979 (DL 2.516). Legislation reforming unionization, the *Plan Laboral*, was passed in 1978.

of the liberalization of the economy and supported the positions of the CM had been dismissed in 1978.⁶⁷

B. Policy Formulation and Legislation (1980-1981)

Precedents

The creation of ISAPREs was done through an Executive Decree (DFL 3, April 1981). However it was in the Constitution of 1980, in effect since March 1981, where the participation of the private sector in the delivery and financing of health care was definitely set in place (Gandolfo, 1996). The last sentence of Article 19 number 9 of the Constitution, states:

“Each person will have the right to choose the health system to which he or she wants to belong, either public or private”⁶⁸

The records of the debate held within the Constitutional Commission suggest that the scope of freedom granted in this precept was not fully understood by its members (Actas Oficiales de la Comisión Constituyente 190,192,193, 1976). The opinions expressed by the Commissioners reveal that they linked the concept of freedom to the right of individuals to choose physician or health care facility. The terms “health insurance” or “health plan” were not mentioned at all. It was Jaime Guzmán, a prominent lawyer with strong ties with the economic team (Huneus, 1998), the only one who appeared to have a broader understanding of the issues involved. He asked to explicitly expand the concept beyond the right to choose a physician (Acta 192, Marzo 1976:24). He also stated as a long term goal the contraction of the State activities in the health care field and the expansion of the private sector.

Most members of the Constitutional Commission and the actors invited to express their opinions agreed that the State should continue to play a predominant role in health care. The Health minister, his advisers, and the president of the CM attended the hearings. The most eager defense of the unique role of the State in health care delivery came from two physicians who at the time occupied high level positions at the Ministry of Health and the SNS.⁶⁹ Afterwards, Guzmán warned his colleagues at the Constitutional Commission about the “emotional” bias that the people linked to the health sector may have against the proposals of economists within the government to privatize the health system. However he acknowledged that the Government Authorities, probably referring to the president and the Junta, were more inclined to preserve the role of the State in health care (Acta 192, 1976: 24).

The Constitution was voted on September 1980. However, things could have stayed there. The Constitution did not mandate the State to organize a private health insurance system as the one enacted later. The Constitutional precept could have been fulfilled with the emergence of an unregulated health insurance industry as it exists in other Latin American countries. The idea that mandatory contributions could be allocated to private organizations had not yet been introduced

⁶⁷ Air Force General Gustavo Leigh.

⁶⁸ Author translation. The sentence in Spanish is “Cada persona tendrá el derecho a elegir el sistema de salud al que desee acogerse, sea éste estatal o privado.”

⁶⁹ Ironically, one of these physicians would become an important representative of the ISAPREs' Association in the future.

in the legislative agenda. Things began to change a few months later, when two bills were passed to reform the social security system (DL 3500, 1980; DL 3501, 1980).

The social security reform opened the gate for private delivery of social benefits (Piñera, 1991). It set forth the principle, crucial for health care reform, that mandatory contributions are patrimony of the employee, and therefore he should be free to decide among alternative institutions to administer his funds. Contributors would no longer be ascribed to a particular institution or industry-specific system. Employers would no longer make contributions and be intermediaries between the employee and the entity managing the benefits. The social security reform "ended the semantic illusion that made a distinction between employer's and employee's contributions" (Piñera, 1991:74). Private for profit institutions were created to manage the pension funds on a competitive basis, and this was a precedent for the private health insurance system. Competition among institutions would promote efficiency. The social security reform also disentangled contributions for health care from those for pensions and other benefits.⁷⁰

The available records of the debate held within the joint Legislative Committee⁷¹ reveal that there were antagonistic positions regarding the role of the market in the provision of social benefits (Historia Legislativa DL 3500 y DL 3501; Piñera, 1991). The pressures against the reform came from the chief executives of the *Cajas de Previsión*, mostly retired military officials; from lawyers specialized in social security who participated in the Committees; and from the generals of the *Comité Asesor* (Piñera, 1991). The opposition of the *Comité Asesor* and some members of the Armed Forces was finally neutralized after excepting the military personnel from contributing in the new pension system. The arguments used to defend the exclusion of the Armed Forces from the new pension system were that having the private sector managed all the information of the military personnel, and particularly intelligence corps, posed a threat to national security. In addition, the arguments included the particular nature of the military career which make unfeasible the individual retirement accounts for them due to the forced retirement at an early age (Acta de la Sesión Conjunta, 22 de Octubre 1980). Finally a "grandfather clause" for the military was included in the Statute. The military personnel would keep their old social security system. This concession was also granted in the case of health care coverage. One team member stated: "To exclude the Armed Forces from the pension system reform was a concession. It is established in the report of the pension reform technical committee, document number 13. They [the Armed Forces] were excluded because it was politically unfeasible to do otherwise" (Interview, 06/02/1998). However, the team succeeded in eliminating some privileges for the retired military personnel, such as replacing pensions by a one-time payment for all officials under a certain hierarchy and ending the system of *Perseguidoras*.⁷² Both measures were eagerly opposed by some members of the Armed Forces (Interview, 06/02/1998). The debate around the pension system regime for the Armed Forces suggests that their opposition was not only rooted in national security issues but also in their personal interest.

Another issue that was extensively debated within the joint Committee was the percentage of contribution that should be allocated to the health system. The Health minister eagerly advocated for more funds for the health system and regarded the mandatory contribution of 4% finally enacted as insufficient. His argument was that this figure was less than the implicit funding that the health system had historically received from the old social security system. The Labor minister, who was in charge of the social security reform, argued that this appreciation was

⁷⁰ Initially, the contribution for health care was fixed as 4% of salary.

⁷¹ The records of only three sessions are available to the general public.

⁷² This meant that a retired General received the same pension as the salary of the active peer.

wrong and finally imposed his criterion. The Labor minister was a member of the economic team and was supported by the minister of Finance and the Budget Office. He was an economist, and had the technical competence which the minister of Health, a General, lacked. In fact, according to economic studies done after the reform was implemented, with a mandatory contribution of 4% of salary the health system indeed maintained its share in the total funding for social security (Arellano y Saez, 1982:158). The separation of payroll discounts for old age pensions from payroll discounts for health care coverage was a precondition for the establishment of private health plans funded by mandatory contributions (Piñera, 1991).

The Birth of ISAPREs

On December 1980 the president appointed Hernán Büchi as undersecretary of Health. Büchi, Kast, and De Castro had been pushing the initiative for a long time. Büchi's former position was undersecretary of Economy, where he had chaired the team that developed the social security reform. His appointment as undersecretary of Health was suggested to the president by José Piñera, former minister of Labor. One of his main missions as undersecretary of Health was to draft legislation and to implement the ISAPRE reform. He worked closely with Kast, nominated the same day minister of Labor, and by the minister of Finance, De Castro.

Büchi, with the aid of a lawyer from FONASA, drafted an amendment to the Social Security Legislation that was finally enacted on February 1981. This amendment to Article 84 of DL 3500 explicitly allowed employees to enroll in any institution that provided health benefits. This legislation also gave the president the authority to establish the conditions under which these institutions were going to operate through an Executive Decree (DL 3626, 1981). The provision was enacted on February 1981 through a miscellaneous bill issued by the Ministry of Labor.⁷³ Noteworthy, the minister of Labor at the time was Miguel Kast. The bill was signed by the minister of Labor, the minister of Finance, and the minister of Health. Although it had the signature of the minister of Health, it was elaborated by Büchi with the collaboration of the Budget Office of the Ministry of Finance. The amendment to Article 84 was the final stepping stone put in place for the system of private health insurance that was going to be born.

The miscellaneous character of the bill may have been a deliberate strategy to decrease public awareness of the initiative and to limit the involvement of the MINSAL's formal bureaucracy.⁷⁴ Although the bill was issued by the Ministry of Labor it contained budgetary and taxation issues, thus the bill was reviewed by the Legislative Committee of the Navy.⁷⁵ Therefore, the introduction of the amendment through a miscellaneous bill, may have also been a deliberate strategy to facilitate the passing of legislation, because the Navy was more prone to liberalization than other branches of the Armed Forces (Piñera, 1991). There are no records of the legislative debate of this bill.

⁷³ In general, a miscellaneous bill contains unrelated issues. This particular bill had 2 clauses. The first contained 60 numbers which amended several aspects of the pension system Act (DL 3500), including number 46 which modified Article 84 allowing individuals to opt-out to a private health plan. The second clause is an amendment of Income Tax Act.

⁷⁴ Pierson (1994) defines strategies of obfuscation as "efforts to manipulate information concerning policy changes"

⁷⁵ The Navy was in charge of reviewing legislation issued by the Ministry of Finance and any legislation which affected the public budget or taxation. In this case, the last Article of the bill was an amendment of the Income Tax Act.

The Specifics of the System

The next step was the enactment of the Executive Decree that defined the specific features of the system (DFL 3, 1981). Büchi assigned this task to Juan Manuel Ortiz, economist, who was then Director of FONASA. Besides Büchi and Ortiz, the team included a physician, a few other economists, and two lawyers. The Executive Decree defined the concept and basic structure of the system in very simple terms. The legislation via Executive Decree facilitated the enactment of the regulatory provisions because it prevented its review by the Legislative committees.

As stated in section II.D, the costs of entry to the industry were set at a relatively low level (Quesney, 1996: 106; Miranda, 1990: 95). The minimum capital required to constitute an ISAPRE was US\$ 64,000. Organizations were able to incorporate under a variety of legal status: corporations, cooperatives, for-profit, non-profit, etc. ISAPREs were mandated to keep one month of contributions as warranty and to guarantee enrollment for a period of at least one year, unless the enrollee had not complied with his obligations. However, ISAPREs were allowed to practice risk selection and to exclude coverage for a number of services. There was no guaranteed renewal and no guaranteed issue. The only services which ISAPREs were mandated to provide were certain preventive care and sick leave payments. No specific regulatory agency was created, and the responsibility to oversee the industry was given to FONASA. Regulations were flexible enough to attract investors to the new born industry (Quesney, 1996). These flexibility may have been a deliberate strategy because the team feared that the industry would not flourish. It was also consistent with the ideology of the team who favored the autonomous functioning of markets instead of regulation. Finally, it may reflect the lack of preparedness of the team in the specifics of health economics.

Initially, beneficiaries of the new system were allowed to use FONASA's preferred provider organization at any time, in which case FONASA would charge directly the respective ISAPRE (Art. 14, DFL 3 de 1981). They were also allowed to return to FONASA at any time. This gave individuals the opportunity to "test" the new system without incurring in excessive risks (Sanchez, 1982). However, the option to use the State's preferred provider system was soon constrained to situations where there were no alternatives available in the private sector (DFL 4, Julio de 1981). This amendment was a concession to the CM, who wanted to force ISAPREs to create their own infrastructure (La Tercera, 10 de Agosto de 1981).

The regulatory legislation also excluded the possibility for Regional Health Services (SS), or any other institution pertaining to the SNSS to be incorporated as ISAPRE (Art. 3, DFL 3, 1981). According to some of the team members, this provision was a compromise with physicians within and outside the government. It made more difficult future privatization. For the CM it was important to maintain the public system. There they received training, and had control over technological resources. The public system had always been the physicians' territory. A CM member regarded the maintenance of the public system "as an intelligent strategy to buyout physicians" (Interview, 06/03/1998). However, the maintenance of a public system was also due to fiscal and technical constraints to accomplish a totally comprehensive reform in a short time. According to an observer, the team decided to "divide the animal", to phase-out the reform process as a strategy to increase its political and technical feasibility (Interview, 07/23/1998).

Finally, the Ministry of Health, a Navy Admiral, advised by some physicians within MINSAL and against the opinion of most members of the team, decided that ISAPREs would not be allowed to purchase services from public hospitals. He wanted ISAPREs to create their own facilities. According to one member of the team "he thought that success was measured in square meters, and we thought that already in 1980 there was an excess supply of hospital beds in the nation and this provision would introduce more inefficiency" (Interview, 04/16/1998). A physician

linked to the ISAPRE industry and former public servant stated "this was a concession to the pro State factions within the government" (Interview, 05/26/1998). Another team member stated "it was a concession [to physicians], but also a strategy to not disturb the limitation [imposed by the team] of private practice within public hospitals"(Interview, 05/08/1998). Whatever its roots, this regulatory provision has been one of the main institutional barriers for the expansion of the system up to date. To reduce their actuarial costs, ISAPREs require to make investment in health care facilities for the lower-middle income population, but the overall health sector already shows excess capacity both in the public and private sector. Investments in facilities similar to public hospitals is risky for the industry because the regulatory provision may be changed at any time, so ISAPREs cannot ensure the amortization of the fixed assets.⁷⁶

Interests Group Involvement in the Legislative Process

The Medical Association was the only professional association who had some influence during the enactment of legislation and regulations. However, there was no explicit mechanism by which the CM could assert its opinion. The leadership was not officially informed of the content of the reform, and there were no hearings during the legislative process except those held by the Constitutional Commission back in 1976. The CM "was not consulted at all during the legislative review of the Social Security Reform." (Interview, 04/15/1998) Occasionally, some members of the CM leadership would be asked to review a document and express their opinion. According to our interviewees, they submitted their comments but received no feedback from the government, "there was no dialog" (Interview, 04/03/1998). There was indirect influence through physicians who were involved in the government and at the same time were part of the CM, and through individual physicians with easy access to Pinochet and other members of the Armed Forces.

The regulatory provisions were not discussed in advance with any interested party. The team at the MINSAL worked in isolation, although they received input from the private hospitals association (*Asociación de Clínicas Privadas*), and from physicians working at the MINSAL. Some of these physicians had similar views or were close to the *Comité Asesor* or the CM. The Health minister managed the relationship with the CM leadership. According to a physician at the MINSAL, the only concessions granted to the CM were the establishment "of a clear separation between the public system and the ISAPREs."(Interview, 04/06/1998). On the other hand, the *Comité Asesor* "was not happy with the initiative but its influence had significantly diminished in the 80s" (Interview, 04/06/1998).

The perception of some members of the team was that "nobody understood very well the consequences of the reform initiative" (Interview, 04/16/1998). The CM "was busy complaining about the reorganization of the SNS, and did not give importance to this initiative"(Interview, 04/16/1998). In addition, the position of the CM regarding private health plans was ambivalent. On January 1981, the CM board issued a long statement where they warned about the negative experience of the US in this regard, and at the same time complained that the government had not yet established a regulatory framework for the development of a private health system that would comply with the Constitutional precept (*Declaración Consejo General, Enero 1981*). Later the CM made attempts to constitute their own ISAPREs (*Conclusiones Reunion Ampliada, 19-20 de Junio 1981*). According to an CM member these attempts failed because "some physicians thought this would legitimate the system" (Interview, 04/03/1998). The issue was divisive for the CM and the risk of fragmentation now that membership to professional associations was

⁷⁶ When investment have been made, frequently the result have been inefficient duplication of technology and infrastructure between the public and the private system. Adding the resources of both systems, the facilities available are oversized for the population they can potentially serve.

voluntary, discouraged the leadership to continue with the initiative of constituting their own ISAPRE. A former leader of the CM stated :“Physicians did not have a collective position regarding the ISAPRE system...if they had been against the initiative, ISAPREs would not exist.” (Interview, 04/15/1998). A close observer of the CM and physicians attitudes towards the reform related, “The opponents [physicians and political parties in the opposition] until 1984 denied ISAPREs’ existence. That is why physicians did not react, they did not believe in the prospects of the ISAPRE model. Only in 1984 the CM made a statement recognizing its existence” (Interview, 07/23/98).

A former member of the CM stated: “The attitude of physicians has always been ambiguous regarding ISAPREs. The CM have never accepted that physicians are earning more due to the creation of ISAPREs. They have never been willing to do research about the effects of ISAPREs on physicians income.” (Interview, 06/03/1998). The ambiguity of physicians regarding the ISAPRE system and privatization in general stems from their conflicting interests (Raczynski, 1983; Espinosa, 1997). On the one hand they receive training and acquire experience within public hospitals. This demands control over the resources of the public system, working conditions and technological development. On the other hand they make their living in private practice. This demands professional autonomy and independence from any third party payer. ISAPREs were an opportunity to increase the number of private patients who conveniently paid on a fee-for-service basis.

C. Reform Implementation (1981-1988)

Initial Implementation Phase (1981-1982)

Implementation went relatively smooth at the beginning. Since implementation did not need the cooperation of the bureaucracy for its success, there was no threat from this flank. The involvement of the bureaucracy was minimal, limited to the registration of new institutions according to pre-established rules. Regulation was also minimal so enforcement did not require much resources or managerial capacity.

Investors were soon attracted to this new business opportunity (El Mercurio, 31 de Agosto de 1981; Qué Pasa, 4 de Junio de 1981). Among the first entities to enter the new born industry were the two largest business groups of the nation: *Grupo Cruzat-Larrain*, and *Grupo Vial-BHC*. They constituted ISAPRE *Cruz Blanca* and ISAPRE *Luis Pasteur*. Some physicians who were before at the Ministry of Health occupied executive positions. As stated before, the owners of these groups had strong ties with the technocrats who had been involved in the overall economic reform. For example, Cruzat himself and some of his top executives participated in the team that at the end of the 60s drafted the development strategies that would be adopted later by the regime. According to one of our interviewees he also funded scholarships for Chilean graduates at *The University of Chicago*. *Grupo Vial-BHC* also counted among its top executives several “Chicago Boys”.

Another institution that registered as ISAPRE from the beginnings of the system was *Banmédica*, former *Caja Bancaria de Pensiones*. This was the only one which owned medical facilities, inherited from the former bankers pension fund terminated by the social security reform.

Finally, there were large corporations who decided to form ISAPREs only for their employees (Quesney, 1996). Some of these corporations had their own medical services and the reform allowed them to recover the mandatory contributions that they formerly used to pay to FONASA.

Initially, the system enrolled mostly high income individuals who were able to afford the premiums with the 4% of their salary or were voluntarily willing to pay the gap between the premium and the mandatory contribution. "The private sector was scared because there was no experience in the world with a system like this one" (Interview, 04/16/1998). Fearing for the financial viability of their new business venture, ISAPRES manipulated the risk pool of their clients to the extent that they could, given the laxity of the regulation. An ISAPRE's executive explicitly acknowledged that their strategy was "a rigorous risk selection" (Entrevista Patricio Silva, Ejecutivo *Grupo Vial-BHC*, Qué Pasa, 11 de Junio de 1981).

The Director of FONASA in charge of the reform presented the new system to the CM (Revista Vida Medica, 1981). The reaction of physicians was mild. Some expressed fear but not opposition. The more general attitude was of skepticism (Raczynski, 1983). The president of the CM expressed the concerns of physicians about the level of funding being insufficient (Apsi, 30 de junio de 1981). However, he stated that the new system could have advantages in containing costs, and announced that the CM was studying the constitution of their own ISAPRE (Ercilla, 27 de mayo de 1981). Other physicians that had collaborated with Allende's regime were more critic. They warned about the effects on equity that the new system would have, creating great differences in the quality of care for the rich and the poor (Mariano Requena, Apsi 30 de Junio, 1981).

Other players also expressed their opinion as soon as the system made its debut. FENATS, the union of ancillary workers at the SNSS, stated that they were worried about the effects that the new system would have on the level of funding for the public system if the new system was going to attract the most healthy and wealthy contributors (Apsi, 30 de Junio, 1981). This criticism remains to our days.

The CM also worried about what the working conditions of physicians within the new system would be. They feared the possibility of becoming employees of the new institutions and losing their professional autonomy (Raczynki, 1983). However, the system evolved in the direction of indemnity insurance and preferred provider organizations based on a pre-negotiated fee-for-service. This prevented the risk of boycotts from the medical profession. Boycotts were discussed within the CM but there was no agreement to initiate one because "physicians also respond to economic incentives" (Interview, 04/03/1998). Nowadays most physicians serve patients insured by ISAPREs, although not all profit equally. The medical profession "is stratified between some that earn a lot, mostly specialists, and others that cannot make a decent living, mostly primary care physicians" (Interview, 04/03/1998).

Overtime, the CM leadership became more critic of ISAPREs (Goic, 1986). At the end of 1981, the CM leadership was renewed and the group previously sponsored by the Catholic Church took office. However, they focused on combating the regime itself and they disregarded a direct confrontation of the new system because this was a divisive issue for the association's membership.

Some union leaders expressed their opposition to the reform. One of them was the leader of the union of the petroleum industry. He argued that the reform was an attempt to diminish the responsibility of the State regarding health care of the population. He also complained about the lack of participation in the policy process. Others, such as the union leader of *Banco del Estado* was more supportive of the initiative, although he stated that the system should maintain "its social content" (La Tercera, 18 de julio de 1982).

As predicted by the CM and some policy analysts who opposed the regime⁷⁷, the private system attracted the most healthy and wealthy members of FONASA. Simultaneously the deficit of the public health plan increased, and these analysts attributed the decrease in funding to the ISAPRE reform (Arellano y Saez, 1982; Arellano 1987; Goic, 1986). According to these analysts the budgetary effect was due to the favorable selection practiced by ISAPRES, and was not compensated with additional funds from general taxation, increasing the differences in health care access and quality between the rich and the poor (Arellano, 1987; Oyarzo, 1994; Larrañaga, 1998). However, it is not easy to prove whether the net effect of the reform was positive or negative on a per capita basis, since individuals attracted by the private system not only stopped contributing to FONASA but may also have reduced expenditures by stopping their use of the public services. An economic crisis started in 1982 and led the government to cut fiscal funding. Overall contributions also diminished because wages decreased. Therefore, the effects of the ISAPRE reform and the economic crisis over the level of funding of the public system cannot be separated.

Economic Crisis: The Lifesavers (1982-1986)

The deficit of the public health system aggravated with the crisis of the 80s and this increased the criticisms to the government's health policies. The international recession of the 80s had devastating consequence in the Chilean economy. In 1982 the Gross Domestic Product decreased by 14% and unemployment raised to 26% of the workforce. The economic crisis retarded the expansion of the health insurance industry, threatening its survival. Some of the main ISAPRES did not break even until 1985. In 1984 the rate of profits over revenue for the industry was only 0.5% (Miranda, 1989). The recession decreased the real value of wages and therefore the revenues from mandatory contributions. The economic crisis also affected the financial health of some business groups involved in the industry due to their high level of indebtedness.

Between 1982 and 1986, the government adopted several steps to secure the industry survival. First, in 1982 pensioners and contributors to the old pension system were allowed to enroll in ISAPRES (Ley 18.186), thus expanding the scale of the market. In 1985, the funding of maternity leave payments was transferred back to the State (Ley 18.418, 1985). In 1983 the mandatory contributions were raised to 6% of salary and in 1986 to 7% (Miranda, 1990). These initiatives, together with the persistent deterioration of the public health plan, contributed to expand the potential market of the private health care industry.

During this phase of the policy process the ISAPRES' Association had become a relevant interest group, with easy access to the Ministry of Finance, MINSAL, and the Legislative Committees. The CEO of one of the first ISAPRE to appear in the market stated during the interview: "The second year [1982] we broke even, but we also experimented adverse selection with pregnant women. We went to knock the door of the government to have the maternity leave payments funded by the State. The main interlocutors were at the Ministry of Finance. We had access to Kast, Büchi, and De Castro. Also at seminars we met economists who were part of the team. They were technocrats so they understood immediately the problem. We discussed the issues and arrived at quick solutions" (Interview, 07/02/1998). To certain degree the ISAPRES Association⁷⁸ was an ally to the economic team. Although they not always shared the same points

⁷⁷ The majority of these analysts were concentrated at CIEPLAN, the regime's opposition think tank. CIEPLAN played a significant role in the development of alternative policies during the democratic transition. Many of its members became ministers and high rank technocrats during the two democratic administrations that followed the military regime.

⁷⁸ The *Asociación ISAPRES* was created in 1984 under the same legal framework of the Medical

of view, the economic team counted on the success and survival of the mechanism created along of their model for the provision of public services (ISAPREs, AFPs, etc).

ISAPREs membership, though not in an organized fashion, might also have played some role inducing the government to adopt these rescue initiatives. Probably the government did not want to have the system that enrolled the elite class of the nation undergo bankruptcy.

Attempts to Complete the Reform (1985-1988)

During this period (1985-1990) an attempt was made to complete the reform process. Since 1981 the reformers explicitly expressed their intention to create a demand subsidy that would enable low income contributors to complement their mandatory contribution in order to afford the premiums charged by the private system (Revista Vida Médica, Junio 1981:13). In 1986 a partial demand subsidy was enacted that allowed employees to ask from employers a 2% additional contribution to enroll in a ISAPRE. There were also attempts to create ISAPREs *Populares*, which would have targeted the low income population. Finally there was an initiative to give autonomy and eventually privatize public hospitals.

In 1986 resources from a former employment subsidy were allocated to increase by 2% the contribution of employees with income below a certain level, on top of their mandatory contribution of 7% (Ley 18.566, 1986). Employees were allowed to request a 2% additional contribution to the employer, who in turn deducted this amount from the company's tax outlays. The monthly subsidy could not exceed 1 UF (approximately. US\$ 32) per contributor and 0.5 UF per dependent. Overall contributions could not exceed 4.2 UF (Ley 18.566, Artículo 8, 1986). According to one interviewee and ISAPRE executive, "there was no influence of the industry to acquire this subsidy. I did not agree with that initiative" (Interview, 04/08/1998). However, a bill that among other issues eliminates this subsidy is currently being voted at Congress and the *Asociación de ISAPREs* is eagerly against the enactment of that particular clause.

A final step in the implementation process was the attempt to create health plans for low income population during the later years of the regime: ISAPREs *Populares* (Giaconi, 1994; Memorandum #G/435 ministerio de Salud, 1988; (Interview, 04/16/1998)). Initially, municipal primary care facilities would be converted in health plans. These health plans would receive a capitated payment for each member they were able to enroll and would contract with public and private providers. This initiative went together with an initiative to set up public hospitals as self governing units, granting them the status of a public corporation. In the long run the idea was to gradually privatize both the municipal health plans and public hospitals. The minister of Health presented the initiatives to the President, the minister of Finance, and the political advisers of the President. Although the minister of Finance was a promoter of the idea, he was afraid that this would increase public expenditure and the affect balance of the budget. A pilot experience of private management of public hospitals failed and ended with great deficits. The private sector was not interested in managing public hospitals or in purchasing them. The president and his political advisers rejected the idea due to political concerns. It was too late to engage in radical reforms because a plebiscite to decide the continuation of the regime was going to be held on October 1988. The regime lacked political capital, the economic team had lost most of its policy brokers, and there were technical complexities and fiscal constraints to adopt such a radical reform.

Association or any other professional or business association – Asociación Gremial. Initially, membership was 20 institutions (from a total of 30), which enrolled 96% of the total number of contributors to the system. The Association represents the interests of the industry in public policy debates, Congress, etc.

D. Reform Consolidation (1988-1994)

The Last ISAPREs Legislation Enacted by the Regime (1988-1990)

On March 1990, a few days before the new elected government would take office, the military regime enacted new legislation for ISAPREs (Ley 18.933, 1990; Giaconi, 1994). This can be considered a step to consolidate the system, and to introduce amendments to improve its performance and legitimacy. The enactment of this bill was negotiated and accepted by the opposition, who had already won the plebiscite and the Presidential election. The opposition thought it would be politically better to have the military regime to enact legislation. Afterwards, the democratic government would enact new legislation that would make radical changes to eliminate most of the problems, "to erase the original sins" (Interview, 07/23/1998) and this would legitimate the system.

The 1990 bill established a specific regulatory agency to set, monitor and enforce rules for the system (*Superintendencia de ISAPRE*).⁷⁹ According to a team member: "This was a political compromise with those who wanted tighter regulations... ordinary people mistakenly think that the State protects them" (Interview, 04/16/1998). In addition, the bill ruled that ISAPREs could not terminate the contract unilaterally, unless the enrollee had not complied with his obligations. Although the contractual obligations became permanent from the ISAPREs' perspective, the specific clauses could be reviewed every year, so the permanent character of the contract was relative. Finally, the period during which the enrollee was not allowed to change ISAPRE was increased from one month to one year, giving more stability to the market but also restraining choice. According to a member of the team: "This was a concession to the ISAPREs' Association." (Interview (a), 04/09/1998)

Within the government there was consensus over the need to establish a regulatory agency. However, there were different positions regarding its prerogatives. The minister of Health advocated for broader powers than what was finally enacted. The Ministry of Finance and the ISAPRE industry, "through some members of the legislative committee" (Interview, 04/06/1998), advocated for limited powers. They wanted an agency that would focus more on providing information to the consumer than in policing the market. The attitude of the Ministry of Finance and the industry reflected the ideological bias against regulation, which as stated in section II.B, was one of the principles of the neoliberal ideology.

The bill was reviewed by a joint committee of the legislature. The permanent duration of contracts was not contained in the bill submitted by the Executive. It was introduced by a lawyer member of the Navy's Committee. There was a long debate over this issue. The final content was a compromise between those who defended the interests and survival of the industry and those who wanted tighter regulation.

As opposed to the previous legislative process, this time the CM was invited to discuss the bill at the MINSAL. The CM participated regularly in commissions at the MINSAL where policy issues were discussed. "We didn't achieve much there, but the commissions existed" (Interview, 04/03/1998). The CM advocated for the creation of a stronger regulatory agency. They also wanted to mandate ISAPREs to give coverage to the elderly. They were also consulted by the legislative committees, though in a very indirect way. "The legislature would submit documents for comments...we sent back our opinions but never received any feedback." (Interview, 04/03/1998).

⁷⁹ According to one interviewee, this was required by The World Bank after one of its functionaries had a bad experience with the system and find echo at the Bank (Interview, 06/03/1998).

During the enactment of this bill there was no opposition from the representatives of the military prone to State intervention. The tension between pro State generals and the neoliberal economists had decreased at this point because the latter had become hegemonic. The team had the support of the President, and all relevant members of the Junta, and they had informal contacts with members of the Legislative Committees, some of which had been former members of the economic team or their allies at MINSAL. These vertical networks facilitated the enactment of the bill, although some concessions were made to the Asociación the ISAPREs who also had access to the legislative committees.

Horizontal networks had slightly changed during this period. At the end of the regime, ODEPLAN was not powerful anymore. The power had shifted to the Ministry of Finance. As it occurred before with the Director of ODEPLAN, the minister of Finance had people loyal to him placed in the sectors that were. At MINSAL, the minister of Finance himself placed several loyal economists at key posts, such as the Office of Planning and Budget and the Staff of the minister of Health. The mechanism to influence decisions was the same as the one used until 1982 by the Director of ODEPLAN. However, the minister of Finance also used as a parallel strategy: the constitution of a team at the Budget Office (DIPRES) who intervened directly in all relevant projects within the sectors. The later *modus operandi* continues to be applied until today. In addition, most of the ministers were civilians and shared the neoliberal ideology. Since 1987, the minister of Interior was again Sergio Fernández⁸⁰, a *Gremialista* with strong ties with the economic team.

Democratic Transition: Change and Continuity (1990-1994)

The regime ended on March, 1990. At the end of the authoritarian period the opposition movement increased and the social actors were able to reorganize as political parties or unions. Several of these organizations and academic institutions issued policy proposals for the imminent democratization of the nation (Morales, 1984). Except for the Communist Party and a few other radical organizations, none of these proposals considered the straightforward elimination of the private health care system as an alternative. More moderate leftist organizations proposed that ISAPREs should pay a contribution to the public system while individuals could continue to enroll in an ISAPRE. The centrist organizations, such the *Partido Demócrata Cristiano*, *Partido Social Demócrata*, *Union Socialista Popular*, did not adhere to this proposal in their statements but focused on the strengthening of the public sector. They saw ISAPREs as important providers of health care for the middle and upper classes. The CM demanded their representation in the ISAPRE regulatory agency, and a tighter regulation of the industry. However, the CM did not ask for the termination of the private system. Regulations advocated by the CM included the establishment of a list of services that every ISAPRE would be mandated to cover, and the obligation of ISAPREs to reinvest part of their profits in medical facilities and technology. Apparently, at the end of the regime the system had attained certain legitimacy among the social actors, even among those in the political opposition.

In fact, some members of the democratic economic team wanted to advance in the privatization of the public health system. According to one interviewee, "the Ministry of Finance wanted to strengthen the industry [ISAPRE]" (Interview, 07/23/1998). The *Superintendente* of ISAPREs appointed on September 1990 was loyal to the minister of Finance. He drafted a bill to substitute the 1990 ISAPRE legislation. The draft bill was supported by the minister of Health, and was discussed with the CM, the ISAPREs Association, and other Ministries. However, for the CM and the political leaders of the governing coalition, the issue had low priority in the agenda.

⁸⁰ He has been minister of Interior between April 1978 and April 1982.

As a proof that the CM was not concerned with ISAPREs, an interviewee stated: "The CM accepted without any complaint that the *Superintendente* was a veterinarian instead of a physician" (Interview, 07/23/1998). Not until 1996 the CM did advocate for a physician to occupy that post.

The first draft of the bill included provisions to address the problem of lack of coverage for the elderly. The idea was to allocate part of the mandatory contribution to a mandatory savings account that would serve to finance higher premiums at the age of retirement. Pressures from the ISAPRE industry over the Ministry of Finance finally succeeded in eliminating this clause. The top economic team was not committed to the initiative. The bill also eliminated the barriers for direct contracts between ISAPREs and public hospitals. The leadership of the CM agreed with this provision but lately changed their position when the bill was introduced to Congress.

Regarding the attitude of the top economists of the democratic government, an interviewee stated "our economists were scared with what the right wing parties would say and did not want to touch the economic model. There was also lack of preparedness among our own people [Ministry of Health]. Thus, the ISAPRE problem was peripheral [in the agenda]. Any reform [to ISAPREs] that we proposed to the government economic team was a hindrance for them. We were stigmatized as pro State"(Interview, 06/03/1998). The Ministry of Health also lacked a coherent and comprehensive alternative project for the health system. Besides, some researchers prone to the *Concertación* also warned that mandatory savings was a solution not developed enough for the problem of health care coverage for the elderly (TASC, 1992).

In 1992, the first democratic government introduced to Congress a bill to amend the ISAPRE legislation, but not to substitute the previous one. The clause about mandatory savings for the old age was excluded from the bill submitted to Congress. Consistent with the positions described previously, the initiative was an attempt to introduce tighter regulations and to improve the system performance but not to revert the previous reform. This time the bill was reviewed by Congress and the debate lasted several years. The bill was finally enacted in 1995. The government also attempted to allow ISAPREs to contract with public hospitals. Although the CM leadership had accepted this idea during consultations, they eagerly opposed this amendment in Congress and finally imposed its criterion by lobbying the more pro State Congressmen of the governing coalition.

In sum, the *Superintendencia* did not have the strong and loyal support of top economists within the regime. The minister of Health was more concerned with improving the conditions of the public system, and there was no comprehensive and coherent alternative project for the health sector as a whole. The issue was not relevant in the agenda neither for the political leaders of the regime nor for the economic team. It was not an issue for the CM either.

4. CONCLUSION: KEY POLICY NODES AND ACTORS

The policy process to create and consolidate an industry of private health plans in Chile took several years. Although the reform was introduced by an military regime, interest groups within and outside the government played a significant role in retarding the introduction of the issue in the formal agenda and in altering some features of the reform.

The promoters of the ISAPRE reform were the team of economists who led most of the structural changes in the Chilean economy during the 70's and early 80's. These were located at the Ministry of Finance, ODEPLAN, the Ministry of Economy, and the Ministry of Labor. They rotated among these institutions. They also "colonized" the Ministry of Health. ODEPLAN, as

institution, played the role of coordinator or catalyst, but did not have a relevant role in the formulation of the particular policy for ISAPREs. It was Hernán Büchi and his team, from his position as undersecretary of Economy and later as undersecretary of Health, who led the formulation of the specific contents of the reform, the draft of legislation, and its initial implementation. The ISAPRE reform was the first step of a more comprehensive plan which included the creation of a demand subsidy for low income workers, and the creation of ISAPREs *Populares* for the lowest income population. The latter would be gradually privatized along with public hospitals.

The main arena, where the points of view of different interests groups were overtly or covertly expressed, was the Ministry of Health. However, this institution did not have the capacity to take final decisions about the reform. The Ministry of Health included members who represented diverse visions about the reform. It also received feedback from groups outside the government. During most of the period under analysis, the position of minister was occupied by high rank officials of the Armed Forces. The minister's staff usually included other members of the military. On the other hand, the majority of top and middle technocrats of the Ministry of Health were physicians. These physicians represented the views of different factions within the medical profession. Some of them were members or had strong ties with the CM leadership. Others were allies of the economists who promoted the reforms. And yet others, had personal links with the President, other high rank military officials, and members of the Legislative Committees.

During the military regime, the key veto points were located at the President's Office, the Junta, and the Legislative Committees in charge of the reform. These institutions had the power to alter, invigorate, or halt the passage of the reform. The relevance of each institution with veto power changed over time, and during the different phases of the policy process. The Ministry of Finance, whose minister was the leader of the economic team, also had the power to veto because the adoption of the reform was conditioned by its effect over the public finances of the nation. The Constitutional Commission also qualified as veto point, although a less important one. The inclusion or not of a clause that allowed individuals to choose health system in the Constitutional Project was in the hands of this Commission. However, the specific issue lacked of relevance among all the other issues contained in the Constitution, and its exclusion would have not prevented the adoption of the ISAPRE reform.

The main veto point occurred at the President's Office at the moment of setting the agenda (1973-1980). The issue was presented to the president in several opportunities but with no success. The proposals of the economic team were much more radical before 1976, and included the privatization of all public hospitals, and the creation of vouchers for the poor to allow them to choose any private provider. Around 1977, the economic team proposed the creation of a national health insurance that would contract with both public and private providers and hospitals. Pinochet did not accept the idea of contracting private providers because it was not developed enough. Later, around 1978, the economic team did not insist in the elimination of the SNS, but proposed the creation of FONASA to replace SERMENA. This was accepted by the president and it was enacted in 1979, together with the decentralization of the SNS. Finally, in 1980, the economic team convinced Pinochet to create a parallel system of private health plans: ISAPREs. It took seven years for the proponents of the reform to introduce the issue in the formal agenda. The reform was enacted during the first months of 1981.

The most influential group during the agenda setting phase was the Comité Asesor, representing the views of the Armed Forces. The Armed Forces are an essential institution of the State who also live under its protection. Therefore, they distrusted the private sector as provider of social services. They also regarded the initiative as a threat for their own interests and

privileges. The Comité Asesor also worried about the political effects that a diminished State may have for the regime's survival, and for national security. The generals of the Comité Asesor exercised their veto power for several years, forcing the president to disregard the proposals of the economic team. During its early years the power of the president and the stability of the regime were still uncertain. The priority was to maintain a strong cohesion of the military, and this induced the president to retard the introduction of divisive issues such as the privatization of the health system.

During the process of agenda setting the leaders of the CM and some physicians with easy access to the President, reinforced the power of the Comité Asesor to veto the reform initiative. The implicit coalition between these two groups succeeded in securing the continuity of a public system. For physicians this was the most relevant demand because they need public hospitals for training and experience. The CM, as institution, could have played a more significant role halting the creation of a parallel private system but their ambivalent position in this regard finally eroded their influence. In addition, institutional factors prevented their adopting a more confrontational attitude. First, the regime itself was not open to strikes or demonstrations. Second, the change of the legal statute of professional associations introduced by the regime put in risk their cohesiveness and strength to engage in political action. Third, the more radical physicians were not represented by the leadership.

Over the years the political and institutional context changed and other groups acquired strong influence. The Comité Asesor lost its influence after the enactment of the Constitution in 1980. Business groups and the economists within the government increased their influence. The liberalization of the economy strengthened the power of the private sector, and business groups became an important support base for the regime. They controlled the media and the productive structure of the nation. This allowed them to exercise more effective pressures over the government to expand the business space. They had as allies within the government the technocratic elite. The owners and top executives of the Grupos shared professional background and ideology with the economic team. The fate of the economic team was intertwined with the success of the private sector. The regime consolidation also depended on the economists and other key policy makers (e.g. Jaime Guzmán). They represented the vehicle to undertake a profound change of the institutional and economic configuration of the nation that would give legitimacy to the regime. Therefore, at the beginning of the 80s the reform was significantly invigorated by the influence of the Grupos.

Within the government, other civilians who held a more conservative view of social policy and the State's role were secondary actors in the policy process. They were allies of the Comité Asesor in the battle against the economic team, but they were not as important as the CM or the Armed Forces. In addition, their involvement in health policy issues was more indirect. They represented a faction of the political right that supported the regime but was not able to offer a coherent development and institutional alternative for its consolidation.

Interest groups, such as consumer organizations, labor unions, other professional associations, political parties, etc. were irrelevant during the agenda setting process. None of these were able to express their opinion, or to consolidate an opinion at all. They had been repressed, atomized, and demobilized. Therefore, their support was not relevant for the survival of the regime. They were not able to regroup and engage in collective action until 1983.

A second veto point occurred during the legislative review of the Social Security reform (1980). This reform opened the gate for the ISAPRE reform. The veto point was located at the joint legislative committee who reviewed this bill. Members of this committee represented the interests of the Comité Asesor, the military, and the traditional right. The most relevant veto power came from representatives of the Armed Forces, but their resistance was neutralized by

the promoters through the inclusion of a grand father clause for the pension and health care system for the military. The amendment to the pension system legislation in February 1981 was also reviewed by the Legislature, but the promoters included the ISAPRE provision in a miscellaneous bill that decreased awareness about the issue. The veto point was the Navy Legislative Committee, which was more prone to liberalization.

A third veto point occurred during the drafting of the Executive Decree that created the ISAPREs, during the first months of 1981. The veto point was the President's Office. During this process the medical profession was able to obtain some concessions, although not to change the basic features of the reform. They achieved two goals that were most relevant for physicians. First, they prevented the adoption of institutional arrangements that would have facilitated the privatization of the public system in the future. Although this was also due to the technical and fiscal constraints that the economic team faced to accomplish a totally comprehensive reform in a short time. Second, they secured that the new system would benefit physicians in private practice. Since direct contracting between ISAPREs and public hospitals was not allowed, the private sector was forced to invest in medical facilities where physicians could expand their private practice.

A fourth veto point occurred during the consolidation phase, when the regime enacted its last legislation regarding ISAPREs (1988-1990). The veto point was the Air Force Legislative Committee. The most influential actor in this case was the ISAPREs Association. The veto power of the ISAPREs' Association was strong enough to prevent changes in legislation that would have threaten the high profits of the industry. At the end of the regime, the minister of Health advocated for tighter regulations as a response to some of the complaints that the general public and the CM had regarding the operations of the system. The Association succeeded in limiting the prerogatives of the regulatory agency created in this bill, in increasing the stability of the market by limiting the period of open enrollment to one year, and in securing certain flexibility in the contractual obligations between the ISAPRE and the enrollee. The industry exerted its influence through the Ministry of Finance, and through members of the Legislative Committees.

The attempts to complete the comprehensive reform plan with the creation of ISAPREs Populares and the privatization of public hospitals failed due to the lack of interest of the private sector in managing public hospitals, the complexity of such a radical reform, and the tardiness of the initiative. The regime's lack of political capital, the economic team had lost most of its policy brokers, and there were technical and fiscal constraints to implementing the reform. The issue was presented to the political leaders in 1988, when a plebiscite to decide the continuation of the regime was going to be held. Therefore, the political leaders (SEGPRES) disregarded the initiative. The minister of Finance, although an initial promoter of the idea, was more concerned with the effects of the initiative in the balance of the budget, and he realized that it was too late and too complex to implement the pending part of the plan in such a short time.

During the democratic period, the ISAPREs Association was also able to veto some amendments to the legislation that were against the financial health of the industry. The veto points were first the Executive (1991-1992), and later the Legislative Committees in charge of economic issues within Congress (1992-1995). The lobby of the ISAPREs Association over the minister of Finance succeeded to prevent the inclusion of a provision that would have diverted part of mandatory contributions for savings accounts to pay premiums at the age of retirement. The bill introduced to Congress excluded this provision. Once in Congress, right-wing congressmen protected the interest of the industry within the Legislature. They were majority in the Senate so it was easy to eliminate the most conflictive elements of the bill. During the legislative review of this bill, the CM too was able to exert its veto power to prevent, once more,

a provision allowing direct contracting between ISAPREs and public hospitals. The veto points were the health care legislative committees, both in the Senate and the House.

During the democratic period, however the CM and other actors, such as leftist and centrist political parties, did not advocated for a termination of the private system. During the late 80s and early 90s the system have achieved a certain legitimacy within society, and it is very improbable that there will be any attempts to revert the reform in the future. Although economists and political leaders agree that the system has several problems that must be addressed, the issue was not relevant in the agenda neither for the democratic economic team nor for the political leaders, or the CM. Finally, the general public is not concerned with the issue either. Grievances have to do more with the performance of the public system than with ISAPREs. In addition, the governing coalition has not been able to agree in a comprehensive and coherent reform for the health sector as a whole. The emphasis has been in strengthening the public system.

The bureaucracy did not play a relevant role during the reform process, except for physicians within the MINSAL. This was mainly because the characteristics of the reform did not require the bureaucracy for its implementation. The ISAPRE reform was similar to firsts generation reforms, where only incentives and regulations must be changed for the markets to respond. The repressive character of the regime also made almost impossible any collective action against the reform. Finally, the military who was inserted in the bureaucracy act by obedience even though they opposed the reform.

A Note on The Role of International Actors

Although there are similarities between ISAPREs and the US health care "system", almost all a our interviewees denied having any international advice or support during the conceptual development of the private health care system. Only one of the technocrats involved in the reform related having received an American "who taught him a lot about HMOs" (Interview, 05/08/1998). International experts came later, when the system was already in place. For example, in 1985 the *Asociación de ISAPREs* sponsored a conference where Paul Elwood, the father of the US HMOs, compared the US system with the Chilean private system.

It must be kept in mind that Chile was isolated from the international community due to human rights violations. According to a member of the economic team, during the early 70s Chile received only two loans: one from Brazil and one from Spain. And he added that until 1984, except for the International Monetary Fund, Chile was not seen with good eyes by the Interamerican Development Bank, World Bank, and other multilateral agencies. According to this interviewee, later the International Monetary Fund forced the World Bank to issue a report about the good performance of the Chilean economy (Interview, 06/02/1998). Therefore, during the conceptualization, formulation and implementation phases, the reformers did not have access to multilateral agencies or international donors. Probably, they did not demand any support from experts either, since they were convinced that general economic theory could be applied to any sector. Besides, in those days it was difficult to have access to the literature or to study the international experience in health policy. Moreover, during the late 70s and early 80s, HMOs and managed care were not a widespread phenomena in the US as they are now. The indemnity insurance industry still reigned in the US during the 70s. In addition, there was no experience in the world with a private health insurance industry financed with mandatory contributions, subject to regulation, and accountable to the State.

Only during the late 80s, representatives of the World Bank started to look at the ISAPRE reform with some interest. The task manager for Chile issued a controversial draft report, where the system was regarded as an example to follow through and recommended to continue with

privatization. But after Pinochet lost in the plebiscite of 1988, the World Bank started conversations with the opposition. Before the democratic government took office there were negotiations between the team who was in charge of preparing the program for Patricio Aylwin and the World Bank. The Bank wanted to impose its criterion about ISAPREs and there were harsh negotiations. Finally, the draft report was disregarded by the Bank and the task manager was disavowed. Since 1989, the World Bank became more cautious about ISAPREs. It definitely changed its position in the pre-appraisal of a loan for Chile's health sector in 1990 (Interview, 07/23/1998). In fact, the World Development Report 1993 enumerates the virtues of the ISAPRE system, but acknowledges several flaws in the model (Banco Mundial, 1993: 167). Later documents issued by the Bank or Bank representatives have been also critic of some aspects of the system (Banco Mundial, 1995; Musgrove, 1997).⁸¹

In sum, the Chilean model has been observed with interest by other nations and by international agencies. The World Bank, maybe the most influential institution in health policy in Latin America, values the role of the private sector in the provision of health plans and the benefits of competitive markets. However, it also acknowledges that a reform with the characteristics of the one applied in Chile involves several problems: competition based on risk selection, concentration of bad risks in the public sector, underfunding of the public system and inequity, lack of transparency of the market, etc.(Banco Mundial, 1993: 167).

⁸¹ The health care model which has been promoted by The World Bank in other Latin American nations during the 90s, rescues some elements of the ISAPRE system, but is much more inspired in the Neatherland's model, and the ideas of managed care and managed competition set forth by Alain Enthoven.

THE CHANGE TEAM AND OTHER POLITICAL STRATEGIES

1. INTRODUCTION

The purpose of this paper is to analyze the strategies used by the authoritarian military regime to enact and to implement the ISAPRE reform initiative. Particularly, the constitution and *modus operandi* of a change team is discussed, as well as other the strategies it used during the reform process to facilitate its adoption.

The paper ends with a small section on an attempt by the democratic government to resort to the change team strategy and briefly compares this experience with that of the change team under the authoritarian regime.

The paper is organized as follows. Section 2 describes the change team and its characteristics. Section 3 describes and analyzes the team's political maneuvering. Section 4 presents the process strategies used by the team. Section 5 describes the use of a change team during the first democratic government. Finally, Section 6 presents the main conclusions.

2. CHANGE TEAM CHARACTERISTICS

A. Configuration, Location, and Expertise

Along with most of the structural changes in the Chilean economy during the 80s, the health care reform and the pension system reform, were led by a small group of economists composed of the Minister of Finance, Sergio De Castro; by the Minister of ODEPLAN, Miguel Kast; by the Minister of Labor, José Piñera; and by the Director of the Budget Office, Juan C. Méndez and Hernan Buchi, who was Undersecretary of Economy and was to become Undersecretary of Health at the time of the reform (see Table 1). Most of them were former professors or had studied at *Universidad Católica's* Department of Economics and had graduate studies from Chicago University.⁸²

Once appointed by the military regime, these economists were to conform a very closely knit policy group committed to the radical transformation of the Chilean State and the economy. As one of them would acknowledge many years later, "without the cohesiveness and single-mindedness that only a team can provide, any attempt at comprehensive reform, if it does not fail through simple lack of coordination, is sure to fall prey to factionalism and special interest politics" (Piñera, 1991: 226) . They were convinced that the solidity of their proposal, as well as the consensus among the group on the premises backing their reform agenda were enough to undermine any resistance to change. Regarding the importance of a shared ideology and mission, the same reformer stated: "The key of the Chilean liberal revolution was not the use of force but

⁸² The exception was Hernán Büchi, an engineer from *Universidad de Chile* who obtained a Master in Business and Economics at *Columbia University*. Jose Piñera, who studied at *Universidad Católica*, also was an exception because he obtained his Ph.D. at *Harvard University*. However, both shared the same neoliberal ideology and sense of mission with the rest of the team.

the power of one idea- comprehensive freedom- promoted by a team committed with it, and willing to fight for changing a nation" (Piñera, 1992:80).

With this elements in mind, they set themselves as what we will call hereafter, a change team, with assigned tasks that gave each member a particular role in accordance to the comparative advantages he or she had. Thus, regardless of the sector, while some would conceive the long-term vision, others would craft short term policy and legislation; some had the contacts (mostly academic) and the ability for recruiting a vast network of young professionals that were to help in the instrumentation of the reforms in different sectors, while others would concentrate in the political maneuvering and brokerage needed to obtain and sustain the political support of senior decision makers (mainly Pinochet) in favor of the reforms and the team itself.

The change team had its central base within the State in ODEPLAN. ODEPLAN was first headed by Roberto Kelly, retired officer of the Navy and personal friend of Admiral José Toribio Merino, the member of the Junta who was in charge of the economic sector. Merino had great confidence in Kelly, and knew that Kelly had been in contact with a group of economists who had devised an alternative economic program during the Allende government. That economic program came to be known as the "Ladrillo,"⁸³ (the "Brick") due to its voluminous appearance. This program was to be the basis of the military government's economic policy, and indeed, it can fairly be said that the authors of the "Ladrillo," who subsequently filled various ministerial and bureaucratic posts, were waiting in the wings for an opportunity to apply their ideas. Thus, once Kelly was assigned to ODEPLAN, he quite rapidly brought together a task force which with great energy began to provide economic studies and suggest policy alternatives to the government. Of enormous significance was Kelly's inclusion of Miguel Kast, a young economist who had just returned from his graduate studies at the University of Chicago.

Although in his younger years Kast had been a Christian Democrat, during his years as a student at the Faculty of Economics at the Universidad Católica in the late 60's his political views changed. These were the years during which Jorge Cauas, Pablo Baraona, and Sergio de Castro were professors of economics and trained their students in neo-liberal doctrine. These were also the years of the founding of Gremialismo. Kast met Gremialismo's founder, Jaime Guzmán, became a part of the movement, and in this capacity he was quite active in opposing the process of University reform which shook the Universidad Católica in the late 60's. In 1971 he continued his studies at the University of Chicago. When he returned in 1973, he was recruited by Kelly and became part of the important Research Department of ODEPLAN where several of his colleagues from the Universidad Católica and Chicago were already working. Quite soon he was named Deputy Director of ODEPLAN, and, in 1978, its Director. In December of 1980, Kast was named Minister of Labor, and given the task of implementing the reforms of the labor laws and the pension system which were the result of the collaboration between ODEPLAN and the previous

⁸³ Centro de Estudios Públicos, *"El Ladrillo": Bases de la política económica del gobierno militar chileno*, Centro de Estudios Públicos, 1992. This edition contains an interesting Prologue by Sergio de Castro-- economic brain of the first half of the military government-- which lists those who participated in the discussions which lead to the elaboration of the "Ladrillo." Of course, most of those he lists later held government posts in the military regime. He also states that the meetings were held at the headquarters of the Gremialista movement (address, "Suecia 286") and that Jaime Guzmán would pop in on the discussions once in a while.

The connection between the economists who put together the "Ladrillo" and Admiral Merino is documented in Arturo Fontaine Aldunate, *Los Economistas y el Presidente Pinochet*, Zig-Zag, 1988, Chapter 3. That Merino had these economists in mind from very early on is attested to by what is stated in the Acta Secreta of the Junta N 2 of September 13, 1973: "Mr. Admiral Merino informed that a group of 30 students and technical professionals in economics offer their services to cooperate with the Government Junta, agreeing to make them available to the Minister of that branch." Cristi, op. cit.

Ministry of Labor lead by José Piñera. From Labor, Kast was sent in 1982 to the Presidency of the Central Bank, where he was one of the last victims of the loss of confidence in the economic team which followed the economic crisis of the first half of the 80's. He resigned, never to return to the government, in September of 1982. Soon thereafter he was diagnosed with cancer. He died in September of 1983. His ideas, his drive, and his loyalty to the regime were an indispensable part of the formulation of the reforms in the 1970's. But most important was his capacity to build a cohesive and at the same time widespread network of like-minded reformers throughout the government apparatus from the offices of ODEPLAN.

It is also important to mention that the most respected newspaper, the conservative *El Mercurio*, took it as one of its missions to press for the ideas of the economic team through its editorials, going back even to the last years of the 60's. "In the task of explaining the model to public opinion mass communication media were important. Towards the end of the 60's these economists had found an important tribune in the most influential newspaper in the country-- *El Mercurio*-- and from there began the battle of liberal ideas. During the military government that task was extended to practically all means of communication.

The economists became editorialists, columnists, panelists in radio talk shows, and even commentators in TV news programs. What is remarkable is that, without existing a synchronization between them, since there never existed a master plan of communications, the message backing the liberal reforms had great coherence."⁸⁴ It is indubitable that ODEPLAN, under the guidance of Kast, made use of the space offered by *El Mercurio* to make their ideas known, and to garner public support for the reforms, often characterizing those opposed to them as antiquated and technically inept, if not outright "statist"-- code word meaning "Allende-like."

The team saw itself in the role of statesmanship and involved itself in every aspect of public policy, and not merely those more closely related to the specific training of its members. Team members did not see as a problem to intervene in a variety of issues, such as national security, education, health care, prison system, youth delinquent rehabilitation, etc. None of the interviewees expressed being a specialist in a particular field, such as health economics or economics of education. They moved freely from one sector to another and perceived *instant* on-the-job training as sufficient to master the field. They had the perception that general economic theory and their ideology allowed them to solve problems of any kind. They applied the same model in every sector: freedom to choose, competition, privatization, demand subsidy for the poor. They were suspicious of arguments for exemptions or to bare in mind the specificity of a particular field, as an attempt to justify the privileges of vested interests.

De Castro and Méndez participated in the conception of the overall development strategy that the military regime began to apply since 1975. They were among the authors of "*El Ladrillo*" (CEP, 1992)⁸⁵. This document already contained an incipient concept of a private health insurance⁸⁶. From their positions at the Finance Ministry, De Castro and Méndez oversaw the overall transformations of the Chilean economy in a very centralized albeit informal manner. "The authorization of De Castro and Méndez was necessary to engage in any reform" (Interview, 04/16/1998). This strategy was soon institutionalized when all deputy ministers were put under the direct responsibility of the minister of finance. "Through an Executive Decree all ministries were put under the tuition of the Ministry of Finance"(Interview, 06/02/1998).

⁸⁴ José Piñera, "Chile: el poder de una idea", op. cit., p. 89.

⁸⁵ A proposal that a group of economists from *Universidad Católica* started to outline at the end of the 60s and was adopted as a policy master plan by the military regime.

⁸⁶ Emilio Sanfuentes wrote the health chapter of "*El Ladrillo*", however he did not participate in the reform process and never held an official post during the military regime.

Health was no exception. Already as Finance minister, De Castro promoted the reform of the health sector. Since 1977, he started to "colonize" the Ministry of Health with professionals (characteristically non-physicians and mostly economists) who were loyal to him, in a strategy that will be described in detail later on in the chapter⁸⁷. Through direct intervention and via the small number of individuals loyal to him working at the Ministry of Health, De Castro inaugurated a strategy of policy making that ensured him a direct line of influence over the key positions needed to promote change. A government official at the time noted that "In health care reform, De Castro was the ultimate decision maker"(Interview, 05/08/1998).

Méndez was responsible of the budgetary effects that the reform could have in the balance of the public budget. "As in pensions, to undertake a structural reform in the health sector it was necessary to have fiscal surplus"(Interview, 06/02/1998)⁸⁸. In coordination with Méndez, the Ministry of Finance and the Budget Office participated in the drafting and presentation of the miscellaneous bill that contained the amendment - drafted by Büchi -, which set the legal corner stone for the development of ISAPRES.

Kast and Piñera who were more able at political maneuvering, were the policy brokers with a certain degree of influence over Pinochet⁸⁹. They both brokered the introduction of the health reform and its implementation in the hands of one of the members of the change team. "Kast was the one who convinced Pinochet to introduce the ISAPRE initiative in the formal agenda" (Interview, 04/16/98; Interview, 05/08/98). Piñera proposed Büchi for the post of Undersecretary of Health. He also brokered and made the political maneuvering necessary for the pension system's reform. "Büchi acknowledges the political ability of Piñera. Büchi always said that the technical aspect of a reform was not enough to have it passed"(Interview, 04/16/1998).

Kast was the strategist for long run public policy and particularly for social policy. He excelled during the elaboration of the *Programa de Recuperación Económica* or shock treatment applied since 1975 (Fontaine, 1988:113) . De Castro delegated in Kast social policy issues and a variety of sectoral problems. He was a charismatic leader, with stamina to push for the reforms, and one of the most orthodox within the economic team. He was regarded as the "great recruiter"⁹⁰ and acted as the link with the *Gremialismo*.

In the particular case of the health sector, there was consensus among all interviewees that Büchi⁹¹ played the most important role in the reform initiative that gave birth to the ISAPRE

⁸⁷ According to an analyst, the neoliberal ideology did not become predominant in education and health care policies until the end of 1978. Until this period, policy guidelines on these sectors were dominated by the military's view of a more comprehensive role of the State in social policy and concerns about national security (Vergara, 1985:141).

⁸⁸ Méndez, as Director of the Budget Office, played an indirect role in the enactment of the ISAPRE reform. He participated in an attempt to cost a basic benefit package for SERMENA that lately was the basis for the establishment of a 4% mandatory contribution. He also participated in the amendment of Art. 84 of the pension system reform that allowed employees to opt out from FONASA to a private health plan.

⁸⁹ "De Castro was not as sociable with Pinochet as was Kast" (Interview, 05/27/1998). "Kast always spoke frankly to Pinochet" (Interview, 06/02/1998).

⁹⁰ "Miguel thought that it was necessary to have influence everywhere. He had a network of young professionals located in the whole public sector. And he convinced them that it was necessary to do something for Chile" (Interview (a), 04/09/1998).

⁹¹ Büchi started his career as policy maker in 1975, as part of the team of advisers recruited by Sergio De Castro, at the time Minister of Economy (Rojas, 1989:41). The successor of De Castro as Minister of Economy, Pablo Barahona, appointed Büchi as his Chief of Staff (Rojas, 1989:45). He continued in this position until 1979. In December 1979 he was appointed as Undersecretary of Economy. "From this position

system. Büchi was the one who elaborated the idea of a private health insurance system, while he was Undersecretary of Economy and thus a member of the team working in the pension system reform. Once the ISAPRE reform initiative was set in the formal agenda, Büchi was sent to “colonize” the Ministry of Health in order to conduct the process of legislation, regulation, and phase-in of the new system. Afterwards, during the later implementation and consolidation phases (1985-1990) he kept close control of the policy process from his position as Minister of Finance.⁹²

Table 1(5) (a y b)

B. Previous Policy Experience

Before engaging in the ISAPRE reform initiative, almost all change team members had experience in similar reforms in other sectors. As stated before, the leaders of the change team conducted most of the structural changes in the Chilean economy during the 80s. Büchi worked in the pension system reform. Among several other issues, he also participated in the creation of vouchers for education and the decentralization of this function to municipalities; in the decentralization of the SNS; in labor reform; and in the reorganization of public corporations among others (Fontaine, 1988: 183). Prior to the pensions system reform, Piñera conducted the labor reform. Méndez participated in higher education reform, and in the normalization of land property rights. Also, most of those change team members who were sent to participate in the implementation of the health reform at the Ministry of Health (the “colonizers”), had had previous experience in policy change.⁹³

The experience acquired by the team during the formulation and implementation of the education and the pension system reform were relevant inputs for health care reform. As an interviewee stated, “in the case of education, initially there were talks to privatize everything and to create a demand subsidy, but it was seen as politically unfeasible” (Interview (a), 04/09/1998). This was one reason to discard, at least in a first phase, a more radical reform than the one that was finally enacted in the health sector. By contrast, the success of the pension system reform provided an overoptimistic perception that the same could be accomplished in the health sector. Also, through these previous experiences, the change team learned about the political constraints that a reform initiative of this nature would face, and this may explain the strategies they adopted to by-pass the more risky veto points, as well as their resort to other related strategies that will be discussed later on. It can be argued that the education reform and

he chaired the team of economists and lawyers who prepared the pension system reform” (Interview, 04/16/1998). The team was composed by representatives of the Ministry of Labor, Ministry of Economy, ODEPLAN, and the Budget Office (Piñera, 1991:81). The pension system reform was led by José Piñera, Minister of Labor.

⁹² The rest of the team leaders during these later phases of the policy process had abandoned the government as a consequence of the economic crisis of 1982.

⁹³ Donoso worked for several years at ODEPLAN before being appointed as Undersecretary of Health. Cifuentes participated in the educational reform and other social sector reforms from her former position as Deputy Director of Planning at ODEPLAN. From this positions she also intervened in several issues at the Ministry of Health, such as constraining private practice in public hospitals in 1978/79. Munizaga and Caviedes had been for a long time within the bureaucracy of the Ministry of Health, conducting other reforms. Caviedes had worked in the reorganization and dismantling of the public corporation in charge of the construction of public hospitals. Munizaga had worked in the administration of one of the *Servicios de Salud* created after the decentralization of the SNS. Clio Kipreos was Büchi’s Chief of Staff at the Ministry of Economy. The exceptions among the colonizers were Ariztía and Ortiz. They were recruited from the private sector and had no previous policy experience.

particularly pensions reform, gave the team the idea that they had the technical expertise and the political ability to engage in a similar reform process in the health sector.

While by the time health reform acquired a space in their reform agenda, most change team members had had previous experience in reform formulation and implementation in other sectors, none had any knowledge on the substance of health policy. They lacked specialization in health economics, but believed they could apply the same “template” to any sector⁹⁴. Chile’s isolation in the international arena⁹⁵ hampered the team’s access to specialized knowledge on health systems abroad. The team did not have access or did not demand the advice of any multilateral agency. The model they may have looked or read about was the US system⁹⁶, where managed care and HMOs were not a widespread phenomena yet. Also, there was no experience in the world with a private insurance industry subject to regulation and accountable to the State. Thus the design of ISAPRES rested particularly on the assumption that the pension systems model they had just put in place – a privately managed, State regulated fund – was applicable to the management of funds – public and private - directed to health.

The change team saw itself as precursor. They did not resort to the aid and orientation of multilateral agencies or foreign experience. “We looked the HMOs but no foreign model was useful and we created our own system” (Interview, 05/08/1998) . “We knew about the existence of the HMOs but we did not do any conscious effort to look or study the international experience” (Interview, 04/16/1998) . During the debate of the pension system reform, a General complained that the system that Piñera was proposing did not exist anywhere in the world, and that he was putting in danger the military regime with an uncertain and dubious experiment. Piñera acknowledged that indeed a similar system did not exist anywhere. However, he replied stating that the right course of action was to follow the good ideas and solutions, even though they may not have been tested elsewhere (Piñera, 1991: 103-105).

C. Ideology and Vision of State Society Relationship

All members of the team shared the same ideology, largely influenced by the ideas of Milton Friedman and F. Hayek. There was consensus among them about the principles which inspired the model⁹⁷: Freedom to choose goods and services and to engage in any economic activity; subsidiary role of the State, which should limit its intervention; the principle of economic non-discrimination or the non-discretionary character of the law and of regulations; the principle of equality of opportunities, where the role of the State was constrained to satisfying basic needs in order to eliminate extreme poverty; and finally, the technical character of public policy making (Vergara, 1985; Tironi, 1990; Sanchez, 1982; Racynski, 1983). According to one academic observer, “The later principle was called to substitute political decision-making for the

⁹⁴ One of the “colonizers” confessed not having read any paper in health economics ever (Interview, 04/16/1998).

⁹⁵ Due to its record on human rights violations.

⁹⁶ Although one of the interviewees told that they looked at the Chinese model, where prevention was an essential ingredient of the system. According to this “colonizer” this model was inspiring for them. They also received the visit of an American “who taught them a lot about HMO’s”. It is strange, however, because any health economist would agree that the system as it was conceived did not give incentives for prevention. The easiness for enrollment and disenrollment that prevailed until 1990 created a free rider problem, and ISAPRES did not have the incentives to invest in prevention if another ISAPRE would receive the payoffs. Prevention essentially provides long run benefits.

⁹⁷ However, it must be noted that these principles were not directly applied to education and health care policy until the end of 1978 due mainly to the resistance of the armed forces, who considered as crucial to have a larger role for the State in these fields. Vergara (1985: 141)

recommendations of economics in all those decisions that require technical judgment. The arguments in favor of these principles were always the same: the real and not only formal protection of ethical values of economic freedom and economic equity, and the need of "rationality" in public policy making to ensure the efficacy and universality of policies"⁹⁸(Vergara, 1985:129).

According to one of the team members the role of the State should be constrained to a few functions: to ensure the provision of public goods; to avoid monopolistic behavior among economic agents, and to ensure competition through adequate regulation, monitoring and enforcement; to define and protect property rights; to distribute wealth in order to achieve a certain level of equality of opportunities, and to eliminate extreme poverty; and to manage macroeconomic policy in the areas of monetary policy; budget policy; and international trade (Méndez, 1992:8).

Regulation was also seen as fertile ground for the development of vested interests, and regulators an easy prey for "capture". They may have acknowledged the existence of market failures in health care (e.g. externalities; information asymmetries; etc.) but they distrusted more government attempts to rectify the situation⁹⁹. Accordingly, regulation for ISAPREs was minimal, and one interviewee stated that the creation of the *Superintendencia de ISAPRE* was imposed by the World Bank (Interview, 06/03/1998) .

In an interview to a newspaper De Castro stated: "The government is eliminating the discretion of the bureaucracy and the perverse role that the State had in the past through discretionary management of the economic variables. The government, through the creation of competition, is preventing the future perpetration of arbitrariness which change personal fortunes from one day to the next. This is the essential foundation to obtain a social organization that effectively allows equality of opportunities" (De Castro, 15 de Enero de 1976, quoted in Vergara; 1985:93).¹⁰⁰

Applying these principles to the particular case of the health sector, Kast declared at the time of the reform: "Any offense against these principles, such as to charge the poor to give to the not so poor, to deny freedom to choose thus avoiding an insurance of quality, to violate the principle of offering a wide spectrum of opportunities to the user favoring instead any kind of

⁹⁸ Author translation from the Spanish original: "Este ultimo principio estaba llamado a sustituir la decision politica por las recomendaciones de la ciencia economica en todas aquellas decisiones que implicaran juicios tecnicos. La argumentacion en favor de estos principios era siempre la misma: la defensa real y no meramente formal de los valores eticos de libertad e igualdad economicas y la necesaria "racionalidad" de las decisiones publicas para asegurar su eficacia y universalidad".

⁹⁹ In the words of one of their mentors, "Almost everything we do has some third party effects, however small and however remote. In consequence, Adam Smith's third duty may at first blush appear to justify almost any proposed government measure. But there is a fallacy. Government measures also have third party effects. 'Government failure' no less than market failure arises from 'external' or 'neighborhood' effects. And if such effects are important for a market transaction, they are likely also to be important for government measures intended to correct the 'market failure'...a government attempt to rectify the situation may very well end up making matters worse rather than better..." (Friedman and Friedman, 1979:31).

¹⁰⁰ Author translation: "El gobierno esta eliminando la discrecionalidad funcionaria y el rol perverso que el Estado tenia en el pasado a traves del manejo discrecional de las variables economicas. El gobierno, a traves de la creacion de competencia, esta impidiendo que en el futuro se cometan las arbitrariedades que cambian las fortunas personales de un dia para otro. Esta es la base esencial para obtener una organizacion social que efectivamente posibilite la igualdad de oportunidades" (De Castro, 15 de Enero de 1976, citado en Vergara; 1985:93)

State monopoly, constitutes an attack against the growth and grandeur of Chile" (Kast, 1980 quoted in Cabezas, 1998:11).¹⁰¹

Referring to the program of reforms launched by the government in 1979, which included reforms in labor relations, pensions, education, agriculture, regional administrative organization, and health care, Piñera stated: "The seven modernizations seek to introduce margins of personal freedom unknown for the Chilean people, to contribute to the necessary equalization of opportunities, to give dynamism to economic development, to value the voice of experts in decisions adopted by governments which are eminently technical, in sum, to transform Chile in a modern nation where reason prevails over prejudice and dogmatism, and where individual freedom becomes the general rule and State intervention the exception." (Piñera, Que Pasa, 454, 27 diciembre de 1979, quoted in Vergara , 1985:217).¹⁰²

Regarding mandatory contributions for pensions and health care, Piñera expressed the following: " 'Solidarity' should not continue to be the excuse for the fact that certain State monopolies are not accountable for the mandatory savings they require from workers" (Piñera, 1978, quoted in Vergara nota 138, p. 140).¹⁰³

All the previous statements reflect the ideology of the change team and are consistent with the principles outlined in the first paragraph. This ideology is underlying health care reform, and particularly the ISAPRE reform initiative. The relationship between State and society changes. The concept of Welfare state "as we knew it" is transformed, giving a different meaning to the functions and responsibilities of the State. In the long run, the plan was that the State would no longer provide social benefits, but only would finance the costs of health care for those who were not able to afford the premiums of a private health care insurance.

Regulations for the system, at least in its beginnings were minimal. As one of the colonizers stated: " We thought that the only regulation that worked was the one exerted by the informed consumer" (Interview, 04/16/1998) . The change team saw Welfare state and regulations as a fertile ground for vested interests acting against the common good. Competition and freedom to choose health plan were seen as a means to erode the power of State monopolies: the SNS and FONASA. This would make these public institutions more accountable to the public.

The definition and protection of property rights also determined pensions and health care reform. The team defined mandatory contributions as patrimony of the contributor, thus entitling him/her to allocate them wherever he/she wanted, either the private or public sector. A "colonizer" explained: "Before, mandatory contributions were seen as a tax on labor" (Interview (a), 04/09/1998) . Solidarity within the private health sector was eliminated. Within the public sector the pay-as-you go financing scheme was maintained (intergenerational and income class

¹⁰¹ Author translation: "Cualquier atentado contra estos principios, en el sentido de que se le cobre a los mas pobres para darles a los no tan pobres, de negar la libre elección impidiendo así un seguro de calidad, de vulnerar el principio que se ofrezca un abanico amplio de oportunidades al usuario en contraposición a algún tipo de monopolio estatal, atenta contra el crecimiento y la grandeza de Chile" (Kast, 1980 citado en Cabezas, 1998:11).

¹⁰² Author translation: "Las siete modernizaciones buscan introducir margenes de libertad personal desconocidos para el chileno, contribuir a la necesaria igualacion de oportunidades, dinamizar el desarrollo economico, valorar la voz de los expertos en las decisiones eminentemente tecnicas que adoptan los gobiernos, en fin, transformar a Chile en un pais moderno donde la razon prime sobre los prejuicios y dogmatismos y donde la libertad individual sea la regla general y la intervencion estatal la excepcion" (Pinera, Que Pasa, 454, 27 dic del 79, citado en Vergara , 1985:217).

¹⁰³ Author translation: "La 'solidaridad' no debe seguir siendo la excusa para que ciertos monopolios estatales no tengan que rendir cuentas de los ahorros forzosos que exigen a los trabajadores" (Pinera, 1978, citado en Vergara nota 138, p. 140).

solidarity), but this was more due to fiscal and political constraints than a desired goal. The final goal was to substitute cross subsidization by direct demand subsidization from general taxes. The change team was not able to complete the plan, so nowadays many of the problems faced by Chilean health system as a whole are the consequence of this dual logic in operations and financing between the private and public systems (Larrañaga, 1988; Fischer and Serra, 1996).¹⁰⁴

D. Mission and Motivation

All team members shared the same mission: to transform Chilean society and its economic structure in order to prevent forever the return to a socialist regime or any restraint to economic freedom. The mission also entailed the elimination of any devices that had empowered vested interests in the past, including among these groups those industries which flourished as a consequence of protectionism and unions favored by labor regulations and the welfare state. Finally, the team aspired to introduce "rationality" in public policy making instead of politically loaded decision-making.

To accomplish this mission all reforms were important: both first generation reforms and social sector reforms. Piñera wrote: "...I and others on the team wanted to go further and extend the discipline of the market to the social sector: the pension system, health care, education, and the rest. We foresaw that leaving these activities in the hands of the State would only increase its power as the economy became wealthier, undoing much of what we had so far accomplished toward shortening the State tether. We therefore argued, if private enterprise and the market are good for producing steel, should they not also be good at producing pensions?" (Piñera, 1991:229). For the change team there were no frontiers in their scope of action. In some cases they gave up but more for strategic reasons than self-limitation.¹⁰⁵

One of the underlying goals of their mission was the atomization of political and economic power. This aim targeted pro military regime groups as well, since they also qualified as vested interests that should be dismantled: "The traditional right lived sheltered under the protection of the state" (Interview, 06/02/1998). Another interviewee and change team member expressed "I am against both labor and business associations" (Interview 2, 06/04/1998). Piñera wrote: "...our proposals met with sharp resistance from the special interests, first among them the business community...It must be understood that the majority of businessmen in every inert (sic), state-ridden Latin American military regime are really content with the status quo. As Adam Smith

¹⁰⁴ This issue is explained in the Policy Tracer Annex.

¹⁰⁵ An example of this attitude was the process to enact the pensions system reform. Within the legislative commission that analyzed this reform there was a debate over the attributions of the Minister of Labor -Piñera- to change legislation that would affect the health system. Piñera's first attempt was to introduce changes to the health system through DL 3500 and DL 3501 without consulting the Minister of Health, and to exclude him as decision maker for future amendments to that legislation (Historia DL 3500; Acta Sesión Conjunta Comisiones Legislativas, 22 de Octubre, 1980: foja 299). Piñera was cautious enough to finally consider the Minister of Health's observations, and to include him as one of the authorities whose signature was required for future amendments to the pension system reform that would have impact health care (Historia DL 3500 y 3501; Acta Sesión Conjunta Comisiones Legislativas, 22 de Octubre, 1980: foja 230). The same occurred with the Minister of Defense. Piñera's initial intention was to have members of the Armed Forces as contributors of the new pension system. There was a *contienda de competencia* with the Minister of Defense and a debate within the Legislature. The argument of national security was used to exempt the military from contributing to AFPs and ISAPRES. Piñera finally gave up as a strategy to facilitate the enactment of the reform (Historia DL 3500; Acta Sesión Conjunta Comisiones Legislativas, 21 de Octubre, 1980: fojas 273-297).

himself recognized, these people are hardly natural champions of free markets" (Piñera, 1991:229). Interestingly, at least until the economic crisis started, the team members did not see as a problem their links with the main business groups who flourished during the economic liberalization phase, and the concentration of economic power these groups acquired during the reform period. This issue will be discussed later.

In the case of health care, the medical profession was under suspicion as being a vested interest: "physicians decided everything within hospitals, without any other judges than themselves, therefore they were able to give preference to their private patients in detriment of legal beneficiaries" (Interview, 05/27/1998). The difficulties to convince the authorities to accept changes in the health sector were seen as a result of the power and influence of physicians: "the government was afraid of physicians and the Catholic Church, both shared a sort of religious power...physicians were able to influence decisions because of their class status, their connections, and their power to manage life and death" (Interview, 05/27/1998). Another member of the team related: "The most conflictive strikes before the reforms were in the health and education sectors. What we sought politically was the atomization of these sectors to erode the power of the strikers" (Interview 06/02/1998).

All members of the change team felt a strong civic responsibility to participate in the reconstruction of the nation after the institutional and economic break down that occurred during the government of Salvador Allende. The socialist government was a traumatic experience for members of the generation that now is between 40 and 55 years old. Most of the change team members belong to this generation. Certainly the experience was not as traumatic as the coup d'état was for the leftist members of this generation but, nonetheless, it explains in part their commitment to the neoliberal ideology and the authoritarian military regime. They shared mystic and mission. "We were truly trying to change the nation. The institutional breakdown occurred during the socialist military regime, where your property, your security, your life had been threatened, reinforced our willingness to work [for the military regime]" (Interview, 04/16/1998).

They felt this was a crusade and a challenge. "I felt this was a government that was doing important things" (Interview, 05/27/1998). The leaders of the crusade were De Castro, Kast and Büchi. One "colonizer" related "I was working within the family business and Kast called me and told me 'you *have to* collaborate with us at the Ministry of Health'. I had no option [he could not resist the call of the leader]. Initially I was going to work for four months and I ended staying four years. It has been the most fulfilling job I have ever done" (Interview, 05/08/1998). Another "colonizer" stated "I had just resigned my job in an important business group and De Castro called me and asked me to go to the Ministry of Health. I saw it as a challenge"(Interview, 05/27/1998). A representative of the change team who had been dismissed from the public sector by one of the "anti-team" ministers who took office in 1984 reported: "Büchi convinced me to return to the public sector..." (Interview (b), 08/07/98). Afterwards this interviewee was appointed at the Ministry of Health: "I was living in calm and peace, I was leaving to the US for a long trip, when Büchi asked me to take this position at the Ministry of Health because he had a problem there... I felt in debt with him and couldn't refuse. It was a challenge" (Interview(a), 04/09/98; Interview(b), 08/07/98). They were willing to sacrifice other things in life to face the challenge of changing the nation.

Motivation was not pecuniary. Wages in the public sector were very low compared to the private sector and still are. "Some ministers had serious economic problems because wages were too low. I remember one that had to resign because he could not afford university tuition for their children" (Interview, 04/16/1998). The situation in the private sector was not very different: "during the early years of the military regime the economic conditions of the nation were so bad

that even the private sector was not able to pay more than the public sector" (Interview, 06/02/1998), but the real opportunity cost for members of the change team was abroad Chile. Many of them had been offered jobs in multilateral agencies after graduating from US Universities. For example, before arriving to Chile in 1973 Kast was offered a position in Mexico (Fontaine, 1988:114). The same year another member of the change team was offered a position at the IMF (Interview, 06/02/1998). Donoso occupied a position at the IMF after quitting ODEPLAN in 1981.

Later, when economic conditions started to improve (1978-82) business groups competed with the government in hiring young economists and engineers. However, at least one of these groups also collaborated with the change team in their recruitment efforts. "There were economists and engineers working with me at the Ministry of Health, one of them worked for *Grupo Cruzat*. Manuel Cruzat had 'lent him' to the Ministry" (Interview, 05/27/1998). According to another interviewee "Cruzat funded many scholarships for Chilean graduate students at the University of Chicago" (Interview, 04/16/1998).

To compensate for the low salaries and compete in the job market for these young professionals, ODEPLAN established some material benefits when this became possible. In 1981, Kast created a scholarship program funded by the Treasury (Beca Presidente de la República, DFL 22, 1981). The beneficiaries of this scholarship were legally committed to return to work for the government or the universities twice the time they had spent in Graduate School. Both the scholarship and a secure job after graduating, with the prospect of furthering their careers within the government, was a powerful incentive for young professionals to work for the military regime (Huneeus, 1988). Kast pointed out to some of his friends the urgency to have at least 100 graduates from *The University of Chicago* that would serve in the government and in the private sector. He saw this as a strategy to prevent that the nation would return to a socialist military regime. (Fontaine, 1988:114).

Part of the motivation of the team to work for the military regime was to further their careers within the public sector in order to gain the influence and power that would allow them to accomplish the mission they were fighting for. An important device to stay in power was to be effective and to accomplish a series of assignments: "*hacer cosas*". It was necessary to show concrete progresses in several flanks for the neoliberal project to defeat other powerful forces within the military regime (Vergara, 1985:152). Individuals were assessed and validated by their peers as team members in function of their technical excellence, their willingness to face difficult challenges, their ability to accomplish the assigned tasks, and their commitment with the radical orthodoxy of the model. The latter included the denial of political interests as motive for their careers, and the disdain for political maneuvering or assessment of the political feasibility of the projects they were promoting.

Eventually a career path in the public sector would also serve as a bridge or credential to obtain a future well paid position in some of the business groups who flourished during the liberalization phase. There was a great permeability for the team members between the public sector and corporations owned by these business groups. It may be observed that several of the team members, although not all (notably Büchi and Kast), were appointed in senior positions by these corporations after quitting the public sector (Table 1 and Table 2).¹⁰⁶

In the case of health, many of those who participated in the reform, were appointed at corporations created as its result. Donoso was appointed between 1985 and 1986 as CEO of *AFP*

¹⁰⁶ Sergio De Castro was appointed by Grupo Edwards, linked to *El Mercurio* and *Banco Edwards*. Piñera, although for a short term, was nominated President of *Enersis*, another corporation linked to the business groups with ties with the military regime.

Provida. Later he was at the Board of Directors of *Isapre Banmédica*. Caviedes and Kipreos also worked for ISAPREs, when the military regime ended. This does not necessarily mean they were “captured” by the industry while they were at the public sector. After all, it was not a foreseeable fact that both the ISAPRE and AFP industries would have the profitability they enjoy nowadays.

An analyst describes the attitude of the team in the following words: “The self image of the economist from Chicago, in its local version, is one of a successful adviser, and that explains why he has gained influence and credibility. His pride is meritocratic progress, which he does not see as incompatible... with the *old-boys network* that the group acquired in Chile ” (Brunner, 1983: 83).

E. Apolitical Self Image

The change team members saw themselves as apolitical technocrats. The statements of the interviewees reflect this self image: “In economic issues the government was technocratic not rightist.” (Interview, 06/02/1998). “I never identified myself as a rightist” (Interview, 06/02/1998) “De Castro was not a political man, that is why Pinochet trusted him”(Interview (a), 04/09/1998). Explaining the success of the Chilean team Piñera wrote: “One final, crucial ingredient in the political economy of any country making the difficult transition to a free, open economy is the presence at the top of people who are real leaders rather than politicians. This element is no less necessary for military regimes than for parliamentary democracies. The individuals who make the ultimate decisions must base them on what is good for the country, not on what will win them the next election or help them survive the next coup d’état”(Piñera, 1991: 231).

However, they were supported and had strong links with the *Gremialismo*, a right-wing conservative political movement founded by Jaime Guzmán at *Universidad Católica* in 1965. Some of the team members had been militants or sympathizer of that movement during the 60s and 70s, particularly Miguel Kast, Sergio De Castro, and Juan Carlos Méndez (Huneus 1988). Since 1976 until 1982 the economic team became hegemonic within the military regime. A strong alliance with the *Gremialismo* (the Cabinet De Castro-Fernández) gave the military regime stability and cohesiveness (Brunner, 1983: 91).

They did not consider necessary to create political alliances or to assess the political feasibility or effects of their proposals. “At ODEPLAN we did not do any political calculus” (Interview (a), 04/09/1998) . They did not make any attempt to build political support within the sector they were reforming: “We did not work for a particular Minister but to get reforms done” (Interview (a), 04/09/1998) . “I thought it was not worth to consult the Medical Association about the reform” (Interview, 06/02/1998) . They felt uncomfortable assessing the political feasibility of their proposals. In their view, this exercise would only serve the status quo and favor vested interests in detriment of the common good. When dealing with a policy problem “... the team decided to start from zero in the design of the solution. It was not accepted within the team that someone would say that a certain solution was politically unfeasible” (Interview 2, 06/04/1998).

Explicitly or implicitly, the change team established a division of labor between them and the military. They were the technocrats. The military and the military Ministers were in charge of the political management of reform issues. An example of this attitude is the attempt to adopt radical reforms at the end of the military regime. The military regime lacked the political capital, but the change team did not perceive the political risks. Some Generals complained about the political risks involved in the reforms the team were adopting and regarded them as politically irresponsible. “The economic team took into account only the economic effects, they disregarded the social and political affects. Büchi said I am a technocrat not a politician, to what I answered:

yes, but the riots you generate with your actions must be repressed by us with the police” (Interview, 06/22/1998).

They presented themselves as ignorant in political maneuvering, and would not discuss the possibility that the authoritarian nature of the military regime might have facilitated their action. For instance, none of the of the team members who were interviewed, acknowledged repression as a factor that could have undermined the resistance to their reform agenda, even though it was known that a group of physicians who had collaborated with the government of Salvador Allende had been severely repressed.¹⁰⁷ Similarly, the change team felt alien to the atrocities perpetrated by the military regime. A colonizer stated “I never met people within the government whom I was uncertain about their honor. The subject of human rights [violations] was alien” (Interview, 05/08/1998). Only one interviewee said that, while in the government, each of them tried to do what was in their hands to stop human rights violations (Interview, 06/02/1998).

2. CHANGE TEAM POLITICAL MANEUVERING

While not acknowledging their need and constant use of political maneuvering to influence the State’s decision making and to implement their reform agenda, the team did resort systematically to bureaucratic politics in several directions. They consolidated an important network within the State, composed of links with senior decision makers whose backing was crucial both to promote the reforms and to ensure the team’s position in government (vertical networks) and of links across sectors with peers, former colleagues and junior members of the change team, who were thus able to promote the team’s agenda in several fronts acting “like a horizontal party within the government” (Interview, date) (horizontal networks). The creation and consolidation of these horizontal networks was attained by the team’s systematic and articulated effort of recruitment and placement of sympathizers in key positions (strategy of colonization). Finally, as a counterbalance to the resistance they met both within the State and from organized groups in society (such as the Medical Association) ,the team also worked in consolidating firm alliances with groups outside the State who favored and benefited from the reforms or who shared the same ideological grounds (State-society networks).

A. Vertical Networks-Within The State

The change team sought support for its policies among powerful individuals placed at key veto points: the President; the Junta; the Legislative Committees; the Ministry of Finance, and the Budget Office. The change team favored vertical networks as political strategy instead of the development of a base of support among interest groups (e.g. physicians) or the general public. The latter would have required strategies of compensation or concession, and these were regarded by the team as a resource of last resort

During the formulation and legislation phases, Kast and Piñera were the members of the change team with greatest access to the President. Later, when Kast died and Piñera abandoned the government, Büchi would replace them as the link between the team and Pinochet. The link

¹⁰⁷ One interviewee, a former high official of the SNS reported: “I was imprisoned on September 13, 1973. First I was sent to *Estadio Nacional*, then to a concentration camp at *Chacabuco*, and finally to the ‘physicians jail’. The latter was a building owned by the SNS where 48 physicians were held imprisoned. I stayed in prison for one year and a half . I was freed thanks to the lobbying of Senator Ted Kennedy and because I was alumni of Harvard” (Interview, 06/24/1998).

of the economic team with the President and the Navy was initially established by Roberto Kelly, a retired Navy official. Kelly was the first Director of ODEPLAN, and he played a crucial role in linking the group of economists of *Universidad Católica* with the Navy, and in promoting the neoliberal paradigm among the military (Fontaine, 1988).¹⁰⁸

Among the Junta, Admiral Jose Toribio Merino was the most significant baker for the team. Since the military regime's inception the Navy was more prone to liberalization and a loyal supporter of the team. Also Air Force General Fernando Matthei became a crucial ally for the team. He was appointed minister of health in 1976. He was crucial for the decentralization of the SNS, and other initiatives that would later facilitate the implementation of the ISAPREs. Fontaine illustrates the role of Matthei in the following words: "From the important flank of health care, the Minister helped in the restatement of the State's functions that are implicit in the economic program, and helped increase the scope of free individual decisions, which is the essential goal of that project" (Fontaine, 1988:107).¹⁰⁹ After the dismissal of General Leigh and the nomination of General Matthei as member of the Junta, the Air Force also became a source of support for the team.

Several reasons have been pointed out by different analysts to explain the influence and trust acquired by the team among the President, the Navy and other leaders of the Military regime. First, the ability to provide a coherent and rational project, and the lack of cohesiveness, persistence and coherence among other groups with access to the military (Interview, 06/02/1998). According to Piñera, when he asked a General why they had taken the advice of the team and ignored other groups, the General replied "Because you agreed with each other and gave us simple answers to our questions" (Piñera, 1991:226). Second, the ability of the team to present themselves as apolitical and disinterested individuals: "The style of De Castro and Kelly allowed [the military] to realize that the intention was not other than to help and not to defend personal interests. They were apolitical" (Interview, 06/02/1998). Third, the context of economic and institutional crisis faced by the military regime that required effective and swift action. A General who was not convinced of the neoliberal paradigm explained "We received a country that was politically, economically and institutionally destroyed. The top priority was to recover the nation from its economic crisis, it was a matter of national security" (Interview, 06/22/1998). Fourth, was the ability of the team "to provide a theoretical framework that allowed the military regime to make compatible the economic ultra-liberalism with the political authoritarianism... and to do it through a democratic discourse" (Vergara, 1985:153). This discourse helped the military regime "to justify authoritarianism and, at the same time, show the neoliberal project as the only one capable of containing the advancement of the State and to banish politics and Marxism forever" (Vergara, 1985:153).

The team's vertical networks also included the legislative committees, with which team members maintained informal contacts. The legislative committee of the Air Force was the one in charge of overseeing legislation for health care and pensions. The team had at least two crucial allies within this committee: General Matthei, who presided the committee, and Dr. Quesney. Quesney was appointed by Matthei as member of the committee in 1978 and stayed there until

¹⁰⁸ Emilio Sanfuentes, the one who wrote the health chapter of *"El Ladrillo"*, "was the one who made the initial link between the economists from *Universidad Católica* and the Navy. He gave the papers prepared by the team to Admiral Troncoso, who in turn disseminated the ideas among high rank officials of the Navy, including the Commander in Chief and later member of the Junta: Admiral Merino" (Interview, 06/02/1998). This occurred before the coup d'état. Kelly was the one who hired Miguel Kast in 1973.

¹⁰⁹ Author translation: "Desde el flanco tan importante de la Salud, el Ministro ayuda al replanteamiento de funciones del Estado que va implícito en el programa económico y ayuda a ampliar el campo de las decisiones individuales, que es la meta esencial de dicho proyecto" (Fontaine, 1988:107)

1990. It is also interesting that one of the legal advisers for the formulation of the regulatory body of ISAPREs (DFL 3), was Juan Eduardo Fuenzalida, who at the same time was adviser for the legislative committee of the Air Force. (Interview, 05/08/1998). The team lobbied the committees through these individuals. The team was also able to place its own members in some of the legislative committees. For example, Méndez became an adviser to the legislative committee of the Army after 1982.

Dibujo

B. Horizontal Networks-Within the State

The change team's main strategy to secure the introduction and implementation of the reforms they were advocating for, was the construction of intersectoral or horizontal networks with policy makers in key positions who shared their expertise, ideology, mission, and language. The strategy consisted in the placement of individuals¹¹⁰ loyal to the leaders of the team in the sectors or institutions where reforms were needed. There was an informal link between the change team and different Ministries, through economists and engineers placed there by the team's leaders. As expressed by one interviewee, "informal instructions were given [e.g. from ODEPLAN] to members of the team that were in the sectors. But these were not regarded as commandments because they [the colonizers] shared the same ideology and the same language. From their positions they helped to convince the Ministers and to have things done [the reforms]" (Interview (a), 04/09/1998).

When attempts to reform the pension system and the health sector started in 1977/78 - "once the budget had been balanced and property rights had been reestablished" (Interview, 06/02/1998) -, De Castro "appointed" Juan Ariztía as Chief of Finance at the Ministry of Health in 1977 (see Table 2). "The post was created by De Castro with the purpose of having someone at the Ministry of Health who would report to him and whom he could trust." (Interview, 05/27/1998). Ariztía brought several economists to the Ministry of Health, all from *Universidad Católica*. Some of these would play a relevant role during the legislation and implementation phase of ISAPRE system.

The entrance of a significant group of economists to the Ministry of Health generated a strong negative reaction among the ministry's bureaucracy, which was composed mainly of physicians and other allied professionals, all of whom followed a professional paradigm which was diametrically opposed to that of the new economists¹¹¹. As was the case in other sectors, the change team did not understand the subtleties of the health sector and the idiosyncrasy of physicians¹¹². A physician who held a high position during the military regime stated: "The economists were too young and too impulsive. We [the physicians] were more prudent and wanted to do things gradually" (Interview 1, 06/04/1998).

¹¹⁰ Young professionals, mainly from *Universidad Católica*. The education provided there ensured indoctrination in the neoliberal-monetarist paradigm. By contrast, until the 80s *Universidad de Chile* preserved a Keynesian "bias". The agreement signed in 1956 between the Departments of Economics of *Universidad Católica* and of *The University of Chicago*, helped to create a critical mass of professors that would disseminate the neoliberal ideas within students and future professors and students (Fontaine, 1988: 25).

¹¹¹ While the medical profession followed the Socratic paradigm in which all efforts and resources should be directed at saving and protecting a human life, the economists followed the economic paradigm of administering scarce resources *vis a vis* unlimited needs and demands.

¹¹² One interviewee mentioned: "From ODEPLAN, I monitored and commanded the sector's *Programas Ministeriales* [ministerial task] with a certain lightness. I changed perception [attitude] when I was appointed in that specific sector" (Interview (a), 04/09/1998)

Until 1977, the medical profession historically had had complete command over health policy and they did not accept and still do not accept the leadership of other professional groups. With a certain anger and frustration a physician expressed during the interview :“Since 1981 economists became hegemonic in health policy” (Interview, 06/03/1998) . Another, although from a different political ascription that the previous interviewee used almost the same words: “Since 1980 health policy was dictated by the Ministry of Finance. The influence of economists became impossible to offset” (Interview, 04/15/1998).

Although loyal to the finance minister, Ariztía was supported by the then minister of health Fernando Matthei, an Air Force General. The combined backing of these senior officials proved to be enough to counterbalance the ministry's internal resistance. Ariztía focused on changing the financing mechanisms of the health system, and in the creation of FONASA¹¹³. “The creation of FONASA was very difficult because the people within the Ministry of Health were against it. Even Matthei hesitated. Kast (then minister of ODEPLAN) intervened to convince the Minister”(Interview, 05/27/98).

There were only two physicians who were prone to liberalization and who, even at the cost of much friction with their peers, were willing to work with the new comers. Notably, both held technical or financial positions within the Ministry: the Chief Officer of Planning and Budget, Dr. Quesney, and the Chief of the Technical Department of the SNS, Dr. Concha. They had the technical skills to communicate and work with the economists led by Ariztía, and were responsible for the decentralization of the SNS. The fact that they were doctors helped the economists, albeit not always, to establish some degree of communication with the other profession.

Both the Chief Officer of Planning and Budget of the Ministry of Health and Ariztía had periodical meetings at ODEPLAN with Kast and his team. Büchi, who at the time was working in the pension system reform at the Ministry of Economy, also attended these meetings. The group discussed different policy options and Kast played the role of leader and policy broker.¹¹⁴ Also, this new team of economists and doctors now in charge of reform at the Ministry of Health accompanied regularly the minister (Air Force General Matthei) to present the policy proposals to Pinochet.¹¹⁵

Table 3 (6)

¹¹³ Ariztía's role in the specific reform initiative that gave birth to the ISAPRE system was not recognized by all interviewees. However, he was a precursor of the colonization strategy that would follow, and he prepared the road for the reform through the conception and implementation of FONASA and other policy changes that facilitated ISAPREs implementation. He also participated in the conceptualization and enactment of proposals to increase the freedom to choose provider for the beneficiaries of the public system. According to one interviewee, “Ariztía and Büchi were the real ideologues of ISAPREs” (Interview, 07/23/1998)

¹¹⁴ The role played by ODEPLAN itself in the reform initiative was more as coordinator or catalyst. According to one member of the change team, “ODEPLAN played a role in the reform, but the design was located at the Ministry of Health: Büchi, Ariztía, Ortiz, etc.” (Interview, 06/02/1998) A former member of ODEPLAN stated, “ISAPREs were seen more outside of ODEPLAN. The reform was conducted by Hernán Büchi who was adviser of the Minister of Economy” (Interview (a), 04/09/1998)

¹¹⁵ A change team representative at the Ministry of Health stated: “what we first thought was to create a national health fund that would contract on a fee-for-service basis with public hospitals first and in a second phase also with private hospitals ...Pinochet did not say no to the idea of contracting private hospitals, but he said that the proposal was not developed enough” (Interview, 05/27/1998) . The team - and the health minister - continued to present policy proposals to Pinochet, who would listen and discard or encourage them following different criteria, including the possible political impact of the proposals within the armed forces and society.

In December 1979 another representative of the change team was appointed undersecretary at the Ministry of Health: Álvaro Donoso. He was a member of the team of economists working at ODEPLAN and was trusted by Kast, at the time minister of ODEPLAN. However he was soon in direct confrontation with the health minister.¹¹⁶ In spite of this, he contributed to the reform by defining the regulatory body of ISAPRES, and later on continued to support the reform from ODEPLAN where he returned in 1981 as minister.

In December 1980, following Piñera's lobby with Pinochet, Hernán Büchi was appointed undersecretary of health under the new health minister Rivera Calderón. This was the final step in ensuring the consolidation of the health reform initiative. He brought Clio Kipreos from the Ministry of Economy as his Chief of Staff and nominated Juan Manuel Ortiz chair of a task force composed by economists, lawyers, and physicians who were to prepare the regulatory body for ISAPRES.¹¹⁷ Under the close supervision of Büchi, Ortiz had the collaboration of Dr. Juan Giaconi, Chief of Planning at the Ministry of Health,¹¹⁸ Renato De La Cerda, Chief of Attorneys at FONASA; Juan Eduardo Fuenzalida, legal adviser to FONASA and to the legislative commission of the Air Force; and the economist Francisco Cerda,¹¹⁹ among others (see Table 3). Ortiz and his team worked in framing the regulatory body and in the initial implementation of the new system.

Table 2 (7)

¹¹⁶ "He was appointed because the Minister General Medina did not accept Büchi. He accepted Donoso because they were from the same town and he knew him socially" (Interview, 06/22/1998). They had constant conflicts (Interviews: 05/27/1998; 04/16/1998, 06/22/1998), some of which ended in the office of the President (Interview, 06/22/1998). Medina appointed himself another economist to countervail the power of Donoso (Interview, 06/22/1998).

¹¹⁷ Some of them had been working in the ideas with Ariztía, who had quitted the Ministry in August 1980, and with Donoso.

¹¹⁸ Giaconi was not recognized as a member of the change team, although he supported the idea of ISAPRES. He had some differences with the team regarding specific issues of the regulatory body. An observer reported that Giaconi confided that he was the one who advocated for the introduction of the limitation for ISAPRES to contract with public hospitals, because he wanted the private sector to develop its own infrastructure (Interview 07/23/98). Giaconi was also a member of the MA and, according to the same observer, his later nomination as minister was a concession to the MA. A team "colonizer" related: "The relationship with Giaconi [while he was Minister] was apparently good, but it was always necessary to work on it. He did not accept everything that Büchi proposed. He was member of the team but also played for the other side. He had a different ideology, indeed he thought as a physician." (Interview (b), 08/07/98)

¹¹⁹ Ortiz and Cerda had been appointed at the Ministry of Health by Ariztía in 1977/78. They were both economists from *Universidad Católica*. In 1980, there was a conflict with General Medina regarding the nomination of the Director of FONASA, the institution that replaced SERMENA. Ariztía was dismissed by Medina "the day FONASA was created" (Interview, 05/27/98). Ariztía was the last Government Commissioner at SERMENA. Medina appointed a Colonel Molina as Director of FONASA. After the intervention of De Castro, there was a compromise that Ortiz would be appointed as deputy director of FONASA. (Interview, 05/08/1998). When General Medina was replaced by Admiral Rivera, Ortiz became the Director of FONASA and stayed in that position until 1982. In 1982 Carlos Munizaga was appointed as the successor of Ortiz (see Table 2). From this position "Munizaga played an important role in the implementation of the specifics of the system. He made life easy for the ISAPRES, he was important in the lifesavers that were lately enacted to save the industry during the economic crisis" (Interview, 07/23/1998). Although Munizaga was not an outsider because he had been in the bureaucracy of the Ministry of Health for several years, he was also considered a representative of the change team. As Ortiz and Cerda, he was from *Universidad Católica*.

Büchi stayed as undersecretary of health until August 1983. The minister of health during all the period Büchi was in charge was Admiral Rivera Calderón who was functional for the team. A colonizer reported "There was debate within the Ministry of Health [about ISAPRE reform]. Büchi gave political viability to the project, together with Rivera Calderón, an extraordinary Minister"(Interview, 05/08/98). In August 1983 Rivera Calderón was replaced by Dr. Winston Chinchón - a physician member of *Carabineros*- and Büchi was sent to replace Miguel Kast¹²⁰ as minister of ODEPLAN. Dr. Schuster, a military doctor with close access to Pinochet who had been Chief of the Office of Planning and Budget, was made undersecretary of health. Schuster was not prone to liberalization and distrusted the economists who had joined the Health Ministry.

Due to the economic crisis in 1982, the initial economic change team, as well as most of its cross-sectoral network was dismantled. De Castro was dismissed in April 1982.¹²¹ With the nomination of Sergio O. Jarpa as Minister of Interior in 1983, the economic change team started to lose territory. Slowly, the team was substituted by ministers and high officials less prone to liberalization. The final stroke against the neoliberal team occurred in 1984 with the appointment of traditional right wing politicians at the Ministry of Finance and ODEPLAN, Luis Escobar Cerda and Luis Figueroa, respectively.¹²² During this period there was a systematic effort within the government to oust the economic change team and its network across the public sector. Büchi was appointed Banking Supervisor, which can be considered a downgrading in his career. Many of his ex collaborators at ODEPLAN were dismissed (Interview (b), 08/07/1998). It was even demanded during a Cabinet meeting¹²³ that the people dismissed from ODEPLAN be forbidden to return to the public sector.¹²⁴

In face of such counter-reaction, change team leaders concentrated in maintaining the cohesiveness of the group - including the network of junior members who had recently joined the administration in mid-level positions - with a long term perspective. According to a junior economist at the time working at ODEPLAN, Büchi asked his team at ODEPLAN not to give up, to stay in the public sector even if they had to maintain a low profile in marginal positions. Some of them submerged in less important sectors and low profile positions¹²⁵. Other ODEPLAN technocrats used as refuge a new institution created as an advisory office to Pinochet in social policy: *Secretaría de Desarrollo Social*. Although the leaders of the team lost power and some abandoned the public sector, their followers continued to identify as a team, and to share a vision of the State and a project.

¹²⁰ Kast died in September 18, 1983.

¹²¹ He was replaced by two other *Chicago Boys*, Sergio De la Cuadra and Rolf Lüders, who stayed a few months in office.

¹²² Interviewees agreed that this was a backlash for the change team: "Figueroa was the definite burial for ODEPLAN" (Interview, 04/16/1998) "ODEPLAN lost its power during those years, when economic policy was erratic" (Interview (a), 04/09/1998) "The year 1983 was horrible. We were losing against the pro State factions. Jarpa was in favor of making agreements with the stronger unions. Since ODEPLAN was administratively related with the President through the Interior Ministry, Jarpa retained the documents that required the signature of the President, even the payment of scholarships for individuals who were doing graduate studies at the US were retained...ODEPLAN lost influence, the sectors did not follow any more the *Programas Ministeriales*. Büchi, although Minister of ODEPLAN, did not have any power"(Interview, 04/16/1998).

¹²³ The Cabinet meetings included all the Ministers and the President.

¹²⁴ Büchi succeeded in convincing the President to reject the proposal (Interview (b), 08/07/1998).

¹²⁵ Jofré, who was Chief of Planning at ODEPLAN and afterwards became a key team member (see Table 1), was appointed at the *Superintendencia de Valores y Seguros*.

The team, albeit with a different composition,¹²⁶ regrouped in 1985 with the appointment of Büchi as minister of finance. ODEPLAN did not recover the power that it had before, which now was concentrated at the Ministry of Finance. Büchi brought his nearest collaborators from ODEPLAN as advisers at the Budget Office: Jofre, Silva, Inhen (Table 1). Although they were not within the bureaucracy of the Ministry of Health, “they intervened in everything” (Interview (a), 04/09/1998).

The direct intervention of the Budget Office and the Ministry of Finance in the policy of other ministries was to substitute the creation and permanent use of horizontal networks that was used by the economic change team through ODEPLAN in the past. In addition, some of the change team's network members were at this point inserted in the formal bureaucracy of the sectors that had been reformed. The Ministry of Health was no exception. Büchi had succeeded in appointing or maintaining some loyal collaborators like Cifuentes, Kipreos and Caviedes, all of whom occupied key positions that allowed them to continue to lobby and protect the changes that had been made from a position within.¹²⁷

Cifuentes is a salient example of the change team's long-term strategy for bringing about change from outside the Ministry of Health and then ensuring its consolidation, since she played the most important role during this period (1985-1990). According to an observer, while working at the Ministry of Health, “Cifuentes declared herself both loyal to Minister Giaconi, and to Buchi” (Interview, 04/06/1998)(ministers of health and finance respectively). She was the first economist to occupy the post of Chief Officer of Planning and Budget at the Ministry of Health. Prior to her arrival, this was a position reserved exclusively for physicians.¹²⁸

During the last five years of the military regime, the neoliberal paradigm had been accepted by most of its former opponents, and those who remained in opposition had lost their influence. One of the change team's network members working at the time at the Ministry of Health, stated that “at the end there were few individuals with access to Pinochet who were not convinced of the benefits of the model. The achievements of the reforms were evident and even other nations started to follow the same policies” (Interview, 04/16/1998).¹²⁹

However, in spite of the consolidation of ISAPRES and their relative acceptance by all parties involved, external factors combined with the change team's diminished brokerage capacity,¹³⁰

¹²⁶ Members of the initial change team who abandoned the public sector in 1982 like De Castro, Piñera, Méndez, were not recruited again. Méndez continued as adviser for the legislative committee of the Army.

¹²⁷ Cifuentes was appointed as Chief Officer of Planning and Budget in 1985 and stayed there until the end of 1988. Kipreos stayed at the Ministry of Health after Büchi left his position as undersecretary. From 1985 to 1990 she was advisor to the Minister -then Dr. Juan Giaconi. The power exerted by the economic change team via the Ministry of Finance is illustrated by the fact that she could not be removed from the Ministry of Health because she was nominated by Büchi (Interview, 04/06/1998). Simultaneously, she also served part-time at the Ministry of Finance (Interview (b), 08/07/1998). Other members recognized as part of the health change team were Caviedes, who succeeded Munizaga as Director of FONASA, and Munizaga himself.

¹²⁸ Her nomination was eagerly resisted by the Undersecretary, Dr. Schuster (Interview (b), 08/07/1998; Interview, 04/16/1998). Since there were rivalries between Giaconi and Schuster, the post of Chief Officer of Planning and Budget became strategic. In order to neutralize Schuster, Giaconi maintained an alliance with Cifuentes. Otherwise he would have lost control of the situation. And for team it was also important to have Giaconi at their side (Interview (b), 08/07/1998).

¹²⁹ A physician from the Ministry of Health who initially was an eager opponent of the team and against the quick pace of the reforms, said during the interview that the ISAPRE system “had a lot of benefits, I am a user and I have been able to assess what it means. The system also has helped to expand health care infrastructure and technological development” (Interview 1, 06/04/1998) And he added “economics created consciousness that everything has a cost and someone has to pay for it” (Interview 1, 06/04/1998).

¹³⁰ “Büchi did not have the ability to communicate. He was not able to accomplish what we have thought”

were to impede the completion of the health reform. Among others, the fact that Chile was in a period of fiscal constraint and the military regime's political capital was running slim. During 1985-1990, the change team made a last attempt to complete the second and final phase of the reform,¹³¹ and members of the change team now inserted in the ministry's bureaucracy played a significant role. Among them, Cifuentes and Munizaga. In fact, Munizaga was appointed as Chief of the primary care network of Corporacion Lautaro, a pilot project of *ISAPREs Populares* and privately administered hospitals - which were to conform the second phase of the health reform and its completion. Using the same strategies that had worked for the team before, Buchi, through Jofre and other advisers oversaw these initiatives. However, the experiment failed and the reform process was never completed.

Dibujo

C. Policy Networks Across State Society

In its attempts to promote and introduce the reforms, including the ISAPRE initiative, the change team established alliances with some business groups who were to benefit from them. The team also made wide use of the media owned by these groups to educate the public about their agenda and promote their ideals. One interviewee and collaborator of the team stated: "Business groups had influence and put pressure to advance more swiftly with the reforms through documents and papers, which did not arrive to the hands of the military but to other very influential people" (Interview, 05/27/1998).

As stated before, *Grupo Cruzat* was the nearest outside collaborator for the change team. Manuel Cruzat had participated in the elaboration of "*El Ladrillo*" and had been a classmate with De Castro at Chicago University. According to interviewees he financed scholarships for Chilean graduates at the University of Chicago, and he lent some of his employees to work for the government, including the Ministry of Health.

There was great permeability between the change team members appointed by the military regime and the business groups. Piñera, before being appointed minister of labor, was in charge of a corporate research unit at *Grupo Cruzat*, and the publications produced by that unit were crucial in the dissemination of the neoliberal ideology and project (Fontaine, 1988: 128). One of our interviewees worked for *Grupo Vial-BHC* before being appointed by De Castro (Interview, 05/27/1998). One of the individuals interviewed by Brunner was a high executive at one of these business groups and at the same time a member of a legislative committee during the military regime (Brunner, 1983: 85).

The success of the economic model was important both for the team and the business groups. According to Brunner after the economic crisis of 1982, "the triumphant self image of the team" crumbled together with the collapse of the *Grupos Económicos* and the monetarist policies (Brunner, 1983: 92). The financial health of these groups and the industries born as a consequence of the reforms were also part of the team's attainments. More than a case of State "capture", the fate of the team was also subject to the success of these business groups. It could be argued that as these business groups acquired economic relevance, they would indirectly become an important power base. However, this was not clear, since their relationship with

(Interview 2, 06/04/1998)

¹³¹ As stated in section II, in 1986 a partial demand subsidy was enacted that allowed employees to ask from employers a 2% additional contribution to enroll in a ISAPRE. There were also attempts to create *ISAPREs Populares*, which would have targeted the low-income population. Finally there was an initiative to give autonomy and eventually privatize public hospitals.

Pinochet and the military was not easy. "Pinochet regarded them [the business groups] as a base of political support and economic support, but he also distrusted them" (Interview, 05/27/1998).

The business groups helped in the dissemination of the neoliberal ideas through editorials in the mass media, their own corporate journals, and the organization of widely publicized international forums and seminars backing the model. These fora usually included the presentation of world class and prominent neoliberal intellectuals (Vergara, 1985:128, 129). The media owned by the business groups persistently advocated for the privatization of health care and criticized the slowness of the government in enacting the reforms.¹³²

As for the ISAPRE initiative, it appears that the business groups, particularly *Grupo Cruzat* and *Grupo Vial-BHC*, had easy access to the reformers even before the reform was publicly announced. One high executive of one of the first ISAPREs reported: "We knew that the reform was coming. However we were not consulted about the regulatory body" (Interview, 07/02/1998). Another interviewee who worked as consultant for another business group acknowledges: "I knew that the reform was coming before the enactment of the miscellaneous bill (DL 3626) through high executives of the business group. During 1980, before the enactment of the DL 3626, I was assigned the task of forecasting the evolution of the health sector in the following years given the social and economic policy the government was applying. At the time, the only ones who knew that a process of privatization was going to be adopted by the military regime were the business groups, although my group had less information than others. The specifics of the system, however, were not known until the regulatory body was enacted (DFL 3)." (Interview, 07/23/1998).

Later, when the system was already in place, the ISAPRE Association became an ally for the change team but also a powerful special interest. The Association and particular ISAPREs had easy access to the change team. They usually agreed in their positions but not always. At least at the beginning, the strategy of the change team was to make life easy to the new born industry. As stated before, the success of the team and the "colonizers" was linked to the survival and growth of their "creatures": ISAPREs, AFPs, etc. In the case of ISAPREs the team used as a strategy for this purpose a regulatory body that was very generous and permissive to the industry (e.g. low costs of entry, permission to select risks based on health status). Later, the team enacted several bills to secure the industry's survival during the economic crisis.

A case in point was the return of maternity leave back to the State's responsibility. The CEO of one of the first ISAPRE to appear in the market stated during the interview: "The second year [1982] we broke even, but we also experimented adverse selection with pregnant women. We went to knock the door of the government to have the maternity leave payments funded by the State. The main interlocutors were at the Ministry of Finance. We had access to Kast, Büchi and De Castro. Also at seminars we met economists who were part of the team. They were technocrats so they understood immediately the problem. We discussed the issues and arrived at quick solutions" (Interview, 07/02/1998). A consultant for another ISAPRE related: "Funding for maternity leave was transferred back to the State as a result of the ISAPREs lobby. This was an initiative of ISAPREs, which presented [to the government] papers proving the effects over costs and over premiums charged to women" (Interview, 07/23/1998).

Regarding the increase in mandatory contributions, the ISAPRE executives stated: "Afterwards ISAPREs started to point out to the government that there was a financial problem for the system with the 4% mandatory contribution. The public sector also had a financial

¹³² The media linked to the business groups was more frequently used than others for this purpose: *El Mercurio, Ercilla, Qué Pasa*. (Vergara, 1985:174)

problem, so the interests of both parties agreed and the government decided to increase the percentage of contributions. It was as a Christmas present for ISAPREs" (Interview, 07/23/1998). "The increases in the percentage of mandatory contributions to 4%, 5% and 7% occurred without any pressure of the ISAPRE system. It was an initiative of the government to increase funding for FONASA. For us it was as a Christmas present" (Interview, 07/02/1998).

Later, when new legislation was debated for the system between 1988 and 1990, the ISAPREs Association lobby favored the position of the change team in some issues, but not all. For instance, coinciding with the team's view, they lobbied to stop an increase in regulation and the creation of a special regulatory agency (*Superintendencia the ISAPRE*) instead of the use of an existing one (*Superintendencia de Valores y Seguros*). "The ISAPREs Association lobbied to reduce the prerogatives of this Agency. They had influence through the legislative committee, were some members worked for ISAPREs" (Interview, 04/06/1998). However other issues such as the ISAPREs successful lobby for reducing the frequency in which affiliates could change their affiliation, did not count with the team's support. "That was not what we wanted. This was the consequence of the pressures of the ISAPREs Association" (Interview, 04/09/1998).

2. CHANGE TEAMS PROCESS STRATEGIES

During the reform process, the change team resorted to a series of policy strategies geared at enhancing the political feasibility of their policy agenda. Some of these strategies can be related to those identified and described by Pierson (1994) as politics of retrenchment during the Thatcher and Reagan administrations. He defines three broad categories of political strategies used to introduce policy changes "that either cut social expenditure, restructure welfare state programs to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future" (Pierson, 1994:17). These strategies for retrenchment are: obfuscation, division, and compensation (Pierson, 1994:19-24). Other process strategies used by the team that will be described in detail include comprehensiveness and the element of surprise; ideological indoctrination of elite policy makers; dissemination among *attention groups* and the *attentive public*.¹³³

A. Strategies of Obfuscation

Strategies of obfuscation involve efforts to manipulate information concerning policy changes, in order to confuse opponents and limit their understanding of the consequences and causality chains (Pierson, 1994:19). The main strategy applied by the change team that qualifies in this category was the tactic they used to introduce the ISAPRE reform through an amendment to Article 84 of the pension system legislation. As stated in section II, this amendment (Article 46, DL 3626, 1981) explicitly allowed employees to allocate their mandatory contributions to any institution which provided health benefits, thus widening the type of alternative institutions which were able to collect contributions until then. This legislation (DL 3626, 1981) also gave the President authority to enact through an Executive Decree, the conditions under which the new institutions (ISAPREs) were going to operate.

¹³³ Cobb et al. define *Attention Groups* as "groups in the population which are likely to be aware of a conflict early on, and which can be mobilized relatively rapidly whenever an issue enters the groups sphere of concern". In addition, within the mass public, Cobb et. al distinguishes between the General Public and the Attentive Public. The Attentive Public "usually comprise a small minority of the population and include those people who are most informed about and interested in public issues" (Cobb et. al., 1976:129).

There are several elements of obfuscation both in the language used in this provision and the procedure by which it was enacted. First, the language is obscure enough to make understanding of the consequences very difficult. It did not mention that these new institutions would be private and that would compete with FONASA and between each other in a free market environment.¹³⁴ It made reference to a previous clause of the amended Article by mentioning another Act only by its number, without any explanation about its content.

Second, the amendment was enacted through a miscellaneous bill issued by the Ministry of Labor. This facilitated the enactment of the provision, since it included several other unrelated issues and this may have helped to induce the legislative committee to pay less attention to this particular provision. The introduction of the amendment through a bill issued by the Ministry of Labor instead of the Ministry of Health¹³⁵ had as a consequence that the review of this legislation was automatically assigned to the legislative committee of the Navy, which was much more prone to liberalization than other branches of the Armed Forces.

Third, the miscellaneous bill gave the authority to the President to enact through an Executive Decree the specifics of the system, thus by-passing the Legislature. This was instrumental at the time because Büchi had already been nominated as Undersecretary of Health, and Minister Rivera Calderón was not an opponent of the team and did not intervene excessively in Büchi's decisions.

Not all interviewees acknowledged this procedure as a deliberate strategy. However some did. One "colonizer" reported: "The miscellaneous legislation was a deliberate strategy to pass the bill through the Ministry of Finance and not through the Ministry of Health. And also to have it reviewed by the Navy's legislative committee. The strategists were De Castro, Donoso, Méndez, Kast" (Interview, 05/27/1998). Another colonizer reported "The miscellaneous bill was called '*la ley trencito*' and its purpose was to adjust a series of problems of the pension system reform. Kast introduced the amendment to Article 84 [the one about the allocation of health care mandatory contributions]. He managed politically the issue at the top decision making level. However, in my view, the miscellaneous bill was more a window of opportunity than a deliberate strategy" (Interview, 05/08/1998). A team member acknowledged that "the miscellaneous bill helped to pass the ISAPRE legislation" (Interview, 06/02/1998). However, he thought that the fact that it was reviewed by the Navy's committee was not a facilitating factor "because Matthei [Air Force member of the Junta] was also 'easy'".

The same interviewee explained that miscellaneous bills were used to pass legislation in higher education reforms and housing policies, among others: "There were issues complex enough that required to be discussed in highly specialized commissions [implying that the legislative committees did not have this characteristic]. Besides the pension system reform [that was reviewed by the legislature], and in order to avoid the discussion within the legislative committees, most issues were enacted through executive decree. This was done through a single clause included in the annual Budget Act which allowed the President to enact a particular reform through executive decree. When the Budget Act was reviewed by the legislative committees, the general context of that particular reform was explained to the Legislature" (Interview, 06/02/1998). According to this interviewee "All members of the *Junta* were conscious of the implications of the miscellaneous bill. We never intended to '*pasar gato por liebre*' (to confuse)" (Interview, 06/02/1998). This statement suggests that the targets of the strategy were not the

¹³⁴ The provision states : "No obstante lo establecido en el inciso anterior, los trabajadores podrán aportar dicha cotización [4% mandatory contribution] a alguna institución o entidad que otorgue al trabajador las prestaciones y beneficios de salud"

¹³⁵ The bill did require the approval of the Ministries of Health and Finance.

President or the *Junta*, but other powerful individuals within the military regime, like the *Comité Asesor* and/or certain members of the Legislative committees.

However, the explanation used to justify the enactment of reforms through executive decrees is not consistent with the fact that the pension system reform and the later ISAPREs Act of 1990 were reviewed and enacted by the Legislature. Both Acts were much more complex than the ISAPRE regulatory body which was enacted through Executive Decree. A better explanation would be that the experience acquired by the team during the pension system reform, where the debate was harsh and concessions had to be made, induced the team to try to by-pass the legislature when it was the turn of the ISAPRE reform. The ISAPRE legislation that was passed later on, was led by Giaconi who was not a member of the team, and this may explain a different attitude toward the Legislature.

The deliberate nature and obfuscation character of the miscellaneous bill strategy may be inferred by the following statement: “the provision included in the miscellaneous bill was written by Büchi alone in two or three days...when he was already undersecretary of health. The initial text submitted to the Ministry of Finance had two or three lines” (Interview, 04/16/1998). Büchi was at the Ministry of Health but did not consult the high officials or lawyers of the Ministry of Health. Indeed, there are no records of this bill or the DFL 3 within the Legal Department at the Ministry of Health, and the Chief Attorney at the time had no participation either in the elaboration of the miscellaneous bill clause or the regulatory body for ISAPREs. Büchi submitted a very short text, which suggests that not much was explained. Later the Ministry of Finance expanded the clause, but still the language was obscure.

Pierson describes decrementalism as an obfuscation technique. This includes the tactic of “implicit privatization”, where “public benefits are frozen, social provision of benefits is shifted increasingly toward the private sector, and because change does occur very slowly it is less likely to attract attention.” (Pierson, 1994: 20-21). This tactic may also be present in the Chilean case. Enrollment for ISAPREs was voluntarily and initially attracted only high income individuals. The latter was a foreseeable outcome both for the industry and the MA. The option to return to FONASA at any moment also made the reform less threatening both for beneficiaries and physicians, thus deactivating any potential major mobilization against it. The MA believed that the industry would attract at most 12% of the population (Revista Vida Médica, Junio1981:17).

Also, the amount of per capita resources for the public system systematically diminished until 1990 while the ISAPRE industry flourished.¹³⁶ This was due to the economic crisis that started in 1982, but may have also been a deliberate strategy to slowly erode the public system’s appeal and thus induce the people to shift to ISAPREs. The causal chain between the deterioration of the conditions under which the SNS operated and the creation of ISAPREs was understood only by some academics and other *attention groups*, but probably not by the general public.

Finally, some anecdotal stories related by some of the interviewees suggest that obfuscation, deliberate or not, facilitated the accomplishment of the team’s goals. One interviewee reported “General X distrusted the team and was suspicious of everything that we did. He appointed an Army Official to supervise our work and to maintain him informed of our moves. The official was unable to explain to the General about our projects because some members of the team deliberately tried to confuse him” (Interview, 05/27/1998). A “colonizer” stated that, in his view, the fact “that nobody understood what we were doing” explained in part the mild opposition of the military and physicians to the ISAPREs initiative (Interview, 04/16/1998).

¹³⁶ See Policy Tracer Annex

B. Strategies of Division

These are attempts to divide the potential opponents: "divide and conquer". Pierson states: "Although the potential for organized opposition in a particular policy area may be large, it is sometimes possible to isolate subgroups within that opposition" (Pierson, 1994:22). And he adds, "...a common dynamic of retrenchment struggles involves competing efforts of governments to play one group off against another while program supporters attempt to 'circle the wagons'" (Pierson, 1994:23).

The change team and its allies did some efforts in this direction, having as specific target the physicians. It profited from the fact that the medical profession was not an homogenous actor and that among the MA, different positions coexisted regarding the reforms (Raczynki, 1983)¹³⁷. It also took active steps to debilitate and divide the MA. First, the reform was passed after the enactment of a bill that eliminated compulsory membership to professional associations. This element put at risk the MA's cohesiveness and strength to engage in collective action. The ISAPRE issue was divisive for the MA - with some members trying to conform their own ISAPRES, while others discussed serious opposition to the initiative - and the risk of fragmentation once membership was voluntary, discouraged the leadership from taking position (Interview, 04/03/1998).

Analogous tactics were used to discourage active opposition to the reform initiatives. For instance, in 1980 when the ISAPRE reform was being formulated, there was an accusation against the president of the MA and other physicians, questioning their probity. "We monitored all hospitals in Santiago, with *Notarios* as witnesses, and succeeded to prove that there were enormous fraudulent billings to SERMENA. As a consequence, the President resigned and the MA ended debilitated. The MA was beheaded and lost its impetus..." (Interview, 05/27/1998).

C. Strategies of Compensation/Concession

Strategies of compensation involve offering something positive to the potential losers of policies with the purpose of diminishing the prospects of opposition. Strategies of compensation include "grandfather clauses" for current recipients, and the expansion of private benefits (Pierson, 1994:23). Both were applied in the Chilean case. There were some concessions to groups within the government that would have felt their interests harmed by the ISAPRE reform: physicians and the military. However, for the team concessions were resources of last resort. The team conceded to grievances raised by groups or individuals within the military regime. Concessions were not targeted to demobilize organized groups outside the government. Concessions were granted to physicians working for the military regime or to individual physicians with influence and strong ties to the military. These concessions may have indirectly helped demobilize the MA, but it certainly demobilized the military's opposition to the reform to near naught, once they realized that their individual interests were not at stake.

The military preserved their old pension and health care system: "grand father clause". This was a strategy to decrease the opposition of the *Comité Asesor*, and the initial distrust of the

¹³⁷ "Probably one third of the board members were prone to privatization. The rest did not like the idea but thought that the initiative was unfeasible due to the low average income of Chileans; and most of the membership did not have opinion at all". It also cannot be forgotten that the physicians who politically opposed the military regime did not participate in the MA board until 1981, and when they did, their actions were more focused on bringing down the military regime than on halting specific policies. A leader of the MA summarized the context in the following words: "Physicians did not have a collective position regarding the ISAPRE system...if they had been against the initiative, ISAPREs would not exist." (Interview, 04/15/1998)

President about the political effects the reforms may have had in terms of the cohesiveness of the Armed Forces and the concerns about national security risks. One team member stated: "To exclude the Armed Forces from the pension system reform was a concession. It is established in the report of the pension reform technical committee, document number 13. They [the Armed Forces] were excluded because it was politically unfeasible to do otherwise" (Interview, 06/02/1998).

The team granted two concessions to physicians. First, the maintenance of a public health care system. Second, the prohibition for ISAPREs to purchase services, and to establish direct contractual agreements with the *Servicios de Salud*. Both were the result of pressures within the government. However, the maintenance of a public system was also due to fiscal and technical constraints to the accomplishment of a totally comprehensive reform in a short period of time. The team decided to "divide the animal" (Interview, 07/23/1998), to phase-out the reform process as a strategy to increase its political and technical feasibility. But they failed to complete it, "because physicians within the government opposed the second part of the project [Isapres Populares, Hospital Privatization]" (Interview, 07/23/1998). An MA member regarded the maintenance of the public system "as an intelligent strategy to buyout physicians" (Interview, 06/03/1998).

Regarding the DFL 3 clause that prevented direct contracting between ISAPREs and *Servicios de Salud*, there were different interpretations among the interviewees. However it is possible to infer that this was a strategy to expand private benefits for certain groups within the medical profession. One "colonizer" stated "it was a concession, but also a strategy to not disturb the limitation [imposed by the team] of private practice within public hospitals" (Interview, 05/08/1998). Another colonizer stated that this was a decision of Admiral Rivera influenced by the opinion of some physicians within the Ministry of Health. The reason given was that this would force ISAPREs to create its own infrastructure (Interview, 04/16/1998). This was both attractive for physicians and for the Minister who would be able to show tangible results. Another physician linked to the ISAPRE industry and former public servant stated "this was a concession to the pro State factions within the government (Interview, 05/26/1998).

Deliberate or not, the clause prohibiting direct contracting of public facilities ended being a strategy of compensation for physicians working in private practice, who benefited from an expanded field to practice and from better technology. Among the medical profession, the most likely to enjoy the benefits were specialists, most of whom counted on their access to key decision makers to put their interests and concerns on the agenda. The victims were the generalists who mostly worked for the public system at the primary care level. The cut backs in the budget of public facilities affected these physicians and the beneficiaries of FONASA. These groups were not compensated and did not have the capacity for collective action to protect their interests. At the end, the medical profession was left unable to react as a single body, and thus the strategy of dividing the opponent worked in facilitating the reform process.

D. Comprehensiveness and the Element of Surprise

Piñera, referring in general to the element of surprise adopted by the economic team for the implementation of policies during the military regime, states: "...there is also a political economy motive for swift action: giving a reform's opponents time to adjust also gives them time to orchestrate a political counterattack" And he adds: "The detoxification of a State-hobbled economy not only must be swift but must advance on all fronts simultaneously" (Piñera, 1991:228). Another team member stated during the interview: "We were in favor of doing things

swiftly. Errors would be corrected during implementation (*en el camino se arreglaba la carga*). We did not have much time." (Interview, 06/02/1998).

Although the ISAPRE reform was only completed in half – since the team failed to complete the plan, due mainly to political constraints and lack of political ability -, the element of surprise was present in the ISAPREs policy process. During the period of formulation, the team worked in insulation. They did not consult the MA or other interest groups. They did not debate the issue within the bureaucracy. They did not try to build consensus. Thus, only a few individuals were aware of what was being planned. The MA did not have much access to information. Other *attention groups* had even less information. The *attentive public* or the general public became aware of the reform when it was already enacted and announced.

The element of surprise and the simultaneous advance on all fronts contributed to the mild opposition posed by the MA and by physicians within the Ministry of Health. The MA and the bureaucracy "were busy complaining about the reorganization of the SNS, and did not give importance to this initiative." (Interview, 04/16/1998). Another colonizer stated "there were other conflicts with the MA [at the time], nobody paid much attention to this reform"(Interview, 05/08/1998). During 1980-81 there were big conflicts with the MA because SERMENA was replaced by FONASA. SERMENA since its inception had been controlled by the MA and the main source of income for physicians. At the same time the team accelerated the implementation of the SNS decentralization, issue which was eagerly opposed by the MA.

E. Ideological Indoctrination of Elite Policy Makers

The change team used as strategy the ideological indoctrination of elite policy makers within the military regime. Among these individuals there were physicians, and Armed Forces officials who occupied positions within the bureaucracy. Piñera recognizes the importance of this strategy for the adoption of the reforms (Piñera, 1992:89). He states that the team worked hard in the task of convincing key policy and decision makers. The targets included the President, the Junta, the advisory bodies, the military committees, and frequently, the public servants who where necessary for the implementation of the reforms. The task was facilitated because most members of the team had been university professors. In his words "the entire government was transformed in a huge university with continuous conferences, papers to read, educational meetings, lectures for the military academies, etc." (Piñera, 1992:89).¹³⁸

This strategy was particularly intense before the enactment of the Constitution of 1980, where the permanence of the economic model should be ensured over time (Vergara, 1985:128). In the words of one analyst : "When the problem of defining the definite political model became a priority, there was a considerable expansion in the number of neoliberal "organic" intellectuals whose task was to discuss and disseminate its conceptions about the relationship between economics and politics, and the requisites that the new economic scheme posed to the future political order" (Vergara, 1985:128).¹³⁹

¹³⁸ Author translation from Spanish: "El gobierno entero fue convertido en una gran universidad con charlas continuas, documentos para la lectura, reuniones de formacion, clases en las academias militares, etc."(Piñera, 1992:89)

¹³⁹ Author translation from Spanish: "Cuando el problema de la definicion del modelo politico definitivo se coloco a la orden del dia, se expandio considerablemente el numero de "intelectuales organicos" neo-liberales abocados a la tarea de discutir y difundir sus concepciones sobre las relaciones entre economia y politica y los requisitos que el nuevo esquema economico planteaba al futuro ordenamiento politico. (Vergara, 1985:128)

During the interviews several members of the team emphasized the importance of this strategy to convince key policy makers within the military regime, and simultaneously to defeat or debilitate the opposition of adversary factions. One interviewee related "Economic policy was erratic until 1975, until Milton Friedman came to a seminar organized by *Grupo Vial-BHC*. The seminar was multitudinous and took place at Diego Portales building [the headquarters of the government at the time]. Milton Friedman also visited Pinochet and the Comité Asesor. And later sent a letter to Pinochet. Economic policy changed the day after"(Interview, 05/27/1998). Another team member highlighted the importance of the indoctrination strategy in the following words "the 'power of the paper' is very important if the other side knows how to read it (arguments against counter arguments)" (Interview, 06/02/1998). Regarding the pension and ISAPRE reforms, a physician who worked within the Ministry of Health related " Piñera sold the idea that social services could be provided by the private sector and that the private sector could manage mandatory contributions. Miguel Kast also presented these ideas in seminars I attended during 1979 and 1980. In those seminars, General Gastón Frez and another *Carabineros* General defended the pro State position and refuted the proposals" (Interview, 04/06/1998).

Finally, the participation of business groups and associations in the organization and financing of these seminars is noteworthy. As stated previously, Friedman was invited by *Grupo Vial-BHC*. Later in 1985, the *Asociación de ISAPREs* invited Paul Elwood, the father of the HMOs, to present the US health system and to compare it with ISAPREs. During this conference Elwood stated that ISAPREs were the first step in the health care financing and delivery "world revolution" initiated by the HMOs. He also remarked the similarities between HMOs and ISAPREs, the most important fact being that both were private, and added that most health care innovations in the world usually started in the private sector and later influenced public systems (Ellwood, 1985: 88-89).

F. Dissemination Among Attention Groups and the Attentive Public

Another strategy used by the change team was the dissemination of reform contents among *attention groups* and the *attentive public*. However, the efforts to communicate the contents of particular policies were done usually *after* the reforms were enacted. In this sense, this strategy was not directed to build consensus with groups affected by the reforms but to convince about the benefits of the initiative and to prevent opposition. Moreover, in the case of ISAPREs, the dissemination effort was more targeted to the business community than to unions or professional organizations.

Both "colonizers" and ODEPLAN members were sent to give conferences to *attention groups*: unions, professional organizations, business groups. One "colonizer" at the Ministry of Health reported " there wasn't an organized program of dissemination., however there were conferences. The idea was that ISAPREs would make their own publicity" (Interview, 04/16/1998). Regarding the pension system reform, a member of ODEPLAN related "the professionals at ODEPLAN were sent to give conferences to unions" (Interview (a), 04/09/1998).

Another "colonizer" reported "The team at the Ministry of Health convinced the businessmen to engage on this adventure [ISAPRES]. This was a prowess of the businessmen who faced high political risks. After the DFL 3 was published they were invited to attend conferences where the reform was explained to them" (Interview, 05/08/1998). Finally, there are records of one conference addressed to the MA by the Director of FONASA, explaining the content of the ISAPRE reform and its regulatory provisions (*Revista Vida Médica*, Junio 1981:12-15). There is no evidence that the team promoted the reform among other professional associations or among unions.

The *attentive public* was reached through the mass media. The team made a systematic effort to explain "the model". Piñera reports that economists became columnists, editorialists, participated in debates at the radio and television, and made comments at TV news hours (Piñera, 1992:89). However, the media most intensely used for this purpose were the newspapers and magazines oriented to the informed public and the elite: *El Mercurio*, *Ercilla*, *Qué Pasa*. (Vergara, 1985:174).

5. COROLLARY: A CHANGE TEAM DURING THE DEMOCRATIC TRANSITION

During the government of Patricio Aylwin (1990-1994), there was an attempt to adopt a change team strategy within the health sector. The team was led by Héctor Sánchez under the auspices of the Ministry of Finance and The World Bank¹⁴⁰. The appointment decree gave Sanchez the power to allocate US\$500,000 granted by the Ministry of Finance to organize a team to prepare projects to be funded by The World Bank and IDB. These funds could be used on specific items only after a petition from Sanchez. This allowed the team to by-pass all the bureaucratic procedures of the Ministry of Health. However the utilization of these funds required the signatures of the Minister of Health and the Chief of Finance because Sanchez was not a public official but an external consultant.

Sanchez organized a team parallel to the bureaucracy of the Ministry of Health. He constituted two "companies", one for the IDB project and other for the World Bank project. The people who worked within these "companies" were almost all outsiders to the Ministry of Health. They were paid much more than their civil service peers. They were all highly qualified young professionals. Sanchez imposed an age limit as "a deliberate strategy" (Interview, 07/23/1998), since he wanted to conform a team that would manage the health system in the future.

Sanchez participated in the identification of the projects, the negotiations of the loans, and the pre-appraisal phase. He resigned to his position as coordinator of multilateral projects, when the implementation phase started. He did not want to manage the huge funds involved in those projects. He was nominated *Superintendente de ISAPREs* on September 1990, "against the will of the Ministry of Finance" (Interview, 07/23/1998). They wanted Sanchez to continue in charge of the projects, "they wanted to advance to a privatization of the public sector" (Interview, 07/23/1998).

Compared to the authoritarian military regime's change team, the team constituted by Sanchez lacked ideological cohesiveness and did not share the same language. It was a multidisciplinary group with diverse political ascription, reflecting the political bargaining among the governing coalition's parties, who were all interested in controlling the multilateral projects. The team did not have enough time to build a common ideological discourse, and even some participants did not feel they were part of a team. Their common ground, and the reason for joining the team in the first place was a commitment towards the recovery of democracy - however, the same commitment was present among most of the regular bureaucracy within the Ministry of Health. While the democratic team had better training in the specifics of health policy than the authoritarian team, it was less inserted in the bureaucracy. This diminished its effectiveness in the implementation of the reforms and created a lot of tensions with the regular bureaucracy.

¹⁴⁰ The Ministry of Finance recommended Sánchez to the minister of health, Jorge Jiménez after the first negotiations with the World Bank failed because the team initially sent by the Ministry of Health was "too anti Bank" (Interview, 07/23/1998).

When Sanchez took office at the Superintendencia, he continued as member of an advisory committee to the minister of health, which gathered most members of the change team constituted by him. However, the health minister “did not pay too much attention to their proposals” (Interview, 07/23/1998), and the committee became a decorative advisory body. Sanchez and another member of the team wrote a document where a plan to advance to privatization was outlined.¹⁴¹ This document helped to divert the pressures that the MA and other factions within the government were posing over the Minister of Health.

Regarding ISAPREs, “the Ministry of Finance wanted to strengthen the industry” (Interview, 07/23/1998). However, for the MA and the governing coalition, the issue had low priority in the agenda. Nonetheless, Sanchez formulated a bill to change some elements of the ISAPRE legislation. As a proof that the MA was not concerned with ISAPREs, an interviewee stated: “The MA accepted without any complaint the appointment of a veterinarian as Superintendente” (Interview, 07/23/1998). Not until 1996 the MA did advocate for a physician to occupy that post.

Sanchez presented the bill within the government and “everybody agreed with the content: Ministry of Finance, MIDEPLAN, SEGPRES, Ministry of Health, etc.” (Interview, 07/23/1998). He also presented the project to the Asociacion de ISAPREs and the MA before introducing the bill to the Legislature. The Asociacion de ISAPREs accepted everything except the 0.9% mandatory saving for premiums for the old age. The MA leadership also agreed with the content of the bill, including the elimination of the prohibition to celebrate direct contracts between ISAPREs and Servicios de Salud. There was a debate within the government about how the 0.9% would be funded - if as an extra contribution or as part the 7% already in place¹⁴².

The Asociacion de ISAPREs finally lobbied the Ministry of Finance before the bill was submitted to Congress. The industry and the Confederación de la Producción y el Comercio, stated to the Minister of Finance that this was a “counterrevolution” and that they regarded this initiative as a trespass to the “transition pact”. The lobby was acknowledged by one ISAPRE executive (Interview, 07/02/1998). The government decided to exclude the 0.9% clause before introducing the bill to Congress, “and all the Ministers disavowed Sanchez and denied having previous knowledge of the project” (Interview, 07/23/1998). This generated a conflict between Sanchez and the Minister of Health, and Sanchez decided to resign.

According to another interviewee “our economists were scared with what the right wing parties would say and did not want to touch the economic model. There was also lack of preparedness among our own people [Ministry of Health]. Thus, the ISAPRE problem was peripheral [in the agenda]. Any reform [to ISAPREs] that we proposed to the government’s economic team was a hindrance for them. We were stigmatized as pro State” (Interview, 06/03/1998). The Ministry of Health also lacked of a coherent and comprehensive alternative project for the health system. Besides, some economists prone to the Concertación also warned that the 0.9% was not a solution developed enough for the problem of health care coverage for the elderly.

The bill was finally introduced to Congress in 1992, without the 0.9%. The successor of Sanchez as Superintendente, an economist and member of the change team, “did not believe much in the project and did not make great efforts to have it passed” (Interview, 07/23/1998). Finally the bill was enacted in 1994, when a new Superintendente was appointed. This one decided to make a strategic alliance with the more pro State factions of the governing coalition

¹⁴¹ It was called “Una Agenda Para el Cambio”.

¹⁴² SEGPRES discarded the idea of an extra contribution because they did not want to have problems with unions.

and with the MA. The project was modified and its scope reduced. Besides the elimination of the 0.9% clause, the attributions of the Superintendencia were diminished as a result of the ISAPREs Association lobby to their allies in Congress. Finally, due to the pressures of the MA and other pro State congressmen, the clause that allowed direct contracting between ISAPREs and *Servicios de Salud* was also eliminated.

In sum, the change team strategy for the particular issue of expanding the participation of private sector in the delivery and financing of health care, and to introduce more regulation to the system failed. The democratic change team did not have the strong and loyal support of top economists in key positions that the former change team had enjoyed during the military regime. The issue was not relevant in the public agenda of the transition government or to its economic team. It was neither an issue for the MA. In addition, there was not a comprehensive and shared plan to advance to the privatization of the public system and even some members of the change team itself were not convinced about initiative.

6. CONCLUSIONS

During the military regime, a small group of highly trained economists joined the government in the top policy positions with a comprehensive reform agenda aimed at transforming both the State and the economy under the premises of a neoliberal ideology. It can be argued that the conformation and use of this team by the military regime was a strategy in an of itself, since it facilitated reform formulation and implementation at the margin of the internal and (limited) external political bargaining among military factions and interest groups affected by the policy changes. Upon their arrival, the economists constituted themselves as a tightly closed team that shared the same ideology and policy agenda. The team distributed the different roles needed to pursue policy change according to each member's comparative advantage – such as long term policy formulation, the design of short term operational policy and legislation, political brokerage and even the recruitment of suitable policy makers - and not paying close attention to the expertise needed to reform a particular sector.

In order to empower itself and give political feasibility to its reform agenda, the team resorted to a series of strategies aimed at embedding both the team and its project in the positions relevant to its accomplishment. First, it established vertical networks or close and durable links with senior members of government that would give the team political backing and support its proposals against the persistent resistance of most factions of the armed forces and allied interest groups. Second, and once the team found itself embedded in key power positions – notably the Ministry of Finance and ODEPLAN -, it established a series of horizontal networks via a systematic and coordinated scheme of recruitment and placement of motivated and highly trained professionals who shared its ideology and the mission. These professionals tried to ensure the implementation of policy changes in the direction envisioned by the team through their promotion and lobbying and the extensive use of the political backing they counted on stemming from the change team itself.

While the characteristics of the political-economy context of the military regime brought nearly to a halt society's participation in favor or against policy changes, factions pro and against the reforms within the government did resort to the support of the few groups who could still exert a certain degree of influence or at least manifest their support for one position or another – always within the limits drastically established by the military regime. Thus, the change team sought and constructed links with those groups in society that either shared their ideology or benefited from the reforms' outcomes (i.e. the new business groups who were to benefit from

economic liberalization and deregulation), establishing State-society networks that helped them counter the resistance to change stemming from similar networks that were pro-status quo (i.e. physicians and the Medical Association).

The team maintained a very close control over the reform process in different sectors through the direct involvement of senior members, as well as an informal network that cut across the bureaucracy establishing informal command lines over junior members sent to “colonize” the sectors under reform – horizontal networks. Some of this control was later institutionalized by putting all senior operational units –i.e. undersecretaries – under the direct supervision of the Finance Ministry. Change team members gravitated around the Planning Office (ODEPLAN) where policy was studied, formulated and dictated. Follow up was made with the help of the change team’s network members established in the different sectors under reform. This center of gravitation was going to move to the Finance Ministry during the second and last phase of operation of the change team or what could be considered its “come back” after the economic crisis of the early 80’s until the end of the military regime.

During the process of health reform and the creation of ISAPREs, the team resorted to a series of “process” strategies aimed at enhancing the political feasibility of its policy agenda. Among them, the deliberate obfuscation of intended policy changes in order to avoid possible resistance at key policy nodes – such as legislative commissions. The division of opposition members by a selective use of policy concessions affecting individual interests and compensatory measures for powerful interest groups with the potential to bring the reform to a halt - such as the armed forces. Also, throughout the reform process, the team made a systematic effort to educate and indoctrinate elite decision makers about the premises for their proposed policy changes and the ideology behind the model that was being followed. This strategy was also directed toward attention groups and the attentive public in society through the dissemination of their ideas and motivations via sympathetic mass media and academic and business fora.

Following its ideological precepts – freedom of choice, apolitical decision making, a residual State, among others -, the change team believed it was possible to apply the model and experience of the pension system reform to the health sector. It succeeded only partially. While the implementation of the first part of the ISAPRE reform was successfully completed, its second phase – which was to bring about a health insurance system with universal coverage – was abruptly brought to a halt. Several factors can be considered for explaining this outcome. Among others, there were technical, fiscal and political constraints, since Chile faced a period of economic restraint and the military regime’s political capital was rapidly eroding. But also, the ISAPRE team members lacked the brokerage ability of those who had led the pension system reform - its policy brokers having abandoned the government immediately after ISAPRE initial legislation was enacted – and their efforts were tardy.

The team failed in its attempts to eliminate special interests from the sector. Notwithstanding the institutional changes introduced by the team, the MA recovered its power and continued to be an influential actor to this day. Also, counter to the team’s ideological bearings, the health reform it promoted created other special interests that have gained considerable power over the years: Notably the *Asociación de Clínicas Privadas* and most importantly, the *Asociación de ISAPREs*. Both interest groups have successfully halted policy changes and new legislation aimed at correcting the ISAPRE system – with some of these changes aimed at making it function in the way envisioned by the change team.

The strategies used by the change team and its conformation proper as a strategy itself were to influence policy making in following administrations in Chile and elsewhere in the Latin American Region. The democratic government that was to follow the end of the military regime

resorted to a similar strategy to continue the health reform by conforming a change team with highly qualified professionals empowered to bypass most of the sector's bureaucratic red tape. However, the strategies used by the democratic government to enact legislation for ISAPREs were similar and different at the same time. Similar in the sense that initiatives to advance to the privatization of the system were originated outside the bureaucracy and led by a change team conformed of outsiders. Different in the modus operandi of the change team itself, since it favored consensus building and concessions, instead of insulation.

The new change team's composition reflected the inter-party compromise established in the governing coalition, and thus its level of ideological cohesiveness was not as strong as the former change team's. This eroded their power to enact reforms - and even to agree in a basic common model of health system to work for. The radically different institutional context within which the new change team operated, also hindered its potential to insert itself in the policy process and impose a particular agenda. The democratic government's attempts at ameliorating ISAPRES regulation and furthering the privatization of the health care system were not abruptly brought to a halt, but simply ignored and dropped out of the public agenda.

ANNEX

Cronology of Events

PERIOD	YEAR (S)	POLICY PROCESS/ MILESTONE	DESCRIPTION
1942-1973 (Historical Background)	1942	Enactment of SERMENA (DFL 32/1552)	Merger of health departments of several <i>Cajas de Prevision</i> for white collar workers. The purpose of the new institution was to provide only preventive care.
	1952	Enactment of SNS (Ley 10.383)	A National Health Service (SNS) was created. It merged several institutions which provided health care to blue-collar workers. It also consolidated prevention and promotion programs for the population
	1958	Creation of <i>Mutuales de Seguridad</i> (workers' compensation funds)	The private sector organized these funds to provide coverage and care for job risks and accidents
	1968	Enactment of Work Safety and Occupational Health Act (Ley 16.744)	It allowed <i>Mutuales de Seguridad</i> to collect funds and to function as integrated delivery systems for occupational health
	1968	Enactment of a Preferred Provider Organization (PPO) for SERMENA (Ley 16.781)	SERMENA was extended to cover curative care for white-collar workers, active or retired, and their dependents. Services were provided by physicians in private practice and private facilities on a fee-for-service basis
	1970-1973	Marxist elected government	Attempt to Create a Unified Health System, highly resisted by the Medical Association
Authoritarian Regime 1973-1990	1973 Sep. 11	Coup d'état	The military takes power. It will last in office until March 10, 1990.
Reconstruction Period	1973-1975	Normalization of markets and prices	Reestablishment of markets as mechanism for allocation of resources and determination of prices.
First Generation Structural Reforms 1975-1978	1975	Appointment of Jorge Cauas as Minister of Finance	This marks a turning point to the adoption of neoliberal economic policies
	1975-1976	Macroeconomic Shock Treatment	Restrictive Fiscal Policy, Restrictive Monetary Policy, Restructure Public enterprises
	1975-1978	Further economic liberalization	Elimination of all controls over prices. Elimination of subsidies to the industry and agriculture. International trade liberalization

PERIOD	YEAR (S)	POLICY PROCESS/ MILESTONE	DESCRIPTION
			Privatization of public enterprises
	1979	First year of Fiscal Surplus and controlled inflation	Prerequisite to adopt second generation reforms
	1979	Enactment of new regulations for professional associations (DL 2.516)	Membership to professional associations became voluntary
	1979	Enactment of a bill granting limited free choice of provider to blue-collar workers (DL 2.575)	Beneficiaries of SNS (blue-collar workers and dependants) were allowed to use SERMENA's PPO
	1979	Enactment of new regulations for Unionization and Collective Bargaining: <i>Plan Laboral</i> (DL 2.756; DI 2758)	Allowed collective bargaining and strikes. However, made membership to unions voluntary
	1979	Reorganization of the Ministry of Health and Decentralization of the SNS. (DL 2.763)	Merger between SNS and SERMENA, creating a National Health Fund (FONASA), to collect and manage all mandatory contributions and fiscal funds, and to and manage ex-SERMENA's PPO.. Decentralization of SNS in 27 Regional Health Services, creating a National System of Health Services (SNSS)
	1979	Establishment of fee-for service payments for Regional Health Services and public hospitals (FAP)	The purpose was to link the availability of resources with "productivity". Regional Health Services had to compete for funds in the public budget
	1980-1987	Decentralization of Primary Care facilities to Municipalities (DFL 1-3.063; DL 3.477; DL 3.529)	The process occurred in three "waves". In 1981, 17.4% of clinics were transferred, mostly rural. In 1982, 3, 4%. Finally, in 1987/1988 the process was completed, remaining only a few clinics in the hands of the SNSS
	1980	A new Constitution is voted and approved in September	Article 19, number 9 establishes the right to choose health system, either public or private
	1980	Pension System Reform (DL 3.500)	Mandatory contributions patrimony of the employee. Freedom to choose among private pension administrators (AFPs).
	1980	Pension System Reform (DL 3.501)	Establish a 4% of salary as mandatory contribution for health care.
	1981	Amendment to Article 84, DL 3.500 (Article 46, DL 3.626, Miscellaneous bill)	Explicitly allowed workers to enroll in any institution that provides health benefits. Gave the President the authority to establish the conditions under which these institutions should operate.
	1981	Creation of ISAPRES (DFL 3)	Defined the specifics of the system and the regulatory provisions

PERIOD	YEAR (S)	POLICY PROCESS/ MILESTONE	DESCRIPTION
	1981	Amendment to DFL 3 DFL 4	Restrains the use of FONASA's PPO by ISAPREs' beneficiaries to situations where there is no private facilities or providers available
Economic Crisis: The Lifesavers 1982-1986	1982	Economic Crisis Started	GDP fell 14%, Unemployment rose to 25%
	1982	Expansion of ISAPREs' eligible beneficiaries (Ley 18.186)	Pensioners and enrollees of the old pension systems are allowed to opt-out to ISAPREs
	1983	Change in rate of mandatory contributions for health care (Ley 18.196)	Mandatory contributions were raised from 4% to 5% on January 1 st 1983, and then to 6% on July 1st, 1983
	1985	Creation of the Unified Fund of Family Benefits (Ley 18.418)	The burden of maternity leave payments is transferred back from ISAPREs to the State
	1985	Enactment of Health Care Regime Act (Ley 18.469)	Creates a unified health care regime for beneficiaries of FONASA, and establishes copayments according to income groups.
	1986	Change in rate of mandatory contributions for health care (Ley 18.482)	Mandatory contribution raised to 7% of taxable income starting on January 1 st , 1986.
Attempts to complete health care reform 1985-1988	1986	Enactment of a limited demand subsidy for ISAPREs enrollees (2%) (Ley 18.566)	Creation a tax exempted employer contribution of 2% for employees enrolled in ISAPREs
	1985-1988	Attempts to privatize hospitals and create ISAPREs <i>Populares</i>	The plan was to gradually transform primary care services in public ISAPREs and the to privatize them, as well as public hospitals. The initiative failed
Consolidation Phase 1988-1994	1990	Enactment of the last ISAPREs Act by the Authoritarian Regime (Ley 18.933)	Creates a Regulatory Agency and introduce more strict regulations for the system

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