

**Date:** 6 May 2016

**To:** Professor Yinger

**From:** Megan Krouse

**Subject:** Chilean Primary and Secondary Education Finance Reform

While the structure of Chile's primary and secondary education finance has changed considerably since the fall of the Pinochet dictatorship, the Chilean system continues to undergo intense scrutiny inside and outside national borders. Teachers and students suggest that privatization implemented during the dictatorship is the real enemy due to its failure to eradicate the profit-based nature of the education system.

**Recommendation:** to eliminate subsidized-private schools, improve the quality of public schools, and rewrite the 1980 Chilean Constitution.

### **Historical Overview: Decentralization**

During the Pinochet regime (1973-1990), under the guise of decentralization, the public education system was dismantled and its operation was transferred to the municipalities and the private sector. While education had formerly been based on the notion that education was a right guaranteed by the state through a free public education system, neoliberalism shifted education to the current system, which puts the responsibility for the education of young Chileans in the hands of their families. "Families, depending on their resources, could 'opt' — 'have the freedom', in the language of the time — to send their children to municipal, subsidized-private or private educational institutions, with large differences in quality between them."<sup>1</sup>

This reform had two central policy factors:

- 1) The transfer of the public schools administration to the municipal governments and private school corporations
- 2) The *Law of Subsidies*, which established public finance based on student attendance in subsidized schools. These subsidies were extended to school providers that certified compliance with specific generic requirements established by the Ministry of Education.<sup>2</sup>

In effect, education decentralization created an educational market where consumers can select from which supplier to "purchase" services, with the free entry and exit of providers and open competition between the public and private sectors. In other words, families are given complete freedom to choose schools and to stimulate competition between schools for students and resources. This higher level of competition was expected to improve the quality of and promote efficiency

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<sup>1</sup> Rodríguez, Alfredo, Marisol Saborido, and Olga Segovia. "Understanding the Tipping Point of Urban Conflict:

<sup>2</sup> González, Pablo. "The Financing of Education in Chile." RTI International. Web.

<<http://www.rti.org/files/conferences/intl-educ-finance-05/background/practices/fineducchile-english.pdf>>.

in education.<sup>3</sup> In the subsidies system, schools should not only worry about students being enrolled, but they must also ensure that students attend classes once they are enrolled in order to receive public funds. In contrast, in the traditional educational system both of these incentives are absent, since attracting more students only implies more work for teachers.<sup>4</sup>

### **Municipal, subsidized-private, and private education breakdown**

The chart below demonstrates the number and percentage of students who attend each type of school in Chile. According to 2014 data, subsidized-private schools the most highly attended school type in the education system with 54.13% of students, followed by municipal public schools at 36.91%, and finally private non-subsidized schools at 7.64%.<sup>5</sup> Delegated Administration schools are a type of public school owned by the State but managed and financed by private corporations. This type of school falls outside the scope of this analysis but included to demonstrate 100% enrollment.<sup>6</sup>

Classification	Students (2014)	%
Municipal (public)	1,305,032	36.91
Private, subsidized	1,913,838	54.13
Private, non-subsidized	270,085	7.64
Delegated Administration	46,880	1.33

Of schools that are eligible for public funding, public schools and subsidized-private schools, there are two different tuition types: voluntary tuition and mandatory tuition. Voluntary tuition may have mandatory selection process and annual enrollment fee, and a voluntary monthly tuition fee, also known as “copayment.” Similarly, mandatory tuition may have mandatory selection process annual enrollment fee, but with a mandatory monthly tuition fee. In 2011, this was equal to CLP\$72,763 (about US\$150) in both primary and secondary school.<sup>7</sup> In 2011 for

<sup>3</sup> Verger, Antoni, and Adrián Zancajo. "Decommodifying Education in Chile? Bachelet's Reforms in the Face of Persistent Educational Inequalities." *Education In Crisis*. Education International, 5 May 2014. Web.

<sup>4</sup> González, Pablo. "The Financing of Education in Chile." RTI International. Web. <<http://www.rti.org/files/conferences/intl-educ-finance-05/background/practices/fineducchile-english.pdf>>.

<sup>5</sup> "Data Mineduc - Ministerio de Educación". *Ministry of Education of Chile*, 2014. <http://centroestudios.mineduc.cl/index.php?t=96&i=2&cc=2519&tm=2>

<sup>6</sup> Ibid.

<sup>7</sup> "Education in Chile: Levels of Education." *Education in Chile*. Pink America. Web. <[http://america.pink/education-chile\\_1376786.html](http://america.pink/education-chile_1376786.html)>.

both instances, the annual price of enrollment could not exceed CLP\$3,500, or about US\$7.<sup>8</sup>

Private schools, on the other hand are free to set price of enrollment, tuition, and fees. Admissions fee can be quite high in exclusive schools.

### **Subsidy System: Equity and Efficiency**

#### *Private schools*

As a result of these educational subsidies, the school system has become increasingly stratified due to “creaming,” in which private institutions have enacted selective admission policies designed to accept only the “cream of the crop”.<sup>9</sup> These discriminatory policies have resulted in a sorting effect, in which higher income students have migrated in large numbers to subsidized fee-based private schools, while lower-income students remain entrapped in municipal public schools.

In addition to the increased stratification of schools along economic lines, fee-based private schools have other distinct advantages over government-subsidized schools. The high income levels of its student populations afford fee-based private schools the ability to maintain highly-qualified teachers and provide extra resources, while government-funded institutions normally must settle for inadequate supplies and inferior teachers.<sup>10</sup>

#### *Private-subsidized and public schools*

The main critique of private school subsidies in Chile is that they put public education in competition with private education, threatening to reduce and reallocate public school funding to private schools. With subsidized-private schools being the largest category to attract enrolled students, they also attract a larger percentage of public funds. This calls into question the equity of subsidized education when compared to resource-starved public schools. Families are left to “buy” quality of education, and those who cannot buy better education are left with a compromised quality of education. Opponents question the belief that private schools are more efficient.

### **Recent progress**

In February 2015, President Bachelet signed into law the most significant educational reform the country has seen in 30 years. The new legislation, the Inclusion Law, modifies a series of education laws, including the General Education Law, the Subsidies Law, the Quality Assurance Law and the Preferential School

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<sup>8</sup> Ibid.

<sup>9</sup> Elacqua, Gregory. “Enrollment Practices in Response to Vouchers: Evidence from Chile.” National Center for the Study of Privatization in Education (NCSPE). (2006).

<sup>10</sup> Hsieh, C. and Urquiola, M. “The Effects of Generalized School Choice on Achievement and Stratification: Evidence from Chile’s Voucher Program.” *Journal of Public Economics* 90 (2006) 1481.

Subsidy Law.<sup>11</sup> It has been widely hailed as a major step towards dismantling the market-based and socio-economically segregated education system. These major changes include the gradual ban on profits, tuition fees, and selective admissions in subsidized-private schools, transforming education from a consumer good to a social right.

The new educational reforms, however, are not perfect. Some critique the new legislation by pointing “to loopholes that will allow “flagship” schools to maintain selective admissions for up to 30% of their enrollment. Non-profit schools can also retain transitional leasing arrangements with for-profit landlords, legitimizing continuing profits within the primary and secondary education system through the same subterfuges used by private universities.”<sup>12</sup> These loopholes jeopardize the equity, quality, and efficiency strides made by the 2015 reforms.

### **Recommendation**

1) I suggest the elimination of subsidized-private schools. The government need not fund private institutions that could fund themselves. This alternative would leave subsidized-private schools without government funding, resulting in a decrease school-type advantage, a decrease socioeconomic discrimination, while increasing transparency.<sup>13</sup> Indeed, the publicly funded institutions do not discriminate against students based upon socioeconomic background, since they would be the only institutions available in the public system. Furthermore, the government has higher standards of budgetary transparency than required of public schools, affording taxpayers and families greater knowledge to how public funds are being spent.

2) Municipalities should buy and absorb subsidized-private schools that cannot maintain operations without public funds. Long-term benefits outweigh short-term costs by increasing equity to public schools and increasing efficiency to the finance process.

3) Improve public schools by increasing funding redirected from subsidized-private schools. Primary and secondary public education are doomed to mediocrity indefinitely unless the government increases the resources available to these schools to improve the quality of teaching and expand the services and facilities to the students of public schools.<sup>14</sup>

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<sup>11</sup> "Inclusion Law: The Key Changes to Come with the New Legislation." Gobierno De Chile, 1 June 2015. Web. <<http://www.gob.cl/2015/06/01/inclusion-law-the-key-changes-to-come-with-the-new-legislation/>>.

<sup>12</sup> Achtenberg, Emily. "Chilean Students Struggle to Deepen Educational Reforms." *The North American Congress on Latin America*. NACLA, 15 Mar. 2015. Web. <<https://nacla.org/blog/2015/03/03/chilean-students-struggle-deepen-educational-reforms>>.

<sup>13</sup> Zelaya, Vannia J. "Chile's Educational Reform: The Struggle Between Nationalization and Privatization," *Pepperdine Policy Review*, 2015: Vol. 8, Article 7.

<sup>14</sup> Diaz, Rodolfo. "Socioeconomic Inequality in Chile." *Harvard International Review*: 2010.

3) Rewrite 1980 Constitution. Although this recommendation is outside the scope of analysis, the existing Chilean Constitution is completely antiquated and made for a time military dictatorship. The 1980 Constitution is unfit for guiding a democracy to a more equitable education finance reform.

**Conclusion**

Recent forms to the Chilean primary and secondary education system under President Bachelet have offered several measures for reaching the end goal of reducing inequality in education. I suggest that eliminating subsidized-private schools will improve the quality that the system offers. Loopholes to the Inclusion Law legislation and an education competitive market jeopardize the equity, quality, and efficiency of education in Chile, and by eliminating subsidized-private schools, public schools can reallocate funding to the schools, teachers, and students who need them most.