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# Chile's Higher Education: Mixed Markets and Institutions<sup>1</sup>

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*Zusammenfassung:* Der chilenische Hochschulmarkt wird durch ein Übergewicht des privaten Angebotes sowie eine Differenzierung der angebotenen Qualifikationen in drei vertikale Bereiche charakterisiert. Diese sind die öffentlichen Universitäten, die abhängigen privaten Hochschulen, die vom Staat unterstützt werden und die dem Hochschulrat unterstehen, sowie die unabhängigen

privaten Hochschulen. Jede dieser Stufen weist eine unterschiedliche Marktkonzentrationen auf: Die Konzentration innerhalb des Marktes der öffentlichen Universitäten ist niedrig, innerhalb der beiden anderen Märkte ist sie hoch. Ferner sind diese Märkte geographisch nach Regionen, Provinzen und Ortschaften segmentiert.

Die drei Bereiche der staatlichen, der abhängigen privaten und der unabhängigen privaten Hochschulen lassen sich jeweils intern wiederum vielfältig unterscheiden, etwa hinsichtlich der Selektivität der Hochschulen, hinsichtlich ihres Alters, ihrer Forschungsleistung etc.

Die Finanzierung der Hochschulbildung in Chile ruht auf einer Vielfalt von Methoden und Instrumenten. Die öffentlichen und abhängigen privaten Hochschulen erhalten jährlich eine globale Grundfinanzierung als direkten Zuschuss. Dabei werden gesetzlich festgelegte Werte verwendet, die auf der Basis der früheren Finanzierung berechnet werden. Erfolgsbedingte Zuwendungen werden nach Formeln verteilt. Zudem existieren Leistungsverträge für institutionelle Entwicklungen und eine wettbewerbsförmig organisierte Mittelvergabe für Forschung, Entwicklung und Innovation. Mit speziellen Programmen fördert die Regierung die Forschung und Studiengänge im postgraduierten Bereich. Die Hauptbegünstigten

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dieser Finanzierungsquellen sind die Universitäten, insbesondere jene mit bedeutenden Forschungskapazitäten. Des Weiteren existieren Kreditprogramme und Stipendien für Studierende.

Obwohl die Unterschiede zwischen öffentlichen und privaten Hochschule in Chile sehr deutlich ausfallen, weisen die drei Typen von Einrichtungen Tendenzen einer institutionellen Annäherung hinsichtlich der Hochschulsteuerung auf. So sahen sich öffentliche Universitäten genötigt, neue, zumeist vom New Public Management inspirierte Steuerungsinstrumente einzusetzen. Um Prestige und Legitimität zu gewinnen, betonen private unabhängige Hochschulen ihre öffentliche Verantwortung. So „privatisieren“ die öffentlichen Hochschulen ihre Steuerung, während die privaten „öffentlicher“ werden.

\* \* \*

Over the last thirty-five years, Chile's higher education has evolved from a state based to a market driven system. While some of these changes were imposed by a military dictatorship, its recent evolution is the result of self propelling market forces. Indeed in terms of scope and depth, it is a very different system from that envisaged by the authoritarian regime (1973-1990) and by educational experts at the time of democratic restoration in 1990. Today the higher education market has created its own incentives and opportunities so that traditional government activities, such as funding, play less of a determining role – in a word, government policy can influence but cannot control, even if it wished – the higher education market. Meanwhile, the government has to address a different set of issues for which it is not entirely prepared and that has less to do with educational access and funding and more to do with educational quality and performance, both nationally and internationally. Furthermore, put simply, like any higher education system, Chile's institutions, particularly its universities, are subject to two external demands; increasing expectations from students and families on the one hand and the demands of the knowledge economy – increasing skills and sophisticated research on the other.

An appreciation of future challenges that face Chile's higher education system must be based on an understanding of the present. The purpose of this article is to lay the groundwork by examining higher education's current structure and finance. There are two cross cutting dimensions implicit in this analysis. The first is the dominance of universities and university education for the system and for students. The second is the changing role

of public commitments – in terms of policies and funds – which give some justification to the view that the combined influence of the private and public sectors is evolving into a new and different hybrid system, where institutional roles can no longer be clearly distinguished and which are influenced and almost determined by the changing market structure.

## Higher Educational Structure

In Chile, tertiary education is made up of 205 institutions which, following international nomenclature, can be classified as *state* (public), *dependent* private (with state subsidies) and *independent* private<sup>2</sup>. In turn the market is also segmented vertically into three tiers by the level and type of programs. *Universities* offer mainly Level 5A and Level 6 (advanced research programs) according to UNESCO's International Standard Classification of Education<sup>3</sup>; *professional institutes* offer Level 5A programs that lead to professional diplomas but do not require a prior academic degree, and the *technical training centers* only offer 5B programs (see Table 1). Within each institutional category private *independent* providers are numerically predominant amounting to 90 percent of the overall number of tertiary education institutions and 59 percent of universities. *State institutions* constitute a numerical minority – 8 percent of the total and 26 percent of universities. Legally private *independent* universities should be non-profit organizations<sup>4</sup> while professional institutes and technical training centers can be constituted as for-profit organizations. These three institutional markets allow foreign suppliers providing they are officially recognized in Chile and meet the same requirements and regulations that authorize national entities to operate with full autonomy<sup>5</sup>.

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<sup>2</sup> According to the definitions employed in international statistics private independent institutions are those that receive less than 50 percent of their funds from public organizations. It should be added, too, that they are in principle non-governmental organizations. Private dependent institutions are those that receive at least 50 percent of their funding from public organizations. Institutions are classified as subsidized if their teaching staff is remunerated by a public organization, either directly or as member of public administration. Usually they are governed without the participation of government representatives. See UNESCO's Institute of Statistics glossary available at : <http://www.uis.unesco.org/glossary/index.aspx?lang=es>

<sup>3</sup> See UNESCO International Standard Classification of Education - 1997 version. Available at: [http://www.uis.unesco.org/ev.php?ID=3813\\_201&ID2=DO\\_TOPIC](http://www.uis.unesco.org/ev.php?ID=3813_201&ID2=DO_TOPIC)

<sup>4</sup> There are serious doubts, however, that all meet this requirement in practice.

<sup>5</sup> In fact there are various institutions belonging to *Laureate International Universities* and the *Apollo Group, Inc.*, participating in the Chilean higher education market.

*Table 1: Chile: number of institutions by type and institutional category (2007)<sup>1</sup>*

<b>Type/Institutional Category</b>	<b>Number</b>
Universities	61
State	16
Private dependent	9
Private independent	36
Professional institutes	44
State	0
Private dependent	0
Private independent	44
Technical training institutes	100
State	0
Private dependent	0
Private independent	100
Total Higher education system	205

<sup>1</sup> The number of institutions is recorded by a registration unit of the Ministry of Education (September 2007), and does not include those institutions that belong to the Armed Forces and Police.

Source: Ministry of Education (2008)

In terms of demand, undergraduates are distributed among the different institutions according to the number of places offered and the choices made by students. Universities predominate in the enrolment market with university undergraduates making up 68 percent of the total number of students in tertiary education (Table 2). In this category, private independent institutions account for 62 percent of students, state universities around 23 percent and private dependent institutions about 15 percent. In the two markets where non-university institutions operate (i.e. professional institutes and technical training centers) only private independent institutions participate. Thus, of the total student body 77 percent attend private institutions.

A more detailed analysis of enrolment distribution shows that in the three institutional markets (i.e. universities, professional institutes and technical training centers) concentration ratios are variable with the university market showing the least concentration. Here competition is more intense but at the same time the effects of each institutional agent's behaviour is relatively small in relation to the actions of other agents and above all on the corresponding market.

**Table 2: Chile: Total enrollment in higher education institutions by type and category (2007)<sup>1</sup>**

<b>Type/Institutional Category</b>	<b>Total</b>
Universities	509,523
State	176,366
Private dependent	111,381
Private independent	221,776
Professional institutes	156,912
State	Na
Private dependent	Na
Private independent	156,912
Technical training institutes	87,108
State	Na
Private dependent	Na
Private independent	87,108
<b>Total</b>	<b>753,543</b>

<sup>1</sup> Includes only officially registered institutions and not those that belong to the Armed Forces and Police; na: Not applicable

Source: Ministry of Education (2008)

In summary, the Chilean higher education market can be characterized as showing a predominance of private provision and differentiation into three (vertical) tiers according to qualifications offered. In each tier there are different levels of market concentration; low in the university market and high in the other two markets in which 10 percent of the largest institutions capture more than 60 percent of student enrolment. In addition these markets are not unified geographically but are segmented by region, province and locality. This latter feature affects competition particularly in the undergraduate market, limiting its effects and student choice. In each market, but particularly in the metropolitan area – with the greatest supply and student demand – there are variety of institutional providers, differentiated by their historical trajectory, size, resources, work regime and the quality of their academic personnel, disciplines covered, programs offered, the conditions under which they participate in the market, the mix of functions which they perform, their place in a reputation scale, their forms of governance and management and the way they are financed (Brunner/Uribe, 2007; Brunner et al, 2005). In the case of universities, for example, *state* entities differ according to the age of their foundation, metropolitan or regional location, student selectivity, level of post-graduate development (especially at the doctorate level), their capacity for research and their share of state resources. Private *dependent* universities differ in terms

of their *confessional* (Catholic universities distinguished also by their relationship to ecclesiastical authorities) or *civil* (non-confessional) character; their regional or metropolitan location; academic level and selectivity, the social composition of their students, program development and research capacity. Last, private *independent* universities possess a great range of legal forms, missions, sizes, academic selectivity, social student composition, governance forms and relations with different types of stakeholders.

**Table 3: Chile: Market concentration by leading institutional agents according to size<sup>1</sup>**

	<b>Largest institution</b>	<b>Top 10% of institutions by size</b>	<b>Top 25% of institutions by size</b>
Universities	5.8	28.8	56.1
Professional institutes	27.6	61.3	88.2
Technical training centers	31.9	68.6	84.0

<sup>1</sup> Market share of the single largest institution, and top 10 percent and 25 percent of institutions according to size (number of students) by type (2007). Includes only officially registered institutions and not those belonging to the Armed Forces and Police.

Source: Ministry of Education (2008)

## Higher Education Finance

From an international and comparative perspective Chile's tertiary education funding is characterized by its strong reliance on private sources as part of total expenditure in the system. Total funding amounts to 2 percent of GDP, of which public sources account for 0.3 percent and private sources for 1.7 percent (OECD 2007:208), compared to the OECD average of 1.0 and 0.4 percent respectively. Further, *private* expenditure has grown rapidly between 1995 and 2004, as is also the case in the OECD average, which however constitutes less than 25 percent of the total expenditure on tertiary education institutions.

The main source of private resources in Chile is tuition fees paid by students and/or families (household expenditure) to all institutions, including *state* universities. In fact, it is estimated that *state* universities collect, on average, a third of their annual income from this source, equivalent to private *dependent* universities. Private *independent* universities, on the other hand, collect between 90 and 100 percent from tuition fees.

In comparative terms Table 4 suggests that tuition fees paid by students (or their families) to Chilean institutions is high.

*Table 4: Expenditure on tertiary education institutions as a percentage of GDP by source of fund, relative proportion of public and private expenditure<sup>1</sup> and Index of change between 1995 and 2004*

	Public sources		Private sources		Relative proportions		Private sources				Index of change between 1995 and 2004 in expenditure on educational institutions	
	0.3	1.7	Public sources	Private sources	Household expenditure	Expenditure of other private entities	All private sources <sup>1</sup>	Private: of which subsidized	Public sources	Private sources	127	232
Chile	0.3	1.7	16	84	84.0	1.0	85.0	2.5	127	232		
OECD average	1.0	0.4	76	24	..	..	24.3	1.3	149	276		

<sup>1</sup> Including subsidies attributable to payments to institutions received from public sources  
Source: based on OECD (2007), Tables B2.4. and B3.2b.

According to OECD data Chilean students at the 5A level pay *state* universities annually the equivalent of US\$ 3,485 (PPP – 2004) and US\$ 3,822 (PPP) to *independent* and *dependent* universities in tuition (OECD, 2006:240-41). When these values are compared to those paid in OECD member states and other developing countries where there is comparable information, Chilean rates appear as one of the highest as a proportion of per capita income (OECD, 2008: Vol. 1, 184-86). However tuition fees paid by students are supported by an ample scheme of student loans and tuition-scholarships that particularly favors those students of least resources enrolled in *state* and private *dependent* universities (Uribe/Salamanca, 2007: para. 211-25). Recently a parallel scheme has been created with a state guarantee to benefit students enrolled in private *independent* institutions (Larraín/Zurita, 2008).

Within a continuously expanding market (enrollment has grown from 249 to 753 thousand students between 1990 and 2007) these student support schemes have allowed access to tertiary education of different socio-economic groups while at the same time the index of inequality comparing students from the lowest and highest quintiles<sup>6</sup> has been reduced by practically a half during the same period (Mideplan, 2006:18).

In terms of the destination of *public* funds assigned to tertiary education institutions (Table 5), excluding R & D funds, the largest proportion (43 percent) is used for student loans and scholarships that benefit students with least resources at *state* and *private dependent* universities; around 40 percent is accounted for by an annual direct public contribution (AFD, *Aporte Fiscal Directo*) made to *state* and private *dependent* universities according to an historic distribution with the exception of 5 percent of this grant which is assigned in relation to a series of performance indicators; 9 percent of the total higher education public budget is allocated through a fund for institutional development (*Fondo de Desarrollo Institucional*, FDI) and the Program for Higher Education Quality Improvement and Equity (*Programa de Mejoramiento de la Calidad y Equidad de la Educación Superior* MECESUP), which is competed for by *state* and private *dependent* universities; 6 percent is allocated as an indirect public contribution (AFI, *Aporte Fiscal Indirecto*) which benefits tertiary education institutions in proportion to the number of the 27,500 students with the highest scores in the university selection test (*Prueba de Selección Uni-*

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<sup>6</sup> The reference is to the 20/20 index that measures the number of times that the student tertiary education participation rate for those in the highest income quintile is greater than the participation rate for students located in the lowest income quintile.

versitaria, PSU) that each one enrolls; and around 2 percent of the public budget for tertiary education goes to the country's oldest state university.

*Table 5: Public funds allocated to tertiary education institutions by budget item (2007) (Thousands of Chilean Pesos and US dollars)*

Item	Pesos	USD <sup>1</sup>
Direct Public Contribution (AFD)	122.714.246	234.873
Indirect Public Contribution (AFI)	18.864.009	36.105
Student support	131.285.141	251.278
Student loans solidarity fund	74.700.000	142.975
Ministry of Education scholarships	26.474.423	50.672
Compensation fund for victims of human rights violations	4.608.911	8.821
Scholarships for teachers	956.419	1.831
Scholarships - Juan Gómez Millas	8.174.066	15.645
Scholarships for the sons and daughters of educational professionals	2.718.428	5.203
New Millennium Scholarships	5.634.540	10.784
Academic Excellence Scholarships	7.687.154	14.713
Student loans with state guarantee	331.200	634
Fund for Institutional Development and MECESUP	27.983.102	53.559
Special category-assignment to University of Chile	7.142.889	13.671
Total public contributions	307.989.387	589.486

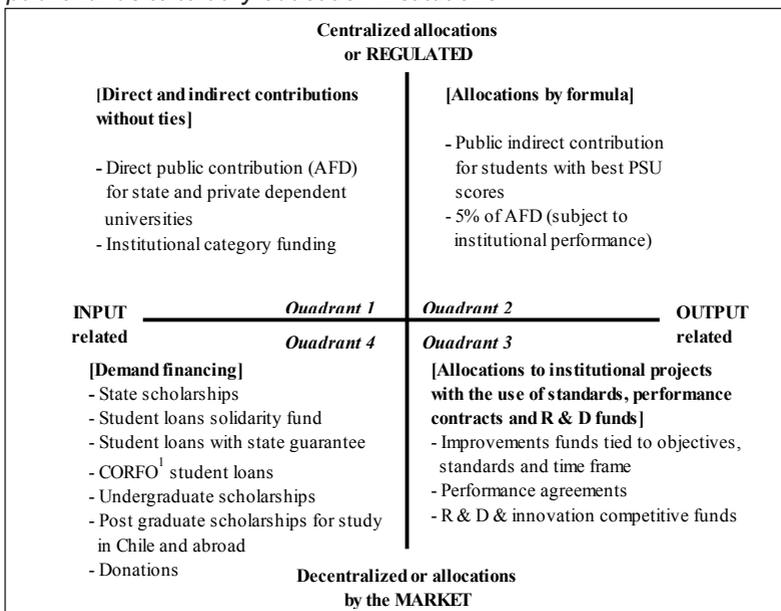
<sup>1</sup> Exchange rate calculated at 522.47 Chilean pesos to the US\$, the average for 2007

Source: From Ministry of Education (2008).

A complete picture of the resources destined for higher education in Chile needs to include - in addition to those summarized in Table 5 - resources (mostly from *public* sources) channeled to researchers and academic institutions through various competitive R & D funds; those obtained by contracts signed between institutions and various public organizations, as well as those of private origin that, as already mentioned, represent the greater part of the system's income, mainly from tuition fees but also from philanthropic donations and the sale of knowledge services to the private sector.

Thus, institutions face a variety of modalities and instruments for the allocation and raising of public funds as can be seen in Figure 1. Here these modalities and instruments are represented around two axes, depending on whether the allocation process is centralized or decentralized, and whether they are allocated in terms of inputs or outputs (Jongbloed, 2007:121-26). This scheme can be used to graphically represent different aspects of Chilean higher education funding policy.

Figure 1: Modalities and instruments used in Chile for the allocation of public funds to tertiary education institutions



<sup>1</sup> CORFO (Corporación de Fomento de la Producción) is a state agency that supports innovation, entrepreneurship and small and medium-sized businesses.

As can be appreciated from this Figure, government policies in Chile use all four basic funding modalities and a combination of instruments for each modality. In Quadrant 1 – input related centralized allocations – lump sum allocations or block grants are assigned on an annual basis to *state* and private *dependent* universities (according to historical percentages fixed by law) using the instrument of direct contributions (AFD). The same Quadrant includes also allocations to a particular category of institutions, in this case only one institution – the oldest state university. In Quadrant 2 – output oriented centralized allocations– the government employs two formulae for resource distribution. On the one hand, performance indicators are used to annually assign 5 percent of AFD to best performing universities. The amount received by an institution becomes part of the basis by which AFD is calculated in subsequent years. On the other hand, the same Quadrant includes the indirect public contribution (AFI) formula, which as mentioned allocates public resources to institutions according to the number of best score students they enroll. Here the aim is to stimulate competition between universities for high quality students. In

Quadrant 3 - output driven, decentralized allocations- government policy uses performance contracts<sup>7</sup> for institutional development and competitive funds to finance R & D and innovation. The first type of instrument supports the promotion of priority development programs and the improvement of higher education quality and performance by way of financing investment projects in academic infrastructure, academic improvements, and management and information systems at *state* and *private dependent* universities. In practice these projects involve objectives, targets and fulfillment conditions; moreover, institutions also have to comply with other requisites – for example a strategic development plan – when making requests for funds. The same Quadrant contains various funds, programs and initiatives – all based on peer reviewed project competition – by which government allocates resources for R & D and for post graduate training whose principal beneficiaries are universities, in particular those with greater research capacity. Last in Quadrant 4 the government uses diverse demand driven financing instruments such as loan schemes and scholarship programs. Also the legal regime that encourages private *philanthropic donations* to tertiary education institutions is located within this fourth Quadrant. It allows contributors to receive a tax benefit of up to 50 percent of the donation that is then treated as a government contribution. In short, it is a decentralized mechanism for financing institutional inputs through a tax break that encourages private companies to make donations<sup>8</sup>.

## Changing Public-Private Relations

As demonstrated by the discussion of finance, public and private roles are changing and forming a hybrid, market-based, system. This can be illustrated as shown in the ensuing Synoptic Table, which describes along various dimensions the current status of *state*, *private dependent* and *private independent* universities in Chile.

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<sup>7</sup> In other countries they are also known as development contracts, higher education pact, target agreements, contractual agreement, development program funding. See Strehl, Reisinger/Kalatschan (2006:5).

<sup>8</sup> Through this mechanism tertiary education institutions received \$ 14,602,012,624 (Chilean pesos), or US\$ 27.5 million, in 2006. The four universities which received most donations this year were two private independent universities, one private dependent university and one state university.

*Synoptic Table: Attributes of Chilean Universities*

	<b>State</b>	<b>Private dependent</b>	<b>Private independent</b>
Property	Public corporations established by law.	Autonomous corporations ruled by its own statutes according to canon or civil law.	Private non-profit corporations <sup>1</sup> officially recognized by the state and granted full autonomy after a licensing process. Foreign suppliers allowed subject to Chilean law.
Mission	Determined by Organic Constitutional Law (LOCE) and specified by the institutional statutes approved by law.	Determined by Organic Constitutional Law (LOCE) and specified by each institute's statutes approved by canon or civil law. <sup>2</sup>	Determined by Organic Constitutional Law LOCE) and specified by each institute's statutes and determined by the principal investor's purpose.
Production of goods/output	Public and private goods with a declared emphasis on the former as a result of subsidies received.	Public and private goods with variable emphasis on the former depending on whether canon or civil institution.	Public and private goods with a variable emphasis on 'publicness' according to their institutional mission and emphasis on human capital formation.
Corporate governance	Collegial representative character with emphasis on student and academic participation. Government delegates in Boards.	Collegial with variable academic and student participation and intervention of church authorities in Catholic universities.	Defined by principal investor; managerial governance style with different degrees of academic representation.
Business model	Direct subsidies and other public contributions, tuition fee income, sales of services and donations.	Direct subsidies and other public contributions, tuition fee income, sales of services and donations.	Tuition fee income, sales of services and donations.
Performance of money earning functions	Collect fees for teaching; income from a varied portfolio of lucrative activities through regular and ad-hoc business units.	Collect fees for teaching; income from a varied portfolio of lucrative activities through regular and ad-hoc business units.	Collect fees for teaching; income from a varied portfolio of lucrative activities through regular and ad-hoc business units <sup>3</sup> .
Resource management	Autonomous subject to debt limits, limits on the disposition of assets, and state <i>post hoc</i> legal control over institutional decisions.	Autonomous within the framework of own statutes.	Autonomous within the framework of own statutes.

	<b>State</b>	<b>Private dependent</b>	<b>Private independent</b>
Academic personnel	Public employees contracted and managed according to rules set out in respective institutional statutes <sup>4</sup> . Strong presence of full time staff.	Not public servants. Contracted and managed according to rules set out in institutional statutes. Strong presence of full time staff.	Not public servants. Contracted and managed according to rules set out in institutional statutes. Strong presence of temporary staff.
Programs and curricula	Set autonomously by each institution; can offer 5A, 5B and 6 level programs.	Set autonomously by each institution; can offer 5A, 5B and 6 level programs.	Set autonomously by each institution; can offer 5A, 5B and 6 level programs once full autonomy obtained.
Freedom to teach and research	Freedom to teach and undertake research as part of academic autonomy.	Guaranteed by institutional statutes. In Catholic universities tensions exist between faculty freedoms and values proclaimed in institutional mission.	Guaranteed by institutional statutes sometimes within a curriculum framework that in some cases is expected to be applied uniformly.
Student admission	Institutions define number of places on offer and admission procedure mainly using PSU depending on level of selectivity.	Institutions define number of places on offer and admission procedure mainly using PSU depending on level of selectivity	Institutions define number of places on offer and admission procedure. Some use PSU for selection, others the secondary school leaving certificate.
Diplomas	Grant academic grades and professional titles with national validity.	Grant academic grades and professional titles with national validity.	Grant academic grades and professional titles with national validity once autonomy obtained.
Quality control	Institutions and programs volunteer accreditation with medicine and education being obligatory.	Institutions and programs volunteer accreditation with medicine and education being obligatory.	Institutions and programs volunteer accreditation with medicine and education being obligatory.
Information obligations	A report sent annually to the Ministry of Education with activities and financial balance sheet.	Account to Ministry of Education only for public funds received.	No legal information requirement once full autonomy is granted. Can voluntarily provide information to assist users.
Publicity	Autonomously define investments and publicity campaigns.	Autonomously define investments and publicity campaigns.	Autonomously define investments and publicity campaigns.

	<b>State</b>	<b>Private dependent</b>	<b>Private independent</b>
Organization of corporate interests	Collective action through the Consortium of Chilean State Universities and the Council of Rectors of Chilean Universities	Collective action through the Council of Rectors of Chilean Universities.	Lack collective representation.
Presence of system wide intermediary organizations	Designate members to the Higher Education Council and the National Accreditation Commission.	Designate members to the Higher Education Council and the National Accreditation Commission.	Designate members to the Higher Education Council and the National Accreditation Commission.

<sup>1</sup> Legally private universities are corporations or foundations. In the former the will of the associates predominate (among whom can be for-profit entities); in the latter the will of founders who allocate a capital in the public interest predominate.

<sup>2</sup> The private confessional universities are all catholic; some are pontifical, others diocesan, while others are linked to or sponsored by congregations or church institutions.

<sup>3</sup> The situation is different in those universities that operate *de facto* under a for-profit model.

<sup>4</sup> See Núñez (2007).

Of course, there are common features among the three types of institutions that operate in the university market. All function as corporations with academic, administrative and economic autonomy in a competitive environment where they follow particular strategies to recruit students, contract staff and obtain resources. All set out their institutional missions within a common normative framework and look for ways to maximize their reputation and income under the non-distribution constraint that is an essential characteristic of non-profit organizations.<sup>9</sup> All develop, however,

<sup>9</sup> As stated by Chile's Internal Revenue System, non-profit organizations are those whose aim is not to make a profit; that is, in contrast with commercial enterprises, net earnings generated by these organizations cannot be distributed amongst its members and must be used for the declared 'social object' exclusively. Income obtained that is not typified by special law as subject to taxes is therefore tax exempt. Servicio de Impuestos Internos (SII), Chile, "Contribuyentes: Organizaciones sin Fines de Lucro", 2007; [http://www.sii.cl/contribuyentes/actividades\\_especiales/organizaciones\\_sin\\_fines\\_de\\_lucro.pdf](http://www.sii.cl/contribuyentes/actividades_especiales/organizaciones_sin_fines_de_lucro.pdf).

This definition is supported by the theory of non-profit organizations. Hansmann (1980:835) for example defines a nonprofit organization as, "in essence, an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees. By 'net earnings' I mean here pure profits—that is, excess of the amount needed to pay for services rendered to the organization; in general, a nonprofit is free to pay reasonable compensation to any person for labor or capital that he provides, whether or not that person exercises some control over the organization. It should be noted that a nonprofit is not barred from earning a profit. Many nonprofits in fact consistently show an annual accounting surplus. It is only the distribution of these profits that is prohibited. Net earnings, if any, must be retained and devoted entirely to financing further

money making activities as part of their business model, which modifies their character, particularly in the case of *state* universities, as pointed out by Dill (2005:4): “The common description of public and private universities as ‘non-profit’ institutions is therefore clearly a misnomer. A goal of all contemporary universities is to earn a profit, or in fund accounting terms, a surplus of revenues over expenditures. The true distinction is that they do not disperse these profits to owners or shareholders, but reinvest these profits in institutional activities that supposedly serve the public interest”<sup>10</sup>.

On the other hand, both private *dependent* and *independent* universities contribute – as do *state* universities – to the supply of those aspects of tertiary education which are usually considered to be a public good, in different ways according to the magnitude of the subsidies received by the state and the decisions taken by the institutional authorities to allocate a part or all of the surplus generated in the production of positive public externalities. So, “both public and private universities are therefore better described as ‘not-for-profit’ rather than as ‘non-profit’ (Dill, 2005:4). The extent to which individual institutions contribute to these externalities is an empirical question. It will depend, in part, on government policies that allocate public resources to different types of institutions and to different institutional commitments – consistent with their declared mission – to use their surplus to produce externalities (Enders/Jongbloed, 2007:12-14).

In practice, all three types of universities manage their income with considerable discretion and allocate funds between different cost centers in accordance with decisions adopted by their corporate authorities. In addition, they decide freely, without interference, their program offers and annual supply of student places; they guarantee freedom of teaching and research to their academic personnel; they are subject to the same quality assurance procedures and all of them grant – including private *independent* universities from the moment they gain autonomy – nationally valid academic qualifications and professional diplomas.

Last, all universities compete in the market for institutional reputation, contract academic staff and researchers, select students and strive to establish their own ‘brand’ which they can publicize without restrictions through public communication channels.

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production of the services that the organization was formed to provide”. As indicated above in practice not all private *independent* institutions appear to comply in Chile neither with this clause nor with the SII’s statement.

<sup>10</sup> This statement does not apply to those private *independent* universities that, *de facto*, operate as for profit institutions.

Does this mean that in a market driven system, the distinction between public and private disappears? This is not the case. In particular the resource-relationship between universities and the state differentiates *state* and *private* universities on the one hand, and between private *independent* and *dependent* universities on the other. Here the singularity of the Chilean case is based on the fact that state provides subsidies to private *dependent* universities under the same funding process as *state* universities. Paradoxically private *dependent* universities, leaving aside the requirements to be fulfilled as part of the terms of the subsidy, have more flexible statutes by which to use these funds. While in *state* universities academic and non-academic staff are legally public employees, public *dependent* universities do not work under this constraint and can manage their human resources with greater discretion, reducing costs and avoiding the rigidities of the public statute.

The law sets out requirements – more or less similar – for the corporate governance of state universities, while allowing private *dependent* and *independent* universities considerable leeway in terms of their own procedures. *State* universities are expected to adopt collegial-representative forms of governance with faculty and student participation while the government is represented on their boards. *State* universities therefore take on a ‘bureaucratic-democratic’ form of governance that at times makes it difficult to process decisions and can inhibit change. On the contrary, both types of *private* universities establish their own forms of corporate governance, following their statutes, with very different institutional modalities.

But, on the other hand, as might be expected, in a highly competitive market, there are tendencies to institutional isomorphism in university management styles across the three types of universities. “Given the complex and competitive environment for universities, business-like strategies for managing universities become more common. Administrators are responsible for developing and implementing these strategies. Through their professional networks and associations the principles of ‘successful’ universities are exchanged and strategies of imitation follow. This shows that through mimetic and normative isomorphism in today’s higher education, the importance of administration perpetuates” (Gumport/Sporn, 1999:23). *State* universities have found themselves forced to adopt managerial techniques (often under the influence of New Public Management) while private *independent* universities – to gain prestige and legitimacy – assume public responsibilities and policies that acknowledge the public good in

their market behaviour. So the former seem to be ‘privatizing’ their management and the latter are giving greater weight to ‘publicness’.

Therefore, in the end, while in Chile the differences between *state* and *private* institutions continue to have relevance – not least as symbols – universities differ from one another less in terms of their proprietary arrangements along the public/private continuum as in their historical trajectories, traditions, institutional missions, state subsidies, reputational capital, the strategies they follow, their degree of academic selectivity, their students’ socio-economic characteristics, the quality signal they communicate to the market and the relative power of their patrons and stakeholders in society at large.

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