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Demystifying For-profit Schools

The evidence busts the myth of for-profit schools being large institutions that take advantage of students by charging high fees. Before taking the decision of forbidding them, we should take into account that maybe families prefer them for its diversity and better quality than the municipal ones. On the other hand, there is no evidence that eliminating profit in the whole educational system will entail a better public education for all.

A bill is being discussed at the Congress which pretends to forbid profit in the educational institutions at all levels.[i] This includes school education and it can bring serious consequences, not only regarding coverage aspects, but also for the diversity and quality of teaching. The profit concept has been widely used by the students' demands, many times erroneously, thus taking a negative connotation and also being associated to excessive or illegitimate gains. It is important to review the data concerning primary and secondary education, and bust the myths which have been disseminated on this matter.

The subsidized financing system of school education was established in 1981. In that period, private schools with state contribution were mostly non-profit schools and concentrated 15% of the enrolment. Over time, several reasons have produced a strong fall in the municipal schools enrolment (low performance, bad administration and others). Consequently, parents have progressively chosen the private-subsidized education, which by 2010 reached 51% of the total school enrolment, surpassing municipal enrolment (Table 1).

In the last years the trend indicates that families prefer sending their children to private-subsidized schools, instead of municipal ones. This is partly due to the fact that, as shown by the empirical

evidence[ii], the first ones demonstrate a better school performance which has led the parents' preferences.

Table 1

EVOLUTION OF THE PRIMARY AND SECONDARY EDUCATION ENROLMENT BY EDUCATIONAL INSTITUTION

Year	Municipal*	Private-subsidized	Private-paid
1980	78%	15%	7%
1990	58%	32%	8%
2000	54%	35%	9%
2008	44%	48%	7%
2010	41%	51%	7%

Source: Ministry of Education
*Includes corporations with direct contribution from the MINEDUC (1.2% of the enrolment)

Additionally, as Table 2 indicates it, the private-subsidized schools obtain better results among the population's lowest Socioeconomic Groups (SEG). On average, a student of low GSE increases more than 6 points in his SIMCE test between 4th and 8th grade by the sole fact of attending a private-subsidized school instead of a municipal one.

Table 2

AVERAGE INCREASE IN THE SIMCE TEST BETWEEN 4TH AND 8TH GRADE BY ATTENDANCE TO PRIVATE-SUBSIDIZED SCHOOL INSTEAD OF A MUNICIPAL

SEG	Mathematics	Language
Low	6.4*** (1.74)	6.7*** (1.71)
Middle-low	6.6*** (0.77)	4.7*** (0.78)
Middle	7.2*** (0.49)	1.2** (0.51)
Middle-high and High	5.9*** (1.15)	2.1* (1.18)

Source: Arzola, M.P. y Troncoso, R. Libertad y Desarrollo. Social Report Series 133, 2011.
*Significant at 10%, **at 4%, ***at 1%. Standard deviation in brackets.

Not all private-subsidized schools pursue profit motives. According to a recent study of Elacqua (2009)[iii], from the total number of schools

in the country, only 31% correspond to private-subsidized schools that can receive earnings (profit) for the management of the schools (approximately 3,000), since they have been constituted by commercial firms (limited partnerships or corporations). Moreover, among these facilities there is a wide range of corporations and schools: from those administering a single school, constituted many times by associations of teachers who have decided to assume this task, to school networks. According to Elacqua (2009), the types of private-subsidized schools are the following:

- Non-profit schools: catholic, protestant or non-religious.
- For-profit schools: independents, representing 80% of this category, mostly created by teachers, and the remaining 20% belongs to natural persons who own a school network.

Table 3 shows the distribution of students and schools and their evolution since 1990 in the categories mentioned above.

Table 3

STUDENTS' DISTRIBUTION BY TYPE OF SCHOOL

Enrolled	**1990**		**2008**	
Municipal	1,642,414	(61.3%)	1,589,468	(46.1%)
PS for-profit	494,843	(18.5%)	1,056,090	(30.6%)
PS non-profit	343,755	(12.8%)	550,635	(16.0%)
Private-paid (PP)	198,602	(7.4%)	252,451	(7.3%)
Total	2,679,614	(100.0%)	3,448,644	(100.0%)

Schools	**1990**		**2008**	
Municipal	6,072	(68.3%)	5,641	(54.3%)
PS for-profit	1,592	(17.9%)	3,118	(30.0%)
PS non-profit	700	(7.9%)	949	(9.1%)
PP	521	(5.9%)	689	(6.6%)
Total	8,885	(100.0%)	10,397	(100.0%)

Source: Elacqua 2009.

The author also provides valuable information which allows comparing the characteristics of the different types of schools.

Consequently, we can infer that municipal schools are those with greater rural character and vulnerability, and less average schooling

of the mothers. They do not charge a fee (shared financing), but most of their students receive preferential school subsidy (SEP, in Spanish). Furthermore, we see that for-profit schools receive a higher percentage of vulnerable students and children of less educated mothers than non-profit schools. Concerning the shared financing, a similar proportion of for- and non-profit schools charges a fee (46% and 45%), and the interesting thing is that the average fee of non-profit schools is higher than in for-profit ones. The percentage of students who receive SEP is similar in both types of private-subsidized schools. In relation to the average size of schools, non-profit ones are the biggest, especially due to the greater size of catholic schools; this, added to the fact that the size of for-profit schools is smaller, should bust the myth that schools receiving earnings seek to increase their size in order to generate more earnings by economies of scale (or else, that a small school with 30 or less students is not sustainable).

Table 4

CHARACTERISTICS BY TYPE OF SCHOOL

	Rural %	Medium size school*	Medium size class*	Vulnerable students %	Mothers' average schooling	Students with SEP** %	Charges shared financing %	Average fee***
Municipal	65%	560	30.1	61%	8.6	99%	0%	0
PS for-profit	29%	519	29.2	37%	10.5	48%	46%	6,110
School network	30%	651	31.1	44%	10.2	51%	46%	4,909
Independent	29%	490	28.8	45%	10.5	47%	46%	6,394
PS non-profit	21%	738	34.9	31%	11.13	53%	45%	7,356
Catholic	24%	839	37.1	37%	11.3	53%	48%	7,698
Protestant	18%	563	35.1	39%	10.8	64%	62%	6,784
Secular	13%	561	27.6	33%	11.1	52%	35%	5,766
PP	3%	555	20.7	0%	14.8	n/d	100%	n/d

Source: Elacqua 2009. *Only schools urban areas ** SEP preferential subsidy ***data in Chilean pesos year 2007

Information from the Ministry of Education (MINEDUC) shows that most of the schools in our country, regardless of their dependence, are units with few students (see Table 5). Among for-profit private-subsidized schools, 59% has an enrolment of 250 or less and 60% has less than 500 students. This allows concluding that in general,

since many of them do not charge a fee, they are units which do not obtain high earnings (or excessive profit).

From the exhibited data, it is evident that for-profit private-subsidized schools not only look after a great percentage of students (currently, 1,200,000 students attend 3,500 schools of this type in the whole country[iv]), but they also look after vulnerable students. We can also add the fact that, on average, this type of school has a better performance than the municipal schools.

Table 5

SCHOOL DISTRIBUTION BY TYPE AND SIZE (ENROLMENT 2010)

Enrolled students	MUN	PS non-profit	PS for-profit	PP
0-250	64%	63%	59%	49%
251-500	16%	15%	20%	19%
501-750	10%	9%	9%	12%
751-1000	4%	6%	6%	9%
1001-1500	4%	6%	5%	9%
More than 1500	1%	2%	3%	4%

Source: Ministry of Education with data from the CONACEP.

The papers which have studied this subject use econometric models correcting by peer effect[v] and selection bias[vi] and they find that the schools with best results in the SIMCE test are the non-profit private-subsidized schools, followed by the for-profit ones, and finally the municipal ones. But as we saw before, there is quite a lot of heterogeneity inside each group, so it is worthwhile making a distinction. As a matter of fact, Elacqua himself (2009) finds that catholic, non-profit schools show the best performance, followed by for-profit school networks, then the non-religious non-profit ones and the independent for-profit ones; followed by the protestant non-profit ones, and in the last category, the municipal schools.

Conclusions

The evidence and data exhibited show that the private-subsidized education model has been very advantageous for the country, since it has allowed improving coverage and increasing the quality of education. Those who oppose to it argue that to continue with the increasing enrolment trend would lead to less state control in

education and to increase segregation, with a consequent higher inequality for the students attending municipal schools.

The collected empirical evidence allows concluding that private-subsidized schools are better than the municipal ones after controlling by the students' characteristics and socioeconomic level. Furthermore, there is also evidence that for-profit private-subsidized schools have a better performance than the municipal ones. Besides having a better quality, this type of school accounts for a third of the enrolment, with 1,200,000 students, they are in general small schools, with few students, which should not allow "excessive profits" and, additionally, not all of them charge a fee. Likewise, parents of the population's medium-income groups mainly, prefer them, and they are also willing to pay for obtaining a better quality education. Thus, the evidence busts the myth of for-profit schools being large institutions that take advantage of students by charging high fees. Before taking the decision of forbidding them, we should take into account that maybe families prefer them for its diversity and better quality than the municipal ones. It is not a good idea to forbid for-profit schools, since parents who choose them appreciate certain of their features, and they would be forced to take their children to another school which was not their first choice.

There is no evidence that eliminating profit in the whole educational system will entail a better public education for all. Thus, the debate should not be led by ideological prejudices. To forbid profit is to forbid the existence of a series of private-subsidized schools that have managed to be more efficient in educating children who come mostly from middle groups of the population. Which option can we offer then to these million students and their parents? A bad-quality public education? Would it not be better if all efforts were focused on improving public education, which has been held captive by pressure groups who deep down do not want changes which impair their interest, even at the cost of the students of this country? The solution must not be to forbid, but to regulate and clarify the information, to let families decide among all the alternatives so that they may choose the best for their children, to demand the fulfillment of the quality standards, and to close bad schools.

[i] Bulletin Nr 7856-04.

[ii] Anand, P.; Mizala, A and Repetto, A. "Using School Scholarships to Estimate the Effect of Private Education on the Academic Achievement of Low-income Students in Chile". Economics of Education Review 28, 2009, p. 370-381.

[iii] Elacqua, Gregory. *El lucro en la educación y las políticas de reforma educativa en Chile*. Universidad Diego Portales (UDP) Public Policy Series Working Papers Nr 2, 2009.

[iv] CONACEP (Private Schools of Chile), data 2011.

[v] Peer effect: impact of the characteristics of the class students on the individual's performance.

[vi] Selection bias: bias in the averages of the different types of schools, since most students choosing each type of school have certain characteristics which condition them a priori to obtain a better or worst result. For example, the students who attend PP (private-paid) schools come from the higher SEG, which makes them have better performances, beyond the educative role of the school. In order to correct this, we incorporate the probability of pertaining to each type of school, according to variables of socioeconomic characteristics.