

Student Debt Cancellation Policies in Chile (1980-2022): A Historical Overview of Their Aims, Mechanisms and Functions¹

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Abstract: Over the last decade, student debt cancellation policies have become relevant in public debates, yet there is little historical evidence on how and why student debt can be forgiven. This article analyses six student debt cancellation policies implemented in Chile between 1980 and 2022. Based on a documentary analysis of reforms to the student loan system, the article points out that four of the five student loan systems introduced in Chile have been subject to some cancellation policy. The article shows that the main objective of the forgiveness policies was to reduce the delinquency of the credit systems and improve adherence to payment. The results contrast with existing expectations that forgiveness policies will have transformative effects and suggest that forgiveness policies may have a functional use for the market agenda in education, a function that is underexplored in the current literature.

Key words: debt forgiveness policies; student debt; student loans; higher education; market agenda

Políticas de condonación de deuda estudiantil en Chile (1980-2022): Una revisión histórica de sus objetivos, mecanismos y funciones

Resumen: Durante la última década las políticas de condonación de la deuda estudiantil han tomado relevancia en el debate público. No obstante, existe poca evidencia histórica sobre cómo y por qué condonar deudas estudiantiles. Este artículo analiza seis políticas de condonación de

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créditos estudiantiles implementadas en Chile entre 1980 y 2022. En base a una revisión documental de reformas al sistema de créditos estudiantiles, el artículo señala que cuatro de los cinco sistemas de créditos estudiantiles introducidos en Chile han sido objeto de alguna condonación. El artículo muestra que el principal objetivo de las políticas de condonación fue reducir la morosidad de los sistemas de créditos y mejorar la adherencia al pago. Los resultados contrastan con las expectativas de transformación que las políticas de condonación han adquirido en la actualidad y sugiere que las políticas de condonación pueden tener un uso funcional a la agenda mercado en la educación poco explorado por la literatura.

Palabras clave: políticas de condonación; deuda estudiantil; créditos estudiantiles; educación superior; agenda de mercado

Políticas de perdão da dívida estudantil no Chile (1980–2022): Uma revisão histórica de seus objetivos, mecanismos e funções

Resumo: Na última década, as políticas de perdão da dívida estudantil ganharam relevância no debate público. No entanto, há pouca evidência histórica sobre como e por que perdoar dívidas estudantis. Este artigo analisa seis políticas de perdão de créditos estudantis implementadas no Chile entre 1980 e 2022. Com base em uma revisão documental das reformas do sistema de créditos estudantis, o artigo aponta que quatro dos cinco sistemas de crédito introduzidos no Chile foram objeto de algum tipo de perdão. O artigo mostra que o principal objetivo dessas políticas foi reduzir a inadimplência dos sistemas de crédito e melhorar a adesão ao pagamento. Os resultados contrastam com as expectativas transformadoras que essas políticas adquiriram recentemente e sugerem que o perdão da dívida pode ter um uso funcional à agenda de mercado na educação, ainda pouco explorado pela literatura.

Palavras-chave: políticas de perdão; dívida estudantil; créditos estudantis; ensino superior; agenda de mercado

Student Debt Cancellation Policies in Chile (1980-2022): A Historical Overview of Their Aims, Mechanisms and Functions

Student debt forgiveness policies have gained prominence in recent public debates. Announcements of student debt forgiveness in the United States (2022 and 2024), Colombia (2023), and Chile (2024) in recent years have sparked significant discussions regarding the relevance, feasibility, and effectiveness of debt forgiveness policies (Burns, 2024; Catherine & Yannelis, 2023; Charron-Chénier et al., 2022). One element largely missing from this debate is the analysis of recent cases of debt forgiveness policies. This article examines the aims, mechanisms, and justifications behind six student debt forgiveness policies implemented in Chile between 1980 and 2022.

The results show that four of the five existing student loan systems in Chile have been subject to some form of debt forgiveness. These policies introduced partial reductions to borrowers' financial burdens, including lowering penalty interests, annual interests, and remaining balances, primarily benefiting borrowers in default. The analysis also suggests that forgiveness policies aimed to facilitate repayments by introducing selective modifications to the financial debt owed by those in default. The results indicate that forgiveness policies have played a functional role within the Chilean student loan system, supporting the continuity of the system in the country. This functional role of debt forgiveness policies for student loans has received limited attention in the literature, which has emphasized chiefly the transformative and reparative nature of debt forgiveness (Burns, 2024; Montgomery, 2019).

The study focuses on student debt forgiveness policies in the Chilean context. Chile was one of the first countries to adopt large-scale government-subsidized student loan systems (Wolff & Albrecht, 1992). In recent decades, student loan policies have become contentious, driven by student demands for “free and public education” and calls to abolish student loans and student debt (González-López, 2021). Social pressure has led recent governments to propose reforms to the student loan system and relief measures. For example, the administration of President Gabriel Boric (2022–2026) promised to implement a universal student debt forgiveness policy (Boric, 2021), which was formally submitted to Congress in October 2024.

This article provides a historical review of Chilean debt forgiveness policies implemented between 1980 and 2022, and an analysis of their mechanisms, objectives, and justifications. It also proposes four hypotheses for understanding the functional relationship between debt forgiveness policies and student loan systems. The Chilean experience represents a case where forgiveness policies have primarily fulfilled a functional role within the student loan system, which contrasts with the transformative expectations that student debt forgiveness has recently acquired (Burns, 2024; Eaton et al., 2021). This analysis invites reflection on the objectives and varied uses of debt forgiveness policies and their relationship to the market-oriented agenda in higher education.

Conceptual Framework

Student Loans and the Cost-Sharing Agenda

Student loans are a distinctive policy instrument of the market-oriented agenda, also described as the cost-sharing agenda (Johnstone, 2014). The purpose of this agenda is to provide a market-based solution to the problems of underfunding and expanding higher education. The agenda proposes shifting responsibility for costs, provision, and the exchange of educational services to private actors. This shift enables the provision and exchange of higher education services to operate as a competitive market in which providers (universities) interact directly with consumers (students), who are ultimately responsible for paying for their studies as direct beneficiaries of the higher education (Johnstone, 2014).

Student loans were initially proposed by Milton Friedman (1955). According to Friedman, loan policies aim to address two main constraints associated with introducing market policies in higher education. First, rising tuition fees impact access. Tuition fees pose an entry barrier for prospective students who lack the financial resources to pay them. This barrier limits the sector’s expansion, particularly among middle- and low-income groups where demand for higher education is high. To address this constraint, Friedman proposed creating a loan system capable of subsidizing students’ payment capacity and providing them with sufficient resources to cover tuition fees.

Friedman’s proposal faced a second constraint: the lack of lenders willing to finance high-risk loans. In classical economic theory, higher education is considered a high-risk investment due to the absence of collateral that could serve as a guarantee for investors or lenders in the event of default (Barr, 2016). This implies that without risk-reduction mechanisms, it is difficult to find lenders willing to invest in student loans. To overcome this limitation, Friedman proposed that the state should act as guarantor of the loans and facilitate the development of a credit market for higher education. In this model, the state may act as a direct lender and absorb the risk (direct loans), or it may serve as a guarantor for private lenders and subsidize investment risk (state-guaranteed loans).

The introduction of student loans to different countries has been justified by the advantages that a market-based agenda is expected to bring to the higher education sector. In the book *Higher Education: The Lessons of Experience*, the World Bank (1994) outlines the promises and benefits of adopting tuition and student loan policies as an alternative to the public funding model. The document highlights how student loan systems, complemented by deregulation of provision,

reduced public investment, and external quality assurance mechanisms, would foster the massification of the sector, improving access to low-income students, and reducing the sector's dependency on public expenditure.

The literature also emphasizes that loans represent a fairer financing instrument than universal tuition-free policies. Under a loan system, higher education is paid for by those who directly benefit from higher education, eliminating the subsidies from citizens who contribute but do not attend tertiary education, which were implicit under tuition-free policies (Barr & Crawford, 2004). Loan systems also imply greater freedom of choice and empowerment for students who, as consumers and investors, acquire sovereignty and responsibility in deciding what, where, and how much to study (Barr & Crawford, 2004).

Although student loans originate from a common framework, they have different variants across countries. Beyond the distinction between direct and subsidized loans, the literature also differentiates between fixed-payment and income-contingent loans (Chapman et al., 2014). In fixed-payment systems, graduates repay their debt through a fixed amount over a period sufficient to cover the total owed. In contrast, under income-contingent loans, repayment varies according to the graduate's income. In this way, income-contingent loans incorporate various risk-sharing mechanisms that protect borrowers' income and adjust the debt burden so that borrowers maintain their financial stability.

Critiques and Crises of Student Loans

Critical sociology has examined the introduction of student loans as part of the financialisation of higher education (González-López, 2021; Soederberg, 2014). Financialisation entails the widespread penetration of credit relations into the sector. This includes the incorporation of predatory practices, informational asymmetries, and speculative behaviours into the educational process, positioning higher education as an object of speculation and financial extraction (Caffentzis, 2018; Montgomerie, 2019). Financialisation also creates a new subjective position for the student, who, as a credit subject, becomes an investor in their own future, assuming the risks of a failed or uncertain investment with long-term personal consequences (Federici et al., 2021).

Recent research also indicates that student loans have generated new social problems that challenge the improvement promises that originally justified their implementation. Studies have shown that loans have created generational and socioeconomic inequalities (Goldrick-Rab & Steinbaum, 2020). Student loans have also increased the cost of higher education for those who rely on borrowing and struggle with repayment after graduation, due to rising tuition fees and the accumulation of interest (de Gayardon et al., 2019; Houle & Addo, 2018). Student debt also hinders access to other forms of credit and can therefore undermine wealth-building capacity and the social mobility that the massification of higher education was supposed to provide (Houle & Addo, 2018; Montgomerie, 2019).

The criticisms and failures of loan systems have triggered social opposition and renewed demands for changes to higher education financing regimes. In the United States (2010–2012), United Kingdom (2010), Chile (2011), Colombia (2011), Quebec (2012), and South Africa (2016), student movements criticized the rising cost of higher education driven by the market agenda (Sukarieh & Tannock, 2018). In 2024, thousands of students and citizens took to the streets of Buenos Aires to protest President Javier Milei's attempt to implement tuition and loan schemes and dismantle Argentina's free public education system (Centera & Criales, 2024).

These waves of protest have affected the stability and legitimacy of loan systems and the market-oriented agenda in various countries. While it is true that since the 1990s more countries have adopted student loan policies as replacements or complements to public financing systems (Chapman et al., 2020; Garritzmann, 2016), by the late 2010s, many countries had begun reducing

their dependence on loans through the introduction of tuition-free policies and new forms of public financing. In 2014, Germany abandoned its plans for a loan system due to student opposition and broad public preference for free higher education (Hüther & Krücken, 2014). In recent decades, countries such as Ecuador (2008), Chile (2015), South Africa (2018), New Zealand (2018), Mexico (2019), and more recently, Colombia (2024), replaced or complemented loan systems with new tuition-free policies in response to protests against fees and the declining legitimacy of student debt (Buendía & Rivera, 2024; Ríos-Jara, 2023a).

Debt Forgiveness Policies

Student debt forgiveness policies have emerged as an attempt to respond to the criticism and social consequences of student loans. Since there is not a long tradition of forgiveness policy implementation, such policies are a relatively recent subject of study. Nevertheless, three important debates must be considered to understand why and how governments forgive student debt.

First, it is necessary to define what it means to forgive student debt. Although there is no consensus on such a definition in the literature, it is useful to outline different meanings of debt forgiveness. One interpretation developed by student and debtor movements emerged after protest waves following the 2008 financial crisis (Caffentzis, 2018; González-López, 2021). Student and anti-financialisation movements questioned the legitimacy of student debt, calling for its abolition and the end of student loan systems. For these movements, forgiveness means the total cancellation of the debt, which entails eliminating the outstanding balance and dissolving the contractual relationship between lenders and borrowers (Federici et al., 2021; González-López, 2021).

The literature on public debt offers a second interpretation, which includes various forms of debt relief (Corden, 1991; Guzman et al., 2016). For instance, the International Monetary Fund (IMF) defines debt cancellation as “the voluntary cancellation of all or part of a financial obligation by mutual agreement between the creditor and debtor” (IMF, 2011, p. 51). Here, forgiveness is considered part of broader debt restructuring processes, including reorganization, refinancing, conversion, and debt-for-equity swaps (Montgomerie, 2019).

In this paper, debt forgiveness is defined as measures that reduce or eliminate the financial burden of the debtor by modifying the contractual conditions governing the debt, its value, and the associated responsibilities. Student debt forgiveness policies, therefore, represent a broad spectrum of actions ranging from total debt cancellation to more limited measures such as interest reductions, principal write-downs, flexible repayment terms, or replacing financial obligations with socially meritorious acts.

Another relevant topic is the mechanisms to forgive or cancel student debt. A helpful distinction is between internal and external forgiveness mechanisms. Internal mechanisms describe original features built into loan systems that allow the reduction of borrowers' financial burdens. Income-contingent loans, for example, include internal forgiveness mechanisms such as minimum repayment thresholds and caps on the maximum percentage of income that can be allocated to repayment. These mechanisms help regulate the financial burden of debt according to the borrower's income level (Chapman et al., 2014).

By contrast, external mechanisms refer to policies or measures implemented retroactively that modify the financial burden of loans. For example, in 2005 the United States implemented the Public Service Loan Forgiveness (PSLF) program, which aimed to reduce student debt burdens under the condition that borrowers provide public service in exchange (McCallion, 2005). Likewise, during the COVID-19 pandemic, the US suspended student loan payments and froze interest accrual, effectively implementing an interest forgiveness policy (Dinerstein et al., 2024).

Finally, there is a debate regarding the merit and desirability of debt forgiveness policies. This debate often reflects the favorable or critical positions that researchers take toward

government-initiated forgiveness measures. For proponents, forgiveness policies represent progressive actions that seek to remedy the negative effects of debt and provide relief to those unable to meet their repayment obligations (Burns, 2024; Eaton et al., 2021; Goldrick-Rab & Steinbaum, 2020). For critics, such policies are costly and regressive, disproportionately benefiting already privileged groups while being unfair to those who have already paid their debts (Catherine & Yannelis, 2023).

Government-sponsored forgiveness policies have also faced criticism from social movements that consider them insufficient (Taylor & Schirmer, 2024). For some organizations, forgiveness policies are transformative only if they eliminate all student debt and lead to the dismantling of loan systems and replace them with universal free education (Debt Collective, 2020). Any policy that falls short of both objectives is seen as a limited reform that hinders deeper structural change and risks perpetuating the logic of debt and the existence of student loan systems. This maximalist position contrasts with the perspective of “fair repayment” debtor movements, which oppose abusive collection practices but recognize the legitimacy of individual responsibility and the functionality of the student loan systems.

Forgiveness policies can also be seen as instruments of governmental regulation and legitimacy management within student loan systems (González-López, 2021; Roche, 2022). This literature argues that forgiveness policies aim to restore the legitimacy of credit relations and reinforce repayment responsibility. The governmental use of forgiveness measures has received limited attention in terms of analyses of student debt. However, as the Chilean case illustrates, forgiveness policies can work as tools to re-legitimize and repair operational and legitimacy challenges facing loan systems, serving market-oriented agendas without necessarily fulfilling an emancipatory or transformative role often described in the literature.

Higher Education and Student Loans in Chile

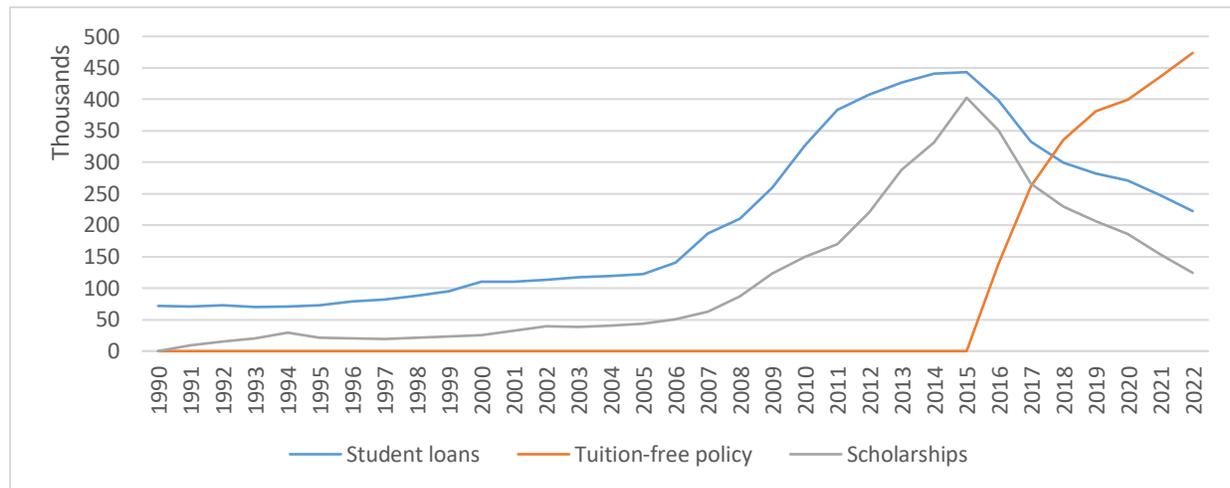
Chile’s higher education funding system is a relevant case for studying student debt forgiveness policies and student loan reforms. Chile was one of the first countries to introduce nationwide student loan systems after Colombia (1950) and the United States (1958; Wolff & Albrecht, 1992). In recent decades, Chile has served as an important case of reform and innovation in loan systems and a prominent example of social opposition to the market agenda in higher education (Ríos-Jara, 2023a).

The introduction of student loans in Chile began with the 1981 higher education reform led by the dictatorship (1973–1990; Salazar & Leihy, 2013). The reform dismantled the national public higher education system and promoted the creation of a market-oriented system. It also dissolved national public universities and fragmented them into regional institutions. The reform transformed the funding model for higher education, shifting from predominantly public financing through direct institutional transfers to a private model based on tuition fees and student loans.

During the democratic transition (1990–2010), student loans remained one of the main public instruments for student support. The governments of the Concertación coalition framed student loans as key policy for promoting access and equity in higher education, making Chile a relevant case of higher education policy continuity between an autocratic and democratic regime (Salazar & Leihy, 2013). As shown in Graph 1, between 1990 and 2022, Chile increased student loan coverage by expanding existing programs and introducing new ones. The number of student loans the government gave grew steadily from 1981 until 2015, when a tuition-free policy was implemented for the first time (Ríos-Jara, 2023a).

Graph 1

Student Aid in Higher Education. Chile 1990–2022



Source: Author's own elaboration based on SIES (2023) data.

Between 1981 and 2022, Chile introduced five state-subsidized student loan programs (see Table 1). The first was the Fiscal Loan (Crédito Fiscal [CF]), a means-tested loan available only to low-income, high-achieving students admitted to traditional universities established before the 1981 reform. The CF covered a percentage of tuition fees based on household income and carried a 1% annual interest rate. The second loan, the University Fiscal Loan (CFU), was a variant of the CF. Although its terms were the same, its administration was transferred from the Ministry of Education to the universities.

The third loan program, the University Credit Solidarity Fund (FSCU), was created in 1994 and remains in effect. It carries a 2% annual interest rate and, unlike the CF and CFU, incorporates an income-contingent repayment mechanism, which limits monthly payments to 5% of a graduate's disposable income. The fourth loan system was the CORFO Student Loan, established in 1998 and discontinued in 2012. It carried a fixed interest rate between 6% and 9%, depending on the bank. This loan was administered by commercial banks with state guarantees provided by the Chilean Economic Development Agency (CORFO). Repayments followed a fixed-schedule model and were not income-contingent.

The most recent loan program is the State-Guaranteed Loan (Crédito con Aval del Estado [CAE]), introduced in 2006. Like the CORFO loan, the CAE is an indirect public loan, in which the state subsidizes private lenders to reduce their investment risk. Initially, the CAE had a 6% annual interest rate and a repayment term of up to 10 years. Following the 2011 student protests, President Sebastián Piñera's government (2010–2014) reduced the interest rate to 2% and introduced limited income-contingent repayment options for low-income borrowers.

The CAE became the loan program with the broadest coverage in the system. As of 2024, there are approximately 1,219,000 CAE borrowers, including about 264,000 current students (Comisión Ingresos, 2024). Unlike the FSCU, the CAE lacks internal forgiveness mechanisms and functions mainly as a fixed-repayment loan, with limited income-contingent payment that debtors need to apply for annually.

Tabla 1*Student Loan Schemes in Chile (1980-2022)*

Student loan	Type of loan	Payment conditions
Fiscal Loan (<i>Crédito Fiscal</i>) (1981-1987)	Direct public loan	1% of annual interests with fixed payment estimates in (UTM) ² . Annual penal interest of 1.5%
University Fiscal Loan (<i>Crédito Fiscal Universitario</i>) (1987-1994)	Indirect public loan provided by universities with public subsidize	1% of annual interests with fixed payment estimates in UTM
University Solidarity Loans funding (<i>Fondo Solidario de Crédito Universitario</i>) (1994-actualidad)	Indirect public and income-contingent loan provided by universities with public subsidize	2% of annual interests with income-contingent repayments (max. quota of 5% of net incomes)
CORFO loan (<i>Crédito CORFO</i>) (1998-2012)	Private credit with public subsidize and state guarantee to lenders	6-8% of annual interests with fixed payment estimates in UF ³ .
State-guarantee loan (<i>Crédito con Aval del Estado</i>) (2006-actualidad)	Private credit with public subsidise and state guarantees to lenders	6% de interés anual (2% desde 2012). Cuota anual fija (UF). Pago contingente al ingreso de max. 10% desde el 2012

Source: Author's own elaboration based on Decreto DFL 4 (1981), Ley 18591 (1987), Ley 19287 (1994) y Ley 20027 (2006).

Today, Chile's student loan system consists of two active programs: the FSCU and the CAE. As Graph 1 shows, the implementation of the tuition-free policy in 2015 changed the dominant role that student loans once held in the financing system. The decline in demand for loans can be explained by a shift in student preferences, with many now favoring the tuition-free scheme (Comisión Ingresos, 2024).

Despite the decrease in loan demand, Chile still has a high number of student debtors. It is estimated that more than 1.4 million people hold student debt, combining CAE and FSCU figures. Unfortunately, there is no centralized public data on the FSCU, but according to Comisión Ingresos (2024), 78% of CAE borrowers in active repayment pay an average of approximately \$36 USD per month (CLP \$35,790), with an average debt of \$7,370 USD (CLP \$7,326,222). Additionally, around 67,000 graduates pay an average of \$112 USD (CLP \$111,334) per month and hold an average debt of \$18,730 USD (CLP \$18,618,743). Another notable feature of the loan system is its high default

² In Chile, UTM stands for Unidad Tributaria Mensual (Monthly Tax Unit). It is an index used for tax, legal, and administrative purposes, and its value is adjusted monthly by the Chilean Internal Revenue Service (Servicio de Impuestos Internos, SII) according to inflation. In June 2025 1 UTM equals 68785 CLP, equals to 73.6 USD.

³ In Chile, UF describes Unidad de Fomento (Development Unit). It is an index used primarily for financial, credit, real estate, and contractual purposes, and its value is adjusted daily based on inflation by the Chilean Central Bank (Banco Central de Chile). The UF is widely used to index prices of housing, loans, pensions, healthcare plans, and large contracts to maintain purchasing power over time. In June 2025, 1 UF equals approximately 37,000 CLP, which is equivalent to approximately 39.5 USD.

rate. On average, 60.2% of CAE borrowers are in arrears—53.8% among those who completed their studies and 82.4% among those who did not.

Although there are no systematic studies evaluating the over-indebtedness of graduates, available evidence helps contextualize the burden of debt and the growing opposition that student loans face in the country. The Ministry of Education (2022) reports that nearly 75% of graduates earn less than CLP \$800,000 (approx. \$850 USD) monthly, a figure below the social expectations commonly associated with having a degree. In addition, The Household Financial Survey (Central Bank of Chile, 2022) shows that student debt represents 12.5% of average household liabilities, with an average educational debt of CLP \$3,827,087 (approximately \$4,060 USD). Recent studies also indicate that loans were often taken with the expectation of upward social mobility. However, due to high repayment burdens and unequal returns, many borrowers, especially those who never finish their studies, perceive student loans as barriers to achieving life goals (Pérez-Roa & Ayala, 2020). These factors help explain the growing resistance to debt and loan policies in Chile.

Methodology

This article results from a public policy analysis of student debt forgiveness in Chile. Through a systematic review of legislative documents obtained from the Library of the National Congress, I identified 21 laws concerning student loans enacted between 1980 and 2022. From these, I selected and analyzed six policies involving debt forgiveness and loan rescheduling. The selection was based on the definition described earlier, which defines forgiveness as any regulatory modification that reduces the financial burden and liability of the debtor. Table 2 details the laws and regulatory changes analyzed, highlighting in grey the six policies analyzed (in grey).

Although the term “forgiveness” appears explicitly only in the law of 1991 and 2012, the remaining policies use other terms to describe the reduction of the financial burden, such as “rescheduling” or “restructuring.” As specified in the previous section, what the analyzed policies share is the reduction of financial burden through legal modifications that allow the elimination of penalty interest, accrued interest, remaining balances, reduction of the maximum repayment period, or substitution of financial obligations with national public service. The selection of these reforms considered ex post forgiveness mechanisms and excluded internal forgiveness procedures embedded within some student loan systems.

Table 2

Legal Reforms to the Student Loan System in Chile, 1980–2022

Year	Law	Title
1980	Law Decree 3170	Dicta normas sobre financiamiento universitario
1981	Law Decree 4	Fija normas sobre financiamiento de las universidades
1982	Law Decree 720	Reglamenta el título II del DFL N4 de 1981
1982	Law Decree 1783	Aprueba el reglamento del título I del DFL 4 de 1981 de Educación Pública
1983	Law 18264	Ley de presupuestos del sector público año 1984
1984	Law Decree 52	Reglamenta asignación de crédito fiscal universitario
1987	Law 18591	Normas complementarias de administración financiera de incidencia presupuestaria y personal

Year	Law	Title
1991	Law 19083	Establece normas sobre reprogramación de deudas del crédito fiscal universitario
1994	Law 19287	Modifica ley 18591 y establece normas sobre Fondos Solidarias de Crédito Universitario
2002	Law 19848	Establece nuevas normas para la reprogramación de deudas provenientes del crédito solidario de la educación superior
2003	Decree Law 95	Aprueba reglamento de la ley 19848 que regula el proceso de reprogramación de deudas provenientes del crédito solidario de la educación superior
2004	Law 19989	Establece facultades para la Tesorería General de la República y modifica la Ley N° 19.848, sobre reprogramación de deudas a los fondos de crédito solidario.
2005	REX 1262	Aprueba nuevo texto de reglamento del programa de “Subsidio contingente a bancos e instituciones financieras para créditos destinados a financiar estudios universitarios, profesionales y técnicos de pregrado” a fin de adecuarlo a la ley N° 20.027.
2006	Law 20027	Establece normas para el financiamiento de estudios de educación superior
2009	Decree Law 403	Reglamento para la aplicación de la ley N° 20.330, que fomenta que profesionales y técnico jóvenes presten servicios en las comunas con menores niveles de desarrollo del país.
2009	REX 429	Ejecuta acuerdo de consejo N° 2.536, de 2009, que modificó el acuerdo de consejo N° 1.867, de 1996, relativo al programa de “subsidio contingente a bancos e instituciones financieras para créditos de pregrado”, denominado "suco pregrado", y aprueba nuevo texto de reglamento
2009	Law 20330	Fomenta que profesionales y técnicos jóvenes presten servicios en las comunas con menores niveles de desarrollo del país
2012	Law 20572	Reprogramación de créditos universitarios
2012	Law 20634	Otorga beneficios a los deudores del crédito con garantía estatal y modifica la ley n° 20.027
2012	REX 2724	Ejecuta acuerdo de consejo n° 2.708, de 2011, que deja sin efecto acuerdo de consejo n° 1.867, de 1996, que creó el programa de subsidio contingente a bancos e instituciones financieras para créditos de pregrado, denominado "suco pregrado"
2019	Law 21192	Re-programación de morosos cae ley de presupuestos del sector público año 2020. Apartado

Source: Author’s own elaboration based on the analysis of documents retrieved from the Library of the National Congress of Chile.

I based the analysis of each law primarily on its *legislative history*, a comprehensive document that synthesizes the entire legislative process of a law in Chile. This history includes the presidential message and the original bill proposal, the debates and amendments discussed in specialized committees (in this case, the education and finance committees) of both the upper and lower chambers, the final reports issued by each committee, the legislative debates and voting records, and the final published version of the law. In addition, I incorporated the economic reports issued by the

Budget Directorate of the Ministry of Finance, which are appended to each bill, as well as official information published online by government websites related to each policy.

My analytical strategy was content analysis, which allows for the grouping and comparison of information around topics relevant to the research (Shanahan et al., 2018). I employed selective coding to analyze the legislative documents, using deductive categories chosen for their theoretical relevance (Flick, 2018). For each policy, I analyzed the following codes: (a) objectives, (b) debt relief mechanisms, and (c) the justifications for each policy as articulated by the government in the presidential message and debated by legislators during committee deliberations and voting sessions. Then, I identified common patterns across the objectives, mechanisms, and justifications among the six policies examined. This analysis enabled me to trace both similarities and differences regarding why, for what purposes, and how student debt was forgiven.

Results

Student Debt cancellation policies in Chile

The analysis indicates that between 1980 and 2022, Chile implemented six student loan forgiveness policies. Although these forgiveness measures may appear to be exceptional policies, they actually exhibit a degree of regularity within the operation of the student loan system. Except for the CORFO loan, the four most significant loans schemes have all been subject to some form of debt relief. Table 3 summarizes the laws associated with loan forgiveness and the specific mechanisms they established.

Table 3

Student Debt Cancellation Policies (1988-2022)

Law and year	Loan	Type of cancellation (mechanism)
Law 19083 (1991)	CF y CFU	Forgiveness of penal interests. Forgiveness of remnants. Forgiveness of remaining balances after completion of the maximum repayment period (10 years). Full forgiveness of outstanding balances for borrowers who dropped out for political reasons.
Law 19848 (2002)	FSCU	Forgiveness of penal interests after payment of total debt in one payment.
Law 20330 (2009)	FSCU y CAE	Reimbursement of repayments and interest in exchange for professional services of national interest.
Law 20572 (2012)	CF, CFU y FSCU	Forgiveness of penalty interest and outstanding balances for delinquent borrowers.
Law 20634 (2012)	CAE	Forgiveness of annual interest (4%) with rescheduling. Forgiveness of remaining annual repayment balances for borrowers who opt for the 10% income-based repayment cap.
Annual Budget Law 2020 (2019)	CAE	Forgiveness of penalty interest. Forgiveness of 4% annual interest. Residual forgiveness for borrowers who opt into the 10% income-based repayment cap.

Source: Author's own elaboration based on the analysis of Ley 19083 (1991), Ley 19848 (2002), Ley 20330 (2009), Ley 20572 (2012), Ley 20634 (2012) y Ley de presupuesto 2020 (2019) retrieved from the Biblioteca del Congreso Nacional (2024a; 2024b; 2024c; 2024d; 2024e; 2024f).

The first policy enacted was Law No. 19,083 named “Reprogramming of Student Debts” in 1991. The law aimed to provide a solution for beneficiaries of the *Crédito Fiscal* and *Crédito Fiscal Universitario* whose income levels prevented them from fulfilling their repayment obligations. The solution entailed a reprogramming process in which borrowers could opt into a forgiveness plan where the outstanding debt was recalculated, and a new repayment schedule was established. The debt relief plan included the elimination of penal interests and the reprogramming of the remaining balances into ten successive and non-renounceable annual payments, with each annual payment capped at 5% of the borrower’s net annual income.

The policy also included a debt cancellation plan for erasing outstanding balances, which applied to three categories of borrowers. First, those who had abandoned their studies for political reasons. Second, borrowers whose parents—whether civilians, military personnel, or members of the security forces—had died as victims of political crimes prior to 1990. Third, borrowers who were permanently unable to perform remunerated work. My analysis of the legislative documents did not yield data on the actual number of beneficiaries, but according to the second report of the Finance Committee, the number of beneficiaries of full balance cancellation did not exceed 150 individuals out of an estimated 180,000 borrowers (Biblioteca del Congreso Nacional, 2024a).

The second debt cancellation policy was Law No. 19,848 implemented in 2002 (Biblioteca del Congreso Nacional, 2024b). This law aimed to reschedule default debts from *Fondo Solidario de Crédito Universitario* (FSCU). The policy aimed to reintegrate defaulting borrowers into the repayment system via a voluntary rescheduling program. This program allowed for the recalculation of the debt balance and the creation of a new repayment schedule. The new balance included both overdue payments and their respective penalty interest, as well as upcoming payments with their corresponding 2% annual interests. The new repayment plans required an initial payment equivalent to 5% of the total debt and introduced a mechanism for automatic payroll deductions coordinated by the Treasury (*Tesorería General de la República*), or, alternatively, deductions via income tax refunds. Borrowers were granted a maximum repayment period of 10 years, with each instalment capped at 5% of their income, and with the option to suspend payments for up to six years while enrolled in further studies. Additionally, Article 11 of the law allowed for the cancellation of penalty interest if borrowers paid the outstanding balance in a single annual repayment, thereby settling their financial obligations.

In 2009, the government implemented Law No. 20,330 establishing a system that allowed student debtors to substitute their financial debt with public social services in areas deemed to be in public interest. The law enabled FSCU and CAE borrowers to obtain a reduction or reimbursement of their loan payments if they worked in municipalities, municipal corporations or foundations, associations of municipalities, or non-governmental organizations located in the country’s least developed regions. The objective was to promote the placement of professionals in remote areas and in sectors with significant public service needs and professional shortages.

The policy also sought to “alleviate the financial burden on young professionals and technicians who had financed their studies through the university solidarity loan (FSCU)” (Bachelet, 2006, p. 1, in Biblioteca del Congreso Nacional, 2024c). The benefit allowed one year of work in the designated services to substitute for the borrower’s annual payment. This form of debt relief did not entail a direct reduction of the outstanding loan balance; rather, it replaced financial obligations with socially valuable work, considered equivalent in value. This policy remains in force and the number of beneficiaries is determined yearly in the annual national budget law. The annual national budget law also defined and allocated the number of people that can opt for the benefits and the localities in which the benefits can be implemented. The localities selected need to meet specific geographic, demographic, and professional criteria. Available data indicate that between 2015 and 2022, the number of annual slots fluctuated between 50 and 70. The policy remains a highly targeted program

with strict eligibility requirements and limited number of beneficiaries (Subsecretaría de Desarrollo Regional y Administrativo, 2022).

During the 2010s, the government introduced three additional debt relief policies. In 2012, Congress passed Law No. 20,572 on “Reprogramming of University Loans” and Law No. 20,634, which “Grants Benefits to CAE Borrowers.” Law 20,634 reduced the annual interest rate on repayments from 6% to 2% for current and future CAE borrowers. This measure aligned interest rates between CAE and FSCU. The policy represented a form of interest forgiveness for all borrowers, as the 4% interest rate reduction was covered directly by the state and paid to private banks. The law also introduced a payment cap equivalent to 10% of a borrower’s annual income, applicable to those current with their payments. In cases where 10% of income was lower than the originally scheduled repayment, the state covered the remaining balance. These two components constituted partial forgiveness of the annual installments—either through the general cancellation of interest or the targeted forgiveness of any instalment amounts exceeding the repayment threshold.

Law No. 20,572 of 2012 (Biblioteca del Congreso Nacional, 2024d) also introduced a new voluntary rescheduling plan for defaulting borrowers of the *Crédito Fiscal*, *Crédito Fiscal Universitario*, and FSCU who had not enrolled in previous debt forgiveness plans. This plan allowed for the recalculation of the debt and the cancellation of penalty interest, contingent on the establishment of a new payment agreement between the borrower and loan administrators. The new debt balance included the original total amount of debt, annual interest, and penalty interest. The new repayment plan consisted of a maximum of 10 annual payments, with a 2% annual interest rate and mandatory monthly payroll deductions. Borrowers were required to make an initial payment equivalent to 5% of their total debt. For borrowers in default who had dropped out of school or had incomes below 10 UTM, the policy set an annual repayment cap of 5% of income. The rescheduling process also included a sliding scale of penalty interest forgiveness based on the size of the borrower’s initial payment. Those who paid 50% of their outstanding capital (including penalty interest) received a 100% cancellation of their penalty interest. Those who made a smaller payment received a reduction equivalent to double the amount paid toward penalty interest.

Finally, in 2020, the government introduced a new debt rescheduling process for CAE borrowers in default. This measure was approved through negotiations surrounding the 2020 national budget, in the context of the political agreements reached during the wave of protests in October 2019 (Biblioteca del Congreso Nacional, 2024f). The government and opposition agreed to implement a one-time rescheduling plan for CAE borrowers in default. Participation was voluntary and allowed eligible borrowers to enroll in a new repayment plan. Borrowers were required to pay at least one quota, without interest penalties or administrative fees, and to select a new monthly repayment scheme.

This process enabled borrowers to return payment status up to date, making them eligible for the benefits established in Law No. 20,634, which includes the 10% income maximum repayment cap and a reduced interest rate of 2%. Furthermore, the program removed the default status from public records, and they became exempt from the tax refund withholding that had previously applied to delinquent borrowers. In effect, this policy included the cancellation of penalty interest, a reduction of annual interest, and partial forgiveness of the annual repayment for those who opted into the income-based repayment plan. According to the *Comisión Ingresos* (2024), 25,000 borrowers enrolled in this rescheduling plan, out of an estimated 308,000 delinquent borrowers, including both graduates and dropouts.

Why Have Governments Cancelled Student Debts?

The analysis also allowed me to identify the government’s rationale for introducing student loan forgiveness policies and the legislative debate they provoked. I focused particularly on the

public policy arguments developed by successive administrations to justify these policies, as well as how those arguments were received in congressional debate.

Most of the forgiveness measures were framed as exceptional responses to dysfunctions within the student loan systems. In this context, the predominant aim was to safeguard fiscal health and financial sustainability of the student loan system, while maximizing repayment from borrowers. In particular, the policies implemented in 1991, 2002, and 2012 shared a common argumentation: they portrayed student loans as social assistance instruments that facilitate access to higher education, but whose efficiency and recovery rates required improvement due to administrative shortcomings and the repayment difficulties faced by some borrowers. The presidential message accompanying Law 19,848 (2002) stated that:

The solidarity student loan system established by Law No. 19,287 (University Student Loan Fund) was founded on the personal and social responsibility of professionals to fulfil their obligation to repay the loans they received, so that future generations may receive the support they need to finance their studies. For this reason, all necessary and sufficient mechanisms must be put in place to prevent professionals who are able to repay from avoiding their obligations or misrepresenting their actual income in order to pay less. Non-repayment should be limited exclusively to cases where it is justified by income contingency. (Lagos, 2002, p. 1, in Biblioteca del Congreso Nacional, 2024b)

As the quote suggests, student debt cancellation policies emphasize the efficiency of loan recovery and the continued responsibility of borrowers to repay as core priorities and as conditions necessary for the long-term sustainability of student loan systems.

At the same time, the policies acknowledge that part of the inefficiency stemmed from the financial difficulties experienced by some graduates, which prevented them from fulfilling their repayment obligations. Among the difficulties identified were insufficient income, the accumulation of penal interests, and repayment conditions that were excessively demanding in relation to graduates' earnings. For instance, the presidential message accompanying the 1991 debt relief law stated: "There are approximately 80,000 young people, and many of them currently face an income situation that has prevented them from fulfilling the credit obligations incurred during their time at the aforementioned institutions" (Aylwin, 1991, p. 1, in Biblioteca del Congreso Nacional, 2024a).

Nevertheless, graduates' difficulties in repaying played a limited role in the official justification of these policies. They were framed as exceptional cases that warranted partial reductions in financial burden but not full debt cancellation. In contrast, one of the central concerns driving forgiveness policies was to reduce student loan delinquency and default. In legislative debates, default was portrayed as an undesirable position for both the state and the borrower. In this debate policymakers debated about the desirability of the punitive consequences resultant from default and how they might increase the barriers to reestablish repayments, pushing borrowers out of the formal economy, and reducing their chances of reintegration into the repayment system. For example, during the legislative debate on Law No. 19,083 (1991), Senator Larré from the center-right *Renovación Nacional* party remarked:

In the Education Committee, we deemed it appropriate to seek a solution that would address the delinquency affecting numerous professionals and students with respect to the Crédito Fiscal, the Crédito Universitario, or both. After hearing from both the debtors and the authorities of higher education institutions, we considered it highly advisable to approve this initiative—not only so that universities can recover

financial resources, but also so that professionals can carry out their work with peace of mind. (Larré, 1991, p. 75, in Biblioteca del Congreso Nacional, 2024a)

Likewise, during the presentation of the Law 20.572 (2012), the president, Sebastián Piñera, stated: Delinquency represents a direct harm to the borrower, as being listed in public records of delinquent debtors makes it more difficult for them to find employment. As a result, this leads to serious complications in fulfilling their financial obligations and repaying their debts. (Piñera, 2012, p. 1, in Biblioteca del Congreso Nacional, 2024d)

As both quotes indicate, delinquency also implies a shift in the borrower's financial standing, as their access to other forms of credit becomes restricted (Pérez-Roa & Ayala, 2020). For this reason, delinquent borrowers represent both a social and economic challenge to the sustainability of the student loan system and to the expected benefits of student financing policies. These borrowers are individuals who accessed public policies promoting access and funding for higher education but whose income does not allow them to repay their debt or capitalize on the private benefits of having attended university. In addition, delinquent borrowers constitute an uncollectible debt portfolio that poses risks to the financial assets of lenders and undermines debt recoverability.

The anomaly represented by the defaulter helps explain why reducing delinquency emerged as the central objective and primary justification for the debt forgiveness policies I analyzed. As the literature suggests, debt restructuring mechanisms are designed to recalibrate repayment conditions so that repayment becomes feasible and default does not result in negative consequences for lenders or a disruption the continuity of the loans flows (Corden, 1991; Roche, 2022). Modifying the financial burden is therefore subordinated to the higher goal of improving recoverability and encouraging borrowers to fulfill their obligations.

Uses and Functions of Debt Forgiveness Policies

As the literature indicates, debt forgiveness policies are typically part of broader debt restructuring packages. Their implementation enables the restoration of repayment commitments, thereby revaluing outstanding debt and reincorporating borrowers into the repayment system (Corden, 1991). My analysis of the justifications and relevance of debt forgiveness also allows me to hypothesize four core functions that support the legitimacy of these policies and reflect the areas of political consensus under which debt forgiveness became an acceptable course of action. While the data does not allow me to confirm these hypotheses definitively, they do help to explore the functional interests through which forgiveness policies were approved and their potential implications for the long-term viability of student loan systems.

First, debt forgiveness policies facilitate improved debt collection and revalorization of default loans. Most of the policies I examined involved selective forms of debt relief that aimed to enhance loan recoverability. Based on this association, I hypothesize that forgiveness policies serve to improve the overall effectiveness of student loan systems by increasing repayment rates through the reintegration of default borrowers into the repayment regimes.

Second, forgiveness policies also help revalue delinquent loans. Unlike other countries where the government can sell off student debt, Chilean law prohibits the sale of public student loan portfolios of the CAE and FSCU schemes. In particular, while private banks involved in the CAE program may sell portfolios to the state, the state itself is not permitted to resell these portfolios to other institutions, as they are considered public assets. Consequently, if a borrower whose loan has been acquired by the state fails to repay, the government's only available recovery mechanism is debt

rescheduling. In this scenario, forgiveness policies enable the revalorization of these portfolios by preserving their status as financial assets with a still-valid promise of repayment.

Third, forgiveness policies contribute to the reform and improved governance of loan systems. These policies addressed the lack of risk-sharing mechanisms in fixed-payment loans such as the *Crédito Fiscal*, *Crédito Fiscal Universitario*, CORFO, and CAE. The new repayment conditions introduced through the 2009 and 2012 reforms incorporated income-contingent features intended to improve the functioning of fixed-payment loan systems.

Fourth, debt forgiveness policies help standardize repayment conditions across loan types, addressing perceived injustices within the borrower population. While the primary goal of the 2012 reforms was to improve recovery rates, the government also viewed it as a matter of fairness to increase subsidies for CAE borrowers, since “the cost difference between the CAE and the Solidarity Fund is unfair for students, who often are those most in need of support” (Rojas, 2011, p. 12). These reforms introduced lower interest rates and income-contingent repayment to the CAE, harmonizing repayment and risk conditions between the two major loan programs within the country.

Finally, my analysis suggests that forgiveness policies also operate as instruments of social re-legitimation of student debt. Forgiveness policies help establish a renewed contract between creditors and borrowers—one that acknowledges the real difficulties borrowers face in repaying their loans, while maintaining the imperative of repayment. This new contract introduces incentives that ease the burden of repayment yet ultimately reaffirms the borrower’s responsibility to pay. Even as the debtor’s obligations are reduced, the creditor-debtor relationship is renewed as a fundamental component of the higher education financing system.

In this way, the functions of forgiveness policies help mediate both economic and moral responsibilities of creditor and debtor, providing a response to criticisms of the legitimacy and functioning of student loan systems. Contrary to expectations of full debt cancellation, the forgiveness policies I examined function as mechanisms to renegotiate and recalibrate the creditor-debtor relationship without erasing the foundational responsibilities that sustain it. While these policies reduce the financial burden to varying degrees, they ultimately uphold and reinforce individual responsibility as the core principle of educational debt and public financing policy. They do not replace it with an alternative principle.

Conclusion

In this article, I analyzed the objectives, justifications, and mechanisms of student debt forgiveness policies implemented in Chile between 1980 and 2022. In current public debates, the support for debt forgiveness policies has often emphasized the illegitimacy of educational debt, the social and economic regressivity of student loan systems, and the inequalities produced by student loans (Burns, 2024; Caffentzis, 2018; Collective Debt, 2020; Federici et al., 2021). From this perspective, forgiving or cancelling student debt is understood as a fair and progressive measure and as a transformative measure capable of emancipating borrowers from the burdens generated by loan schemes and the broader financialization of higher education (Eaton et al., 2021; Montgomerie, 2019).

Contrary to this expectation, the historical analysis of the Chilean case reveals that forgiveness policies have also played a predominantly functional role, one that complements rather than challenges the cost-sharing agenda. This functional role does not depend solely on the scope or group that policies targeted but also on their relationship with the continuity or discontinuity of the student loan system and the principle of individual responsibility undergirding the cost-sharing agenda. The six policies I analyzed show that debt forgiveness plans were designed with the aim of

eliminating student loans. Rather, they sought to improve their operation through selective relief mechanisms targeted mainly at defaulters. This finding allows me to hypothesize the functional relationship between debt forgiveness policies and student loan systems, challenging the transformative expectations surrounding debt forgiveness as a distinctive policy tool.

Supporters of forgiveness policies often claim that their transformative potential lies in their ability to eliminate debt or reduce its negative impact on graduates' capacity to accumulate wealth (Montgomerie, 2019). However, this debate frequently overlooks other important dimensions of debt and its role in higher education finance—particularly the disciplinary and punitive mechanisms that condition and reinforce repayment behavior, as well as the replacement of the creditor-debtor relationship with new social relations emerging from alternative financing policies.

The absence of such considerations limits both the aims and the transformative potential of forgiveness policies in addressing the financialization of higher education. While debt forgiveness can certainly serve as a partial and necessary relief for borrowers, it also carries the risk of re-legitimizing the creditor-debtor relationship and reinforcing the principle of individual responsibility in the higher education sector. In doing so, it may inadvertently support the continuity of loan systems and the broader market-oriented agenda in higher education, without necessarily advancing change from the principle of individual responsibility.

In this article, I presented four hypotheses concerning the possible functional relationships between forgiveness policies and loan systems. Further research and evidence are needed to explore these hypotheses in depth. Taken together, however, they suggest that the impact of forgiveness policies on the market agenda depends not only on how much debt is forgiven, how it is forgiven, and who benefits—but also on whether governments choose to maintain student loan systems as a core financing tool. From this perspective, the functional or transformative role of forgiveness policies ultimately depends both on the specific design of each policy and on whether debt relief is linked to the reform of student loans or to the pursuit of alternative models of higher education financing.

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