Kast’s fiscal austerity: Ruling Chile by Executive Decrees

Part 2

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This is the second of a four-part series. Part one was published here.

Almost from the moment that Chile’s ultra-right President José Antonio Kast assumed power he began issuing executive decrees. Finance Minister Jorge Quiroz’s Circular 12, Decree 333, Decree 330, Decree 337, and Circular 16 are not an emergency response to a temporary fiscal imbalance. They are the logical culmination of a social architecture erected over half a century. To understand what Kast is cutting, one must first understand what was created.

The Chilean state that emerged from the Pinochet dictatorship was organized around a single principle: the state does not provide. The 1980 Constitution enshrined the “subsidiary state,” under which public functions like health, education, pensions, were transferred to private operators or devolved downward to municipalities, while the central state retreated to a regulatory and financing role. This was a reorganization of class rule.

In health, the dictatorship created a two-tier system. The National Health Fund (FONASA), the public insurer, was left with the poor, the chronically ill, and the elderly, which the market refused to cover. The Private Health Insurance Institutions (ISAPREs) skimmed the young, healthy, and wealthy and were permitted to deny coverage based on pre-existing conditions. Public hospitals were starved of resources while private clinics proliferated. By the time the dictatorship ended, Chile had one of the most privatized health systems in the world.

In education, the dictatorship municipalized the school system in the 1980s, transferring administration to communes with wildly unequal tax bases while introducing a per-pupil voucher subsidy. The result was that a school in the leafy Vitacura commune and a school in working class La Pintana commune received the same voucher, but the Vitacura school had parents who could supplement it, better infrastructure, and a municipality with resources. The Constitutional Organic Law on Education, imposed in 1990 as Pinochet’s parting gift, constitutionalized this arrangement. In higher education, the 1981 reforms dismantled public universities and opened the sector to for-profit operators. The State-Guaranteed Loan System (CAE), introduced under Socialist Party President Ricardo Lagos in 2005, completed the architecture: private banks issued loans, the state guaranteed repayment, and students shouldered decades of debt.

The civilian center-left coalition of Christian Democrats, and the Socialist and Communist parties that governed for 24 of the 28 years after 1990, did not dismantle this structure but deepened it. Ports, electricity, oil refineries and banks were privatized. The education voucher was expanded. The health split was maintained. The pension system, built around the private Pension Fund Administrators (AFPs), was left untouched. The “Chilean miracle” celebrated by the IMF and the World Bank was, really, a mechanism for transferring public wealth into private hands while condemning the working class to chronic underfunding, interminable waiting lists and debt servitude.

The municipalization of social services proved particularly destructive. Municipalities, constitutionally prohibited from borrowing except by special congressional authorization, were made responsible for primary healthcare and public education but given revenues (property taxes, vehicle permits, commercial licenses, and their share of the Common Municipal Fund) that were structurally inadequate and acutely sensitive to economic downturns. The poorest communes, with the weakest tax bases, were left to fund the most vulnerable populations.

The consequences of this architecture are now visible in every social indicator.

On health, Chile spends US$3,749 per capita (in Purchasing Power Parity terms), well below the OECD average of US$5,967. Out-of-pocket spending remains disproportionately high. Only 59 percent of health expenditure is covered by mandatory prepayment, compared to the OECD average of 75 percent. More than three million people are on waiting lists for medical care; 398,496 are waiting for surgery. The public hospital network entered 2026 with a structural debt that had reached 112 billion Chilean pesos-CLP (US$121 million) by mid-2024, with 39 hospitals each exceeding CLP 1 billion in debt individually. The Carlos Van Buren Hospital in Valparaíso was suspending 20 to 30 surgeries daily due to lack of resources.

Primary healthcare, the front line of the public system, is financed through a per capita payment the central state makes to municipalities for each registered patient. That per capita currently stands at approximately CLP 11,794, while the Ministry of Health’s own studies indicate it should exceed CLP 17,000 to adequately cover costs. It has been frozen for two consecutive years.

In education, the voucher system has produced a landscape of devastation. Between 2015 and 2023, 745 schools closed across Chile, 64 percent of them subsidized private schools, while only 193 new schools opened, a net loss of 552 schools. The subsidized private sector, enrolling over half of all Chilean schoolchildren, operates on a straightforward business model: collect government per-pupil subsidies while minimizing costs to extract profit by packing classrooms with more than 45 students.

The municipal education system has been progressively hollowed out. In 1990, municipal-run schools enrolled 58 percent of students; two decades later they captured only 33 percent. The Local Public Education Services (SLEPs) reform intended to rescue municipal education by transferring schools to centrally administered services has itself generated new institutional debt and financial fragility. The projected deficit for 2026 is CLP 173 billion (US$187 million).

The CAE student debt system has produced a generation of indentured graduates. More than 1.2 million youth have passed through the system. Delinquency rates reached roughly two-thirds of borrowers by 2025–26.

Over 550,000 borrowers are in arrears. The total overdue CAE debt reached approximately CLP 4 trillion (US$4.4 billion) in 2025.

The municipalities themselves are drowning. A study of 334 communes found that 313 register unpaid debt, with only 21 showing no arrears. Talcahuano commune leads nationally with CLP 2.8 billion in outstanding obligations, Maipú carries CLP 1.7 billion, Independencia CLP 788 million, Estación Central CLP 460 million.

A freeze on the per capita inflation adjustment, imposed by the Boric Administration in 2025, meant that municipalities across Chile did not receive more than CLP 21.8 billion (US$2.4 million) that is owed for 2026, forcing municipalities to rob from general revenues that are themselves contracting, to pay for primary healthcare.

The president of the Chilean Association of Municipalities has stated that the Common Municipal Fund (FCM), which pays for social assistance, basic services and municipal operations, represents the primary revenue source for around 65 percent of all Chilean municipalities. Yet even this income stream is threatened.

Kast's National Reconstruction Plan proposes exempting wealthy property owners over 65 from property taxes on their primary residence, a measure that would cost the FCM approximately US$220 million per year. Municipalities unable to meet payroll obligations are beginning to invoke the budgetary redundancy clause that allows the dismissal of permanent employees when resources are insufficient, threatening a wave of layoffs and service reductions across the country's poorest communes.

This under conditions where unemployment reached 9.4 percent in the March–May 2026 quarter, its highest level in five years. Informal employment stands at 27 percent. Youth unemployment (15–24 years) is 24.6 percent, the highest since the pandemic. Among workers aged 25 to 34, the unemployment rate jumped from 10.7 to 11.8 percent in a single year, with 80,495 jobs lost.

Health professionals and teachers work under conditions of chronic understaffing and deteriorating infrastructure. A study published in the medical journal *The Lancet* found that public hospital nurses in Chile care for an average of 14.7 patients and that every additional patient added to the average nurse's workload increased patients' risk of in-hospital death by 4 percent. Teachers work in schools that have not been upgraded for decades, with average class sizes of 47 in working class areas, and must often provide their own chalk and paper.

The Kast government's cuts were prepared by four years of pseudo-left austerity under Gabriel Boric. By the time Boric handed power to Kast in an "orderly and exemplary transfer," the structural deficit stood at 3.6 percent of GDP, the per capita public spending was frozen, the hospital network was in debt, the municipalities were insolvent, and the police state was operational. The pseudo-left had done the preparatory work for the fascistic right.

The decree architecture of austerity

The fiscal adjustment operates on two simultaneous tracks: executive decrees that modify current-year appropriations with immediate legal effect, and instructional circulars that set the framework for future budget formulation.

Circular 12, signed by Quiroz on March 13 and distributed to 274 public sector entities—every ministry, undersecretariat, health service, regional government and tribunal in the country—mandated an across-the-board 3 percent cut to gross spending for 2026, plus an additional US$1 billion in savings to be identified by the ministries. The circular explicitly stated the adjustments are of a "permanent character." Specific measures included freezing all new hiring that had not been finalized by March 13, halting new external studies and consultancies, and stopping all spending not constituting a legal obligation as of March 10.

This circular sets the framework for cuts to programs. The actual cuts were then concretized through individual ministerial decrees signed around April 24 and submitted to the Comptroller's Office for legal review. These decrees modified the 2026 Budget Law appropriations with immediate effect. The decrees implementing Circular 12 include:

Decree 333 (Health): Reduces the health budget by more than CLP 413 billion. representing the largest monetary adjustment of any ministry. The Undersecretariat of Healthcare Networks, which manages the hospital network, absorbs a cut of CLP 147.7 billion, an 11 percent reduction. FONASA loses CLP 259.5 billion. CLP 19 billion is stripped from primary healthcare.

More than 80 hospital facilities are affected. The Sótero del Río Hospital in Puente Alto, serving one of the largest working class populations in Santiago, loses CLP 3.2 billion. Hospital directors have warned that "in many hospitals the budget is already insufficient to reach year-end." The primary healthcare component of Decree 333 strips approximately CLP 19 billion from the system.

Decree 330 (Labor): reduces the budget of the National Training and Employment Service (SENCE) by CLP 123.9 billion. SENCE is responsible for implementing public policies to prevent layoffs, reduce unemployment and improve employability. The cut was imposed as unemployment reached 9.4 percent and the informal employment rate hit 27 percent. The Labor Directorate lost CLP 2.1 billion, the Social Security Institute CLP 7.6 billion.

Decree 337 (Transport): cuts CLP 56.2 billion from the transport sector budget.

Justice Ministry decree: The Ministry of Justice and Human Rights sustained a cut of CLP 46 billion, with the Prison Service (Gendarmería) losing CLP 17 billion. The Undersecretariat of Human Rights was reduced by 9.2 percent with the Sites of Memory (honoring victims of the 1973-1990 military dictatorship) losing CLP 519.6 million and the Human Rights Program operating with CLP 65 million less. For an ultra-right government with documented ties to former military and paramilitary figures, the symbolic and operational weight of cutting human rights programs while expanding police funding is unmistakable.

Social Development Ministry decree: CLP 32.7 billion cut. The National Youth Institute (INJUV) suffered 47.7 percent budget reduction, the newborn layette program (ajuar) and the child clinical diagnosis program, a 10.5 percent cut. The National Service for Specialized Protection of Children and Adolescents face the single largest cut at CLP 12.7 billion.

Education Ministry decree: CLP 197.7 billion cut (negotiated down from the full 3 percent to 1.12 percent).

Cultures Ministry decree: CLP 51.75 billion cut—nearly 10 percent of its total budget.

All of these are 2026 in-year cuts, already signed, already submitted to the Comptroller's office, and in most cases already approved and in force. The class character of the adjustment is impossible to misread because the Security Ministry was not only exempted but received an injection of fresh resources for police equipment including body armor and technology.

It also "came to light" that Minister Quiroz sent a memo to ministries recommending a 15 percent cut to the Universal Guaranteed Pension (PGU) reported *Diario Financiero* April 30. The memo was leaked, provoking a political firestorm, and the government retreated, Quiroz declaring "no social benefits for the population will be touched here, none whatsoever." The retreat was merely for public consumption. A CIPER investigation found that 427 billion pesos (US$479 million) will be cut from nine key programs benefiting more than 900,000 seniors.

Circular 16: A five-year plan of austerity

Circular 16, dispatched by the Ministry of Finance on April 21, 2026, extends the logic into the medium term. It instructs the formulation of the 2027 Budget and the Financial Program for 2028–2031, classifying each state program into one of three categories: “discontinue,” “budgetary adjustment of at least -15 percent,” or “no observations.” The projected fiscal adjustment reaches CLP 5.4 trillion (US$5.48 billion) toward 2027, affecting 142 state programs.

Health is the most-targeted portfolio, with 25 programs flagged for discontinuation, including: the National Dementia Plan; the Comprehensive Health Reparation and Care Program; the Trans Health Program; the National Suicide Prevention Program; and the Choose Healthy Living program.

In Education, the list includes: the School Meals Program (PAE), administered by the National Board of School Aid and Scholarships, that benefits more than 1.6 million students from low income families; the Teaching Vocation Scholarship; the Public Education Support Fund; the National Reading Plan; and the School Reintegration Program.

Other programs earmarked for discontinuation include: National Indigenous Development Corporation (CONADI) resources; the national literacy plan; the human rights program; universal palliative care; programs related to gender identity; the national suicide prevention program; the program against organized crime; the “Streets Without Violence” plan; the National Television Council (CNTV) fund; Regional public transportation; funds for scientific research.

The Fiscal Policy Decree, presented by Quiroz on June 9, 2026, formalizes this trajectory into a multi-year structural commitment. It sets a target of reducing the structural deficit from 2.6 percent of GDP in 2026 to 1.5 percent in 2030 while maintaining a debt ceiling of 45 percent of GDP. The largest consolidation effort is front-loaded: the biggest jump is the drop from 2.6 to 1.8 percent between 2026 and 2027, meaning the social spending cuts of 2026 are explicitly designed to absorb the bulk of the adjustment burden.

The financing mechanism for this austerity is a US$6.2 billion increase in public debt, approved by the Chamber of Deputies with 94 votes in favor and sent to the Senate. The government is borrowing to finance tax cuts for large corporations (the corporate rate drops from 27 to 23 percent under Kast’s National Reconstruction Plan) while cutting the programs that sustain working class life.

To be continued