

Position Paper on Free Higher Education Act

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SB Nos 158, 177, 198, and 962 propose to provide tuition subsidy to all those who pass admission requirements and enroll in bachelor's degree in state universities and colleges (SUCs). The rationale of the bill cites the constitutional provision mandating the State to "protect and promote the right of all citizens to quality education at all levels" and "take appropriate steps to make such education accessible to all."² The bills also specifically mention that the tuition fees in SUCs prevent the poor from accessing tertiary education.

We concur on the need to implement the above-mentioned constitutional provision, although we believe that its implementation must be done within the limits of fiscal prudence and in line with the idea that when government resources are not enough, priority must be given to the children of the poor.

We also agree that increasing access to higher education is a proven way for economic mobility and the fulfillment of the human person. We have shown that until today private returns to higher education continue to be high and above the normal hurdle rates for investments (Paqueo, Orbeta and Albert, 2012). This fact, however, does not necessarily imply that government should provide tuition free college education for all, which would mean that the financial burden of free college education would effectively have to be borne by the poor, given the regressive nature of the country's overall tax incidence.

In our view, therefore, while we concur that there are merits for increasing access to tertiary education, we do not think that providing tuition subsidy is the best way to achieve the mentioned constitutionally mandated objective. In particular, we are afraid that, given binding education budget constraint, making enrollment in SUCs free of tuition and other fees would lead to missed opportunities for the government

- (i) To more effectively help the poor get good college education; and
- (ii) To reduce the stubbornly high income inequality in the Philippines (largely driven by education inequality among workers and the high rate of return to education).

On this score, we are afraid that, given binding education budget constraint, the implementation of the proposed tuition free SUC enrollment policy could pre-empt the allocation of enough funds to UniFAST for its proper implementation. We believe that this result must be avoided, because UniFAST is arguably a superior approach to implementing the mentioned Constitutional provision on education. The following discussion elaborates on the reasons for our stated views.

Tuition Free SUC Enrollment

1. **Free tuition will have relatively little impact on the college enrollment of poor children.** This result is a key characteristic of partial educational financial assistance. Tuition is not the only nor the

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² Article XIV Section 1.

biggest cost of college education. If we are to base our cost structure on the Student Grant's-in-Aid for Poverty Alleviation (SGP-PA) which is designed to provide full-funding to college-bound members of the Pantawid families, tuition only constitutes 1/3 of the total grant of 60,000 per annum broken down into (20,000 for tuition, 35,000 for living allowance (3,500 per month) and 5,000 for instructional materials (Silfverberg and Orbeta, 2016). This means that tuition subsidy is partial financing.

2. **The reason why the proposed tuition subsidy is expected to have relatively little impact on the enrollment of poor children is that their families do not have the resources to pay for the difference.** This was the basic reason why SGP-PA, aimed at the college-bound members of Pantawid families, was a full-financing program covering tuition, living allowance and instructional materials. This is why we argue that any student financial assistance program, regardless of whether these are scholarships or grants-in-aid should always be a full-financing program.
3. **In contrast to the expected impact on the poor, the benefits from the proposed tuition fee subsidy would immediately go largely to the better-off today.** This expectation is due to the fact that students from non-poor families predominate SUCs enrollment, contrary to the common notion that the SUC student population is mostly poor (Orbeta and Paqueo, 2016). As simple tabulation of the distribution of students who attend SUCs by income decile in 1999 and 2014 using data from the Annual Poverty Indicators Survey (APIS) show that only a small proportion of the poor attend SUCs (Figure 1). Additionally, as shown in the graph this pattern has not substantially changed through the years. If we are to take data from the 2014, only 12% of the student in SUCs are from the bottom 20%. Thus any financing that bluntly provide untargeted tuition subsidy to anyone enrolled in SUCs only 12% will go to the 20% of the poor households and the bigger proportion (88%) will provide subsidy to the upper 80% or those who can otherwise afford to pay for their education.
4. **Over time, the tuition subsidy will trigger an exodus of students towards SUCs to the detriment of the private HEIs.** This result is due to the reduction in the price of education in SUCs relative to that of private HEIs. Interestingly, this exodus will consist of even richer students than the current composition of the SUC students.
5. **Finally, a high private high rate of return to college education per se does not justify its public subsidy.** In fact, this argument should be turned on its head: high private return simply means that it pays for the students and their families to invest their own resources to enjoy the benefits they get from college education.

The Better Alternative to Tuition Free SUC

The recently approved UniFAST Law provides a more coherent and comprehensive framework to address the educational financial needs of students. We submit that fully funding UniFAST law is a better alternative to free tuition SUC enrollment for achieving the constitutional mandate of increasing access to tertiary education, particularly, among the poor households.

There are five important features of the law. One is full-financing because, as mentioned, partial financing will be against the poor. Two is a clear delineation of objectives for use of public finance. The law has three programs, namely, scholarship for the bright, grants-in-aid for the poor, and loans for the rest. We would like to finance the education of the bright because wherever they may go, they will be beneficial to society. We would like to finance the poor for equity purposes. We want to provide loans

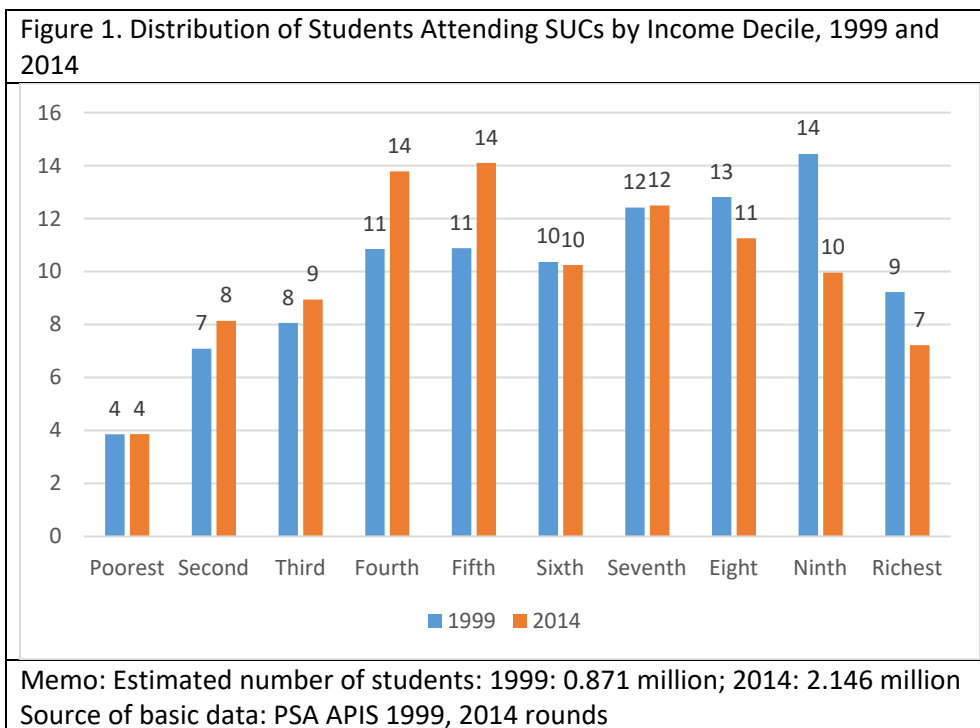
the rest because these students have only temporary liquidity problems which they will be able to solve over the years and what they need is financing which they can pay over their professional life. Three, the program is applicable in both SUCs and private HEIs leveling the playing field between public and private HEIs who would then compete for funded students with better and more effective programs. Four, a test-based eligibility requirement is a key feature of UniFAST to ensure that the investment of public funds is not wasted on a student who has low probability of finishing the program. Finishing their program is the final objective of any student financing to make them more productive members of society throughout their professional life and not just giving them money for some years. Fifth, eligibility is limited to programs and institutions complying with acceptable standards as determined by CHED. This will ensure that graduates under the program will have higher probability of success in their professional life.

A simple calculation will illustrate why the funding the UniFAST laws is better compared to the proposed tuition subsidy measure in terms of providing access to poor students. CHED data³ shows that in AY 2015-16 there were 1,648,566 students enrolled in SUCs. If a tuition subsidy is provided to all those enrolled in SUCs, this will amount to 32,971,320,000 at 20,000 tuition per annum. From the data of students composition which says that only 12% of the students in SUCs are from poor households (bottom 20%), this means this will only benefit 197,828 students. In contrast, if we allocate the same amount of public resources to the GIA program (giving 60,000 for each) of the UniFAST, this will benefit 549,522 students or 278 percent more poor students in addition to not destroying the balance between public and private HEIs who would not compete for the funded students with better and effective programs.

Is There a Case for a Time Limited Transitional Tuition Free SUC?

The above arguments notwithstanding, we recognize that there are practical reasons why Congress might want to immediately implement a tuition free SUC enrollment policy. In addition to meeting political pressures, one practical reason is that UniFAST will take time to be fully operational, particularly in regard to the development and institution of a self-paying sustainable student loan program to help the non-poor. Under such circumstances, the question may be raised whether a free tuition SUC enrollment program might be useful in the meantime. On this score, should Congress take this option, it would be prudent to have a sunset clause that would end the program before the completion of President's Duterte's term. By such time, UniFAST would have been fully operational. To ensure full operational capability would have been realized by then, Congress should commit itself to providing adequate budget allocation for UniFAST's timely implementation. In closing, we recommend a robust discussion of these and the other issues earlier mentioned during Congressional hearings of the proposed tuition free SUC enrollment for all.

³ <http://api.ched.ph/api/v1/download/2349>, accessed Oct 15, 2016.



Reference:

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