

Who benefits and loses from an untargeted tuition subsidy for students in SUCs?

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There are several proposals in Congress (e.g., House Bill 5905, Senate Bill [SB] 1304, SB 158, SB 177, SB 198, and SB 962) aiming to provide free tuition for students enrolled in state universities and colleges (SUCs). These bills' rationale cites the constitutional provision that mandates 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."¹ The 2017 General Appropriations Act already includes a budget of PHP 8.3 billion for SUCs that have been barred from collecting tuition fees in the coming school year. While this proposed policy of free tuition in SUCs looks appealing, there is a need to analyze if it can deliver its stated objectives. A fair policy question is whether it can implement the stated constitutional mandate better compared to other alternatives. As there is no such thing as a free lunch, it is also

fair to ask: Who should pay for free college education? And given the government's limited resources, what sacrifices need to be made (and by whom) so that all college students in SUCs will receive this subsidy?

This *Policy Note* aims to help readers better understand the implication of the proposed policy. It reviews the fundamental principles of public funding of higher education and discusses the composition of college cost, the structure of enrollment, and the financing of higher education.

Public funding of higher education and its implications

Individuals pay for the benefits they obtain from consuming food and other commodities

¹ Article XIV Section 1.

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(essential or not). This practice is grounded on the well-known “user pay” principle. It is fair for college students (mostly from nonpoor families) to pay for their college education, considering that its benefits largely go to them. User pay also promotes efficiency, as user fees motivate people to avoid waste and make the best use of limited resources. In the case of tertiary education, a highly subsidized college education tends to encourage students to overuse tertiary education resources. It also enables the enrollment of students that do not possess the motivation and ability to undertake college education.

However, there are occasions when subsidies are justified. College education improves both individual and societal welfare. It would be detrimental to society if gifted and talented students, who could help advance knowledge and produce innovations later on, cannot enroll in college due to their economic circumstances. Equity objectives also justify funding the college education of poor but college-ready students.

Yet, providing tuition subsidy for **everyone** enrolled in SUCs has to be studied carefully. Because the subsidy will be paid for by

general taxes, all taxpayers—whether or not they have family members who avail of tertiary education or plan to do so—will be obliged to pay for those who enroll in SUCs. This will also discourage efficiency because those who are not considering tertiary education under a “with tuition fee scenario” will now find tertiary education attractive and will likely consume this good more than what they would do if they were required to pay. In addition, those who are willing and capable to pay for tertiary education will now divert the resources intended for tertiary education to some other expenditures. This constitutes an unnecessary loss of private investments at a time when the country needs resources to fund strategic expansion in tertiary education.

Moreover, what if the government fails to sustain financing the increase in demand due to an artificially inexpensive tertiary education or a free one? A subsidized college education may also exacerbate income inequalities. If it is not targeted to the poor, who usually have lower qualifications, they will lose out to students with better backgrounds who are usually from richer households.

From a larger perspective, the additional budget needed to implement the proposed policy will likely crowd out resources for infrastructure, agriculture, K to 12, drug rehabilitation, national security, and other high-priority propoor development programs. It would be incorrect to simply dismiss this effect given current efforts to raise more taxes

to prevent the deficit from further ballooning. There is a need to recover some of the cost of providing public services and to be selective and efficient in the use of subsidies.

Likewise, similar ideas of untargeted subsidy and elimination of user fees have been pursued in other sectors, such as in agriculture (e.g., free irrigation). This trend is worrisome because it delegitimizes the value of targeting, thereby neglecting the legitimate needs of the poor. The proposed bill, if approved, is likely to propagate this.

Composition of college cost

The cost of college education does not consist only of tuition. There are expenses for living allowance and instructional materials, which are the bigger cost items. For instance, the existing Students' Grants-in-Aid Program for Poverty Alleviation (SGP-PA), which is designed to provide full funding for college students belonging to *Pantawid Pamilyang Pilipino* Program beneficiary families, provides PHP 60,000 annually (Silverberg and Orbeta 2016). This amount consists of PHP 20,000 (PHP 10,000 per semester) for tuition, PHP 35,000 (PHP 3,500 per month for 10 months) for living allowance, and PHP 5,000 (PHP 2,500 per semester) for instructional materials. From this, it is clear that the biggest cost item is living allowance. Tuition, which the proposed bill will only cover, is just a third of the total cost. Partial financing is problematic because only the richer households have the resources to finance the rest. This is why the recently passed

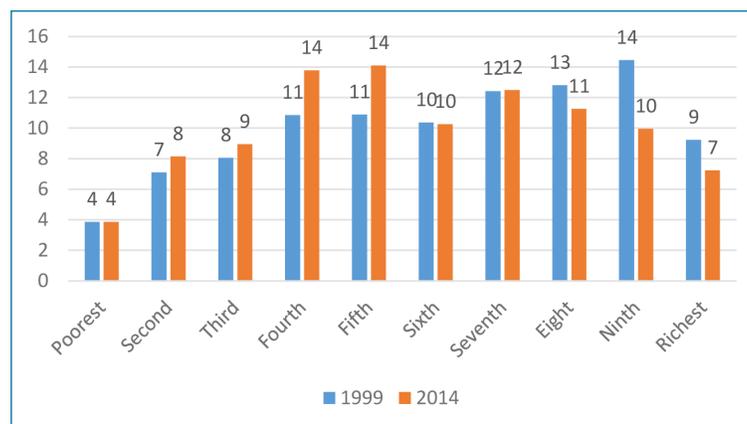
Unified Student Financial Assistance System for Tertiary Education or UniFAST (Republic Act 10687) argued that any student financing should always be a full-financing program, covering tuition, living allowance, and instructional materials. Any partial financing will be antipoor.

Distribution of enrollment and implication of free tuition in SUCs

Another feature of higher education is the distribution of enrollment by income class. A common but wrong impression is that SUCs enroll predominantly poor students and that the more SUCs in an area, the higher the enrollment rate in college and the more students from poor households enroll in SUCs.

As Figure 1 shows, the bulk of students in public higher education institutions (HEIs) are mostly from the higher income groups. Students from poor households (poorest and

Figure 1. Distribution of students attending SUCs by income decile, 1999 and 2014



Source of basic data: 1999 and 2014 Annual Poverty Indicators Surveys (APIS), Philippine Statistics Authority (PSA)

second poorest income deciles or collectively the bottom 20%) are only 11 percent in 1999 and 12 percent in 2014 of the total enrolled students. This trend had not changed much through the years despite the expansion of enrollment in public HEIs from 35 percent in 1999 to 52 percent in 2014. Thus, giving free tuition to enrolled students in SUCs will benefit mostly the richer students.

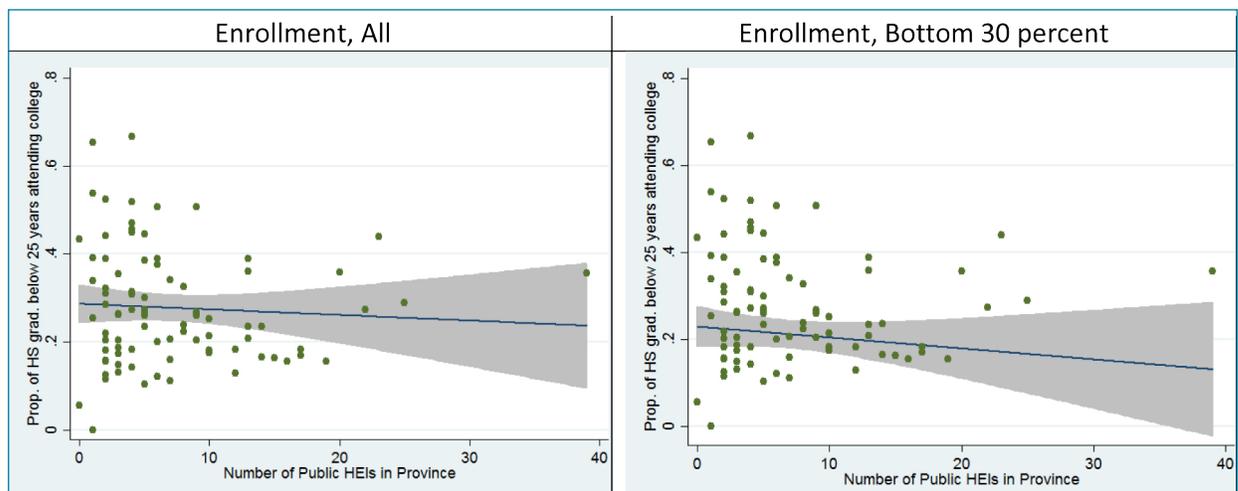
Moreover, the number of SUCs is not correlated with either increases in enrollment in higher education nor with enrollment of students from poor households (Orbeta et al. forthcoming). Enrollment in higher education does not increase with the rise of public HEIs in the province (Figure 2). This debunks the commonly held notion that adding public HEIs increases enrollment in higher education particularly among poor students.

Finally, tuition fee is not reflective of the full cost of providing higher education in SUCs (Manasan and Revilla 2015). A substantial amount of the cost of SUCs are paid for by general taxes. The explicit cost per student in SUCs in 2015 is PHP 28,614, considering a total obligated allocation of PHP 47.172 billion and an estimated enrollment of 1.648 million.

Other potential effects of tuition subsidy for SUCs

Free tuition in SUCs can potentially tilt the enrollment in favor of them because of the artificially cheaper cost of education with the subsidy. From the foregoing argument that free tuition is only partial financing, those who will likely transfer to SUCs will be from richer households. In addition, in the competition for limited spaces in SUCs, students from poorer households will lose

Figure 2. Enrollment proportion in tertiary education of population below 25 years who are at least high school graduates by number of public HEIs in the province, 2011



Source of basic data: APIS 2011, PSA

out to children from richer households. As seen in the SGP-PA, students from poorer socioeconomic background have lower entrance exam scores (Silfverberg and Orbeta 2016). This will expand the already high proportion of students from richer households enrolled in SUCs, which in turn, will further increase the proportion of the subsidy that benefits those who least need it.

Moreover, the exodus toward SUCs will have implications on the quality of public education, particularly if the increase in enrollment does not translate to better quality of public education. Manasan and Parel (2015) have shown that while SUCs have performed better than private HEIs (in terms of passing rates in professional board examinations), this advantage is eroding fast. It will be a double whammy if government fails to respond suitably to the increase in enrollment in SUCs as a result of the subsidy (with students from richer households benefiting more) and disregards the declining quality of instruction in SUCs. Government is not known to act quickly unlike the private sector. Raising taxes is not without costs nor easy to pass in Congress. Bureaucratic red tape also prevents flexibility in the public sector.

In addition, if the subsidy is not fully funded by government, SUCs would have difficulty implementing and sustaining the policy. Tuition accounts for 45 percent of internally generated revenues² of SUCs in 2012 (Manasan and Revilla 2015).

UniFAST was designed to unify all modalities of publicly funded Student Financial Assistance Programs (StuFAPs)—scholarships, grants-in-aid, and student loans—for tertiary education. It rationalizes the allocation, utilization, and client targeting of government resources, and improves access to quality higher and technical education for those who need it.

Free tuition for SUCs will also unnecessarily tilt the balance between higher education and technical and vocational education and training (TVET). It makes enrollment in SUCs artificially cheaper than enrollment in TVET.

The better alternative

Fully funding the UniFAST law is a better alternative to implement the constitutional mandate of democratizing access. UniFAST was designed to unify all modalities of publicly funded Student Financial Assistance Programs (StuFAPs)—scholarships, grants-in-aid, and student loans—for tertiary education. It rationalizes the allocation, utilization, and client targeting of government resources, and improves access to quality higher and technical education for those who need it. Thus, it provides ample avenues for fulfilling the mandate of democratizing access to tertiary education. If the government wants to expand the access of poor but capable students to higher education, it only needs to allocate more funds to the grants-in-

² Internally generated revenues consist of 34 percent of total revenues of SUCs in 2012.

aid component of UniFAST. If it wants to finance more bright students, it only needs to put more resources on the scholarship component. If it wants to expand access for those who are neither poor nor bright but are college ready, it only needs to expand the allocation for student loans. One of the main features of this law is full financing covering tuition, living allowance, and other instructional expenses of higher education. In addition, the UniFAST law does not favor one sector because the student can choose to attend public or private HEIs. It also does not favor college over TVET because the law covers TVET as well. Finally, it insulates any StuFAP modality from political labeling or partisan affiliation. What the UniFAST lacks is assurance of funding.

To illustrate how much better funding the UniFAST law is compared to the proposed free tuition in SUCs, one can do a simple comparison of the implications of the two policies. Applying the subsidy, the PHP 20,000

³ <http://api.ched.ph/api/v1/download/2349> (accessed on October 15 2016)

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tuition per year per student enrolled in SUCs would mean an annual expenditure of PHP 33 billion using the 1.648 million students enrolled in SUCs in academic year 2015–16.³ This untargeted subsidy will only benefit 197,828 poor students (i.e., 12% from the bottom 20% of households) given the current structure of enrollment. This amount, however, can already fully fund almost three times as many students (549,522) from poor households under the UniFAST even if we use the PHP 60,000 per student budgeted under the SGP-PA program. Targeting the poor with full financing using the grants-in-aid program under the UniFAST law will clearly benefit more poor students than an untargeted general tuition subsidy for students of SUCs. 📄

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