

The Commission on Higher Education's De Facto Price Cap Regulation of Private Higher Education Institutions

Discussion

Thank you for giving me the privilege of discussing Dr. Alba on CHED's De Facto Price Cap Regulation.

Let me start by thanking Mike for utilizing his prime real estate - his brain - to tackle the important issue of pricing higher education and related high education issues.

For full disclosure, Dr. Alba and I have been having a running discussion about this issue in meetings where we are both participants since he learned that PIDS recommended using the inflation rate as the basis for regulating tuition fee increases. He was convincing me that the recommendation is faulty. I don't think we got into discussing what his alternative is. Now it is written in a paper. I guess what we are doing today, with Mike's permission, is to reveal some of our discussions publicly.

Context.

At the time this issue was brought to our attention around 2013-2014, or 12 years ago, CHED still believed in what PIDS does. So, they asked us for advice on what a reasonable basis would be for regulating tuition.

They presented us with the following scenario: HEIs file a petition for a tuition fee increase, but they have no firm basis for determining what constitutes a reasonable increase. This need is set against the backdrop of students holding rallies in front of CHED around the time tuition fee increases are being considered, shouting that any tuition fee increase is evil. They are seeking justification for the "evil" they are imposing on students.

CHED data revealed that, over the last 10 years or so, when the issue was brought to our attention, at most 30% of HEIs applied for tuition fee increases. I don't know what is the proportion now. In terms of frequency of requests, 12% requested twice in two consecutive years, 11% requested three times in three successive years, 10% requested four times in four straight years, and another 10% requested five times in five consecutive years. Most of the HEIs request a 10% increase. Where that number came from, your guess is as good as mine. Maybe a nice whole number. To provide a glimpse of what was granted by CHED, the average granted increase, for instance, was 7.9% in 2010-2011 and 9.9% in 2011-2012. The average inflation, based on the education deflator, was around 4.5% at the time. So, if CHED grants, say, an average of 9 percent for an HEI for two consecutive years, that is equivalent to a four-year cost increase.

It is Mike's paper that explicitly mentioned that CHED was already practicing price-cap regulations. I am wondering now why, they came to PIDS in the first place. Provide justification to their practice?

We had to abort the PIDS work on this then because the funding was from the Disbursement Acceleration Program, which was deemed unconstitutional by the Supreme Court.

I will be selective in my comments on Mike's comprehensive paper. Obviously, I am not in a position to comment on the interpretation/implementation of our recommendation by CHED. I will only comment on the thinking behind the recommendation. I will comment on four items that the paper highlighted, namely, (a) price-cap regulation, (b) one-stop online platform, (c) uneven governance and competitive neutrality, (b) on the lack of public disclosure of how CHED handles requests for tuition fee increase.

Price-cap regulation.

To an economist, when asked what a reasonable price increase is, what readily comes to mind is the cost escalation for providing the service. So, our best estimate for cost escalation in education is the inflation in the producers' costs for education. To our minds, the best measure for this is the education deflator in the national income accounts. Let me emphasize that when we refer to inflation, we mean this indicator, not the more familiar CPI. We discovered that this information was not readily available at the regional level at the time, so we had to persuade PSA to commit to providing CHED with the data around March every year, when CHED evaluates tuition fee increase applications for the upcoming year. The inflation rate they can commit to provide was last year's estimate. So, the rule that was promulgated or implemented, as Mike explained, was a price-cap regulation, i.e., if your application is below the inflation rate, it is approved; otherwise, it is disapproved or returned for revision, no further questions asked. Effectively, the rule treats all HEIs like the average HEI based on cost.

Let me point out that was not the end of the recommendation. As Mike pointed out, price cap regulation does not encourage improving quality and may even discourage it. With a price cap, the HEIs have the incentive to cut corners, compromising quality to increase profitability, particularly if quality is not well monitored or measured.

What if an HEI wants to improve quality beyond the current levels, which is also an important societal outcome, particularly in our case, where the average quality is low?

We also recommended that CHED consider a tuition increase higher than the inflation rate (Negative offsets in Mike's terminology). We said higher than the inflation rate can be considered with the proviso that CHED should ask the HEIs to commit to improved quality and request specific details of their strategy. The requirement was for HEIs to submit 5-year plans with full costing to justify the additional tuition. We even conducted a workshop to discuss what the plan should contain and prepare regional CHED staff to assess this plan. In short, the recommendation suggests that additional quality can be purchased at a price. From Mike's revelation, this part was not implemented. Only the inflation cap was implemented. This was, perhaps, an issue of regulatory capacity. So, X was pegged at zero.

Mike, the fine economist that he is, discussed the merits and weaknesses of a price-cap regulation. I don't have to repeat what he said. Except perhaps two key points that it is "high-powered" and

incentivizes efficiency – penalizing HEIs that have higher cost escalation than average inflation and incentivizing those that have lower costs increases than average inflation - but "potentially at the cost of quality" if the HEIs aims to have higher profits.

He also recommended that if the price cap regulation is to be retained, an inflation expectation be added to prevent cost adjustments from being one year behind. I find this a valid argument. Perhaps the FEU Policy Center should develop a model for estimating inflation expectation forecasts for CHED. Mike likes to point to PIDS for the analytical need he finds in a policy he is discussing. I am just returning the favor.

He has also mentioned some reasonable principles to govern the setting of offsets that need reiterating, i.e., (a) bigger negative to autonomous HEIs to incentivize raising quality some more (I always thought autonomous HEIs are unregulated, including tuitions, I am happy to be corrected on this point.) (b) bigger for HEIs in calamity-hit areas to speed up recovery, (c) bigger for HEIs who have the ambition "to leapfrog to a higher standard". He proposed that the formula for setting the offset still be a rule-based formula that is public, transparent, and subject to a third-party, publicly disclosed performance review.

Finally, on this issue, I cannot pass up the opportunity to show you how fertile an economist's mind Mike has. Of course, the papers he has written on higher education amply demonstrate that but this one is to me vintage Mike Alba. I am amused by Mike's storyline that CHED entered price-cap regulation because he thought CHED realized that the demand for education is price inelastic, owing to our "illustrado" legacy, and HEI's monopolistic position is conducive to predatory pricing. I, also an economist the last time I checked, tend to have a much simpler storyline – if you are bombarded with requests for tuition fee increases from numerous HEIs whose efficiency and quality you don't have much information about, a price-cap based on a reasonable estimate of cost escalation is simple enough to understand.

One-Stop Online Platform:

As an alternative to price-cap regulation.

It requires HEIs to publish on the website:

- A term-by-term schedule of subjects and associated fees that will prevail until the student finishes their program
- Mission and vision statements.
- Per program passing rates in licensure exams.
- Cohort survival rates.
- 5-year completion rates.
- Graduation rates.

Adding the employment rate would be helpful as well.

It is designed to address information asymmetry, avoid locked-in and stranded costs, and prevent predatory pricing. Let me point out that providing a definite cost for an entering first-year student that will not change until the end of the program is a desirable improvement regardless of the

decision to adopt an online platform or not. I don't know if the tuition fee increase is currently applied only to incoming first-year students or not. This is an inferior version of what Mike has in mind, but a step in the right direction.

I agree that a one-stop online platform with all the mentioned information would be superior to a price-cap regulation, as this provides a voluntary offer of information critical for more efficient pricing – a key issue in higher education, fraught with information asymmetry that Mike has repeatedly emphasized. This is the major contribution of the One-stop online platform. Rather than letting the average cost escalation represented by the GDP deflator for education discipline the market, why not make HEIs do self-regulation by asking them to reveal their cost–performance curves with explicit indicators and let students decide based on this information? Revealing individual information (as long as it is verifiable) is always better than using averages, as it minimizes deadweight losses.

If this is just between Mike and me, I guess what remains is the acceptability of the proposal to HEIs. So, let me test this idea with the school owners/executives in the forum: let's have a show of hands if you agree with Dr. Alba's proposal for a one-stop online platform.

Allow me, however, temper your enthusiasm by telling you an interesting story we obtained on HE enrollment data by program from CHED when we were helping to configure the K-12 adjustment program. We were told that generating enrollment by course for the whole HE system is never completed 100% because many HEIs don't submit data. For these HEIs, the previous year's enrollment data were used to complete the enrollment records. The challenge is how to incentivize HEIs to reveal needed information about their operation.

Uneven governance and competitive neutrality.

I agree 101% that private and public HEIs should be regulated the same way. They should compete on a level playing field for students. However, to my mind, what is preventing this from happening is not a lack of willingness. It is much more fundamental. From the discussions I participated in with our policymakers, it became clear that the issue lies in the fact that many believe education should be publicly provided and do not recognize the private benefits of education, including higher education. So, for instance, when the regulatory neutrality issue was brought up (by President Fabella) in one of the (EDCOM hearings) meetings, an influential member retorted that he doesn't think competitive neutrality is what we are aiming at. In my opinion, the greater challenge is convincing them that there are private benefits to education that students should pay for themselves rather than through general taxes. That the private HEIs can provide the challenge to inefficiencies in the public HEIs. Mike still posed as a question whether SUC/LUCs is the primary provider. To me this has been declared in so many ways. It was also revealed in that meeting that it was more acceptable to them to use differences in quality as the basis for complementarity. Competitive neutrality, in my view, is an uphill battle when influential policymakers believe that education, including higher education, should be publicly provided.

Finally.

On the lack of public disclosure of how CHED handles tuition fee increase applications.

I would be happy to have this, not just in higher education but in many other regulatory discussions. We want this for all our regulatory agencies. I learned from a colleague at PIDS that the mandates of most regulatory agencies have a "transparency" clause. So, the issue is how they implement that mandate. Additionally, I believe there are administrative rules in place to address misconduct. We simply need to define clearly what constitutes misconduct and enforce those rules. Consistent application of laws at all levels is something we should strive for in many areas, not just education. We need to progress from what National Scientist Raul Fabella often laments, we have a soft state where rules are virtually for sale.

Maybe CHED and all regulatory agencies should consider adopting the proposal in ERC to make their deliberations/hearings "open". Well, you know what happened.

Thank you for your attention.