

**Comments on the Paper Entitled, “Economic Bases for Regulating Higher Education”
Dr. Michael Alba, President, FEU Public Policy Center
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1. Overview

Thank you to the FEU Public Policy Center and to its President, Dr. Mike Alba, for the invitation to share my thoughts on this important paper on the governance and regulation of higher education. Congratulations to Dr. Alba for providing a clear and cogent public policy analysis of the challenges in higher education governance, particularly in developing country contexts such as the Philippines.

The paper thoughtfully frames the discussion using fundamental economic principles—identifying market failures such as positive externalities, information asymmetries, and monopolistic cost structures—as well as state failures, including political interference, bureaucratic inefficiency, and rigidity. It goes further by proposing a regulatory response grounded in public economics and regulatory design, which emphasizes the potential of an independent or quasi-independent agency to address coordination, quality assurance, and long-term system coherence.

2. Thoughts on Market Failure

Beyond the market failures already discussed in the paper including the presence of spillover benefits and costs, the presence of monopolistic cost structure (high upfront fixed costs) and information asymmetry (adverse selection, moral hazard) we can also strengthen the argument by incorporating the following other additional elements.

- a. First, the presence of monopolistic competition in the sector: HEIs are not perfect substitutes; they differ by mission, pedagogy, ethos, and perceived quality. This heterogeneity leads to downward-sloping demand curves for individual institutions, allowing them some degree of pricing power while still subject to competitive pressures.
- b. Second, lumpy cost structures: Education provision involves large fixed costs (infrastructure, personnel, technology), and marginal costs per additional student are often low—similar to natural monopolies. This reinforces the need for a regulatory framework that considers economies of scale, capacity utilization, and capital intensity in institutional planning.
- c. Third, coordination failures: The provision of education services require coordination with different markets including those between basic and higher education, higher education and the labor market, and possibly with financial markets in order to support the payments made to universities and colleges, especially for those who cannot initially afford the upfront investments.
- d. Fourth, principal-agent issues, including the presence of inefficiencies in the differing objectives of school heads and teachers and teachers and students, and even between households and the schools.

3. Insights from the Philippine Human Development Report (2008/2009)

A paper written by prominent educators and education researchers, including Dr. Cynthia Bautista, Allan Bernardo and Dina Ocampo, entitled “When Reforms Don’t Transform” written several years ago and published in the 2008/ 2009 Philippine Human Development strongly relate with the issues that Dr. Alba has raised. The paper analyzed the challenges of education governance in the education sector and highlighted three core institutional bottlenecks in the education sector which constrain the upscaling of reform initiatives to improve outcomes. These include issues, which are strongly associated with the state failure as noted in the paper of Dr. Alba, such as the following:

First, the presence of weak institutional capacities and fragmented governance. This include political vulnerabilities due to frequent changes in sectoral leadership, weak coordination of different reform efforts as there has been very little thought to interrelate different project reform outcomes and connect with wider social reform initiatives, overburdened and reactive bureaucracies, and weak second-layer leadership inhibit sustained reform.

Second, the presence of misaligned incentives: Without rewards for innovation or accountability for performance, reforms often generate mere compliance rather than transformation. A reform project that allowed greater prioritization of financial resources to schools with a more marginalized studentry was not pursued after the pilot implementation because it reduced the discretionary powers of local school officials.

Third, the education sector has been beset by overcentralized and technocratic implementation: No policies and practices at the lower level of the bureaucratic hierarchy may take place with a memorandum or order from the central office. Curricula and academic programs and standards set at the national office fail to track labor demand trends at the local level, leading to graduate underemployment or skills mismatch

While the Human Development Report paper focused on basic education, Dr. Alba’s proposal for a quasi-independent regulatory agency in higher education aims to directly address these governance deficits through strengthened professionalization, strategic coherence, and regulatory innovation in the sector.

4. Questions and Considerations on the Proposed Framework

Dr. Alba’s proposal on a carefully designed regulatory body that would supervise the higher education sector raises important policy design questions. While there are clear strengths to the development of a regulatory body, which may imply a reform of the current higher education regulatory body, the Commission for Higher Education, that there is a potential there but also some considerations that must be addressed.

As noted, first, such a body would improve professionalism and evidence-based oversight in the sector. The agency’s technocratic composition ensures that decisions are made using sound economic reasoning and educational evidence, reducing the influence of political expediency. Second, the insulation from political cycles allows for long-term planning and adherence to strategic goals, overcoming the stop-start nature of politically driven reform, would strengthen policy stability and continuity in the sector. And third, the alignment of regulatory rules with market and academic incentives promotes trust among public and

private HEIs, industry partners, and civil society, and strengthens the credibility among the different stakeholders in the sector.

In further distilling the concept and model of this independent agency, some regulatory issues can be further considered in the design of the body:

a. **Accountability vs. Independence:** Given the insulation of the agency from the daily operations of general government and also from “temporal changes in government preferences” how can such an agency remain accountable to societal stakeholders, especially in balancing efficiency with social equity and access concerns? For example, in funding higher education institutions, how can one allocate resources based on measurable outputs such as graduation rates but also consider support for disadvantaged students.

b. **Coordination with Other Agencies:** Effective higher education governance requires integration with the Department of Education, the Technical Education and Skills Development Authority, and labor market planning bodies, which is a call that has been made in recent EDCOM2 reports. Even with such an independence, the proposed body should be able to better align the goals in higher education with the overall education and training objectives of society.

c. **Transparency and Legitimacy:** Regulatory processes that are designed by the agency must be clear, open, and participatory to avoid perceptions of capture or arbitrariness.

d. **Technical and Financial Capacity:** Historical underinvestment in the technical capacities of government agencies, especially those that provide social services, raises concerns about whether such a regulatory body can attract and retain experts, sustain operations, and scale innovations. The careful design of incentives for experts in the agency that can design and implement higher education programs should not lead it to be isolated from the rest of the education bureaucracy nor with the rest of the government.

e. **Informational Demands and Institutional Autonomy:** Effective regulation requires deep understanding of local contexts and stakeholder aspirations. The regulator must also respect institutional autonomy and preserve space for experimentation, diversity, and academic freedom of the different higher education institutions.

5. Closing

In closing, I would like to again thank Dr. Alba for presenting a compelling framework that grapples with both economic theory and policy realities. His proposal opens critical discussions on how to reform our higher education governance system to ensure not only efficiency and quality, but also responsiveness and inclusiveness. The challenge then ahead is not just institutional design but building the coalitions and capacities to implement such reform effectively and equitably and it is very important that this discussion is being undertaken when other reforms in the education sector are being considered. Magandang hapon sa lahat!