



Is “Fee-Free” Higher Education the Solution?

The aids that are currently turned over to finance higher education are not having the expected acceptance. Those who do not attend tertiary education have substantial problems beyond financial issues; therefore, fee-free education does not solve their basic problem. Thus, allocating almost US\$4 billion to finance tuition fees of higher education students seems an unfair policy.

This is an election year, and education will be a key matter for all presidential candidates. Among the offers, we have already heard that of financing a “fee-free” higher education, a pillar of student demands and a measure that seems popular.

One of the most common arguments used to support “fee-free” higher education in our country is that this policy exists in the world’s best educational systems. However, there are cases showing that fee-free education is beating a retreat. Australia, for example, discarded fee-free education in 1989, because it turned out to be an unsustainable and regressive policy, and also because the socioeconomic profile did not change nor did higher education participation increase. China, Russia and Poland also started to charge a fee during the 90’s, and even had to introduce constitutional changes to be able to do it.¹ Additionally, European countries with large welfare states are now complicated with its unsustainable public debts and they are also starting to cut down expenses.

It is often repeated that Chile has the world’s most expensive higher education. However, this information is not correct and is based on a questionable calculation made with figures published by the OECD, which consists in multiplying the average cost per student by the privately financed proportion (considering the State subsidies as private expenditure too) and dividing it by the GDP per capita. It is an interesting calculation, but it would be a mistake to interpret it as the career’s cost, and it is also a mistake to consider the OECD as a global representative sample. When dividing prices of different goods by the GDP per capita, we observe that in poor countries things seem to be more expensive, but it simply reflects that

poorer countries have a lower purchasing power. Most of the OECD members are high income countries, and Chile is one of the few exceptions. In some measure, the above calculation reflects that Chile has a lower GDP per capita than the rest of the member countries and this is no news.

“Fee-free” higher education: a big cost for the Public Treasury

Nowadays, Chile’s public expenditure in tertiary education accounts for 0.9% of the GDPⁱⁱ, similar to the OECD 1% average. Among the countries that spend more are Finland (1.8%), Denmark (1.8%), Sweden (1.6%) and Canada (1.5%).ⁱⁱⁱ

Based on OECD estimates regarding the cost per higher education student in Chile in 2010, we can get an approximate idea of how much the public treasury would have to pay to finance a fee-free higher education, that is, what is the cost for assuming the responsibility of the fees that are currently paid by the students (net from subsidies). This would cost around US\$3,700 million, equivalent to approximately 1.4% of the GDP; consequently, in case “fee-free” higher education is stipulated, the total public budget currently aimed at higher education would almost triplicate, reaching almost US\$6 billion, equivalent to 2.3% of our GDP, far above the OECD average (1%) and the educational systems that budget higher funds to this level (1.8%).

In order to get a better idea of the extent, this additional expenditure of the Public Treasury (without considering what is already allocated to higher education) is equal to 1/3 of the total education budget for 2013. It also corresponds to almost 4 times the 2013 budget for nurseries and preschools and to half the school education budget. This is a conservative estimate and it probably underestimates the incidental costs, because in order to sustain a tuition fee-free system, increasingly higher funds will be required due to the elimination of the cost restraint incentives by the institutions, and the expectable extension of the careers.

This does not take into account the alternative cost of using public funds, which must be considered when evaluating any policy. Fee-free higher education would imply to leave out other priorities, as for example, supporting families in extreme poverty conditions, with greater urgencies in health, housing, preschool and school education.

Who will end up paying for the “fee-free” system?

Today, students enrolled in higher education institutions are not the ones who have the greatest economic needs in our country: among the lower income 20%, scarcely 2 out of 10 young attend higher education. Furthermore, according to the 2011 CASEN Survey, only 13% of those who do not attend it, from the poorest 20%, wield economic reasons. Is it

reasonable to increase the higher education budget, even though 8 out of 10 young of the poorest 20% do not even succeed to access it? With this, we will be targeting public financial resources on those who have more possibilities of financing their own education, and of course they will also be those to reach better incomes in the future, and not on those who really have a major economic need.

Fee-free higher education does not exist; somebody must pay for it one way or another, directly or indirectly. It is not the richest, but the poorest, the “voiceless” ones, those 8 out of 10 young of the poorest 20% who have no access to higher education; those who would be prevented from strengthening the education levels to which they do attend, so as to eliminate the current barriers that impair them today.

Aids currently granted by the State

This government set a new mark with the large budget increase in the institutional financing for public universities, which has grown more in three years than during the two previous decades. If during the almost 20 years from 1990 to 2009, the increase of financial resources was slightly over CLP\$100 billion (from which only CLP\$4 billion were added during the period 2006-2009), the current administration achieved an increase of over CLP\$120 billion in just three years.

The budget for higher education scholarships also grew; however, students are not fully exercising this privilege. According to data from the Ministry of Education (MINEDUC), 78% of the initial scholarship budget was executed in 2012, because the applicants did not comply with the academic and socioeconomic requirements, and because even though scholarships had been pre-assigned, in the end a number of students did not enrol in any higher education career.

In 2013, the budget was increased to reach 314 thousand scholarships (versus 118 thousand in 2009). Nevertheless, there are 96,000 people who, having been pre-assigned to a scholarship, did not enrol in any institution. According to a survey carried out by the MINEDUC, it is deduced that the main reason given by those having been pre-assigned to a university scholarship, was that they had not been accepted in their first option and therefore, they preferred to go to a college prep school (*preuniversitario*) and take the university selection test again. Likewise, the young who had received a technical higher education scholarship and finally decided not to enrol in it, wielded the following reasons: 20% got pregnant or formed a family, 40% who had graduated from technical schools chose to make their practical instruction to obtain their degree and 30% preferred to work and help their families for economical reasons.

As for university credits, a bill was sent to merge the State-guaranteed Credit (Crédito con Aval del Estado, CAE) and the Solidarity Fund (Fondo

Solidario (FS) in a single state credit. Since its proceeding has not made any progress, the government decided to take other urgent measures to mitigate the debtors' burden: a law was enacted to allow 124 thousand FS debtors to reschedule their debts, and a bill was approved to drop the interest rate of the CAE debts from 6% to 2% real and from the former CORFO credits from 8% to 2% real.

However, these benefits have not been received as expected in view of the pressure that was put on them. From the debtors that are eligible to reschedule the FS, only 1.8% has taken advantage of the benefit, and CORFO points out that only 30% of the debtors have rescheduled their debts with the new rate.

The fact that aids are not having the expected response demonstrates that there is a discrepancy between the slogans that are heard in the streets and the real needs, and that the financing issue is not the young's main restraint to access higher education today. Therefore, emphasis should not be put so much on this education level, but rather on policies that improve and offer more opportunities in the previous levels, so as to eliminate the true barriers for those who do not succeed to access higher education.

Is the lack of access to higher education a financing problem?

According to the 2011 CASEN Survey, the main reasons given by young people between 18 and 24 years old, from the 20% lower income population, for not attending higher education are: 33% works or is looking for a job, 19% already finished his studies, 14% because of pregnancy or maternity/paternity, 13% because of economic problems, 7% because he helps at home, and finally, 6% says he is not interested.

Consequently, we can infer that the main reason is not the lack of financial resources to pay a career, but more long-term reasons, which are in no way solved through fee-free higher education. The fact of looking for a job and the need to help at home (which together embrace 40%) indicate a limitation coming from household and family conditions; in turn, maternity and the notion of having concluded the studies (33%) show a personal situation which is also related to the context in which these young people live. The problem is much more complex and fee-free education is not the solution. On the contrary, attention and resources are lead away from other effective mechanisms that offer better opportunities to vulnerable families.

Conclusion

To conclude, and after reviewing the above information, it is evident that aids to finance higher education are already available and they are not having the expected acceptance. Those who are not currently studying in tertiary education face substantial problems beyond short-term financing, such as handicaps in their earlier education levels, and personal and family

situations that prevent them from taking a free decision. Therefore, fee-free education does not solve the substantial problems behind the lack of access to higher education from certain sectors. If we wish everybody to have opportunities, financial resources must be targeted on the earlier stages and on families which are in restrictive condition concerning their children's development. On the contrary, allocating almost US\$4 billion to finance the tuition fees of those who are currently studying in higher education institutions would be an unfair policy.

In brief...

Fee-Free Higher Education:

- A "fee-free" system would cost approximately US\$4 billion, increasing public expenditure in higher education to 2.3% of the GDP, far above the OECD 1% average.
- This expenditure would not be aimed at those who need public resources most: only 2 out of 10 young of the country's poorest 20% attend higher education institutions.
- According to the available figures, the problem to access higher education today is not the lack of financial aids; on the contrary, there are plenty of them. For this year, it is estimated that 96,000 already pre-assigned scholarships were not used because young people are limited by other reasons.
- Only 18% of the applicants asked for debt rescheduling of the solidarity fund and less than 1/3 of the CORFO debtors took advantage of the credits' interest rate rebate.

ⁱ D.B. Johnstone. "The Financing and Management of Higher Education: A Status Report on Worldwide Reforms". The World Bank, 1998.

ⁱⁱ 2013 Higher Education Budget plus the National Commission for Scientific and Technological Research, CONICYT.

ⁱⁱⁱ Source: OECD. "Education at a Glance 2012: OECD Indicators", 2012.