

Why Neoclassical Arguments against Free Education are Bullshit

And why we need free education



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Preface

During the last months of 2015, several universities in South Africa were temporarily shut down in major part as a protest of fee increases. This sudden rise in student activism grew out of demands for tertiary institutions to be decolonised public African universities. In this document, we will unpack various topics in relation to the need for and funding of free university education. Much of this is an investigation into free education as a reform to the current system, rather than the decolonised socialist society that many students ultimately envisage.

The aim of this document is to inform, educate and arm activists and students to argue for free education from an economic perspective. Our target reader is the pro-poor activist intent on understanding the economics behind free education and willing to mobilise for justice, whatever form that may be. We contend that the dominant economic narrative regarding free education, found in the media and presented with scientific authority, is biased and misleading. This booklet was originally designed for a workshop which was held in February 2016, where approximately 30 participants followed this document over a weekend seminar. The style is intended to engage rather than read as an academic text.

This is a collaborative document compiled by student activists with economics training. Sections were written separately, and then stitched together to achieve coherence. Please pay close attention to the contents page: for example, those uninterested in theory may wish to skip the macroeconomics or budget sections; others may want to jump directly to the quantitative analysis of funding. We hope this document is nationally applicable, though a major weakness is an undue focus on the University of Cape Town: partly we wish to challenge the legitimacy of what is often rated as South Africa's top university, but partly this is because most of the authors have experience and knowledge of UCT. Lastly, some texts are designed to be provocative. It is up to the reader to remain critical.

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Introduction

This document is the result of collaboration between progressive economics students hoping to contribute to the #FreeEducation discussions in South Africa. It is an effort to correct popular negative economic judgements on the importance and feasibility of the calls for free tertiary education. We also aim to provide basic economic education to equip activists to engage on the economics of tertiary education. It is essential for readers to understand that some parts will be inapplicable to them. This introduction serves as a guide to reading the document.

We begin with context. Section 1 addresses South Africa's peculiar history. Education has been used as a tool for colonisation, both ideologically and in structuring the economy. Universities' role has been key in this. We trace the foundations of many historically white universities to the exploitation of Black labour, and discuss other historical mechanisms of economic subjugation. We consider how state intervention since 1994 did little to change this economic structure. We draw attention to the importance and dismal state of primary and secondary education, which is salient in discussions of tertiary education.

Section 2 focuses on theory, with some application to a South African context. We outline standard economic theory relating to education and some of its flaws, then consider the state's legal responsibility in terms of education. The section ends with an explanation of basic macroeconomic concepts, key to understanding state funding and wages.

We dive into the primary question of free university education in Section 3. We outline the system of NSFAS and then focus on financial exclusion. Despite NSFAS, around 200 000-220 000 poor students who fulfil entry requirements are still financially excluded, out of 1 million who attend university. In addition, an estimated 85% of poor students do not graduate, leading to a future of debt repayment. We consider how much additional funding would be needed to make university education free, and analyse the budget for ways in which this can be sourced.

Section 4 critically discusses the report of the government working group on fee free education, before giving the comparative case study of Brazil's free education system. We mention more alternative (heterodox) perspectives on education, the budget and the state. The document wraps up with excerpts from popular media of economic arguments against free education, and looks at possible responses.

In combatting the common economic pitfall of reducing social issues to narrow quantitative aspects, we attempt to take a more trans-disciplinary approach, integrating historical and ethical analysis in giving a more holistic economic picture. Although this document tends to favour a model of fully free university education (rather than free education for the poor), this remains open and much of the analysis applies either way.



SECTION 1: CONTEXT

We explore an historical understanding of the importance of education and the need for access.

1.1 Colonisation through education

Education has historically been used as a tool of indoctrination towards subjugation. The colonial missionaries played an important role in justifying the exploitation of Black¹ people. Rather than being a source of enlightenment and empowerment, curricula were designed to disempower the marginalised and reproduce systems of oppression. This has continued in ever more subversive forms today.

As part of the colonial missionary objective, British colonialist Alfred Milner brought thousands of teachers from Britain, Canada, New Zealand and Australia². The aim was to impose British language and culture in South Africa, especially in the two former Afrikaner Republics. There was competition between the assertion of English and Afrikaans as dominant languages, with the suppression of the much more widely spoken Nguni and Sotho-Tswana languages. During this period, the few Black children who attended school, mainly attended missionary schools with similar resources to which white students received in state schools.

In the 1920's and 1930's mass state schooling arose. Only a third of black youth were in school and state expenditure was skewed so that the ratio of expenditure of White: Black was in the ratio of 36:1. Most Black students left school before Standard 3 (Grade 5). The schooling reflected the needs of capital for a pool of cheap, unskilled labour, for the mines and the primary extraction/production industries. This structural inequality continued under the apartheid regime.

As the Apartheid era was ushered in, the programme of oppressive education adopted two objectives: indoctrination and economic reproduction of one's class position. Indoctrination was carried out through Christian National Education, with the message that one's ethnicity should determine one's personal responsibility and political opportunities. The 1974 Afrikaans medium decree aimed to culturally disempower Blacks.

Economically and through the 1953 Bantu Education Act, the schooling system was designed to stunt the Black child. Fifteen times more was spent on a Black child than a white child and different subjects were taught in order to equip Black students to serve less empowered roles.

¹ The capitalised "Black" is used to refer to the Biko definition of Black, inclusive of the Apartheid classifications of African (black), Coloured and Indian.

² The pre-1950s analysis in this section relies on: Roux, E. 1948. Time Longer than Rope: The Black Man's Struggle for Freedom In South Africa



This set up a dual economy where cheap Black labour served white bosses, where this allocation could in major part be sustained by free market mechanisms rewarding the realised skill levels.

The domination of Afrikaans and English continues today. An example of the duplicity of state policies regarding language in education is that matric exams are written in English, a language spoken by a minority of predominantly white people, justified by the prevalence of English in business (a legacy of colonialism). An exception is made for the other historically favoured language, Afrikaans, which is an option for matric exams and is still taught as the medium of instruction in many high schools (an opportunity denied to native speakers of other languages).

In these ways, our universities and education system are still very much like missionaries - language gives the choice between assimilation and putting bread on the table. Our curriculum remains the foundation of many systems of oppression: for example, economics at UCT is arguably a four-year process of indoctrination up to a point where prescribed textbooks lament the unemployment of particularly white people - despite their unemployment rate being extremely low relative to Black people³.

The power of the education system to indoctrinate and institutionalise advantage is comfortably acknowledged in the government's vision⁴ *"Universities are the dominant producers of new knowledge, and they critique new information and find new local and global applications for existing knowledge. Universities also set norms and standards, determine the curriculum, language and knowledge, ethics and philosophy underpinning a nation's knowledge capital."* What does this mean when students, lecturers and administrators of universities are extremely disproportionately white and upper middle class?

We can draw inspiration from historical examples of decolonisation struggles in education. Despite overwhelming violence, Blacks under colonialism and Apartheid managed to set up night schools and produce immense intellectual material. In one school in 1939, there were "nearly a hundred students nightly, dividing these into six classes and teaching all in one room." In these schools, "the teachers are usually untrained, and even if qualified, cannot always adapt themselves to the special problems involved in adult education". As adults working, "the African workers who may be put on night shift and thus kept away from school, [... and are] always tired from long hours of work". Nevertheless the pace of learning was similar to those attending full time school. In Durban and Pietermaritzburg, the language of instruction was Zulu, and political education was somehow fit in as a routine part of literacy. Dozens of Black political newspapers were produced even in the first half of the 20th century (before the massification of education), with readerships estimated to be 150 000-450 000 Blacks in a time when a total of approximately 450 000 Black students were enrolled in school.

³ See the work of Decolonise Economics for more on this:

<https://www.facebook.com/DecoloniseUCTEconomics>

⁴National Planning Committee. 2013. National Development Plan, chapter 9.

1.2 How white universities' status is built on Black labour

Taking a closer look at the universities in South Africa, it is important to understand the root cause of the stark differences between previously white and previously black universities in South Africa. Historically, the initial investments in universities can be tied directly to the exploitation of Black labour. Decolonisation of public institutions is therefore a form of justice. Below is a brief history which depicts how UCT was built. Julius Wernher, Otto and Alfred Beit, major contributors to the establishment of UCT, were in fact key players in the diamond industry and tightly linked to Cecil John Rhodes.

A brief history of how the University of Cape Town was originally funded:

“The University of Cape Town was founded in 1829 as the South African College, a high school for boys. The College had a small tertiary-education facility that grew substantially after 1880, when the discovery of gold and diamonds in the north - and the resulting demand for skills in mining - gave it the financial boost it needed to grow. The College developed into a fully fledged university during the period 1880 to 1900, thanks to increased funding from private sources and the government.

During these years, the College built its first dedicated science laboratories, and started the departments of mineralogy and geology to meet the need for skilled personnel in the country's emerging diamond and gold-mining industries.

Another key development during this period was the admission of women. In 1886 the Professor of Chemistry, Paul Daniel Hahn, convinced the Council to admit four women into his chemistry class on a trial basis. Owing to the exceptional standard of work by the women students, the College decided to admit women students permanently in honour of Queen Victoria's Diamond Jubilee in 1887.

The years 1902 to 1918 saw the establishment of the Medical School, the introduction of engineering courses and a Department of Education.

UCT was formally established as a university in 1918, on the basis of the Alfred Beit bequest and additional substantial gifts from mining magnates Julius Wernher and Otto Beit. The new university also attracted substantial support from well-wishers in the Cape Town area and, for the first time, a significant state grant.

Ten years later, in 1928, the university was able to move the bulk of its facilities to the magnificent site at Groote Schuur on the slopes of Devil's Peak on land bequeathed to the nation by Cecil John Rhodes as the site for a national university, where it celebrated its centenary the following year.



Apart from establishing itself as a leading research and teaching university in the decades that followed, UCT earned itself the nickname of “Moscow on the Hill” during the period 1960 to 1990 for its sustained opposition to apartheid, particularly in higher education.

The university admitted its first small group of black students in the 1920s. The number of black students remained relatively low until the 1980s and 90s, when the institution, reading and welcoming the signs of change in the country, committed itself to a deliberate and planned process of internal transformation.

From the 1980s to the early 1990s, the number of black students admitted to the university rose by 35 percent. By 2004, nearly half of UCT's 20 000 students were black and just under half of the student body was female. Today we have one of the most diverse campuses in South Africa.”⁵

Despite its liberal public stance, Edward Roux (in *Time Longer Than Rope*), reports of attempts by UCT management to block the election of black students to the SRC, in the early days of apartheid. The historical narrative of UCT as defender of human rights and resistor of Apartheid policy is extremely misleading – both because it is far easier to resist from a place of relative safety, and because students rather than UCT management were the protagonists. Notably, also, this most well-endowed university was the pioneer of mass dismissal and outsourcing of workers at tertiary level in 1999, an example emulated by industry.

The oldest university in South Africa, established in 1829, is now known as the University of Cape Town. It is important to understand the landscape of tertiary institutions within South Africa and how the differences in donations translated into the differences in quality among various institutions. For a more comprehensive understanding, refer to Ian Bunting, *Higher Education landscape under Apartheid*. He describes how in the 1980s, under the leadership of the National Party, there was a stark separation between Universities and Technikons. The idea was for universities to be knowledge focused whereas technikons would teach the application.

“After the end of apartheid, differentiation that had been sought first through the funding formula was deepened from 2000 by restructuring and mergers that reduced the number of institutions from 36 universities and polytechnikons to 23 higher education institutions, including 11 research universities, six universities of technology and six 'comprehensive' universities (which combine formative and vocational higher education)... Attention then turned to the way research was funded. In 2007-08 the system under which research was funded was changed fundamentally, with money following individually rated researchers rather than departments. In place of a rigid legal differentiation under the 1959 Act, there is now a quasi-Darwinian differentiation – the larger universities with diverse research activity got stronger and the universities with an emphasis on undergraduate teaching remained the poor relations.”

⁵ <http://www.uct.ac.za/about/intro/history/>



Today, there is a difference in donor traction between previously white and previously black tertiary institutions. Previously white universities are more rigorous when it comes to research and therefore are able to attract more grants. Universities and institutions of higher learning focused more on undergraduate training struggle to fund themselves.

Universities such as UCT and Witwatersrand are highly competitive and are therefore able to attract middle and high income individuals willing to pay much more in fees. Apart from individual donations, the historical and present contribution of student fees plays a significant role in creating a quality divide among tertiary institutions. Although the landscape of tertiary institutions in South Africa is changing, there is still a difference in the quality between historically white and black universities. Student fees further deepens the divide. Financial means should not be a determinant when accessing the top universities in South Africa.

At UCT, donations are received from the Oppenheimer's, Anglo American, Lonmin as well as many other multinational corporations under the guise of philanthropy while the true intention is to receive tax breaks. Additionally, the brightest minds are recruited and trained to protect the interests of white capital. Engineering students are trained to plough resources from African soil so that future commerce graduates can trade shares on foreign markets while beautifully evading taxes. Yes, we should be using the wealth of these companies to fund tertiary education of South Africa, but they should not be celebrated for stealing resources while destabilising the livelihoods of rural families. They are giving stolen money to an exclusionary institution so that the graduates thereof can enter a capitalist system and further entrench the exploitative legacy of their benefactors. In the perspective of big business, donating money to elite universities is more worthwhile than compensating the widows of black mineworkers.

Thus, the status and current funding of elite universities is founded on the exploitation of Black labour. Many of the donors were mining companies who were proactive lobbyists in favour of Apartheid policies, and were subsidised by cheap Black labour resulting from these policies. While elite institutions may have better financial access policies (e.g. UCT's GAP funding) than poorer universities, the status used to attract higher funding was built on exploitation.

Additionally, they served to reproduce exploitation through their role of producing research that underpinned white imperialism and capitalism in the past and today. These universities owe a special obligation to the dispossessed of this country: at the least, a duty to be open and accessible.



1.3 Other mechanisms for the racial wealth/income gap

Aside from universities as a key site of the reproduction of racialised economic privilege, what were some of the other economic mechanisms of Apartheid and colonialism?⁶

- Direct preferential treatment - Similar to differential access and investment in universities and basic education, the direct economic privileges that the average white person exclusively enjoyed included job reservations, special loans, cash transfers, and subsidised access to land taken repeatedly from Black people through primitive accumulation (violence).
- Land - Aside from a strategy for political control aimed to demobilise a Black urban class from resisting the Apartheid regime, the dispossession of land was part of an economic design to induce a supply of cheap Black labour, in particular for mines and farms. The forced removal of Black people to infertile rural “reserves” (1913 Land Act) and far flung urban areas (Group Areas Act) forced Black people to provide labour cheaply because of a lack of decent alternative. Secondly, it lowered the wages “necessary” to sustain workers, since families could subsidise their food needs through what little they could grow. Lastly, the secondary costs associated with dislocation from economic centres (travel, psychological, etc.) reduced the ability to increase class position through saving, thereby reproducing the economic structure. These systems intact remain today.
- Investment in capital - Industries like mining and later capital-intensive manufacturing industries like steel were subsidised through the provision of cheap inputs, e.g. electricity and loans. Apartheid investment in capital intensive industries reduced the need for cheap Black labour so as to decrease economic power of Blacks. This legacy continues in the budget today through the subsidisation of these capital intensive industries in order to maintain their competitive advantage, rather than employment intensive industries needed for job growth.

Section 2 argues why education is a primary means for overcoming inequality. The justification for heavy-handed policy is stronger in light of the historical reasoning behind this inequality.

1.4 Historical budgetary policies

Given the importance of education and the historic and systematic denial of access to the dispossessed majority, there is a key role for the state in the provision of university education.

⁶ Sources: Feinstein, C. 2005. A economic history of South Africa: Conquest, discrimination and development.

Plaatje, S. 1916. Native Life in South Africa.



Funding free education will require considerable resources. We can look towards historical changes in the state budget: how did the ANC deal with massive budget changes following 1994?

One example is the massive social spending that was initiated through the Reconstruction and Development Programme (RDP) under Mandela. Tax revenue remained constant, implying that this was funded through reallocating the budget. The RDP White Paper stated, “Most of the expenditure on the RDP is not in fact new; rather, it is the better organisation and rationalisation of existing structures that will unlock resources.” Once the RDP programme was scrapped because of high levels of transferred apartheid debt, another round of drastic budgetary changes took place as the government decreased expenditure on housing by 16.2% and water by 7.5%. The incredible advances through RDP (for example building 1 million houses and increasing water and sanitation access by one hundred times in five years) was brought to an abrupt halt by the budget following the RDP.⁷

This austerity was justified by the desire to reduce levels of government debt. However, when unpacking the fiscal policies during that time, it becomes clear that it was part of a broader state programme disenfranchising the majority of South Africans and moulded by (white) economic interests, powerful global institutions like the IMF, and a co-opted South African government.

One indicator is that while social spending was cut, the state pursued a policy of *decreasing* taxes while broadening the tax base. Since 1994, personal income tax has decreased in effective terms, resulting in an equivalent loss of R125 billion in tax revenue compared to a constant effective tax rate (this in addition to the approximately R100 billion stolen by the super wealthy who evade taxes). Even in nominal terms, South Africa’s tax rate has become less progressive over time. Corporate tax steadily declined from 50% in 1990 to 28% now, and personal income tax has decreased for the top tax bracket.⁸ It is argued that a hidden part of the 1994 negotiated settlement to protect stolen mines and other property was “a rigid ceiling for tax revenue [...], to protect the affluent minority from the threat of the redistribution of wealth and income”.⁹ In applying for an IMF loan, the Transitional Executive Committee of 1993 comprising of 8 NP and 8 ANC members agreed to hold a tax to GDP ratio of 25%, consistent with Apartheid years. This was reaffirmed in the 2012 Budget speech.

The recent empowerment of white capital and the refusal of the state to take back this **wealth accrued through exploitation and plunder from Black people** can be tracked in many other ways:

⁷ Nicholсан, J. 2001. Measuring Change: South Africa’s economy since 1994. Trade Union Research Project.

⁸ <http://www.ftomasek.com/olderrates.html>

⁹ Forslund, D. 2012. Tax policy and personal income tax in South Africa since 1994. AIDC.

- Corporate wealth through capital flight: “Shortly before the 1994 election, De Beers quietly moved 3½ tonnes of diamonds to London with an exemption of R1-billion in tax... Profits of apartheid left either legally with the blessing of the ANC government (between 1995 and 2002, R100-billion by institutional investors alone) or disappeared illegally (a staggering 9.2% of the country’s GDP between 1994 and 2000). Nine of our largest corporations (Anglo American, Billiton, SAB etc) were allowed to move to New York and London”.¹⁰
- Personal wealth through inheritance: “The estate of a resident deceased individual is subject to 20% Estate Duty, after taking into account a deduction of R3.5 million against the net value of the estate. So, if the total net value of the estate is R4 million, Estate Duty will be dutiable on 20% of the amount exceeding R3.5 million which amounts to R100,000 (20% of R500,000).”¹¹ Even aside from the non-taxable R3.5 million, 20% is extremely low - for example, think about mining oligarchs like the Oppenheimer family (Nicky Oppenheimer has a net worth of nearly R100 billion) which accumulated this wealth off Apartheid policies.
- Property of the average white person: following 1994, sanctions and Apartheid economic restrictions were fully lifted. One consequence is that property prices skyrocketed as demand for prime land flooded in. Thus, land stolen from Black people and occupied by the lay white person (for example, Cape Town’s suburbia) exploded in value.

The general economic policy approach follows “trickle-down” economics. The economic logic is that boosting the wealthy through for example protecting property rights, reducing the tax deterrent and relying on the private sector to drive growth (e.g. FDI) will ultimately lead to higher growth through encouraging them to invest and expand their businesses.¹² The “trickle-down” in the form of tax redistribution from the rich to the poor (e.g. grants) or employment growth is meant to “increase the size of the pie”, thereby widening the tax base and also boosting the state’s revenue and ability to provide social services like housing and basic education. In reality, (a) the evidence for this approach inducing greater growth compared to

¹⁰ <http://thoughtleader.co.za/brentmeersman/2012/02/27/an-apartheid-beneficiarys-guide-to-the-budget/>

¹¹ <http://www.sars.gov.za/ClientSegments/Individuals/Tax-Stages/Pages/Tax-and-Inheritance.aspx>

¹² This explains the obsession in popular economics with concepts like GDP or total economic growth, where society is treated as a whole. In South Africa, it has masked the decomposition of “Who is growing?” Despite posting positive economic growth for many years, the proportion of households under the poverty line has stagnated at 70% since 1994 (not accounting for non-monetary income). An alternative world where South Africa posted negative economic growth, coupled with a better material increase for most South Africans would have been viewed as an economic failure by this standard.

broad-based approaches is shaky (see historic growth trends and cycles), and (b) any growth is often captured by an elite without including substantially more people in the corporate expansion.

This programme of preserving the interests of the rich while pacifying the poor through reforms and grants must be understood as a political manoeuvre. An essential component of its political justification is the support for it through neoclassical economic arguments, disseminated through popular business media and reproduced through university institutions.

The post -Apartheid budget policies have tended in the opposite direction from materially accounting for the historic economic injustices of the privileged. In emerging student discourse, these policies can be viewed as violent, considering the economic disenfranchisement they impose with consequences on well-being of the majority of the country worse than many forms of physical violence. In this context, the demand for free education attains historic tones as a call for a change to the violent policies of the last two decades.

1.5 Tertiary education: Factors beyond financial exclusion

From a human capital perspective, the greater the investment in education, the greater the productive ability of a worker. Tertiary education represents a large investment in education. The compensation of workers by education level may indicate differences in the productive capability between workers with university education versus those with basic and secondary education (see table 1), though this is at least partly a result of the economic structure (see discussion above on demand-side influences).

Basic and secondary education in South Africa faces the problem of low quality in the majority of schools, resulting in a lower productive capability as well as increased difficulty to meet the admissions requirements of universities. Compare the market skills (productive capability) and test scores (admissions requirements) of students from the elite model C versus no-fee schools. Under our current market paradigm, both the low wages allocated to those without a university education and the difficulty of admission to universities are caused in major part by the poor quality of the majority of basic and secondary education.

In 2011, there were 400 mud schools, and thousands of schools without electricity, water or libraries.¹³ This is a society of impressive enrolment in basic education, but worsening (or stable) high unemployment.

Further, there are secondary costs to education that ensure that rich students succeed and poor students are severely disadvantaged:

¹³ <https://www.equaleducation.org.za/campaigns/minimum-norms-and-standards>



“Many of our learners do not do well in school because of specific learning barrier. Yet, we are not testing learners for problems such as visual and hearing disabilities, speech problems, identifying and intervening effectively around issues such as emotional issues, child abuse, sexual abuse and alcohol/drug problems. Over many years social movements and others fought for free education as a basic human right. The state’s declaration that the poorest schools will be fee-free is indeed a partial victory. Partial since the secondary costs of education such as transport, uniforms and various levies often amount to more than school fees [...]”¹⁴

Even of the students who are admitted into institutes of higher learning, 50-60% drop out in the first year, because of “academic reasons where students do not fit into the higher learning environment, logistics like transport and accommodation, finance and even inadequate food or poverty”.¹⁵ Another indicator is that 72% of NSFAS-funded students drop out.¹⁶

Does free university education ultimately improve access then? If basic education and the secondary costs to university are so important, then it may not do much. However, if funding to university is a significant part of the problem (as will be shown later), then it may improve access. It is clear that part of the focus must be on basic education and secondary costs, as well as on innovative methods of university admission and support that takes better account of these than the current policies do.

¹⁴ Salim Valley, The Education Crisis and the Struggle to Achieve Quality Public Education in South Africa, 17 Sept 2015.

¹⁵ <http://www.enca.com/south-africa/student-dropout-rate-high>

¹⁶ Ministerial Review of NSFAS (2010)



SECTION 2: THEORY

2.1 Economics: Human capital theory

The motivations for free education cannot be confined to its economic consequences when analysed as a proposal. Even economically, this demand is far broader than access to quality tertiary education. Ultimately, the vision is to create a decolonised, socialist society. This is an important caveat in addressing the economic theory on human capital, which does not account for these wider considerations.

The following section attempts to outline economic arguments surrounding free education when seen as a reform, rather than as part of a broader vision. We start by introducing some economic theory.

Human capital theory is the field of neoclassical economic theory concerning human labour. The ability of humans to do work is abstracted from the person, and is viewed as an asset similar to a machine. Focus is given to the output of each worker per unit time, classified as productivity, and the wage of a worker is theoretically a reflection of the worker's productivity (the more output you produce, the higher your value as an asset and the more you are paid). For example, a farm owner in South Africa chooses between hiring more machines or more people as he expands production, choosing the cheaper or more productive of the two given that they do similar work.

Among the problems of this framework is the dehumanisation of people to assets. For example, this ignores the right of humans to earn enough income to afford a decent standard of living. Another example is the power dynamics between workers and bosses – in terms of quality of life, workers deserve a decent work environment. The exploitative power relations due to racism or sexism or the implicit (often explicit) threat of dismissal prevents workers from being paid the equivalent of their productivity.

Apart from productivity and “supply-side factors” (concerning labour available), “demand-side” factors (concerning labour needed) affect the wages of workers. However, human capital theory focuses on the supply side, because in a free market demand is determined by consumers' needs.

Firstly, note the important characteristic of this model: wages are at least partly determined by factors irrelevant to the worker (think about highly paid workers who say they “deserve” their wage). From the demand side, changes in technology or local industry booms can define one's career path. From the supply side, through relative scarcity, one's wage increases purely if few others have the skill you offer. We begin to understand the dependency of university graduates' wages on the inaccessibility of universities (the scarcity of skills). Secondly, the focus on the supply side of labour ignores crucial demand-side opportunities for governments to reduce

unemployment. Rather than simply investing in education, developmental governments may choose to create demand for labour through investing in industry. A key benefit is that, since university education is styled to suit labour demand from firms (the Commerce Faculty looks at what skills businesses require), government-chosen industries have the potential to drive university education in greater accordance with social values.

The key determinants of the productivity of human capital include natural talent (fixed), experience (flexible) and education (flexible). Assuming talent or natural intelligence is equally distributed regardless of sex, race and other constructs, improving the education of a population should lead to greater productivity as well as a more equitable income. Thus, investment in education is an essential component of creating a wealthier society.

However, investment in education is determined by one's wealth. Here we witness the extraordinary reproduction of class under what many still consider a meritocratic society. In South Africa, wealth grants access and support - for example, premium quality schooling, psychological support and secondary costs such as equipment. The correlation between parents' earnings and their children's earnings in South Africa is at least 60%.¹⁷

A commonly taught neoclassical view argues that prior wealth should not interfere with **equal access to and investment in education**:

1. Rational agents are aware of their abilities as well as the pay-offs to investing their time, money and effort into education (people know how much they will be paid if they study). Greater natural talent implies higher returns to investment in education.
2. Assume that agents may borrow to make investments in their education. (i.e. bank loans)
3. Thus the choice is the same regardless of initial wealth: if future earnings is greater than the required investment in education, the required capital should be borrowed (if unavailable). This leads to an efficient solution where the smartest people all invest in their education.

Here are a few problems with the analysis:

- A. Education is commodified: The value of education as a right towards life fulfilment is ignored. This life meaning is therefore reserved for the rich, those who can afford education regardless of whether future earnings are greater than fees.
- B. All abilities and pay offs are not known: The rich have much better information about payoffs because of career guidance, advice from networks of professionals, etc. Further, where there is doubt, wealthier people are able to take risks. If earnings fall short of the investment,

¹⁷ Piraino, P. 2015. Intergenerational earnings mobility and equality of opportunity in South Africa.



it's a bad decision; for those who have to borrow though, inability to pay back the investment may lead to legal consequences or require sacrificing much more important costs (food, shelter, clothes) to pay it back.

C. The models take no interest in structural problems: it treats each person or agent as separate and homogenous. In South Africa, black people may face much higher costs to education because of inferior quality education and language, resulting in a higher chance of failure even for the same level of intelligence. On the other hand, white people may face much higher returns because of business networks that reward skills much better. An "efficient" solution could then take the form of white people all having degrees and black people doing unskilled jobs (not far from what we see now).

D. There definitely are limitations to financial access. Banks require assets to back loans - the poor by definition do not have sufficient assets to take out the required amounts for fees (in fact, neoclassical models of credit require this collateral); otherwise, student loans charge interest rates that many cannot afford.

Thus, through dismissing barriers that poor people face in accessing education, the model entrenches the economic hierarchy which, in South Africa, is largely racial. It removes arguably the most important source of economic empowerment - education.

Another commonly taught argument is the value of **education as a filter or screen**: the argument runs similarly, except it assumes that education does not improve productivity, but merely serves as a signal to employees that your natural talent is high enough to justify your investment in education (remember, it is assumed that clever people pass more easily).

This lays bare our reality: if even partially true, our reality of wealth largely determining one's education level reveals our system as one where the wealthy simply buy education certification, and therefore buy the way into a high earning job.

In terms of broader economic growth, there is strong empirical evidence for higher levels of education leading to higher economic growth and a more evenly distributed growth in welfare. The general level of education is determined by access to education and quality of education. Free tertiary access would at least improve access, with unclear effects on quality. As it stands, the current policy of the government (see for example the National Development Plan) presents a narrative of education as the path out of material poverty, despite only 3% of each grade 12 cohort enrolling in tertiary education (most of whom are not poor). The importance of education is thus both in the interests of the society and in the escape path it provides for individuals out of poverty.

That said, we must not allow the narrative to be controlled regarding education - even if financially accessible, education by itself could never bring about a decolonised state. There are internal problems (we cannot accept that our material condition should be determined by our productivity, in turn determined by university education), as well as problems of how more broadly this system maintains oppressive systems of power like racism, sexism and class. As long



as tertiary education is an elite activity accessible to a small fraction of the population, no matter how “equitable” that access, it will always be a site reproduce this system. Either access to university education must be radically expanded in capacity, or an economic policy direction should be pushed that does not rely on university skills.

2.2 Constitutional responsibility of the state

The responsibility of the state to provide education at the tertiary level is made explicit in the constitution. The government has three levels as specified therein. There is the central government which consists of all the national government departments. The second sphere of government is the 9 provincial governments and the third sphere is the local authorities, which amounts to 283 local municipalities. Higher Education is a function of central government and it gets its mandate from both the Constitution and Legislature.

The Constitutional mandate (Section 29, schedule 4) lists education at all levels, including tertiary education as a functional area of concurrent national and provincial legislative.

Section 29¹⁸ states:

1. *Everyone has a right*
 - *To a basic education, including adult basic education and*
 - *Further education, which the state, through reasonable measures, must make progressively available and accessible.*

2. *Everyone has the right to receive education in the official language or language of their choice in public educational institutions where that education is reasonably practicable. In order to ensure effective access to, and implementation of this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account*
 - *Equity*
 - *Practicability and*
 - *The need to redress the results of past racially-discriminatory laws and practices*

3. *Everyone has the right to establish and maintain, at their own expense, independent educational institutions that*
 - *Do not discriminate on the basis of race*
 - *Are registered with the state and*
 - *Maintain standards that are not inferior to standards at comparable public educational institutions.*

¹⁸ <http://www.dhet.gov.za/SitePages/AboutUS.aspx>



The Department of Higher Education, as a function of central government has a responsibility to supply the public good of education in a way that meets its constitutional mandate and seeks to redress the inequalities of the past. Tertiary education is currently inaccessible to a large part of the population, partly because many South Africans live in poverty and are unable to afford tuition. High fees have made education a privilege rather than a right as provided in the Constitution. It is therefore the responsibility of the government of South Africa to take measures to make education accessible to all. In this extreme economy where a university education is the difference between poverty and forming part of a wealthy elite, this right becomes all the more important.

2.3 Background to Macroeconomic Theory

This section begins by sketching basic macroeconomic theory. Note that this section is *not* critical of the theory, although many of the concepts are highly contentious. Please skip this section if you are relatively familiar with these concepts. Table 1.8.1 may still be of interest.

Growth and GDP Decomposition

The Economy is the sum of all production taking place within a country. This definition refers to Gross Domestic Product. In order to eliminate double counting the Gross Domestic Product is calculated by putting together all the value added at each step of production. If strawberries are picked and sold to a manufacturer of jam then the manufacturer's contribution is the difference in the price between the strawberries that went into the jam and the jam.

Decomposition of Consumption, Investment and Government Spending

All the transactions that take place within the country are between individuals, firms and government. It is believed at least theoretically that each of these sources of production have different effects and so domestic product is usually divided into these 3 categories. Individuals engage in consumptions. The assumption is that some goods are made for final consumption by individuals. Firms engage in Investment which is spending on equipment. It is possible for firms to spend on final production but this would be counted with consumption as retailers would sell these goods on to consumers. Governments acquire taxes and other incomes and use them to generate public goods like infrastructure and policing. Finally in an open economy there is international trade. This means imports and exports. Imports are goods purchased in other countries as such they do not form part of domestic production and should be removed from domestic production in the same way that strawberries are removed from the price of jam. Similarly exports are sold domestically for use in other countries. As such exports should be added to domestic production. This leads to the classic equation for domestic production.

$$Y = C + I + G + EX - IM$$



Major Sectors of the Economy

The economy can be decomposed into different forms of consumption or it can be decomposed based on the level on the stage of production. As expressed earlier at each stage of production more value is added to products until they are provided to final consumers. These stages of production are generally referred to as sectors. The Primary, Secondary and Tertiary sector. The primary sector is concerned with extraction or extractive industries. Such industries as agriculture and mining which primary pull things from the ground and sell them as they are or with little processing. These types of goods are typically mostly the same and as a result sold at the same price across producers. This makes them commodities. The secondary sector takes primary and intermediate goods and turns them into intermediate and final goods. Finally the tertiary sector deals in final goods and services.

Financial Markets and Compensation

Financial Markets

Governments and Firms can borrow domestically to finance investment and government spending or they can do so internationally. Financial markets provide various products some of which are financial securities. Financial securities are securitised financial instruments. This means they are backed by assets like shares and bonds. As it turns out these are the financial instruments most used by Governments and Firms for financing.

Publicly listed firms provide information to domestic and international investors to allow them to price their shares. Both Firms and Governments allow international rating agencies to determine their credit rating which allows them to sell bonds and receive credit financing.

South Africa has a well-known globally exposed financial market system. This includes the Johannesburg Securities Exchange (JSE), the Board Exchange of South Africa (BESA) and finally South African Futures Exchange (SAFEX). The size of the JSE is measured by the total size of the all the companies listed on it. This size is the price of their shares multiplied by the number of shares they have available in total. This measure is market capitalisation of share and in aggregate it is the market capitalisation of the exchange. The JSE is one of the largest exchanges in the world by market capitalisation which is close to R11 Tn or \$1 Tn.

Table 2.3.1 The Ownership of Large South African Firms

Company	Major shareholder/s	percentage holding
Anglo Gold Ashanti	Bank of New York (other: JP Morgan Chase; Northern trust, State street, SSB)	43% (+8%)
Anglo Platinum	Anglo American	controlling share



Anglo American	JP Morgan Chase	major share
Arcelor Mittal SA (steel)	Arcelor Mittal AG	47%
Aveng (Construction)	(Liberty life, Old Mutual, Mellon, Northern Trust, SSB, JP Morgan Chase, Bank of New York, State Street, CACEIS bank Luxembourg, RMB)	+33%
Mondi Ltd and PLC	Anglo American	controlling share
Murray & Roberts	(SSB, Liberty Life, JP Morgan Chase, Old Mutual, SBSA, State Street, Mellon bank, Northern Trust)	+30%
Mvelaphanda Resources (mining)	(Old Mutual, Gold Fields group, JP Morgan Chase, RMB, Mellon, Bank of New York)	+18%
Gold Fields	Bank of New York (JP Morgan Chase, SSB, Bony Europe, Northern Trust, Mvelaphanda Gold, State Street, CACEIS)	41% (+ 20%)
FirstRand	RMB Holdings	29.3%
RMB Holdings	Remgro	controlling share
Sasol	(Konoil, JP Morgan Chase, Bank of New York, Old Mutual, Northern Trust, State Street, Mellon, Liberty Life, Sanlam, SSB)	+35%
Wooltru	(AMB Capital, Old Mutual, SBSA, Lyonnais Pvt Asset)	+37%
Tiger Brands	(SSB, State Street, Northern Trust, JP Morgan Chase, Old Mutual)	+12%
MTN	(JP Morgan Chase, Old Mutual, Liberty Life, SSB, State Street, Bank of New York, Northern Trust)	+20%
DRD Gold	Bank of New York (JP Morgan Chase)	57% (7%)
Impala Platinum	(JP Morgan Chase, Bony Europe, Deutsche Bank, SSB, State Street, Northern Trust, Old Mutual, Bank of New York, Liberty Life)	+36%
Naspers	(SSB, Old Mutual, State Street, Northern Trust, JP Morgan Chase, HSBC, Bank of New York, Royal Bank of Canada)	+28%
Nedbank	Old Mutual	+35%



Capitec bank	(RMB, PSG)	+32%
Standard Bank	IDC of China (SSB, Old Mutual, JP Morgan Chase, State Street, Sanlam, Northern Trust, Liberty Life)	20% (+15%)
Sanlam	(State Street, SSB, CBNY, Old Mutual, JP Morgan Chase)	+10%
Shoprite	(State Street, JP Morgan Chase, SSB, SBSA, Old Mutual, Liberty Life, Northern Trust, Sanlam)	+18%
Harmony Gold	Bank of New York Africa Rainbow Minerals (Bony Europe, Northern Trust, JP Morgan Chase, State Street)	29% 15% (+ 9%)
BHP Billiton	Bank of America, Wells Fargo, Northern Trust	not available
De Beers	Anglo American	controlling share
Glencore Xstrata	Ivan Glasenburg (Vanguard Group, Norges Bank, Blackrock Investments, Capital Research)	8% (8%)
ABSA bank	Barclays bank	controlling share
Vodacom	Vodaphone	65%

Developing Economies

From a global perspective it becomes convenient to group similar economies together. There are several classification schemes those that focus on geography, national income, trading blocs and industry make up. For instance South Africa is a member of the South African Development Community (SADC) it is also a BRICS (Brazil, Russia, India, China and South Africa) nation. The BRICS are a group of high potential developing economies with great interest to global investors. Each country is rather large in its distinct jurisdiction and therefore allows investors a relatively safe way of investing in those jurisdictions. Developing Nation is a designation in itself. Countries are divided by income from high income, to medium and low income. The designation also includes the sophistication of the economy in term of capital intensive industries. The full list of these designations is Developed Economy, Developing Economy and finally the Frontier Economies. Another important designation that South Africa relies heavily on resources. Simply this means that South Africa's main industries include basic manufacturing materials like steel, gold, platinum group metals and other commodities.



Indicators and Compensation

Gross Domestic Product is measured quarterly or once every 3 months. In the interim parties with an interest in the economy from investors, government officials and firms to consumers need a measure of the economy. The JSE in contrast has over 400 companies which engage in the largest industries in the country. These companies are among the largest in the country. In addition according to the Efficient Market Hypothesis the price of company shares is generally accurate. The price of company shares is the current valuation the financial market puts on the present and future value of the firm's prospects. In other words the growth performance of the JSE is indicative of the growth performance of the economy.

In general when firms have poor performance they shed labour or prevent increases in employee compensation. This is because poor performance is typically measured by profits and increased compensation decreases profits. For this reason one would expect compensation to stagnate when the JSE has poor performance. For various reason firms are slow to shed labour. For instance regulatory concerns or costs of changing their production processes. As a result labour trends take place over longer periods of time. In addition of course employment is also linked to population growth and the available level of skills.

The National Budget

Revenue- Where do we get our money?

Taxes make up 89.7% of all government revenue and as such the discussion on revenue will focus on taxation.

Taxes

Taxes provide a fundamental way to think about how a society chooses to distribute or redistribute its resources. In the South African context as well as many others, taxes form the number one source of revenue for public expenditure. Other less lucrative options include, user charges, administration fees, borrowing and government induced inflation.

There are three main tax bases; **income, wealth and consumption** and most countries have a hybrid system that exploit all three bases simultaneously. However, this can be done in ways that are either, **progressive, proportional** or **regressive**.

Progressive Tax: Taxes that takes an increasing proportion of income as income level increases

Proportional Taxes: Taxes that generates the same proportion of income as income level rises

Regressive Taxes: Tax that takes an increasing proportion of income as income level decreases (usually a tax that is applied uniformly regardless of income level)

Under Adam Smith's Maxims of Taxation a "good" tax incorporates the following:

- **Equity:** Taxes should promote an equitable distribution of income
- **Economic Efficiency:** Taxes should be designed in a way that that they don't too severely distort the "natural" choices that tax payers would otherwise make.



- **Administrative Efficiency:** Taxes should try to maximize revenue but should also have low admin and compliance costs.
- **Flexibility:** Taxes need to be flexible enough to support macroeconomic stability.

These broad principles of what makes a good tax underpin the theoretical landscape from which South African tax policy has been developed.

Expenditure

Sovereign access to financial markets implies the ability to fund the short fall in government revenue through debt. In other words it is possible to have expenditure that is greater than revenue. This difference would form the debt that a government would accrue within their budgeting period. Like traditional borrowers nations pay interest on their debt. When this interest become too high it could be possible for a state to have insufficient revenue to repay their debts. This is referred to as a **debt trap**.

According to conventional theory, debt is an acceptable and even prudent means of financing capital expenditure whereas current expenditure could be better financed by tax.

Debt to GDP and Sovereign Ratings

The state needs to borrow funds in order to finance its budget if it should intend to spend more than it can generate in revenues. The state invites agencies that perform credit rating analysis which will determine the counterparty risk of the state. The major credit ratings agencies globally are Fitch, Moody's and Standard & Poor's (S&P). These agencies have 13 ratings which are represented by letters or alpha numeric codes. In general more letters is better and A's are better than B's. As such a rating of AA+ is superior to a rating of BBB. For simplicity and graphical illustration these levels have been represented economically. Those ratings that are considered below investment grade receive a score of zero while investment grade ratings start at 1 and end at 9.

A measure of the debt stability in a country is typically the level of debt with respect to GDP. As this level rises it is less likely the state cannot afford to pay what could be international interest without inflating the domestic currency. Inflating the currency would have the effect of reducing the price of the currency relative to others which means international investors receive less of their money regardless of whether the interest itself is paid.

A peculiar aspect of debt is that as stability in a country worsens, investors need to be compensated more for the risk and so interest rates increase. However, increasing interest expenses for the final consumer (the country) implies a reduction in disposable income - creating a self-fulfilling prophecy, where the country becomes less stable as it fails to fund its operations like everyday services. It is curious then that this power to determine the fate of a country's ability to borrow and therefore fund their budget is left to international private firms.



SECTION 3: QUANTITATIVE ANALYSIS

We address the question of university education in quantitative terms. What is the need for funding university education? How has state funding changed? What are the possibilities for increasing funding?

3.1 Varsity Education

What are the financial constraints faced in tertiary education?

While the demand for free education extends beyond financial access, the question of financial exclusion from universities is nevertheless a focus.

The government currently has a state-funded student financial assistance system which is known as the National Student Financial Aid Scheme (NSFAS). It was established to assist financially needy students in covering university costs and to enable the sharing of costs between students and the state. NSFAS loans intend to subsidise full cost of study, accounting for secondary costs such as accommodation, food, study equipment and travel. In 2011, it subsidised over 370 000 students across all tertiary education (23 public universities and 50 FET colleges).

Here are some of the characteristics of NSFAS¹⁹:

- *Qualification for NSFAS is determined by the means test. The annual family income threshold for NSFAS students at the University of Cape Town is R250 000, at Rhodes University it is R180 000, while at the University of Limpopo and other historically disadvantaged institutions it is R122 000. There is thus no uniformity in the application of the means test across the sector.*
- *All loans are income-contingent meaning that students only have to start repaying the loan when they have stopped studying, either from graduating or dropping out. They also need to be earning an income above a certain threshold per year (R30 000 [or R2500 per month] in 2012).*

¹⁹ These characteristics, as well as the NSFAS related information in this section, is taken from the recent Report of the Working Group on Fee Free University Education for the Poor in South Africa, October 2012
(footnote continued)



- Interest rates are set at 80% of the Repurchase (Repo) Rate, the rate at which the SA Reserve Bank lends to commercial banks. Currently this equates to 5,4%. For NSFAS, interest only starts to be charged 12 months after a student starts studying.
- Academic success (passing) is rewarded by a significant incentive in the form of a conversion up to 40% of a student loan to a bursary on an annual basis.

Since qualifying for NSFAS is so dependent on individual factors, here is a case study from UCT²⁰:

"Suppose a child is accepted for a BSc in Engineering at UCT. Suppose both of the child's parents work and each earn R4,500 a month. Suppose that the child has two siblings, both still at school, and that the household is just these five members.

The family's total nett annual income is R108,000. Their General Household Subsistence Allowance and a Personal Allowance is R39,360. So their Disposable Income is R68,640. Their Expected Family Contribution is a third of this: R22,280.

A BSc in Engineering is R46,000 a year.

A bed in a double room in residence is R30,000

3 meals per day for seven days per week is R14,000

That's R90,000 in total. The family will have to pay R22,280 of this per year. NSFAS will give them a loan for R60,000 of it. Through non-NSFAS GAP funding, UCT will pay the remaining R7,200."

An example from UWC:

"A BSc costs R27,820, and residence R16,840.00. Meals are an additional R18,000. That's R62,660 in total. The family would have to pay R22,280 per year, and NSFAS would give them a loan for the rest."

However, NSFAS is unable to meet the demand for funding as the available funds are not enough. Students at historically disadvantaged universities who qualify for NSFAS funding are particularly left out. At these universities, NSFAS funding is shared across all students, meaning that tuition is subsidised, but important secondary costs are ignored - leading to high failure and dropout rates. It is estimated that NSFAS only meets half of the demand from students qualifying for funding.²¹ This is perhaps the most important group of financially excluded poor students.

²⁰ This was an illustrative example given to us by the UCT Financial Aid office. More information can be found here: https://en.wikipedia.org/wiki/User:Kfbd/Going_to_university

²¹ <https://www.olg.co.za/olg/index.php/ct-menu-item-50/147-50-of-eligible-students-denied-funding>, with numerous references in most NSFAS evaluations of extreme shortages of funds compared to qualifying students' demand, e.g. NSFAS 2014/15 annual report.

If NSFAS was fully funded, it would increase the number of tertiary graduates substantially. There are about 1.5 million students enrolled in universities (1 million) and FET colleges (0.5 million); if NSFAS catered for all those meeting the criteria, it would cater for another 370 000 students. Given that dropout and failure rates are much higher for students under financial strain (either through direct financial exclusion or secondary costs), this could increase the country's graduate pool significantly.

However, there are many problems with NSFAS:

- As in the case studies above, NSFAS requires an expected family contribution equalling one third of disposable income. Given that the non-disposable income is calculated on a basic needs level, this is a severe financial strain. Other additional partial payments may be required that poor families simply cannot afford, with a “shortfall [that] can be up to R40,000 a year”. Wealthy universities like UCT and WITS top up this amount, but still fail in many cases²². Students at poorer campuses struggle much more.
- The maximum amount one can earn to qualify for funding is actually very low - R122 000 for historically disadvantaged institutions translates to just over R10 000 a month for an entire family. This means the child of a mineworker would not qualify.
- “Black tax” is ignored, i.e. the means test may not account for supporting extended family, high debt levels, or large unexpected costs without savings plans to cover them. These contributed to financial strain, forcing poor students to make unfair choices that may limit their ability to succeed academically.

Therefore, a second important group to analyse are families who fall just outside of the NSFAS bracket, which I will term the “moderate poor”. This speaks directly to financial access. Leaving aside the unfairness of poor students having the burden of loans, is it even possible for students to find these loans? Many banks are unwilling to lend where little collateral exists.

A few differences between NSFAS and commercial bank loans:

- Bank loans require students to pay interest while studying. In order to take out a student loan from a bank (using FNB as an example), the primary debtor needs to be earning a minimum monthly salary of R6000.

²² “A senior member of management told me that in 2015 Wits excluded up to 3000 students who met our academic requirements but could not raise the fees they needed.” - <http://www.news24.com/Columnists/GuestColumn/Fee-protests-point-to-a-much-deeper-problem-at-South-African-universities-20151021>

(footnote continued)

- Banks usually charge a personalised interest rate on student loans with estimates ranging between 11-13%.

Table 3.2.1: comparing the different student loans available²³

Bank or organisation	What it covers?	Interest Rate Charged	Repayment	Qualifying Criteria
NSFAS	The costs include tuition fees, residence or private accommodation costs, food, books and travel	80% of Repo Rate. Currently 5,4%. Only charged 12 months after leaving university	The repayment amount starts at a calculation of 3% of your annual salary, increasing to a maximum of 8% when your salary reaches R59 300 or more per year. For example, this means you will pay back R900 a year on a salary of R30 000 a year, or R75 per month. Once your annual salary is R59 300 you will pay back R4 744 a year or R395 a month.	NSFAS Means Test for financial aid
Eduloan	School and tuition fees; textbooks; technology (Laptops and Tablets); study equipment and accommodation	Estimated at 10,25 but it varies. Begins one month after credit is issued.	Fixed monthly instalments	
ABSA	Tuition fees	9,25% (<u>Prime rate</u>)	Only the interest on the loan is payable each month while you are still studying. Once your studies are completed you will be	Monthly minimum income of R3000

²³ Own calculations from bank websites

			expected to start paying back the loan and interest.	
FNB	Tuition, textbooks and campus accommodation	From 9,25% (<u>Prime rate</u>) upwards (the interest rate will be personalised according to credit profile and affordability)	Only the interest on the loan is payable each month while you are still studying. Once your studies are completed you will be expected to start paying back the loan and interest.	The principle debtor must be employed; the student must be registered with a SA tertiary institution and the principle debtor should afford monthly repayments of R6000+ per month
Nedbank	Tuition fees, textbooks, accommodation and other student related equipment	9,25% (<u>prime rate</u> , for your first year of studies), 8,25% for second year of studies and 7,25% for third year of studies	Only the interest on the loan is payable each month while you are still studying. Once your studies are completed you will be expected to start paying back the loan and interest.	
Standard Bank	Tuition, textbooks and campus accommodation	Varies according to the loan amount, credit profile and affordability of parent/sponsor	Only the interest on the loan is payable each month while you are still studying. Once your studies are completed you will be expected to start paying back the loan and interest.	Diploma: A surety earning a minimum monthly salary of R3000 Degree: A surety earning a minimum monthly salary of R5000

Looking at the last column of the table above, the qualifying criteria for the loans include earning between R3000-R6000 per month. Theoretically then, even if one does not qualify for the NSFAS loan, anyone earning above this amount should still be able to lend money to fund university education. A hidden assumption is that this income is regular: employment volatility in South Africa is extremely high, potentially disqualifying a large proportion of people.



Ranchhod (2013) shows that 37% of those employed in 2008 were unemployed for a period over the next four years, the time period of an undergraduate degree.²⁴

It is also interesting to note the economic implication of the minimum student loan income requirement falling below the NSFAS qualifying line - the existence of a market here strongly correlates with the earlier discussion on the abundance of students that NSFAS should fund but fails to do so.

Taking the case study of the UWC student given earlier, with tuition, food and accommodation totalling over R60 000, we can estimate monthly costs at a 10% interest rate. Note that university fees vary considerably - UCT for example is much higher. UWC is used as an example of middle-range fees for a university education.²⁵

Table 3.2.2: Estimated Loan repayments as a proportion of total monthly income

Year of study	Principal Loan	Monthly Interest due	R6000 monthly income	R10 000 monthly income	R14 000 monthly income
First	R60 000	R500	8%	5%	4%
Second	R120 000	R1000	17%	10%	7%
Third	R180 000	R1500	25%	15%	11%
Fourth	R240 000	R2000	33%	20%	14%

While these loans are at first low, the monthly interest repayment grows steadily with each year. Many households with children who academically qualify for university but financially do not qualify for NSFAS will not be able to afford these interest payments. In order to derive an estimate of the size of this group, a subjective judgement must be made: How much income should a household reasonably expect to earn in order to keep up with monthly interest payments on student loans?

One approach is to use the NSFAS Means Test case study, extrapolating that the “General Household Subsistence Allowance and a Personal Allowance” remains at R39,360 (or around

²⁴ <http://www.nids.uct.ac.za/publications/discussion-papers/wave-3-papers/182-wage-dynamics/file>

²⁵ For a list of fees by degree across South African universities, see: <https://www.enca.com/south-africa/infographic-which-sa-university-most-expensive>
(footnote continued)

R3300 per month), and that the expected family contribution of a third of disposable income is a reasonable estimate of what a family can pay at low levels of income. Using even this weak criterion, many households in the table above will not be able to keep up with interest payments. Another approach is through a living wage line, calculated as R10 000 based on average housing costs in “township” markets²⁶, and adding the R2000 final interest payment to give a living wage line of R12 000. Only the last column would then keep up with payments. Since these lines are subjective by family and dependent on area living costs and university fees, the minimum earnings required to keep up with interest payments may be higher.

Using these lines (R12000 living wage and NSFAS means test), it is possible to roughly estimate the number of “moderate poor” that are financially excluded. The line is mapped against the household earnings distribution²⁷ to find the proportion of the population caught in this moderate poor bracket. Then the number of students that are financially excluded from this group is estimated, assuming that a similar proportion would academically qualify compared to poorer households. In total, there are 938 201 students enrolled in the 23 public universities of South Africa²⁸. Since NSFAS funded 370 000 university and FET students in 2011, and university enrolment accounted for $\frac{2}{3}$ of the total 1.5 million students enrolled in public higher education, we make the assumption that 200 000 university students are NSFAS funded. As discussed, only half of the NSFAS qualifying candidates were funded. Thus, out of 400 000 severely poor candidates qualifying, 200 000 were directly financially excluded from universities.

Note that this takes into account the higher admission of wealthier students and only estimates the number of excluded students who are academically accepted. The number of students that are financially excluded when including those with lower marks because of worse quality basic and secondary education, and less educational and psychological support, would be far higher.

²⁶ Cottle (20145) accessible at http://www.groundup.org.za/article/what-level-should-national-minimum-wage-be-set_3261/

²⁷ Data is from own calculations using the NIDS wave 3, adjusting by survey weights. All tables without sources that follow are done similarly.

²⁸ <http://www.saqa.org.za/docs/papers/2013/stats2011.pdf>
(footnote continued)



Table 3.2.3: Number of students financially excluded according to different minimum monthly incomes²⁹

	R10 000	R12 000	R14 000
Proportion of population below	78%	82% (4% moderately poor)	87% (9% moderately poor)
Number of students academically excluded	200 000	220 000 (20 000 moderately poor excluded)	245 000 (45 000 moderately poor excluded)

Even within the moderate poor, the above calculations do not account for other barriers to accessing loans. Once again, Black Tax may exclude a large proportion from qualifying even with much higher incomes than R14 000 per month, with a credit record or rating that is rejected by the bank. Lack of financial literacy or awareness because students are the first in their family or community to attend university may contribute to missed opportunities that are assumed above.

There is a third group of students who qualify for student loans but drop out or fail. These students are left with a massive debt to pay off, and without the high income stream of graduates with debt. Estimates of graduation are as low as 15%³⁰, meaning that 85% are left in this third debt-ridden group. Due to having less support, poor students are even less likely to graduate. This could cause a lifelong trap of debt repayment, for example paying off a R240 000 loan on a R5000 monthly income while supporting a family. It highlights what is essentially a massive gamble that poor families are forced to make when thinking about sending their children to university: relatively high returns if it pays off, but disaster in the overwhelming chance that it doesn't.

So, how accessible is tertiary education? Removing direct financial barriers could grant access to between 200 000 and 220 000 poor students, in addition to relieving the estimated 85% of these poor students who do not graduate from a life of debt repayment. In reality, a significant portion of the 80% of university graduates who come from families that can afford tertiary education have directly bought their way into education: even ignoring the massive advantages accrued through secondary costs, a large portion of the 220 000 financially excluded students should displace the wealthier students that could afford university.

²⁹ Figures rounded

³⁰ <http://www.iol.co.za/lifestyle/family/kids/only-15-of-sa-university-students-graduate-1531809>
(footnote continued)

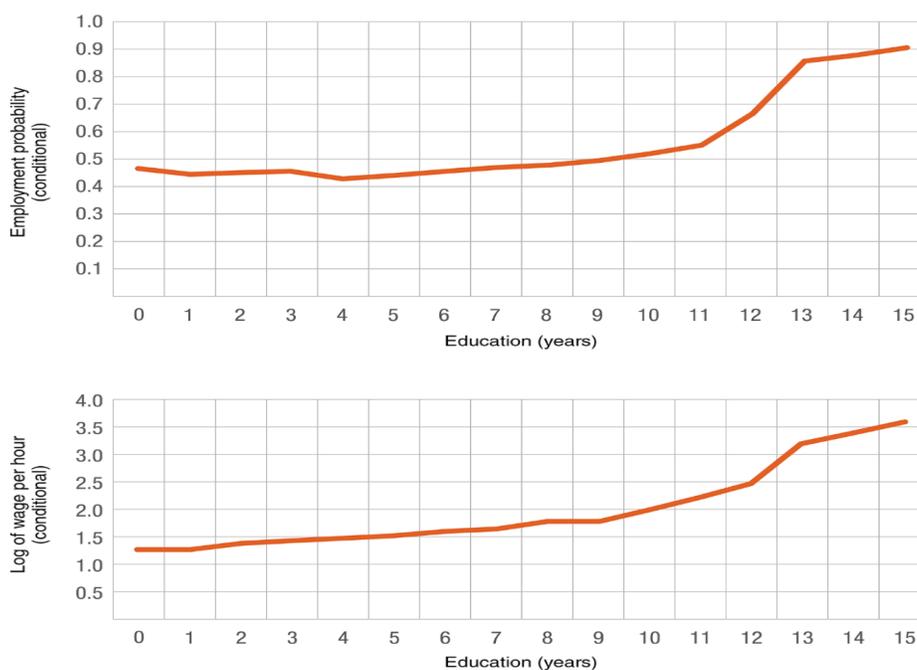


Tertiary education as a site of race/class reproduction (“meritocracy”)³¹

One shocking implication of the earlier discussion is that only 20% of university students come from the bottom 80% of the country’s earnings distribution. University graduates indeed form an elite class. The low enrolment from the majority poor is clearly not because of lack of intelligence; as discussed in the theory, the secondary costs of tertiary education that the wealthy can cover, including premium primary and basic education, and psychological and educational support, result in universities as sites of class reproduction.

Note that this further implies that a government subsidised university education system that caters for the elite simply channels wealth towards the elite. University funding is in many ways regressive: the wealthy pay a smaller proportion of their income on fees. This highlights the importance of meaningfully expanding access to the poor.

Figure 3.2.4: Jumps in employment and wages at tertiary level



Source: Source: Nico Coete. 2016. *University fees in South Africa: A story from evidence*, Presentation at SALDRU, UCT. CHET.

³¹ Data in this section is from own calculations using the Post Apartheid Labour Market Survey 1994-2012, adjusting by survey weights.
(footnote continued)

Table 3.2.5: Real mean earnings per month by educational attainment for ages 24-35³²

Year	Primary	Secondary	Matric	Diploma	University
1994	794	1495	2570	3191	5843
1995	865	1465	3017	4702	7821
1997	1188	1664	2708	4265	5746
1998	1199	1652	2886	4243	7848
1999	1039	2012	3277	5603	12151
2000	816	1419	2737	4343	7574
2001	841	1318	2877	4287	7019
2002	760	1295	2825	4656	9763
2003	743	1324	2732	4417	7330
2004	801	1209	2939	4629	8608
2005	861	1220	2642	4646	8175
2006	897	1323	2662	4934	8286
2007	1003	1386	2731	4661	10851
2010	1133	1506	2926	5215	8505
2011	1055	1424	2827	5536	9796

Note: Standard errors not included - some of the fluctuations are purely driven by data issues. The broad trends hold.

Access to tertiary education represents a clear jump in employment probability as well as wages (figure 3.2.4). But even at a dynamic level, the growth of South Africa's economy has accrued to graduates too (table 3.2.5).

This table shows that compensation by education level has diverged - since 1994, students with university education have benefitted enormously, and those with a diploma to a lesser extent, whereas those with primary, secondary or matric education have stagnated. Thus, the growth of the country's economy has benefited the elite university graduates and to a lesser extent the diploma holders too. Access to tertiary education is essential for benefitting from the growth of the economy – South Africa's "university premium" is extremely high and has grown.

³² A lower bound of 24 was chosen to exclude those still engaged in education, and an upper bound of 35 in an attempt to avoid compounding the effect of work experience. Note that these are descriptive and should certainly not be viewed as a rigorous measurement of the returns to education.

Table 3.2.6: Educational attainment by population group: Who benefits? (24-35 year olds)

Population group	Primary	Secondary	Matric	Diploma	University	Total
1. African/Black	19.51	40.3	30.72	7.48	1.99	100
2. Coloured	17.72	38.81	33.96	6.84	2.66	100
3. Indian/Asian	2.85	20.14	53.6	12.47	10.94	100
4. White	0.7	11.58	48.47	21.14	18.11	100
5. Other	15.76	15.24	42.72	14.17	12.12	100
Total	17.31	37.2	33.14	8.7	3.64	100

The number of university graduates is extremely low, in total about 3-4%. Diploma holders only total 8-9%. Both are much lower for African/Black and coloured groups, reflecting Apartheid policies and the hereditary nature of university education. Taken together with the previous data showing how university graduates captured South Africa's economic growth, this supports the concept of South Africa's race-class intersection reproduced through education.

Table 3.2.7: University graduates by race

Race	Population share	University education share
1. African/Black	78.88	43.6
2. Coloured	8.93	6.59
3. Indian/Asian	2.57	8.64
4. White	9.59	41.07
5. Other	0.03	0.1
	100	100

The racial share of university graduates is totally disproportionate to the population distribution, in line with Colonial/Apartheid policies. In fact, Black enrolment in universities was 83% in 2011³³, indicating a higher dropout and failure rate for Black students. This is consistent with the trends identified earlier, where poor Black students have lower quality basic education and less support for secondary educational costs.

³³ <http://www.saga.org.za/docs/papers/2013/stats2011.pdf>

Table 3.2.8: Expanded employment rate (out of labour force) vs. university employment rate (24-35 year olds)

Race	Employment	Employment for graduates
1. African/Black	59.08	83.75
2. Coloured	74.36	96.11
3. Indian/Asian	83.03	96.19
4. White	92.99	97.55
5. Other	83.55	100
	65.28	91.18

The correlation between employment and university education is extremely high (busting the myth of the “unemployed graduate”³⁴), even accounting for the poorer quality of Black universities compared to white universities. In 2013, “the unemployment rate among graduates was 5,2% and that of persons with other tertiary qualifications (diplomas or certificates) was 12,6%. In contrast, the rate was 30,3% among those without matric”³⁵. Indeed, university graduates form a privileged elite in our country.

Taken altogether, it becomes imperative that this elite is opened up through increased access to tertiary education. This is at least partially a funding problem, potentially solved by the policy reform of free education.

“Above all, we need to realise that education is embedded in social class relations and largely reflects, reinforces and reproduces the inequalities in a capitalist society.”³⁶

Only the largely white tertiary elite can afford to fund the next generation of children, resulting in the reproduction of the racial class allocation. An important point to take is that this compensation pays for secondary costs too, such as quality basic education, support and psychological help. Thus, improving financial access to the specifically the Black poor is likely to have ripple effects beyond being included in the tertiary elite - it allows for the funding of these secondary costs of tertiary education for the next generation.

³⁴ <http://www.econ3x3.org/article/how-high-graduate-unemployment-south-africa-much-needed-update>

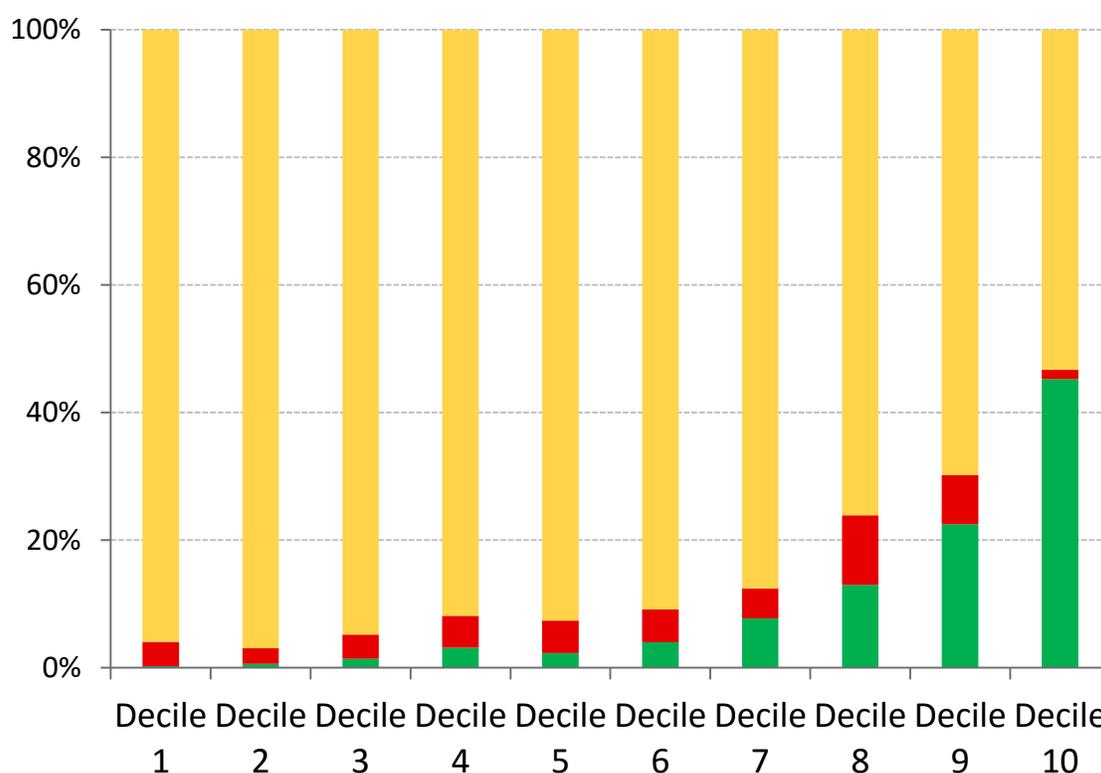
³⁵ <http://www.statssa.gov.za/?p=1377>

³⁶ Salim Valley, The Education Crisis and the Struggle to Achieve Quality Public Education in South Africa, 17 Sept 2015.

Finally, figure 2.2.9 gives an approximation of the skewness in the distribution of university students: wealthier students disproportionately qualify more (due to access to better basic and secondary education) and are able to afford tertiary education once admitted. This feeds in to the evidence above regarding universities as institutions that reproduce class, at least in their current form.

The above analysis shows that the reform of fully funding tertiary education could change the face of the race class reproduction substantially. Importantly, the financially excluded discussed earlier are disproportionately Black. While by the nature of the limited capacity of universities it will still produce a tertiary elite, this elite could be much more equitably distributed across race and class.

Figure 3.2.9: Skewness of distribution of university attendance



Key: Yellow – did not qualify for university; red – qualified, but not attending (attributable to finance); green – attending university. Source: Source: Nico Coete. 2016. University fees in South Africa: A story from evidence, Presentation at SALDRU, UCT. CHET.

3.3 How much money is needed from the state for free education?

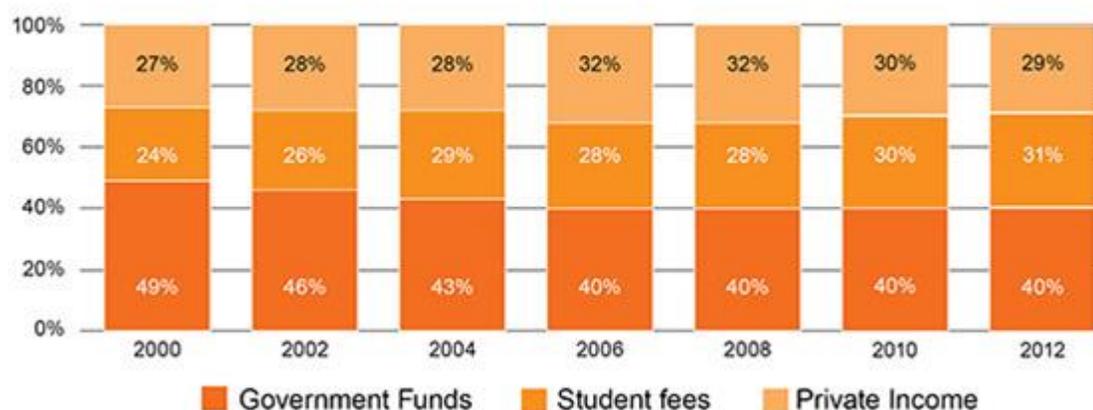
The government currently subsidises public universities and these subsidies form a large part of the university income stream.

Although the funding to universities has been increasing, the number of enrolments has also been increasing which has affected university budgets. In the period 2000-2012, government funding to universities has decreased in real terms annually from 49% to 40% of total university revenue and the contribution to universities' budgets that come from student fees has risen from 24% to 31%. This has caused high tuition fees, exacerbating the financial exclusion. Additionally, universities that have increased enrolments to raise income are not employing more staff for a reasonable lecturer-student ratio. This has a negative effect on student performance, contributing to dropout and failure rates.

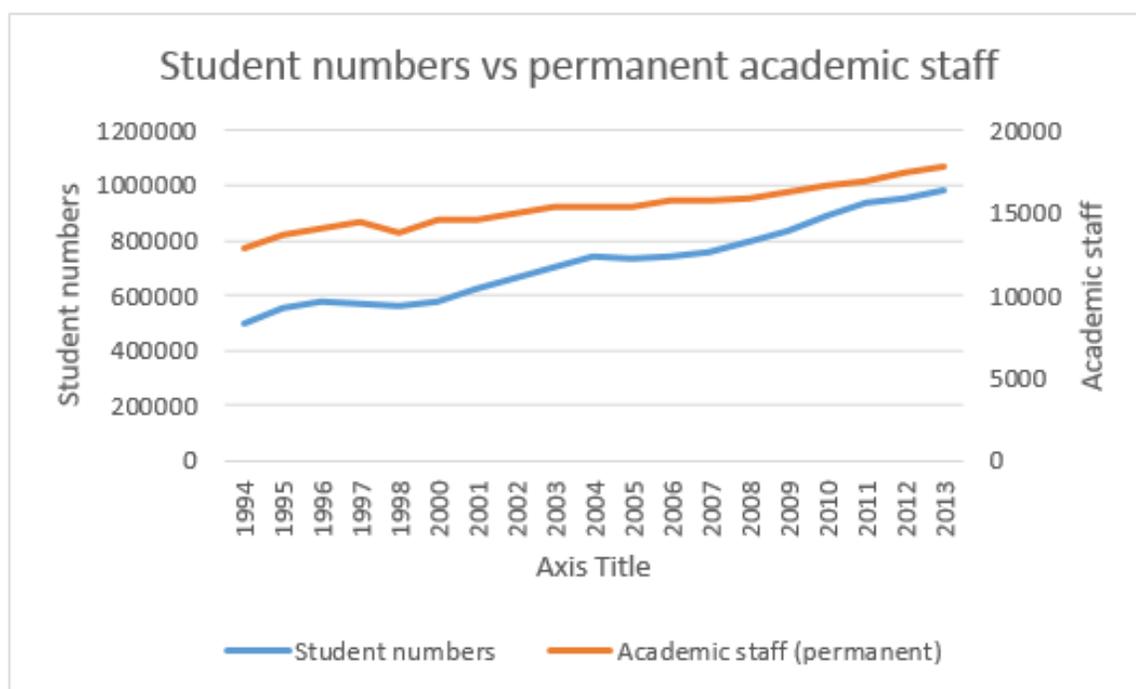
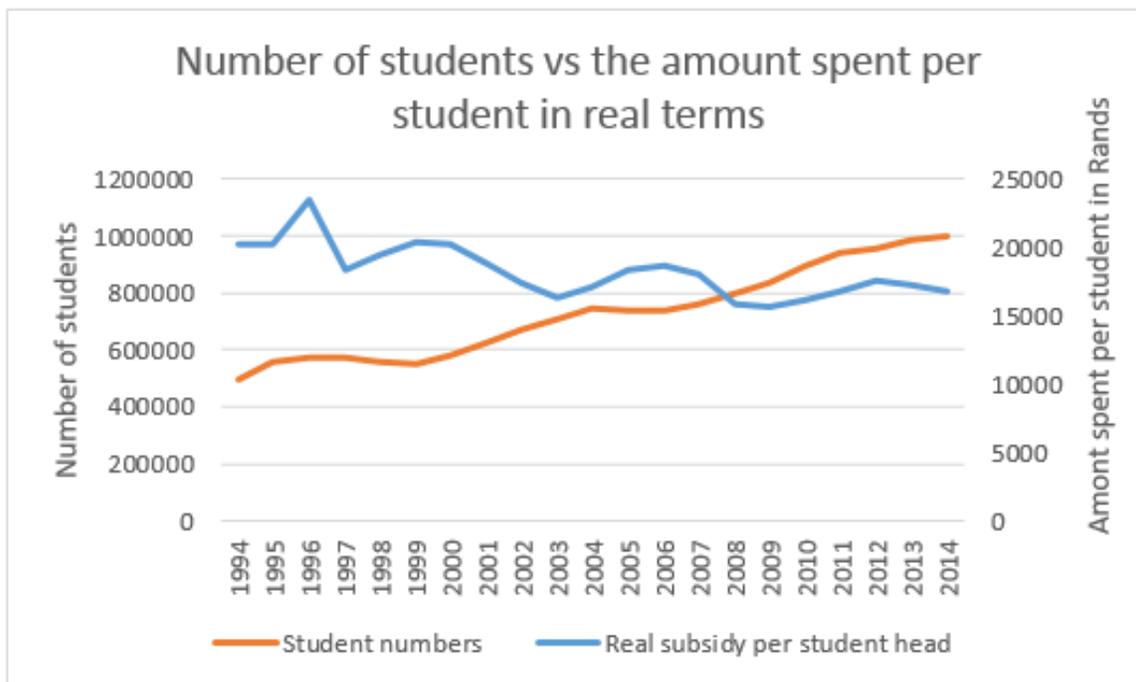
Universities also receive parts of their income from donors. However, this cannot be relied upon as a steady source of income. Historically disadvantaged universities also do not receive high number of donations compared to the universities that are perceived as more 'prestigious'. This places these universities at a disadvantage as usually a large part of the student population comes from low-income family.

Figure 3.3.1: Trends in higher education

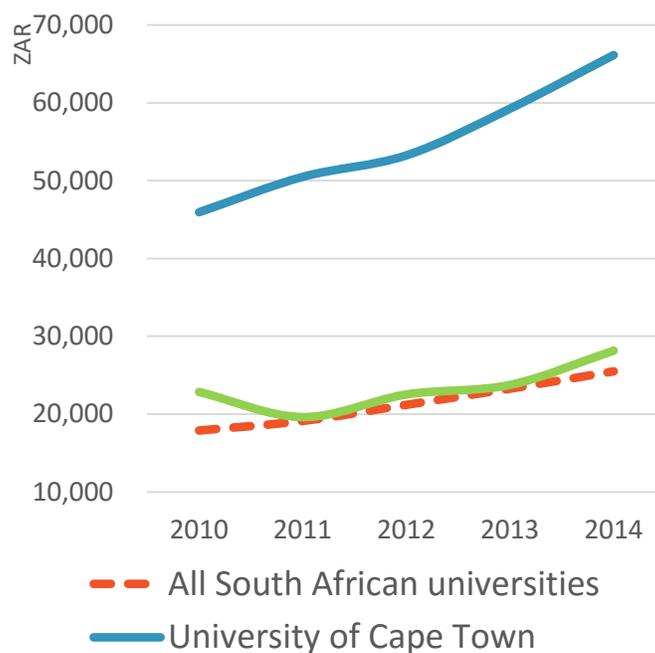
Income sources of public higher education institutions



Source: Department of Higher Education and Training (2010)¹ and Moving Forward (2012)²



Increases in tuition fee income per student



Source: Nico Coete. 2016. *University fees in South Africa: A story from evidence*, Presentation at SALDRU, UCT. CHET.

3.4 The Budget in South Africa

A key question in the calls for free education is of finding. We consider the current budget and ways to increase expenditure.

Revenue

The table below provides a breakdown of the revenue of the South African government. Government revenue to a large extent determines the funds that are available for future expenditure.

Table 3.4.1 Budget revenue, 2011/12 – 2017/18

R million	2011/12 Outcome	2012/13	2013/14	2014/15 Revised	2015/16 Medium-term estimates	2016/17	2017/18
Taxes on income and profits ¹	426 584	457 314	507 759	556 700	620 890	678 652	744 473
of which:							
Personal income tax	250 400	275 822	309 834	350 000	393 890	433 842	479 189
Corporate income tax	151 627	159 259	177 324	183 000	202 032	218 211	236 691
Taxes on payroll and workforce	10 173	11 378	12 476	13 200	14 690	16 140	17 800
Taxes on property	7 817	8 645	10 487	12 603	13 692	14 823	16 089

Domestic taxes on goods and services of which:	263 950	296 921	324 548	355 718	389 427	422 378	458 883
VAT	191 020	215 023	237 667	260 600	283 794	313 690	346 711
Taxes on international trade and transactions	34 121	39 549	44 732	40 779	42 576	47 207	52 466
Tax revenue	742 650	813 826	900 013	979 000	1 081 275	1 179 199	1 289 711
Non-tax revenue ²	24 402	28 468	30 626	27 006	19 038	23 302	21 143
of which:							
Mineral and petroleum royalties	5 612	5 015	6 439	5 636	6 221	6 730	7 301
less: SACU ³ payments	-21 760	-42 151	-43 374	-51 738	-51 022	-36 513	-45 444
Other adjustment					-	-	-
Main budget revenue	745 291	800 142	887 265	954 269	1 049 291	1 165 988	1 265 409
Provinces, social security funds and selected public entities	96 873	108 594	120 838	136 722	139 564	165 526	174 122
Consolidated budget revenue	842 165	908 737	1 008 103	1 090 991	1 188 855	1 331 514	1 439 531
As percentage of GDP							
Tax revenue	24.1%	24.5%	24.9%	25.2%	25.8%	26.0%	26.2%
Budget revenue	24.2%	24.0%	24.6%	24.6%	25.0%	25.7%	25.7%
GDP (R billion)	3,080.9	3,327.6	3,609.8	3,879.9	4,191.8	4,538.8	4,926.1
Tax/GDP multiplier	1.13	1.20	1.25	1.17	1.30	1.09	1.10

1. Includes secondary tax on companies/dividends tax, interest on overdue income tax and small business tax amnesty levy

2. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

3. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury and South African Revenue Service

Taxes

Income Tax

In South Africa, Income Tax provides the largest revenue stream for the state. Income tax is calculated in a progressive manner with rates increasing as income increases. There is a minimum threshold of R73 650 per annum below which tax is not required.

3.4.2 TAXABLE INCOME OF INDIVIDUALS (R) TAX PAYABLE (R) 2015/16 PER ANNUM

R73 650 TO 181 900	18% of taxable income
181 901 TO 284 100	32 742 + 26% of taxable income above 181 900
284 101 TO 393 200	59 314 + 31% of taxable income above 284 100
393 201 TO 550 100	93 135 + 36% of taxable income above 393 200
550 101 TO 701 300	149 619 + 39% of taxable income above 550 100
701 301 AND ABOVE	208 587 + 41% of taxable income above 701 300
TRUSTS OTHER THAN SPECIAL TRUSTS	
RATE OF TAX	41%

VAT

Vat is the second largest revenue stream in South Africa. It is largely thought to be an effective taxation method as it targets consumption which is the largest component of GDP. Vat is levied at a flat rate of 14%. This can be seen as a regressive taxation policy since lower income families often spend a disproportionate amount of their income on consumption of foodstuffs. In order to combat this, South Africa has eliminated VAT on certain foodstuffs.

Corporate Tax

Corporate Tax, is set at a 28% flat rate. There has been a marked decrease from the 40% levied in 1994 down to 28% in 2008.

There are some breaks that have been introduced for small and medium sized companies. However, the level of tax paid by large firms is often far less than the stated 28%. This is typically the result of legal and sometime illegal measures these firms implement as part of their fiduciary duty to maximise shareholder profits. These methods range from tax avoidance, which is the legal practice of finding ways to reduce tax burden, and tax evasion, which is the illegal counterpart. "Transfer pricing", a type of tax evasion, is the practice of underreporting revenue by claiming they were derived from lower priced goods. Less taxes are then payable. This is particularly important in the South African context as transfer pricing is has been found to be a practice in resource industries.

Internationally, South Africa's stated corporate income tax level is well below the highest levels. The table below is indicative of the scope of corporate taxes.

TABLE 3.4.3 TWENTY HIGHEST TOP MARGINAL CORPORATE TAX RATES IN THE WORLD

COUNTRY	Top Rate	Region
UNITED ARAB EMIRATES	55.0%	Asia
CHAD	40.0%	Africa
UNITED STATES	39.1%	North America
CAMEROON	38.5%	Africa
JAPAN	37.0%	Asia
VIRGIN ISLANDS, U.S.	35.0%	North America
ANGOLA	35.0%	Africa
ZAMBIA	35.0%	Africa
EQUATORIAL GUINEA	35.0%	Africa
MALTA	35.0%	Europe
ARGENTINA	35.0%	South America
CONGO, DEMOCRATIC REPUBLIC OF THE	35.0%	Africa
YEMEN	35.0%	Asia
SAINT KITTS AND NEVIS	35.0%	North America
GUYANA	35.0%	South America
FRANCE	34.4%	Europe
BRAZIL	34.0%	South America
VENEZUELA	34.0%	South America
PAKISTAN	34.0%	Asia
INDIA	34.0%	Asia
WORLDWIDE AVERAGE	22.6%	N/A



WORLDWIDE WEIGHTED AVERAGE	30.6%	N/A
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Expenditure - What do we spend it on?

The table below provides a breakdown of government expenditure in broadly defined categories. Social protection includes pension, child and disability grants; economic affairs includes the investments governments makes to boost industry. A key division here is that public goods spending, the majority of the budget, services the whole nation (including the rich) even more so than social services spending.

Table 3.4.4 2015/16 Consolidated Government Expenditure in billions of Rands

PUBLIC GOODS		42%
ECONOMIC AFFAIRS	206,2	15%
DEFENCE PUBLIC ORDER & SAFETY	171,2	13%
DEBT SERVICE COSTS	126,4	9%
GENERAL PUBLIC SERVICES	64,4	5%
SOCIAL SERVICES		58%
EDUCATION	265,7	20%
HEALTH	157,3	12%
LOCAL DEVELOPMENT & SOCIAL INFRASTRUCTURE	199,6	15%
SOCIAL PROTECTION	155,3	12%
TOTAL	1350	100%

The table below provides a breakdown of government expenditure by function in 2014/2015 as well as projected estimates that run into 2018.

Table 3.4.5 Consolidated government expenditure by function,¹ 2014/15 – 2017/18

R million	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates			Percentage of total MTEF allocation by function	Average annual MTEF growth
FUNCTION GROUPS						
Basic education	189,454	203,468	216,036	227,816	16.7%	6.3%
Health	144,558	157,294	167,485	177,525	13.0%	7.1%
Defence, public order and safety	163,018	171,150	181,248	192,719	14.1%	5.7%
Defence and state security	47,445	49,364	52,303	55,450	4.1%	5.3%
Police services	78,237	82,724	87,305	93,235	6.8%	6.0%
Law courts and prisons	37,336	39,063	41,639	44,034	3.2%	5.7%
Post-school education and training	56,612	62,238	65,556	69,594	5.1%	7.1%
Economic affairs	189,430	206,164	219,526	225,549	16.8%	6.0%

Industrial development, trade and innovation	64,636	69,688	73,132	74,718	5.6%	5.0%
Employment, labour affairs and social security funds	56,439	64,138	70,111	72,945	5.3%	8.9%
Economic infrastructure and network regulation	68,355	72,338	76,284	77,887	5.8%	4.4%
Local development and social infrastructure	176,612	199,570	210,235	223,813	16.3%	8.2%
Housing development and social infrastructure	157,649	179,224	189,170	201,581	14.7%	8.5%
Rural development and land reform	10,220	10,709	11,443	12,021	0.9%	5.6%
Arts, sport, recreation and culture	8,743	9,638	9,622	10,212	0.8%	5.3%
General public services	64,743	64,385	66,750	69,824	5.2%	2.6%
Executive and legislative organs	12,375	12,335	12,827	13,507	1.0%	3.0%
General public administration and fiscal affairs	37,077	38,622	38,912	41,132	3.1%	3.5%
Home affairs	7,778	6,349	7,483	7,281	0.5%	-2.2%
External affairs and foreign aid	7,513	7,078	7,528	7,905	0.6%	1.7%
Social protection	143,926	155,297	165,997	176,523	12.8%	7.0%
Allocated by function	1,128,354	1,219,566	1,292,833	1,363,364	100.0%	6.5%
Debt-service costs	115,016	126,440	140,971	153,376		10.1%
Unallocated reserves	-	5,000	15,000	45,000		
Consolidated expenditure	1,243,370	1,351,007	1,448,804	1,561,740		7.9%

1. Consisting of the main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury

Where the table below differs from the table above is that it shows economic classifications of the payments made.

Table 3.4.6 Consolidated government expenditure by economic classification 2014-2018¹

R million	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17 Medium-term estimates	2017/18 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
ECONOMIC CLASSIFICATION						
Current payments	746,375	799,602	856,695	907,252	59.7%	6.7%
Compensation of employees	445,289	479,511	509,638	539,563	35.6%	6.6%
Goods and services	180,297	187,677	200,297	209,437	13.9%	5.1%
Interest and rent on land	120,788	132,413	146,761	158,251	10.2%	9.4%
<i>of which:</i>						
Debt-service costs	115,016	126,440	140,971	153,376	9.8%	10.1%
Transfers and subsidies	406,947	445,415	473,059	497,762	33.0%	6.9%

Municipalities	96,564	107,235	111,464	118,037	7.8%	6.9%
Departmental agencies and accounts	26,587	30,289	31,333	33,369	2.2%	7.9%
Higher education institutions	26,047	27,021	28,001	29,342	2.0%	4.1%
Foreign governments and international organisations	2,215	2,017	2,198	2,289	0.2%	1.1%
Public corporations and private enterprises	28,509	31,460	33,110	33,256	2.3%	5.3%
Non-profit institutions	26,749	27,884	29,066	30,492	2.0%	4.5%
Households	200,276	219,509	237,886	250,977	16.5%	7.8%
Payments for capital assets	86,302	97,498	103,704	111,361	7.3%	8.9%
Buildings and other capital assets	67,078	77,219	81,953	86,461	5.7%	8.8%
Machinery and equipment	19,224	20,279	21,751	24,900	1.6%	9.0%
Payments for financial assets	3,746	3,492	345	365	0.1%	-54.0%
Total	1,243,370	1,346,007	1,433,804	1,516,740	100.0%	6.8%
Unallocated reserves	–	5,000	15,000	45,000		
Consolidated expenditure	1,243,370	1,351,007	1,448,804	1,561,740		7.9%

1. Consisting of the main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury

The spending on higher education can be further broken down into the table below.

Table 3.4.7 Post-school education and training expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17	2017/18	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth
R million							
Post-school education and training expenditure	56,612	62,238	65,556	69,594	197,387	100.0%	7.1%
<i>of which:</i>							
University subsidies	21,455	22,942	24,131	25,340	72,414	36.7%	5.7%
University infrastructure	2,700	3,301	3,503	3,676	10,480	5.3%	10.8%
National Student Financial Aid Scheme ¹	9,222	9,974	11,324	11,885	33,182	16.8%	8.8%
Vocational and continuing education and training	8,096	8,516	8,986	9,439	26,941	13.6%	5.2%
Skills development levy institutions ²	13,808	16,742	16,787	18,361	51,890	26.3%	10.0%
Total	56,612	62,238	65,556	69,594	197,387	100.0%	7.1%

1. Includes cash disbursements from the NSFAS capital account

2. Includes direct charges from the National Revenue Fund for the 21 Sector Education and Training Authorities and spending of the National Skills Fund

Source: National Treasury

In the 2015 Government Budget review, it is stated that the aim is to only increase University enrolment from 972 000 to just over a million from 2014/15 to 2017/8. This is an increase of about 1% each year over 3 years or only about 9000 extra students each year. Considering that population growth is about 2% per annum, it shows that the government plans to cut the number of university students in this period as a percentage of the population. Over the same period, the government plans to increase the number of TVET students from 800 000 to 1.2 million, suggesting that this is where higher education funding is being channeled. Effectively transferring funding from universities to vocational colleges.

Allocations to Higher Education institutions will increase from R26bn in 2014/15 by about R1bn per year to R29.3bn in 2017/8. This is an annual increase of about 4.1% each year. This is less than inflation measured by CPI which amounts to a decrease in real spending on universities.

Table 3.4.8 The direct university subsidy also reflects the cuts.

2014/15	2015/16	2016/17	2017/18
R21.4bn	22.9	24.1	25.3
	7%	5%	4.9%

Financing Expenditure through Debt

In the 2014/15 financial year South Africa had insufficient revenue to cover the costs of service delivery to citizens. There are three options that are available to the National Treasury in this situation:

1. Reduce Government Spending
2. Increase Government Revenue through debt, increased tax rates or increasing the size of the economy and thus the funds available for taxation.
3. A combination of the two options above.

Net debt has grown as a percentage of GDP from 21.8 per cent at the start of the financial crisis in 2008/09 to 40.8 percent in 2014/15. The government has taken on some measures in an attempt to reduce debt. However, "Debt-service costs continue to be the fastest-growing component of main budget expenditure, increasing by 10.1 per cent in nominal terms over the medium term. The costs of financing government debt are projected to increase from R115 billion in 2014/15 to R153.4 billion in 2017/18, accounting for 3.1 per cent of GDP."

The table below provides information on the cost of debt servicing.

Table 3.4.9 National government debt-service costs, 2013/14 – 2017/18

R million	2013/14	2014/15		2015/16	2016/17	2017/18
	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	93,192	106,212	106,810	117,043	131,018	142,844
Short-term	11,742	14,818	14,608	15,189	18,481	21,429
Long-term	81,450	91,394	92,202	101,854	112,537	121,415

Foreign loans	7,993	8,689	8,206	9,397	9,953	10,532
Total	101,185	114,901	115,016	126,440	140,971	153,376
<i>As percentage of:</i>						
GDP	2.8	3.0	3.0	3.0	3.1	3.1
Expenditure	9.7	10.1	10.1	10.3	10.8	10.8
Revenue	11.4	11.9	12.1	12.1	12.1	12.1

Source: National Treasury

Credit Ratings

The illustration below depicts the gross external debt with respect to GDP in nominal terms against the sovereign credit rating of South Africa as measured by the large credit rating agencies. It is worth noting that while Debt to GDP was falling the rating of the country was increasing. At the time the growth rate was consistently above 5%. By mid-2009 Debt to GDP was rising along with growth and credit ratings continued to sore. As soon as growth and Debt to GDP diverged in 2011 the sovereign credit ratings began to decline. They did so rapidly and by 2015 all the gains made since 2000 were effectively lost.

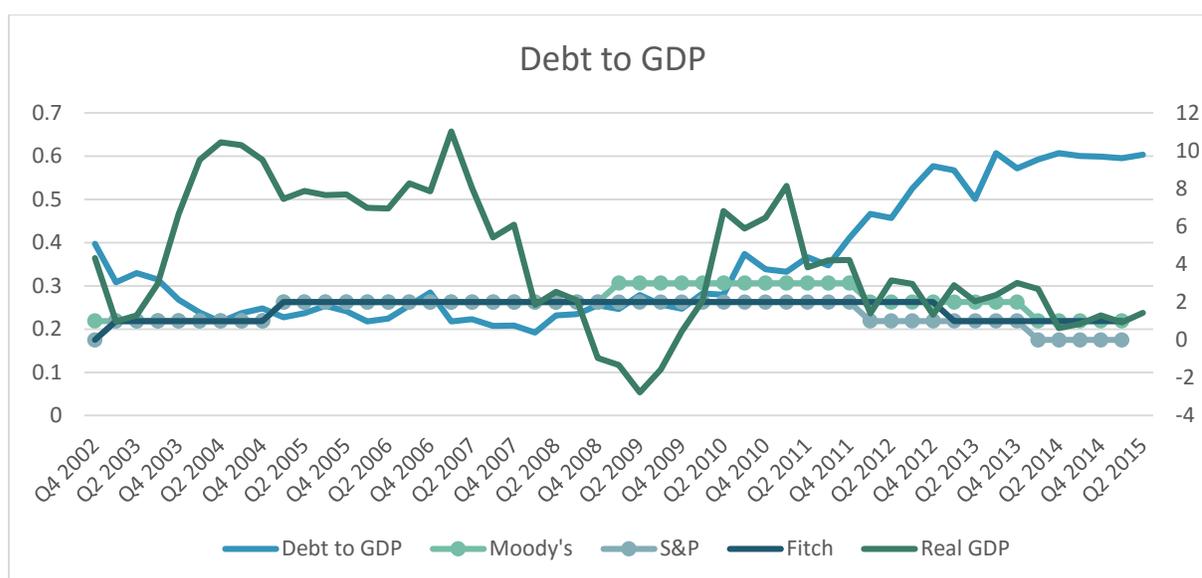


Figure 3.4.10: Debt to GDP and Credit Ratings (Stats SA 2015)

Financing Expenditure through Growth

There are several strategies that can be applied to the financing of government expenditure. On the one hand expenditure can be focused on public goods and redistribution and on the other expenditure can be used to stimulate long term growth. Stimulating long term growth might allow for financing the budget indirectly by increasing the tax base.

The table below provides information on the contribution to GDP by various sectors. Manufacturing, Trade, Financial Services and Government Spending are among the largest sectors of the economy. Financial Services is in fact the largest sector yet it typically requires high levels of education to gain employment in the sector. The Manufacturing and Mining sectors generate the most amount of foreign exchange at a ratio close to 50% each.

TABLE 3.4.11 CONTRIBUTION BY SECTOR TO GDP

DATE	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
AGRICULTURE, FORESTRY AND FISHING	1.8%	3.8%	2.3%	1.0%	1.9%	3.5%	1.9%
MINING AND QUARRYING	7.4%	7.2%	7.9%	7.7%	7.0%	7.0%	7.4%
MANU-FACTURING	11.7%	11.6%	12.0%	12.2%	11.5%	11.3%	11.9%
ELECTRICITY, GAS AND WATER	3.2%	4.0%	3.4%	2.7%	3.1%	3.9%	3.3%
CONSTRUCTION	3.7%	4.0%	3.6%	3.4%	3.5%	3.9%	3.5%
WHOLESALE, RETAIL, MOTOR TRADE AND ACCOMODATION	13.0%	13.1%	12.9%	14.2%	13.0%	13.1%	13.1%
TRANSPORT, STORAGE AND COMMUNICATION	8.5%	8.9%	9.1%	9.3%	8.6%	8.8%	8.9%
FINANCE, REAL ESTATE AND BUSINESS SERVICES	19.0%	18.1%	18.2%	18.5%	19.3%	18.4%	18.5%
GENERAL GOVERNMENT SERVICES	15.2%	15.4%	15.2%	15.1%	15.3%	15.4%	15.7%
PERSONAL SERVICES	5.1%	5.2%	5.2%	5.0%	5.0%	5.1%	5.2%
TOTAL VALUE ADDED AT BASIC PRICES	88.5%	91.3%	89.8%	89.1%	88.2%	90.4%	89.4%
TAXES LESS SUBSIDIES ON PRODUCTS	11.5%	8.7%	10.2%	10.9%	11.8%	9.6%	10.6%

(Stats SA, 2015)

Sector growth trends between 2012 and 2014 illustrate that Mining and Manufacturing are the most volatile sectors. This might have to do with the fact that they are exposed to currency risk (revenue depends partly on the value of currency since goods are exported) and the rand is one of the most volatile currencies in the world. Financial services seem to grow steadily along with construction.

Table 3.4.12 Sector growth trends, 2012 – 2014

Percentage	2012	2013					2014			
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Year ¹
Agriculture, forestry and fishing	0.6	-2.9	-1.1	3.6	6.9	1.5	3.3	5.3	8.2	4.6
Mining and quarrying	-2.9	14.3	-4.5	12.3	17.2	4.0	-23.0	-3.1	1.6	-1.4
Manufacturing	1.9	-7.8	11.7	-6.6	12.3	0.7	-6.4	-4.0	-3.4	0.1
Electricity and water	-0.1	-4.8	3.0	1.9	-6.0	-0.6	0.2	-0.5	-1.1	-1.1
Construction	2.1	-0.8	5.1	0.6	3.6	2.7	3.7	2.1	2.2	2.9
Wholesale and retail trade; hotels and restaurants	3.6	0.9	2.2	0.3	1.8	1.9	1.5	-0.3	3.4	1.3
Transport and communication	2.5	2.0	1.6	2.6	1.6	2.0	1.4	3.9	2.2	2.1
Finance, real estate and business services	3.0	4.8	5.0	2.8	2.6	3.0	1.4	1.2	2.4	2.3
Personal services	2.1	1.2	2.7	1.2	1.2	1.8	1.5	1.5	1.3	1.5
General government	3.6	1.3	2.8	2.8	4.6	3.1	2.3	3.9	2.2	3.3
GDP	2.2	1.4	3.7	1.2	5.1	2.2	-1.6	0.5	1.4	1.5

1. Year-to-date growth trend

Source: Reserve Bank

National Treasury would have to choose which sectors to focus on in order to increase growth and thereby access more revenue in the long term. While this question cannot be addressed fully here the characteristic of such industries can be discussed. Increasing returns to scale and high employment potential are strong characteristics. In the first case the larger the industry becomes the cheaper it is to make a good return. Additionally the ability to generate foreign exchange allows a sector to contribute to stabilising the currency. The South African reserve bank considers the rand to be one of the strongest drivers of inflation in the country. This has the effect of reducing real incomes.

The case of auto-manufacturing and platinum

As an example of indirect strategies for finding funding for tertiary education, we look at platinum. South Africa produces near 80% of the world's new platinum. Approximately 66% of this new platinum is used for the production of catalytic converters. South Africa also has a protected automotive industry that exports vehicles internationally. The size of the industry was R44.4Bn in February 2015. In 2009 South African mines produced 2.71 tonnes of platinum group metals. In general anywhere from 1 to 30 grams of platinum group metals could be used in a catalytic converter. The price of 3 way catalytic converters can range from \$200 to \$2500. This can allow for the assessment of the financial viability of a scenario that allows the state to invest in auto-manufacturing for the purposes of creating catalytic converters. If a 1 gram catalytic converter is priced at \$200 and the prevailing rand/dollar exchange rate is R15.90 then the potential value of the catalytic converter market in South Africa is R862Bn. If only 66% of this new platinum is used for catalytic converters then the market size is R568Bn. The total production of the mining and manufacturing industries in 2014 was R739Bn; therefore by providing the manufacturing industry with additional funds it could be possible to increase the industry size by nearly 80%. If the 2014 employment of 1.749 million people also increase 80% then this would constitute 1.4 million new jobs. If these jobs paid the same level of compensation as that which prevailed in 2014 then each job would pay R184 thousand a year. The increase in taxation from personal income would be R47Bn while the increase from corporate tax would be 1.45% of turnover and therefore R8Bn a year. It is also important to remember that there would be indirect effects in other parts of the economy that would boost GDP. This additional R55Bn would be sufficient to cover the full cost of tertiary education in 2013.

This example is only illustrative – of course, there are problems with subsidizing a capital-intensive sector in an economy where employment should be prioritized. Demand may also fluctuate, making these calculations unrealistic.

Financial Markets and Compensation

The figure below provides an empirical perspective on the link between financial markets and real compensation (wages) growth. These growth figures measure the changes in each underlying variable with respect to the same time period a year before. When consecutive



quarters are compared there is often a high level of variation which is indicative of seasonal variation. Comparing similar quarters in different years allows for this seasonal variation effect to be reduced. It is clear from the figure that real GDP per capita growth, real compensation growth and the growth in the ALL Share Index (ALSI) are moving together. This suggests that they are correlated. The prefix real refers to the fact that inflation has been removed from these growth figures. As such it seems natural that CPI the Consumer Price Index would move in the opposite direction to real compensation.

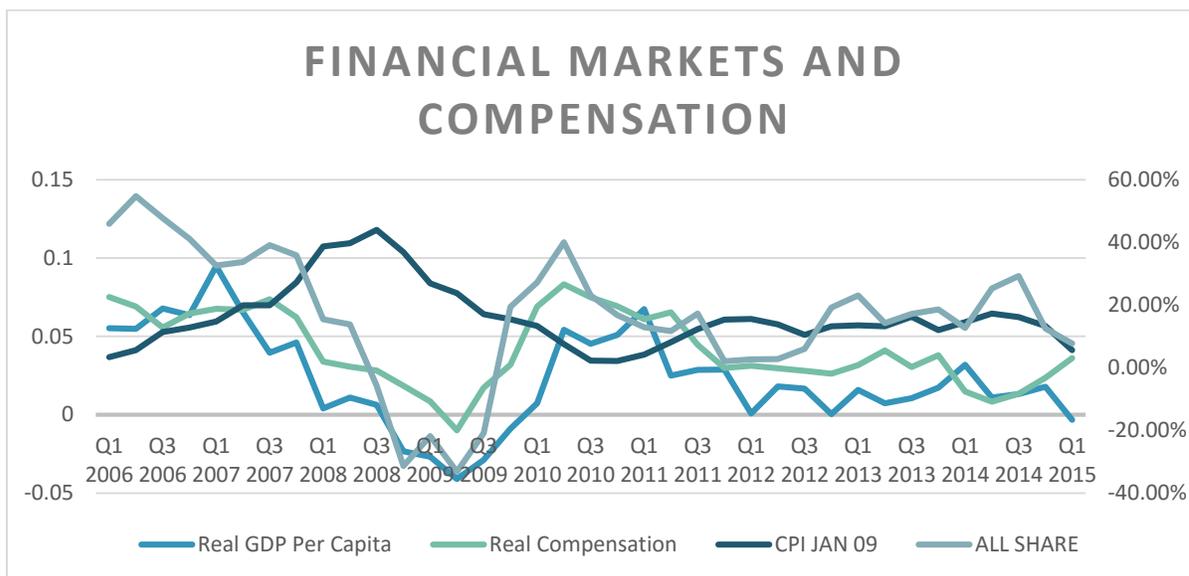


Figure 3.4.13: Financial Markets and Compensation (Stats SA, 2015)

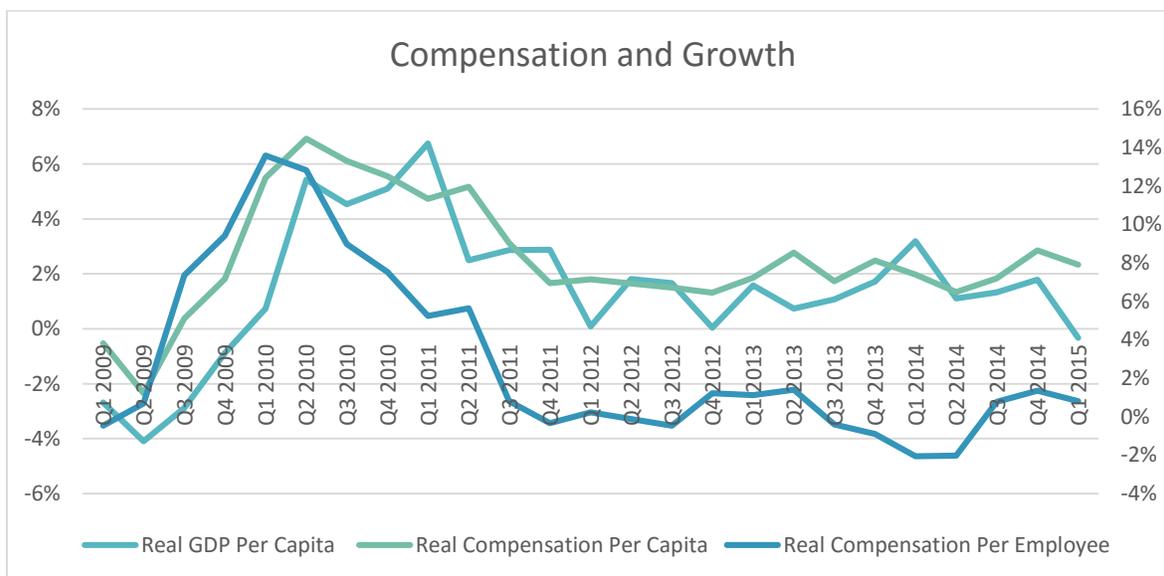


Figure 3.4.14: Compensation and Growth Per Employee (Stats SA, 2015)



The compensation considered in the above paragraph was aggregate compensation. It is of interest to consider compensation per employee which takes into account the level of employment. It is clear from this graph that compensation per employee is a leading indicator for real GDP growth per capita as GDP seems to follow its lead. Another interpretation is that firms decide to boost wages if they suspect the economy will improve over the medium term. As such the state of the economy and firm perceptions about it are important with respect to determining wages in the country. As discussed in further detail below when compensation is low acquiring essential goods like food, health care and education can become difficult. For this reason any strategy that tries to provide these goods should consider doing so without simultaneously hurting the economy.



SECTION 4: BROADER DISCUSSIONS ON DECOLONISING EDUCATION

4.1 Workshop: A critical look at the fee free report

The Department of Higher Education and Training has released a report that looks at providing free education for the poor. The Working Group that drafted the report made recommendations that students from families earning less than R54 200 should be fully funded under the NSFAS structure funded partially by funds from SETA contributions. Student from families earning an income between R54200 and R271000 have been recommended to be eligible for free education, however, they have to make household contributions.

The following are excerpts with problems identified. The questions are designed to be provocative. If you have time, read the report and think about underlying assumptions. Otherwise, discuss these excerpts.

Page 22-23:

“Critical considerations...The extent to which the South African public is willing to contemplate higher taxation, and/or more sharply progressive taxation, whether in general or for a specified time or purpose, in order to move closer to the ideal of free university education for the poor, and possibly even free university education for all.”

What are the academic opinions on how much more tax the SA public is “willing to contemplate”, and plausible are these opinions? What are the other ways of financing free university education?

Page 34:

“It follows from this, too, that lecturers need to be appropriately remunerated, supported and given professional autonomy in their work, and enabled to engage with colleagues across institutions and in other countries in a regular and coherent manner (through, for example, conference funding). In many institutions, underfunding has led to lecturer salaries being uncompetitive.”

How important are competitive lecturer salaries to public decolonized African universities?

Page 34-35:

“On top of reduced class sizes, lecturers also need to be encouraged and assisted to balance their teaching, research, administrative and developmental roles. This may require additional funds over and above those that will be injected into the system through financial aid for poor students, but it could dovetail with efforts to build research capacity and train new junior academics and tutors as well as administrative staff who can also oversee functions such as student registration and invigilation. It may also require changes to the ways in which universities are funded.”



If we're making universities more equitable and less European, perhaps we don't need more money, but a fairer and better distribution of money, along with the other ideas and structure of a decolonized university.

Page 36:

"It is generally agreed that education (at all levels) is both a public and a private good"

How solid are the academic arguments that back this up (particularly the public good aspect)? To many activists, UCT could be considered a "public bad". To choose a more obvious example, in the early twentieth century most British people thought Oxford University was a public good for the people of the British Empire. But one of its major productions was officials for the colonial system. So the bad it did in thereby (and in many other ways) supporting colonialism probably outweighed any good effects it had. It is still the case that each South African university nurtures people who go on to powerful positions from which they direct, maintain and perpetuate neo-colonial capitalism. Perhaps that outweighs any good effects they have.

Page 50:

"From where might funding be obtained in order to finance free university education for the poor?"

Why do they not consider "expropriating property" or even just "increasing taxes on the rich" here?

General notes on the fee free report

The state has been lenient on collecting NSFAS loan repayments. With a 72% non-completion rate prevailing at higher education institution it is likely that the loans are not recoverable. Even among the 28% who complete their study there is a low recovery rate. Thus NSFAS loans become defacto grants. The 2012 plan suggests increasing collections and using them to fund future students.

The plan for free education for the poor is supposed to be funded through loans from international banks. This is estimated to double the extent of NSFAS loans. Thus, while the banks already profit from loans to students whose household income does meet their lending criteria, their scope to profit is expanded by the new scheme as the state stands as the guarantor. Under the new proposal the state will become the debt collector for the international banks, pursuing graduates as well as those who drop out.

The 2012 plan looks at a number of different scenarios:

If the current NSFAS system is continued, then the breakdown of funding is as follows: in 2013, 45% from family contribution, 19% student contribution, 36% from government. This is set to



change to 50% family contribution, 21 % from the student and 29% from government, by 2026. (Table 12 of the 2012 plan)

Under the new system of a fully funded first degree, with rebate of 20%, 20% and 40% in the years of study (assuming maximum funding for an extra 2 years and allowing some of those who failed to re-apply for funding, the proposal is as follows:

In 2013, 36% from family contribution, 29% from student, 35% from the government. This is set to change to 36% from family, 35% from the student and 30% from government. (Table 4 of the 2012 plan)

Thus in both cases the state plans to reduce their funding and to shift the burden of tertiary education onto the shoulders of the family and the student. Their 'free' loan plan increases the contribution of the student from the current 19% to 36%. In fact the poor will be expected to pay much more for tertiary education than the current NSFAS system.

Increased support?

Although the 2012 document proposes much increased allocation to universities for necessary reduction of lecturer-student ratios, for tutorial support and improved academic support, the model proposes a reduction in state contribution over time and that the funding for extra support comes from the students themselves.

Moving away from bursaries from SETA's and the National Skills funds?

The 2012 plan proposes to bring the funds of the SETAs and National Skills fund under central rules of state support for tertiary education. It is unclear whether this transfer of funds is best – more funding towards less elite skills training may be much more important for the working class.

The state plans for a 7.5% graduation rate

The NDP sets as a target that by 2030 there should be a 30% enrolment rate of school-leaving youth and a completion rate of 25%. This amounts to a 7.5% graduate rate among youth (up to the age of 34). The Green paper on higher education sets an even lower enrolment rate of 23% of school leaving youth by 2030.

In 2007 about 600 000 NEET youth (Not in Education, Employment or Training) and 100 000 who had university exemption but were not accepted; while less were accepted into tertiary study. Consider also that more than 50% of youth do not even finish matric.

The World Bank Education Strategy 2020 is based on fully funded primary education and on increasing privatization of tertiary education (Salim Vally and Carol-Anne Spreen). The 2012 plan of government is in line with this.



Thus the low skill, high unemployment structure of the economy is set to continue. The structural inequality from apartheid will continue.

Entrenching patriarchy?

The entire 2012 document is silent on gender, ignoring its interactions with poverty and its importance in universities.

Technician rather than critical thinking

The entire 2012 document has emphasis on technicians and technical skills and knowledge as a commodity rather than promoting critical thinking. This is in line with the World Bank linked systemic tests at schools which is based on technical recall rather than critical thinking and cultural flowering. In other words, the system is based on simple recall and technical mastery rather than deep conceptual understanding.

Functionalist relation between education and economic growth

The 2012 document is based on a functionalist relation between education and economic growth – ignores unequal trade relations/climate change/military occupation/ structural unemployment.

Education is not only for the labour market, but for democratic participation in society. Political institutions rely on the quality of education. People are able to hold the government more to account when equipped with better education. In a subtler way, the particular curriculum shapes social values.

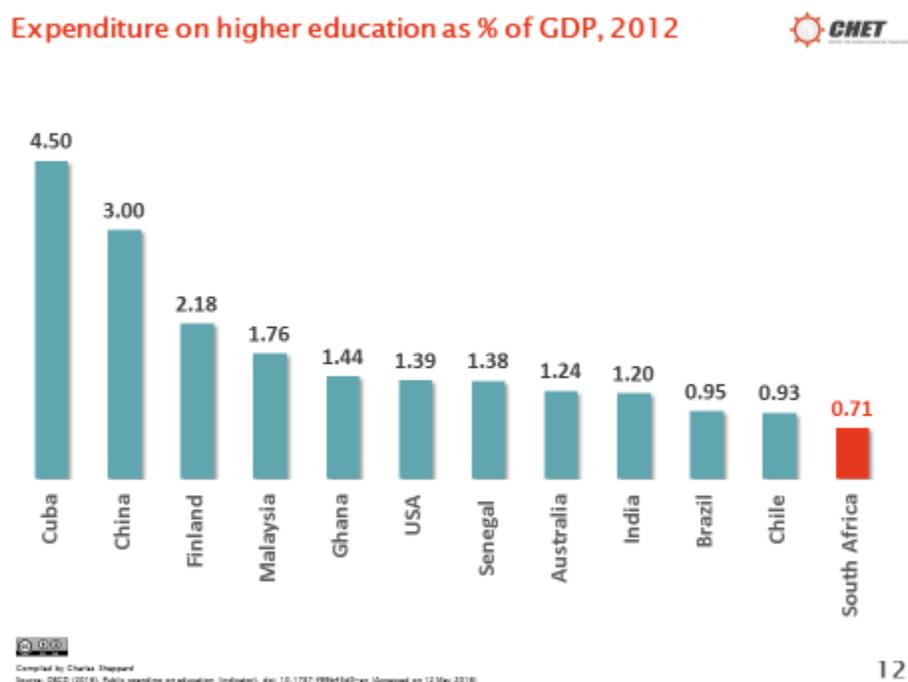
Educational level is linked to intrinsic economic structure; de facto, the system puts blame on the poor for non-achievement.

4.2 International comparative case study: Brazil

Internationally, South Africa lags behind in terms of spending on tertiary education. Even then, this masks how the education system operates and the ways in which this advantages or disadvantages the poor. We look to a case study of Brazil to explore the mechanisms behind funding and operating free education.



Figure 4.2.1: International comparison of state expenditure on tertiary education



12

Source: Nico Coete. 2016. *University fees in South Africa: A story from evidence*, Presentation at SALDRU, UCT. CHET.

A description of Brazil

This section, in part, serves to refute the argument against free higher education in the media running along the lines of, “South Africa doesn’t have enough money for it.” It does that by focusing on countries in the global South which do have free tertiary education. This is a brief case study on Brazil, drawing lessons from their tertiary education system.

Brazil is a large country in 2014 its population was 206.1 million. Brazil is an upper middle income country like South Africa, with a large degree of inequality. In 2013, it had a Gini coefficient of 0.53 making it one of the most unequal countries in the world in term of income distribution. Violent crime is also prevalent. Its Human Development Index, a composite measure which looks at income, education and healthcare in a country, was 0.75 in 2014. According to the UN human development index suggested Brazil had having high human development.

Brazil has had a long time to achieve this development. The country after being colonised by Portugal in 1500 declared independence in 1822. Brazil experienced two spells of dictatorship in the 1930s, and military rule between 1964 and 1985. Today Brazil is a capitalist democracy. It is currently ruled by a centre-left party called the Workers’ Party which has its roots in opposing the military government of the 1980s.

Brazil is diverse, with Native Brazilians, people with African roots and people of Portuguese heritage. During colonialism, Africans were taken as slaves to work in Brazil, resulting in a large

African Brazilian population. In 2010, 47.73% of people surveyed self-identified as white, making it the largest population group in the country.

Higher education in Brazil

Despite public higher education being free in Brazil, places are extremely limited. As a result, there are rigorous entrance examinations. Wealthier children who attended expensive, well resourced, private high schools stand a better chance of securing a place than poorer children who did not attend such schools. There is a disproportionate number of white and wealthy students in Brazilian public universities. For instance 68% of students are white while the national proportion is 48%.

There are also private universities for those who do not get a place at any public university. Private universities charge fees which exclude poor students from attending on the basis of insufficient income. Spaces at public institutions are limited and so 95% of university students in Brazil are at private institutions. The extent to which higher education is practically free in Brazil is thus debatable.

In response, the Brazilian government has implemented a variety of measures to alleviate the excess demand. One such intervention involves private universities being given tax breaks for allowing poor students not to pay tuition.

There have also been initiatives aimed at expanding access in the public sector. Quotas have been introduced in a bid to increase the proportion of African Brazilians at universities. These came about as a result of pressure from civil society, and are aimed at alleviating years of exclusion that African Brazilians have experienced. The quotas, while controversial, seem to have been successful in making access to free higher education more equitable.

Changes have also been proposed with regards to the entrance examinations. It is proposed that entrance to university will be based on an examination compulsory for all high school matriculates. In this way, performance throughout high school is emphasised over performance in a single exam.

While this course is focused on refuting the neoliberal arguments against free higher education, it is important to examine how free higher education has been provided within a neoliberal framework. In 2007, the Brazilian government introduced a policy called the Education Development Plan, or PDE. The policy brought widespread reform to the education sector, including the release of more funds for the expansion of public higher education. The implementation of PDE is dependent on the implementation of another policy called the Accelerated Growth Plan Infrastructure, or PAC. This focus and dependency on growth fits very much within neoliberalism, and allows the Brazilian higher education system to be described as growth financed in some ways.

Despite free higher education in Brazil being somewhat dependent on growth, the state spends a large portion of its money on universities. More than 80% of the entire education budget goes towards higher education. This is compared to the 15% that South Africa spends on universities as a proportion of its education budget.

Despite this large proportion spent on universities in Brazil, there are still inequalities with regards to access. This is not surprising in a country as large and unequal as Brazil. Some



academics conclude that the only way for access to higher education to become more equitable in Brazil is through an expansion of the public sector.

Workshop

Other countries of interest include Cuba, Ecuador, Tunisia, Senegal, Cameroon and Angola. Research their free education policies for comparison to South Africa and decolonization struggles.

4.3 A Heterodox Perspective

The Era of Privatization and Higher Education

The period after the Second World War opened up a period of free education on a wide scale, in the Social democracies of Europe, and in the regions where revolutions occurred (Cuba and China); this period was also characterized by military dictatorships across South America and Africa.

The 1973 oil crisis and the early 1980's marked the intensification of struggles against nationalised property. The rise of Thatcherism and Reaganomics launched heavy class battles in which a key moment was the defeat of the coal miner's strike in 1984 in Britain. After the fall of the Soviet Union in 1989 there was an increased drive towards privatization.

Despite capitalism claiming the high ground since then, the period has still been marked by crises (1997 dot com bubble, the 2001 housing bubble and the 2008 Lehman brothers collapse). There is no sign of an end to the capitalist crises. Areas that were previously held in public hands, like energy generation, health care, municipal services, pensions, education, housing, were increasingly being opened to direct exploitation by the capitalist class.

The forces within the liberation movements have always strived for free education up to the highest levels. The RDP programme of the ANC in 1994 left the question of higher education open while the Constitution has proclaimed that higher education should be progressively receive increased state support. The 1994 transition which left the bulk of the wealth in the hands of the monopolies meant that their dominance continued over the economy and over education.

'3.3.13.1 The higher education system represents a major resource for national development and contributes to the world-wide advance of knowledge. But its present structure and capacity are seriously distorted by the apartheid inheritance, its governance systems are outmoded, and its funding arrangements have led to serious crises for both the students and the institutions themselves.



3.3.13.2 In order to address these structural problems with the seriousness they deserve, the new democratic government will consult all significant stakeholders with a view to appointing a representative and expert higher education commission to investigate and report urgently on the role of the higher education sector in national reconstruction and development' (RDP 1994)

In 1999 NSFAS came into being. By setting a definition of 'poor' as being an annual household income lower than the tax threshold, the government left the provision for much of higher education in private hands. Instead of taking the provision of higher education completely into state hands, the role of private capital was entrenched and expanded. The government subsidies to universities were reduced steadily from 2000 to 2010 and beyond. From 2000 to 2010 the states contribution to the total cost of university study was reduced from 49% to 40%. State contributions are still falling in real terms. Funding was reduced to the Humanities while the technical areas today referred to as STEM standing for science, technology, engineering and mathematics were promoted. The notion of a knowledge commodity economy has steadily taken root.

'New' areas which would not have existed if education was free and transformed, suddenly sprang up. Eduloan was set up with their shareholders including Standard Bank and Kopano Investments a Cosatu Investment arm. Eduloan has issued more than R6bn in loans. Curro investments which is a private schooling firm funded partly by the PIC has listed on the JSE. There are also private universities being set up. The reduction of spending on universities opened up the period of outsourcing at universities, a step which has spread throughout all sectors in the country.

Asset Ownership and Capital Flight

Up to 1994 the SA economy was largely in the hands of Anglo American (Anglo directly controlled over 50% of the shares on the JSE by 1994). The other monopolies that also controlled the SA economy were Sanlam, Remgro, Liberty Life and Old Mutual. These 5 and the banks behind them, like JP Morgan Chase are still the main companies that control the bulk of the wealth in SA. The universities have largely developed historically to support mining and agriculture.

The mines have benefitted from labour throughout across Southern Africa. Today the major sectors of the economy have significant shareholdings from international banks. The details of some of these holdings are shown above with figures from McGregor's **Who Owns Whom** (2010). The Bank of New York has large stakes in domestic gold mining firms. Anglo American has large stakes in diamonds, platinum, coal, iron ore, and other commodities as a diversified resources firm. Food, construction and oil firms all have international bank shareholdings. The JSE has a large market capitalisation and in general South African capital markets are sophisticated. This allows foreign investors to gain exposure to African markets. What is not clear from the ownership diagram is whether the international investments are direct or indirect. Investments like Barclays into Absa are direct as Barclays is the final owner of the



shares. Investments by firms like State Street and Blackrock who largely run collective investment schemes are indirect as the shares are owned by clients and not the firms.

Through **transfer pricing**, large firms, mostly mines, have under reported vast sums in revenue. Over several years the government has offered amnesty which firms have ignored. It is believed instead that since 1994 the illicit flows have continued. This could be the reflection of collusion between the state and capital. In exchange for turning a blind eye the revolving door between high powered political and corporate office remains lubricated. For example, the ex-Governor of the Reserve bank, Tito Mboweni recently became Chairman of Anglo Gold Ashanti. In his defence Tito commanded the respect of the international business and banking industry and would not have been expected to struggle to find gainful employment.

Table 4.3.1: Capital flight

Illegal capital flight from SA in dollars through transfer pricing	Time period
\$32bn (1985 prices)	1970- 1993
\$89bn (2007 prices)	1994-2007

(Susan Newman: presentation at 3rd IIPPE International workshop, Ankara, Turkey)

In the period 1970-1993 capital flight from transfer pricing amounted to \$32bn by 1994-2007 it had more than doubled to \$89bn. Over the period from 1994-2015 taxes on corporate profits were lowered from 48% in 1994 to 28% and funding for higher education has decreased in real terms.

Taken together, hundreds of billions of rand are taken out of SA each year through direct and indirect theft by the monopolies. This wealth could have been used to fund free education, quality health care, housing and to stimulate the economy to create jobs.

4.4 Debating with neoclassical economists

A discussion of increased funding inevitably leads to broader macro implications. There are two stock neoliberal reactions to a discussion of stronger redistributive measures:

- *“Foreign Direct Investment (FDI) will decrease in an environment that is less friendly to the market.”* Much of our economic policy is moulded around attracting FDI (see GEAR programme of the state). However, much of FDI is in non-productive assets and focuses on sectors of the economy that are not employment-creating, thus serving the wealthy.
- *“Where tax is increased, the incentive to work is decreased.”* Many studies have shown a weak link between giving up money under certain conditions and withdrawing labour;



humans have a natural inclination towards strong reciprocity. For example, this could be especially true in South Africa where wealth distribution is a direct result of colonial policies. Even where it is true that increasing taxes or expropriating wealth will cause upset, it is unclear whether the benefit (psychological and material) is not greater.

See the sections on “Historical budgetary changes” in “History of Education” for examples of how these responses have been used to justify the mass disempowerment of the poor.

Workshop: Popular economic arguments given against free education

Many economic arguments have populated the media regarding free university education. The following are excerpts based on typical neoliberal modes of thinking. A suggested response is given below, but your motivation and reasoning may of course differ. Some aspects of popular arguments contain important truths – the point of this exercise is not to conclusively reject arguments, but to introduce important responses.

“Surely it is not fair that the intrinsic rewards and competitive advantage conferred by higher education should be fully funded by taxpayers when only a minority enjoy them. There are far stronger arguments for making high school education or healthcare free at the point of use. Everyone can expect to need healthcare and almost 100% of South Africans receive some high school education.”

Of course there are more urgent priorities than funding tertiary education. However, it is a misunderstanding to see the budget as static, a common fault in economic arguments. Funding can be transferred, or found from new sources of revenue. The movement for free education is a political struggle: all student activists demand a South Africa away from the brutal conditions that the vast majority of residents face. For example, the government can be forced to take wealth from the rich and redistribute it to the poor, using this unique power that students hold over the universities, institutions that in many ways underpin the economy. We are using our political capital in universities as students to begin the process of redistribution – it starts with tertiary funding, but should spread. If the government attempts to fund free education by transferring funds away from other important areas, we should object vigorously.

“He cautioned that if South Africa worked towards a system of free higher education “resources would be transferred from the fiscus to affluent families. Through taxation the poor would be made to pay for the education of the rich.”

Yes, this is something we should watch out for: one way the government is rumoured to be looking to fund the higher education bill is through increased VAT. This would be outrageous. However, there are many other forms of tax like inheritance or wealth tax that exclusively target the rich, as well as many budgetary reallocations that could drive focus from the rich to the poor.

“Many students are calling for the reduction or total abolishment of fees across the board. But I would argue for better targeted support for poorer students, instead of a blanket reduction in student fees. This is because reducing student fees will benefit wealthy South Africans more than poor South Africans.

How is this possible? Because the wealthy are more likely to access tertiary education.”



Indeed, more strongly progressive fees would be a better solution than the status quo. It is imperative that the rich should be made to pay more, whether through national tax or through local university fees. However, (a) poorer universities do not have a rich student base as in wealthier elite universities like UCT and WITS, leaving the burden in these institutions on poor students under this policy, (b) this distracts from the ambitions of the decolonisation protests - a national government that targets all rich, not just those with children in tertiary education, and that is ultimately forced into a socialist state, and (c) the national tax system is already a progressive (wealthier people are proportionately taxed more) tax structure, meaning that a new system with all the associated costs would not have to be instituted.

Making education free does not change the constraints on the number of places available in universities. Given that richer students have the best quality basic education and support, they are likely to be the first accepted in a non-financial, purely meritocratic system - thus, poorer students are unlikely to have greater access.

It is true that the constraints remain. Almost everyone agrees that the quality of basic and secondary education is a priority, though not mutually exclusively so. Firstly, universities placement capacity should be forced to rapidly expand (unlike UCT, see enrolment rates); if this means that its elite status is sacrificed for greater access, this should be debated and fully considered as a legitimate avenue (but this need not necessarily be a trade-off). Secondly, adjustments would still be made for variance in quality of primary and secondary education, for example as with UCT's current acceptance requirements.

Making education free might result in a lower pass rate at tertiary institutions and lead to less motivation among students, as students do not face the cost of failing.

In a decolonised socialist society, the threat of material deprivation should never be held over the necks of poor students, thus forcing motivation. Besides the inhumanity of this approach, this is a threat held exclusively over poor students, with rich students materially unaffected by failure. However, even under a crude incentives approach, the benefit of passing in future income earned and forming part of the university elite (see earlier data) is sufficient motivation.

Rules of thumb in debates with neoliberals

In general, highly contestable opinion is presented as fact or established theory, sometimes using evidence from studies with badly applied mathematical or statistical analysis that serve to mask ideology. There is some movement towards more realistic thought in some economic circles (e.g. minimum wage debate), but usually popular economics (business people and media) is far behind academics, who are in turn usually far from any sane economic outlook.

Here are some common problems in popular economic thought:

- The basic economic models do not care for autonomy or power, which is really the foundation of economics and politics.
- The dynamism of human beings away from homo-economicus is ignored. In reality, we do not calculate all our decisions 100%, and we are influenced "irrationally". Think about how motivation influences productivity in human capital theory. Humans are not totally selfish, and perceptions play a key role in our decisions.



- Context is trivialised and theories are far too generalised. For example, South Africa's history of stolen wealth makes this country distinct, but general economic theories of capital and wealth are applied to us.

Hopefully this section has given you an impression of how dehumanising much of the neoclassical view is. It is an ideology created to serve the powerful, and reproduced through indoctrination.



Conclusion

Seeing as this is a working document, many questions remain unanswered. We fully welcome additions and suggestions. It is clear that education should not be seen as a commodity, but rather as an instrumental necessity to ensure economic growth, human development, reduce inequity and strive for a more egalitarian society. Although the legislation has been abolished, separate and unequal education still persists and reproduces itself through the exploitative nature of a capitalist South African society. We have a system of education which is designed and geared to cater for an elite and remains tantalisingly elusive for the majority of South African citizens despite the constitution.

Additional reading list:

1. Ian Bunting, Higher Education landscape under Apartheid, pg 49-51
2. DHET Green Paper, 2012
3. The Political Economy of Inequality and Education – Reflections on Picketty
4. Amersfoort legacy – a history through pictures and <http://www.sahistory.org.za/topic/amersfoort-legacy-timeline-1658-present>
5. Higher Education Ammendment Bill Draft (2016)
6. Education White Paper 3 - 1997
7. Public Participation in Education Network (PPEN) - 2008
8. White Paper for post school education and training - 2014
9. Report of the Working Group on Fee Free University Education for the Poor in South Africa
10. World Bank Group, Education Strategy 2020
11. Lenin's State and Revolution Chapter 1 (1917), The State: an Instrument for the Exploitation of the Oppressed Class

