

IMPLICATIONS FOR FREE EDUCATION IN THE CURRENT ECONOMIC ENVIRONMENT

Public Servants Association

October 2018

.....

Introduction

In an era of divisive political discourse, there appears to be an inclination for key issues or initiatives to be viewed as either entirely good or entirely disastrous. Free higher education certainly fits this mould. Advocates for the removal of university fees argue that expensive education acts as a barrier to the realisation of the talent of the underprivileged majority of South Africans. Opponents argue that the immense cost of subsidising university fees will deepen the state's debt, and undermine resources for other important initiatives, like improving basic education.

There is rarely any space for doubt between these two sides. Those who find themselves between the two viewpoints tend to be condemned by all sides. And yet the truth likely does sit somewhere between the two viewpoints. The entirety of South Africa's education system is clearly prejudiced against the most vulnerable, and the lack of educational justice risks undermining the supply of critical talent to the economy. And yet it remains unclear how free education could be sustainably funded, or where higher education should fall among South Africa's many pressing social priorities, all of which are constantly clamouring for additional resources.

The case becomes more complex on all sides when it is updated for the way South Africa has changed since the height of Fees Must Fall. With the economy slowing dramatically, the costs of free education have grown. Destabilized state institutions are in need of serious rebuilding in order to implement large, complex initiatives like university reform - and these changes will need to happen while the Ramaphosa administration is planning a large restructuring of the structure of the state. And at the same time, a growing awareness of changing the production patterns of Industry 4.0, and a more aggressively populist political environment, both demand action.

This paper will attempt to review the balance of arguments for and against Free Higher Education, and understand how they have changed in the evolving environment after Fees Must Fall. It will argue that, with accessible higher education a major political priority, a compromise solution is still possible, which involves setting fee free education into a larger package of reforms that offer more comprehensive support to students seeking a university degree - and which will require a major role for public servants.

The case for free higher education

Justice

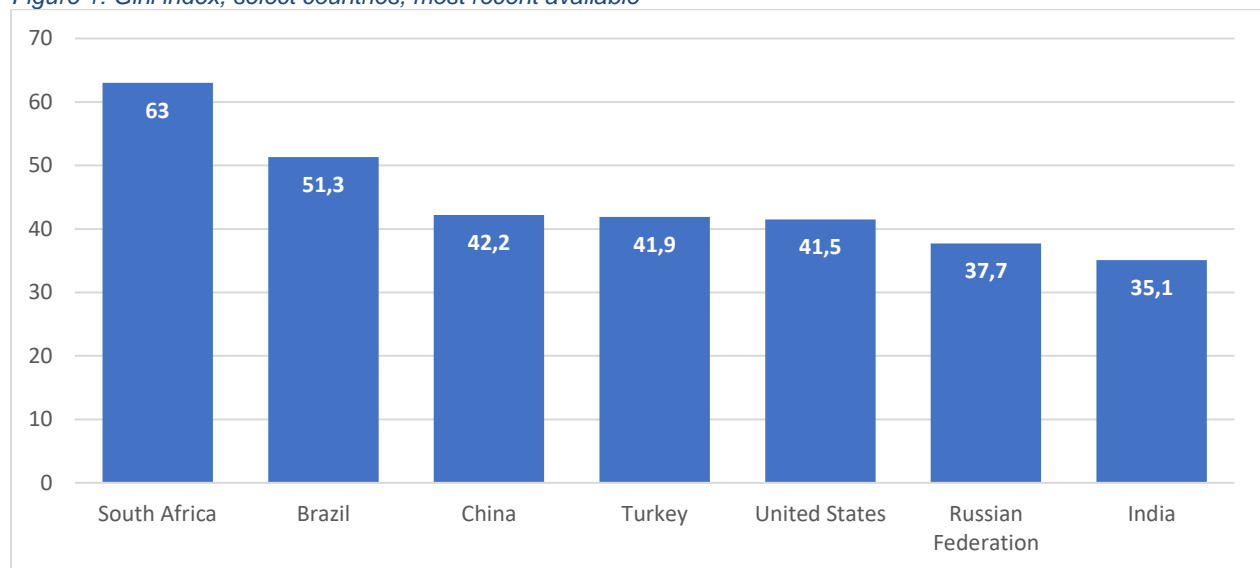
The most fundamental tenets of the Fees Must Fall movement pointed to the inherent injustice of high fee barriers. South Africa's unique history means that the distribution of wealth is not a good indicator of talent or ability. With the legacy of Apartheid and chronic underdevelopment

leaving very large portions of the population close to the poverty line, few families can afford to save or borrow to access the funds needed to send their children to university. And yet university is increasingly essential to accessing decent, well-paid work. Even for those who can access university, they are often reliant on taking on substantial debt burdens, which undermines crucial decisions later in life: from buying a house, to having the savings to choose the best possible job.

All four of these claims - of distributional injustice, the impact on access to education, the importance of education, and large burdens - are supported by evidence, to varying degrees.

South Africa is widely regarded as one of the most unequal countries in the world, with substantially higher levels of inequality than comparable developing countries, as can be seen in Figure 1 below (a higher Gini index indicates more inequality). Inequality in South Africa differs from that in other countries, in that a very large gap exists between working class and upper-middle class people, rather than between the middle class and the very rich. This is an important distinction, because the presence of a large upper-middle class effectively allows for the creation of a dual-system - in which richer South Africans benefit from world class education, medical facilities, connectivity, and so on; while poor South Africans are denied similar access. This means that South African inequality is particularly difficult to resolve, because the uneven access to key points of progress keeps the poor poor and the rich rich.

Figure 1: Gini index, select countries, most recent available

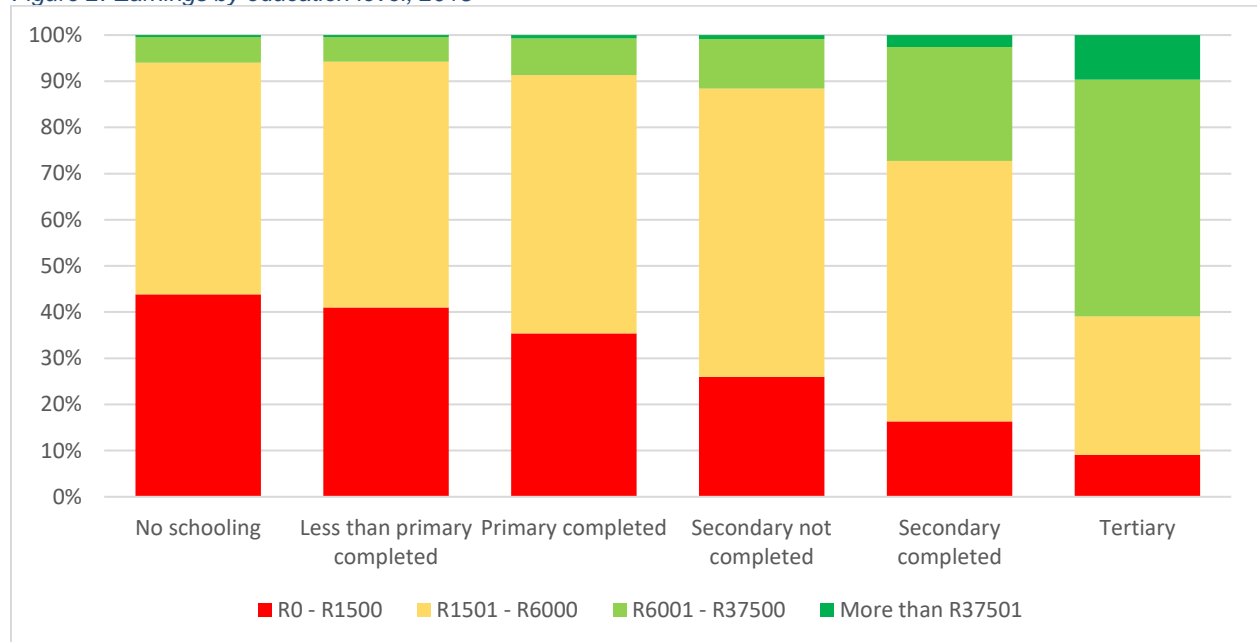


Source: World Bank data

The lack of access to quality education is a major barrier to accessing good jobs. As can be seen in Figure 2 below, getting access to higher levels of education both decreases the chance of earning very little, and opens up the possibility of accessing a high earning job. Crucially in South Africa, where unemployment is rampant, higher education also significantly decreases the chance of being unemployed. While there is much discussion of unemployment among university graduates, the unemployment rate among graduates is still much lower than all other

levels of education, and that gap widens rapidly as graduates age and gain experience. The evidence on the impact of education is clear: having a university degree drastically improves the likelihood of accessing work, and better paying work.

Figure 2: Earnings by education level, 2015



Source: Author's calculations based on StatsSA Living Conditions Survey data

While the first two claims - of South Africa's inequality and the importance of education - are relatively uncontested, there is more debate about whether this inequality denies deserving people access to university. While there is evidence that the rich disproportionately attend university, there are multiple causes of this disparity. Key among them is the very poor quality of basic education, which often provides inadequate support to poorer students, and keeps these students from qualifying for university in the first place. As discussed below, this is perhaps the largest barrier to having a fairer university system, and having free education does not fix this. The high returns to a university degree mean that banks are generally open to offering student loans, even with limited security. This, combined with state funding through the NSFAS program suggests that student funding is often available, but generally comes with a substantial debt burden.

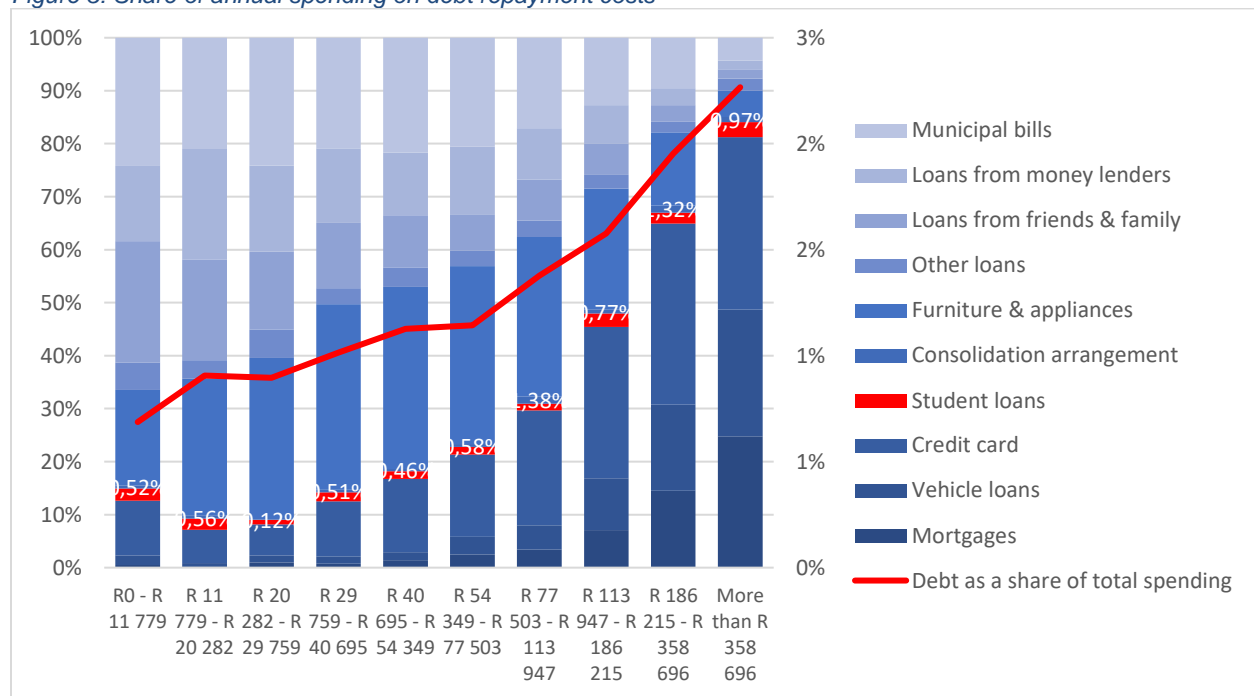
Nevertheless, free education would act to reduce the unfair exclusion of deserving students from poor families from the university education system. It would in particular offer a major boost to overcoming the full cost of university, which includes fees and other costs of studying - such as accommodation (generally in expensive cities where universities are located), food and upkeep, transportation, and additional studying expenses (such as the cost of internet, books, and so on). These costs can be prohibitive, even when students gains access to discounted fees or student loans.

Overall, while it is clear that fee free education would increase the participation of students from poorer households, it is difficult to quantify the extent to which this would happen.

Finally, proponents of fee free education point to the burden of student loans on young graduates, arguing that high loan burdens prevent young graduates from making more useful investments in their savings, or in taking on debt to pay for assets like a car or a house. This mirrors arguments in other parts of the world, notably the United States, where chronic student debt burdens risks eroding the benefits of going to university in the first place.

However, there is limited evidence that this is a major problem in South Africa. As can be seen in Figure 3 below, repayments of student loan debt is a very small share of total spending on debt for the average South Africa, with the highest share being 1,38% of total spending on debt for those earning upper-middle class salaries. This is not to say that student loans aren't a major problem in individual cases. They certainly can be a burden, particularly if a graduate is unemployed for a long period of time. But, on balance, repayments are not a major issue, and do not appear to undermine other forms of spending or debt. While removing the student loans burden would be a benefit, it would not be as much of a benefit as addressing more substantial costs, and may benefit the poorest the least.

Figure 3: Share of annual spending on debt repayment costs



Source: Author's calculations based on StatsSA Living Conditions Survey data

Long-term efficiency

A more complex question is on what injustices at the education level means for the efficiency of the economy. If we assume that talent is randomly distributed, with the smartest people being born equally into rich and poor households, then there is a clear theoretical cost to unequal

education, in which those who can make a huge contribution to the country are denied the opportunity to do so because they're trapped in poverty. The most common argument in this vein asks us to imagine what the world would be like if an Einstein never realised his talents, because he was denied the opportunity to.

The argument that barriers to education hurt a country's long-term efficiency is almost certainly correct, but it is difficult to quantify. If we assume all students attend university at the rate of the upper middle class (decile nine, in which 73% of students with exemptions attend university¹), then 168,883 first year students would enrol in 2018.² This is more than double the available slots, which are estimated at 71,585.³ Assuming university enrolment could be ramped up to meet this huge new cohort, the benefits to the South African economy would be extraordinary, with the additional spending power of the university cohort creating new jobs and opportunities for everyone in the country.

There are reasons to believe this might not happen, or might not happen to the same extent (see discussion below). But if it did, then cost of subsidising university fees would almost certainly pay for itself. The overarching lesson of this is not that fees should be immediately cut, but rather that if fee free education can be included as part of a more comprehensive package of reforms, then the returns to expanding the number of graduates could be enormous.

Adapting for a changing economy

The implications of a lack of skilled graduates are becoming more serious as the structure of the global economy changes. The Fourth Industrial Revolution seems set to significantly alter the structure of production, with greater efficiency from increased automation, which will benefit those who have skills but may displace those who do not.

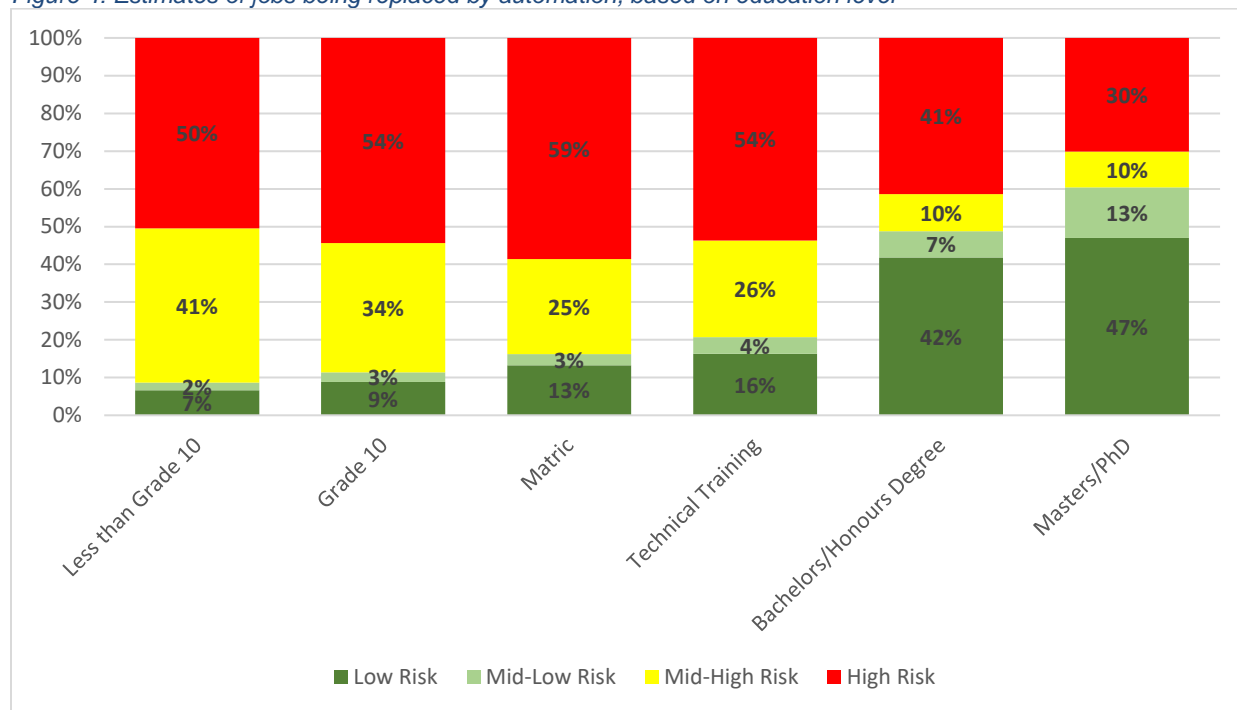
This change is likely to impact both workers and companies. For workers, there are risks of job displacement and the need to be retrained. As can be seen in Figure X below, lower skilled workers are at far higher risk of being displaced from their jobs than those with higher skills, meaning a university degree could significantly improve job stability.

¹ Graph

² DoE

³ <https://www.htxt.co.za/2018/01/09/how-many-matric2017-students-qualify-to-study-at-university/>

Figure 4: Estimates of jobs being replaced by automation, based on education level



Source: Wood, 2015

The flip side of this is that companies will need more people with higher skills, particularly skills in the computer sciences and engineering. If companies don't have access to adequate skills, overall competitiveness will likely suffer, and as a result the entirety of the economy will be weakened by imports from more efficient producers. The result could be greater displacement of jobs, even among those who aren't directly impacted by the changes of the fourth industrial revolution.

The case against free higher education

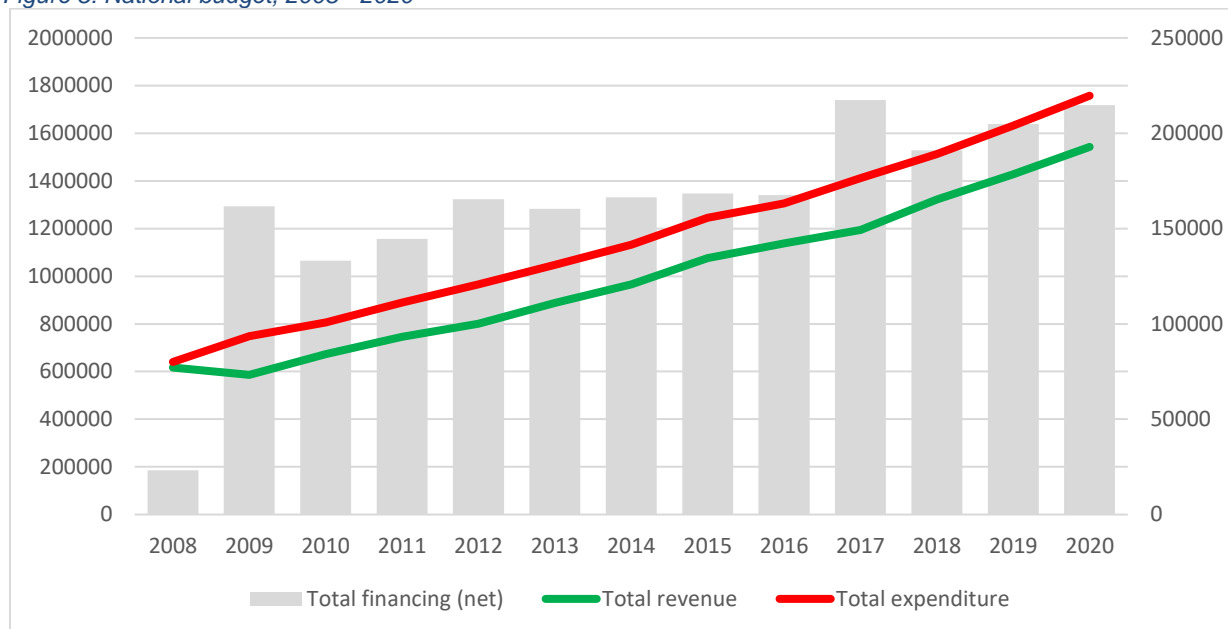
Budgetary constraints

Critics of the free university education proposal point to the unsustainability of funding free education. The immediate response to the demands for support to higher education have already seen an initial R10 billion allotment in the 2017 budget, followed by an additional R57 billion over the following three years - with full subsidies set aside for poor and working-class students of "R12.4-billion in 2018, R20.3-billion in 2019 and R24.3-billion in 2020."⁴ These initial costs are really for a short-term solution, but long term support to accessible higher education will need to include expanding the pool of students who can access universities, by both improving basic education and investing in universities.

The high costs of the programme are a challenge for an already strained budget, which has seen a widening budget deficit since 2008. With over R214 billion in debt financing costs set for 2018/19, the deepening deficit risks undermining the state's spending power in the long run.

⁴ <https://mg.co.za/article/2018-02-21-finally-how-government-plans-to-fund-free-education>

Figure 5: National budget, 2008 - 2020



Source: National Treasury, budget data

In addition, the budget has a growing set of spending priorities, including President Ramaphosa's proposed stimulus plan. That plan includes proposals for a R400 billion infrastructure fund and R50 billion for the development of rural areas and townships; and significant government restructuring has been proposed to pay for the plan. A vast range of other budget priorities continue to press on the state, including the need to protect crucial social spending, and the incoming burden of a large scale restructuring of the apparatus of the state.

Managing an initiative like fee free education, along with a vast array of other spending priorities, highlights one of the major problems for the South African government: the need to do everything, all at once. South Africa's social problems - covering everything from unemployment, education, healthcare, housing, land reform, and so on - are so deeply ingrained, and so interdependent, that fixing only one issue has little effect, as people's livelihoods are undermined by the other problems. And yet, with the state having serious capacity and implementation issues and limited resources, this 'everything all at once' approach risks diluting our scarce resources to such an extent risks undermining the effectiveness of the full range of policy interventions.

All of these challenges have been made worse by slowing economic growth, including a technical recession in 2018 and the downgrading of South Africa's growth forecast to only 0,8% in 2018.⁵ With the population growing at around 1,2% a year, this level of GDP growth means the real economy is getting smaller. Slowing growth diminishing government's spending power, and undermines efforts to reduce the deficit. All of which is made worse by serious structural

⁵ <https://www.fin24.com/Economy/imf-downgrades-sas-2018-growth-forecast-to-08-20181009>

problems at the South African Revenue Service, meaning the amount of money available for government to meet its many priorities is stagnating.

Ultimately, the question of 'can South Africa afford free education' is the wrong one. South Africa can afford many policies initiatives, but all of them involve trade-offs: major initiatives in one area might mean cutting a programme in another area, and really effective policy on one issue might make for ineffective policy elsewhere. The real question is: where does fee free education fit in the broader list of policy priorities for the government. Education should clearly be high on that list, but arguably other spending - such as on social security and improving basic education - could have better outcomes than free universities.

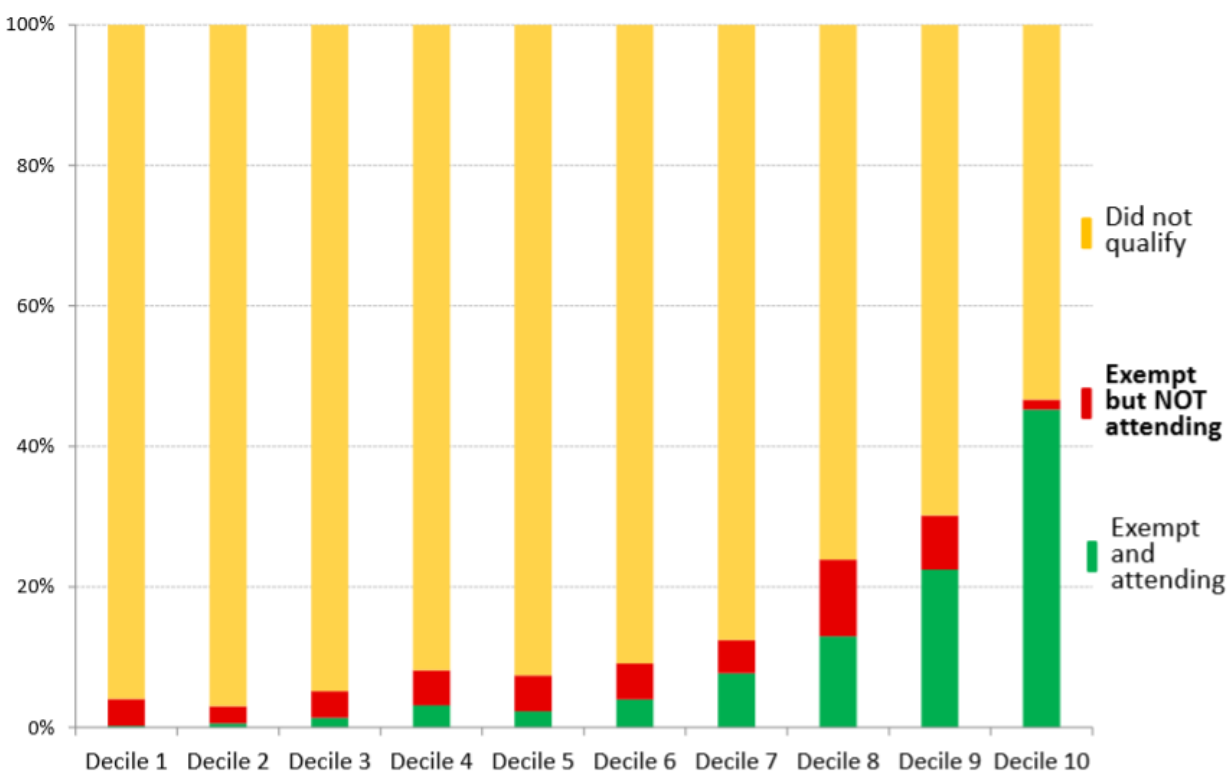
The effectiveness of free education cannot be examined in isolation, but must be understood in the full scope of the South African government's policy environment. And, given the extent of uncertainty in policy making and the new administration's refusal to take bold policy stances before the midterm elections, it is difficult to understand how free university fits in with the rest of South Africa's policy.

Lack of necessary preconditions

The net cost of free higher education of course depends on how large the benefits of the policy are. If free higher education creates a number of new, tax-paying young professionals, both the economy and the government will benefit from their work. In order to achieve this, however, all the underlying barriers to accessing university need to be addressed.

Most importantly, the policy needs to address the fact that the poorest students, who most stand to benefit from free education, are not held back by the quality of high school education. Up to half of South African students drop out before reaching matric, and only a small portion of matric graduates qualify for university. The rate of matric exemption varies enormously among different income groups, with only a small fraction of the poorest students qualifying for university, as you can see in Figure 6 below.

Figure 6: Share of students qualifying for and attending university, by income group



Source: Cloete, N., Sheppard, C. & van Schalkwyk, F. Presentation entitled "University Fees in South Africa: A story from evidence." Commission of Inquiry into Higher Education, Pretoria, 11 August 2016.

This points to perhaps the largest barrier to the effectiveness of fee free education: the poor state of the high school system. So long as the poorest South Africans are hampered by a broken basic education system, which limits the ability of these students to get access to university, fees will not be adequate to change the unjust distribution of access to university. At least in the short-term, the lack of a functioning basic education system will without doubt substantially reduce the positive impact of fee free education.

It is difficult to know exactly what this means for the overall proposal. One way to interpret the problems with basic education is to try and assure that anyone who manages to receive a matric exemption despite their struggles, then gets the university education they deserves. Fee free education would help accomplish this goal, and would mean the policy still has some positive impacts.

However, if the resources diverted to fee free education could otherwise be better used in improving basic education, then the policy would detract from more effective interventions. It is, however, debateable whether more funding for basic education would fix many of the underlying problems, particularly when one considers that the problems in basic education are largely structural, with failing institutions that don't have the capacity to take advantage of additional resources to make a real change in the lives of students.

Limits on job creation

Even if the university system did manage to absorb earners from poorer households, and those households managed to get hold of the matric exemptions they would need to access university, it would still not be clear if the value of a university education would remain the same. With a stagnant economy, there is a risk that new graduates could find themselves without work once they left university. This is particularly a risk if the current model of managing poorer students continues. In this model, far too many students are shifted away from more technical degrees, such as engineering, because of weaknesses in the basic education teaching of maths and sciences in particular. And yet many of these qualifications have the highest likelihood of securing a good job. If poorer students aren't actively offered support, they could be streamed into less demanding degrees with a lower likelihood of finding work, flooding the market for niche professions.

And yet there is no denying that the South African economy lacks many of the skills needed by industry. Job shortages are widespread in a number of professions, particularly in the engineering sciences and in technical artisan professions. The latter of which may benefit from the government's pledge to also make TVET colleges fee free, a proposal that seems far less controversial and more readily links those in need of work with those looking for skilled professions.

On balance, the limits on job creation are more a concern because the funding for free education may undermine some economic support programmes. While this generally seems unlikely, it is still a concern given that the economic departments in government are already spread very thin, with inefficient administrative bureaucracies and resources that are divided across multiple initiatives. Equally worryingly, high spending programmes like fee free education undermine the buffers government put in place that enable spending during an economic crisis. If a crisis were to hit, and government wasn't capacitated to respond, all South Africans – including new graduates – would find it very difficult to find suitable work.

Resolving the impasse

In assessing how to move forward on fee free education, the immediate political dimension needs to be disconnected from the way policy is conceptualised. The political message is clear: fee free education, at least for the most vulnerable, must happen. That is the only way to assure stability in the university system. It is simply a political necessity that the demands of students be listened to.

The real question is how we use the incoming fee free regime. The biggest mistake government could make is to see this initiative as a policy that can stand on its own. If fee free education is implemented without additional support to poor students, then the dismal state of basic education will severely limit the impact of the policy, preventing fair treatment for students and undermining the efficiency-improving impacts of the policy. Fee free education should instead be bundled into a more comprehensive initiative, which provides assistance in overcoming the full range of barriers facing students on the path to university.

This should involve at least three parts. First, reforms are needed to the structure of education administration. In particular, the national government needs to begin playing a more active role in basic education, beyond simply setting curriculums. This should include implementing supporting education initiatives (discussed next), which add to but do not replace the basic education functions of provincial departments.

Second, government needs to roll out an aggressive system of after-hours student tuition. This would involve the provision of discounted or free extra lessons in afternoons and evenings (of the sort that are commonplace for richer students). These supporting lessons would reduce the burden on educators; while also providing greater flexibility in the government education policy, allowing for approaches like hiring retired teachers or bringing in foreign university students as tutors (a very common approach used across the Asia-Pacific region). If desirable, this system could feed into a system of ongoing support to students. For example, a student could be awarded points depending on how many tutoring sessions are attended, and then gain access to additional support at university level, such as priority access to discounted accommodation.

Third, government will need to invest heavily in reforms that lower additional living costs for students. This first and foremost means the development of accommodation for students, the cost of which can be reduced by renting out the lower levels of accommodation for retail and other commercial usage. Additional gains can be made through strategic regulatory reform of the renter's rights regulations. The vast majority of students rent properties, and regulating more reasonable expectations for deposits and costs involved in cleaning and repairs, could reduce some of the largest lump-sum costs faced by new students.

Ultimately, there are two options facing government: lean-in to fee free education, or abandon it. Anything in between – such as dropping fees but providing no other support – will result in an expensive policy that doesn't have the desired effect, because other barriers remain too high. Since abandoning fee free education is not politically viable, the remaining option is to think of the policy as part of a far broader set of reforms, that – if it works – could create exactly the type of highly educated citizens South African desperately needs.