Only greater pressure on society's elites will ease university fee stress

by Patrick Bond
(*The Conversation*, 21 October 2015*)*

As a half-time member of the UKZN and Wits faculties, I and no doubt nearly all my colleagues agree with both students and low-paid workers who plead that out-of-pocket education costs are too high, and that out-sourcing has reduced low-paid workers to below a Durban and Johannesburg living wage. UKZN and Wits officials need to meet these arguments head on, but it is also worthwhile to consider how to ratchet up the demands to national level.

In combination with allies across the social and labour movements, all of us need to consider how best to make four simple arguments: 1) there is a need for more state funding for higher education; 2) the SA state has the ability to raise such funding; 3) the social spending component of the fiscus has been far too low; and 4) interest rates should be decreased, which would allow for more state borrowing (although exchange controls would probably need to be re-imposed) and also reduce South Africans' extreme debt load, including that of recent graduates whose repayment rates are miserable.

1) **There is a need for much more state funding to higher education**

First, the recent Report of the Ministerial Committee for the Review of the Funding of Universities found "the amount of government funding is not sufficient to meet the needs of the public university system… Government should increase the funding for higher education, to be more in line with international levels of expenditure."

The same mandate to correct our institutions' race and class access bias came from Deputy President Cyril Ramaphosa last Thursday at the higher education summit in Durban:

> Africans account for 79% of the population in the country, yet their gross participation rate in higher education is less than 15%. The low participation rate of the majority of South Africans is untenable – both from a social justice perspective and in terms of meeting the demands of the 21st century and the needs of our economy. Higher levels of funding and the expansion of the capacity of the higher education system will be needed in future to ensure that higher levels of participation of African and coloured students are achieved.

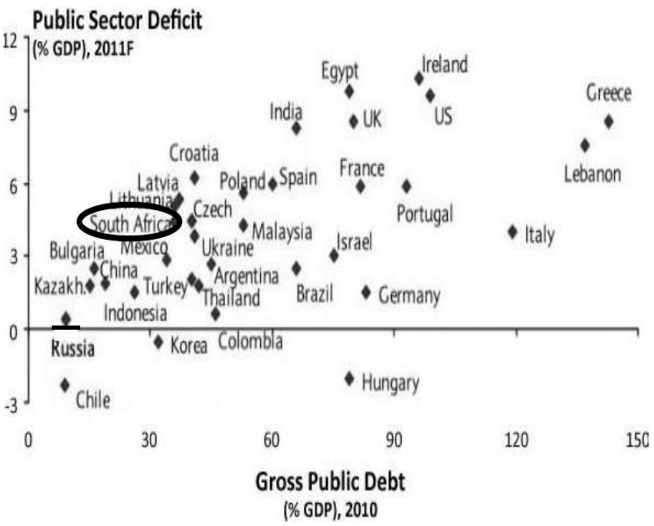
A statement the same day by the Democratic Alliance's Belinda Bozzoli concurred:

> [the Ministerial Committee] found that South Africa's budget for universities as a percentage of GDP was only 0.75%, which is lower than the Africa-wide proportion of 0.78%, the world-wide proportion of 0.84% and the proportion spent by Organization for Economic Cooperation and Development (OECD) countries of 1.21%. The report also noted that between 2000 and 2010, state funding per full-time equivalent student fell by 1.1% annually in real terms, while fees per each of these students increased by 2.5% annually in the same period… While President Zuma announced that a Task Team will be established to find short term solutions to student funding challenges, this Task Team will be set up to fail if it does not include representation from Treasury. More needs to be done, urgently.

The penultimate sentence is vital because even the centre-right ('neoliberal') DA accepts that the National Treasury has been hiding during this ferocious debate. Behind the fiscal conservatism of Treasury (in Pretoria) are the men they report to in the biggest financial institutions and credit rating agencies (mostly in Sandton), not that far from Braamfontein, a short hop for student protesters who last week showed impressive mobility when blocking Wits entrances and shutting the university for three days.

2) **State borrowing could be higher**

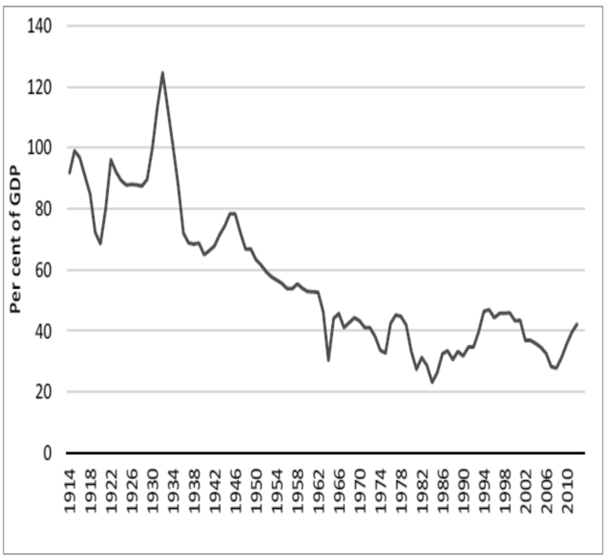
Second, the targets should logically scale up, as the student movement goes national, because after all, the state *can* afford higher levels of funding. In the last comparison available (from Barclays Bank), both South Africa's total accumulated public debt and annual deficit are below that of many peer economies.



Source: http://www.docstoc.com/docs/117095425/Barclays-Capital----Emerging-Themes-Investors-Should-Watch.

Also, in historical terms, the public debt today is by no means at an excessive level.

Gross national debt over 100 years



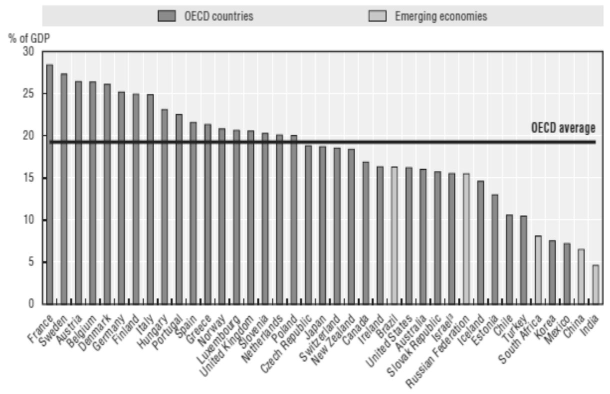
Source:
http://www.treasury.gov.za/comm_media/presentations/South%20Africa's%20long-term%20fiscal%20choices%205%20Nov%202014.pdf

3) **Social spending is far too low**

Third, not enough state spending goes to society. The most recent OECD comparison reveals that SA spends at half the level of Russia and Brazil:

Figure 0.8. **Public social expenditure in OECD countries and emerging economies**

Total public social expenditure, latest year available[1, 2]



1. Data refer to 2007 for OECD member countries, 2005 for Brazil, 2006-07 for India and South Africa and 2008 for China.
2. Policy areas covered include old-age, survivors, incapacity-related benefits, family, health, active labour market policies, unemployment, housing.
3. Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

Source: OECD (2011), OECD Employment Outlook.

StatLink http://dx.doi.org/10.1787/888932535546

4) **Interest rates are far too high**

Fourth, neoliberals run not only the Treasury but also the Reserve Bank, which has a policy of imposing excessively high interest rates on the state and student borrowers alike. The main way that the largest Northern governments (US, EU, Japan, UK) have dealt with their own recent fiscal squeeze – especially as bank bailouts mounted into the trillions of dollars – was printing currency ("Quantitative Easing").

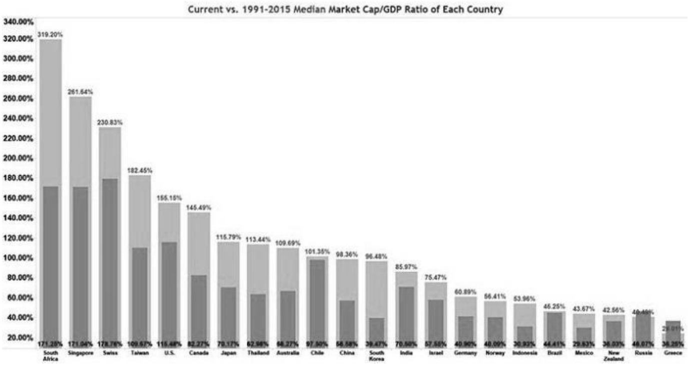
In contrast, the SA Reserve Bank keeps inflation in the 3-6% band using extremely high interest rates, *which are entirely inappropriate given the economically depressed state of the economy.* Today, measured by 10-year government bonds, only Russia, Turkey, Indonesia and Pakistan have higher interest rates than South Africa.

The four arguments above face both intellectual and policy resistance. First, there is the fatuous SA Reserve Bank claim that SA has an insufficiently low savings rate, which allegedly justifies high interest rates. Yet there is plenty of loose funding as witnessed by how much money sloshes around in the Johannesburg Stock Exchange.

	Interest rates	
	3-month latest	10-year gov't bonds, latest
United States	0.33	2.07
China	3.15	3.09§§
Japan	0.08	0.34
Britain	0.57	1.81
Canada	0.73	1.43
Euro area	-0.04	0.59
Austria	-0.04	0.90
Belgium	-0.04	0.95
France	-0.04	1.00
Germany	-0.04	0.59
Greece	-0.04	8.46
Italy	-0.04	1.73
Netherlands	-0.04	0.80
Spain	-0.04	1.90
Czech Republic	0.29	0.68
Denmark	-0.05	0.85
Hungary	1.35	3.28
Norway	1.12	1.51
Poland	1.53	2.85
Russia	12.7	11.0
Sweden	-0.30	0.69
Switzerland	-0.73	-0.10
Turkey	12.2	11.0
Australia	2.40	2.61
Hong Kong	0.40	1.59
India	7.05	7.54
Indonesia	8.21	9.79
Malaysia	3.75	4.24
Pakistan	6.60	9.15†††
Singapore	na	2.54
South Korea	1.55	2.06
Taiwan	0.87	1.15
Thailand	1.66	2.77
Argentina	24.2	na
Brazil	14.8	15.5
Chile	0.41	4.58
Colombia	4.39	8.03
Mexico	3.32	5.99
Venezuela	14.5	10.5
Egypt	11.6	na
Israel	0.11	2.20
Saudi Arabia	0.90	na
South Africa	6.31	8.46
Estonia	-0.04	na
Finland	-0.04	0.87
Iceland	6.40	na
Ireland	-0.04	1.24
Latvia	-0.04	na
Lithuania	-0.04	1.60
Luxembourg	-0.04	na
New Zealand	2.83	3.30
Peru	1.32	na
Philippines	1.68	3.80
Portugal	-0.04	2.39
Slovakia	-0.04	1.10
Slovenia	-0.04	na
Ukraine	22.0	na
Vietnam	4.60	7.04

Source: http://www.economist.com/news/economic-and-financial-indicators/21669876-trade-exchange-rates-budget-balances-and-interest-rates (3 October 2015)

The JSE's record market capitalisation



Source: http://inflation.us/market-capgdp-ratios-of-22-nations/

Neoliberals do have a valid rebuttal to the arguments above: if interest rates are lowered and social spending and state borrowing raised, *there will be even worse capital flight.* This is indeed a very serious problem, in terms of both Illicit Financial Flows and licit outflows of profits, dividends and interest, especially given that South Africa's total *foreign debt* is now in excess of $150 billion (the same share of GDP as PW Botha faced in 1985 when he defaulted), as distinguished from public *domestic debt* which is still manageable.

The solution is reimposition of exchange controls. I spent last week at a University of Nicosia conference on sustainability, and all the Cypriot political economists I met endorse the government's capital controls as necessary to survive their 2013 crisis. As John Maynard Keynes explained, "In my view the whole management of the domestic economy depends upon being free to have the appropriate interest rate without reference to the rates prevailing in the rest of the world. Capital controls is a corollary to this."

In contrast, Finance Minister Nhlanhla Nene this year relaxed exchange controls, allowing wealthy individuals to take R10 million out of the country each year (up from R4 million) while at the same time cutting grants to poor people by 3% in real terms.

In other words, to solve universities' fiscal stress will require imposing political stress on the Treasury and SA Reserve Bank, and in turn some well-deserved financial stress on the Sandton banksters and corporate elites who have enjoyed some of the world's highest profits and at the same time have engaged in massive offshore looting (Ramaphosa apparently included).

If the EFF's popular cry, "Pay back the money!" and the recent anti-corruption marches reflect a healthy populist anger at the looting, and if even the DA agrees that neoliberal austerity should not deny kids a good education, then the challenge ahead is crystal clear.

(Note: inclusion of graphics does not imply endorsement of sources' policy stance, just their data.)

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There's plenty of money for students – and other poor South Africans – if we reprioritise

by Patrick Bond
(*The Star, Cape Argus* and *The Mercury,* 28 October 2015)

How to make good on the 0% university fee increase committed by President Jacob Zuma after such courageous student protests last week at Union Buildings, ANC headquarters and parliament?

South Africa's R1.451 trillion state budget for 2016-17 must expand or be rejigged by just 0.3%. True, in addition to the immediate R4.2 billion shortfall, much larger sums will be needed to subsidise free tertiary education for those unable to pay, as well as to end out-sourcing of university workers.

So where can the state find the funds? According to some, Zuma's government is just too broke. As my Wits School of Governance colleague Graeme Bloch claimed last week in *The Conversation* (albeit without supporting data), "There are many problems for the government, including the state of the world economy, *which ensures that there is not enough money*" for free university education.

But if a 2012 government commission set up by Minister Blade Nzimande (and hidden away since) as well as even the conservative SA Institute for Race Relations agree that free tertiary education is affordable, why the resistance?

The vast power of financiers and international credit-rating agencies means South Africa suffers a slow-motion version of austerity. The threat of a "junk-bond" rating always looms, and last Wednesday, Finance Minister Nhlanhla Nene's freeze on new state programmes and civil service hiring revealed the Treasury's paranoid fear of Standard&Poors, Fitch and Moody's.

So even while South Africa's world-leading inequality is generating unprecedented public debate, Nene chose to squeeze 17 million beneficiaries of state grants, including children. "The old-age, war veterans', disability and care dependency grants have each increased by R10 per month from 1 October 2015 to bring the annual increase in line with long-term inflation." The goal, he said, was to "ensure that the value of grants keeps pace with inflation."

Sorry, it isn't: a year ago, the main old age and disability grant was R1350/month. In February, Nene announced a rise to R1410, and last week to R1420. The 2015-16 pro rata R65/month increase therefore amounts to 4.8%, yet the national Consumer Price Index inflation rate for the same period – according to Nene's own budget document – is pegged at 5.5%, rising to 6.0% in 2016 and 5.8% in subsequent years.

However, food and electricity prices are rising far faster than the overall inflation rate, and since they are a much larger share of a poor person's income, an inflation figure closer to 7% would be more accurate. So Nene has, this year, effectively shrunk poor, elderly people's budgets by more than 2%.

Where *is* the money, then? A glance at the Treasury's spending gives an indication of how to fund student fees, to end low-paid university workers' outsourcing, and to raise poor people's grants.

First, if South Africa were a more peaceful society as a result of higher social spending and lower interest rates, two items could be cut quickly. Security cluster spending – R184 billion next year – is growing quickly in part because of the 20% rise in 'violent' community protests last year, to nearly 2300. The state allocated itself R3.3 billion extra for personnel and armaments against civilians, including high-pitch sonic sound cannons. The epidemic of self-destructive, extreme brutality suggests police weapons should be holstered, not amplified.

Another item desperate for a cut is payment of interest, which will cost R144 billion next year. Instead of raising interest rates to a level which is now the world's fifth highest, the Reserve Bank should reduce rates and with them, repayment costs. (That would also require imposition of exchange controls to halt the resulting capital flight.)

In addition, the Treasury's category "economic infrastructure" includes many ill-considered projects. Consider just two voracious White Elephants promoted in the 2012 National Development Plan (NDP) and Presidential Infrastructure Coordinating Commission (PICC). As former eTV head Marcel Golding exposed in court a year ago, PICC projects were promoted generously on eNews by Economic Development Minister Ebrahim Patel in exchange for favours never delivered.

The first PICC project is Transnet's proposed 464 km railroad link from the Waterberg's coal fields in Limpopo to Richards Bay. With funding of R40 billion, the parastatal's Siyabonga Gama reckoned four years ago that the line could raise the area's coal exports from 4 to 80 million tonnes a year.

In reality, local coal prices peaked at $170/tonne in 2008, but by 2012 had fallen to $80 and today are just over $50. Nene's budget document anticipates further decline in coming years, especially with climate change a growing crisis. Even the industry's leading expert, Xavier Prevost, admits coal exports are now a money loser. Should that vast project – plus the R60 billion worth of Chinese locomotives ordered for mainly coal transport – not be reconsidered?

The second PICC project to rethink is Durban's port-petrochemical expansion, which at a cost of R250 billion, the NDP estimated would facilitate an eight-fold rise of container traffic:

from 2.5 million annually the last few years to an astonishing 20 million by 2040. Yet no one else thinks this is possible, given global shipping stagnation (not to mention resulting damage to SA manufacturing). Moreover, using the old airport site for the new 'dig out port' is uncertain since the Department of Energy and KZN provincial government also want it for a nuclear energy reactor.

The biggest infrastructure bill is for Eskom's coal-fired power plants, backed by a World Bank $3.75 billion loan (its largest ever, but one whose repayment should be deeply discounted thanks to lack of Bank due diligence). Eskom chair Valli Moosa improperly allowed the ANC's Chancellor House to front for Hitachi on a R60 billion rand tender that drove the price up by many more tens of billions, as 7000 welds needed to be redone at Medupi, now seven years behind schedule. Recall too, that the world's biggest mining house, BHP Billiton, will continue to get subsidised Medupi electricity: in recent years it cost just R0.12 c/kilowatt hour, i.e., a tenth of what we ordinary consumers pay.

Such generous "corporate welfare," rife within Nene's three-year R800 billion mega-infrastructure budget, makes it hard to end the White Elephant breeding, to better insulate South Africa from adverse world economic trends, and to protect the environment.

And much larger beasts loom on the horizon: the R300 billion share Pretoria has committed to capitalising a BRICS bank for corporate infrastructure, a project that even its new South African director Tito Mboweni condemned in 2013 as "very costly"; and the trillion rand estimated for eight nuclear reactors, which in July Mboweni announced the BRICS Bank could finance.

Subsidies gifted to the rich and powerful by corrupt politicians are typically ignored by commentators with a neoliberal bias. But as Zuma himself put it rather unguardedly last month, "I always say to business people that if you invest in the ANC, you are wise. If you don't invest in the ANC, your business is in danger... This organisation does not make profit, but we create a conducive environment to those who make profit."

The great merit of the fury unleashed by the students last week was not simply that their protest against Nene, Nzimande and Zuma and their short-term victory will inspire both a closer reading of the budget and a revolt against it. It is also that the outrage society felt at how badly the students were treated has rapidly turned to confidence that *protest works,* redirecting funding that is so desperately needed for social progress.

South African coal price (US$/tonne)

Source: https://www.quandl.com/collections/markets/coal

South African Treasury: mid-term budget review, 21 October 2015

R billion	2014/15 Outcome	2015/16 Revised	2016/17 Medium-term estimates	2017/18	2018/19	Average annual growth 2015/16 – 2018/19
Basic education	**197.4**	**213.9**	**228.6**	**249.8**	**270.0**	**8.1%**
Basic education	189.2	204.5	219.2	239.6	259.3	8.2%
Arts, sport, recreation and culture	8.2	9.4	9.5	10.2	10.7	4.5%
Health	**144.6**	**157.7**	**169.7**	**184.7**	**200.6**	**8.3%**
Defence, public order and safety	**162.6**	**172.0**	**183.7**	**198.9**	**211.8**	**7.2%**
Defence and state security	47.5	50.0	53.0	57.2	60.8	6.7%
Police services	78.3	83.1	88.7	96.0	102.5	7.3%
Law courts and prisons	36.9	38.9	42.0	45.7	48.5	7.6%
Post-school education and training	**54.4**	**63.7**	**66.2**	**71.0**	**76.6**	**6.3%**
Economic affairs	**168.8**	**187.6**	**202.3**	**208.5**	**222.5**	**5.9%**
Industrial development and trade	26.4	30.4	32.2	32.6	34.9	4.7%
Employment, labour affairs and social security funds	52.3	65.7	73.1	75.4	77.8	5.8%
Economic infrastructure and network regulation	71.9	71.1	76.0	78.8	86.0	6.5%
Science, technology, innovation and the environment	18.1	20.5	20.9	21.7	23.8	5.2%
Human settlements and municipal infrastructure	**156.4**	**178.7**	**189.9**	**204.2**	**222.6**	**7.6%**
Agriculture, rural development and land reform	**24.2**	**25.6**	**26.5**	**28.3**	**30.0**	**5.4%**
General public services	**62.2**	**72.5**	**71.8**	**75.8**	**79.8**	**3.3%**
Executive and legislative organs	10.2	12.6	13.1	14.0	14.9	**5.7%**
General public administration and fiscal affairs	37.5	44.9	44.0	46.5	47.1	**1.6%**
Home affairs	7.0	7.2	7.2	7.4	9.3	**8.8%**
External affairs and foreign aid	7.4	7.7	7.5	7.9	8.5	**3.5%**
Social protection	**143.4**	**154.0**	**168.0**	**181.3**	**195.7**	**8.3%**
Allocated by function	**1 114.0**	**1 225.7**	**1 306.6**	**1 402.6**	**1 509.5**	**7.2%**
Special appropriations: Eskom and New Development Bank	–	25.0	–	–	–	–
Debt-service costs	114.8	127.9	142.6	157.2	174.6	10.9%
Contingency reserve	–	–	2.5	9.0	15.0	–
Consolidated expenditure	**1 228.8**	**1 378.7**	**1 451.7**	**1 568.8**	**1 699.1**	**7.2%**

1. Consisting of national, provincial, social security funds and public entities
Source: National Treasury

Why free education is a folly in an unequal society

by Damtew Teferra
Professor of Higher Education, UKZN
(The Conversation, February 11, 2016)

The idea of free higher public education, or what student activists have termed "#FeesMustFall", is appealing. It is also, however, inherently regressive in societies and countries where massive social and economic inequities abound.

This is a not a new position. In 2002, myself and Professor Bruce Johnstone – one of the world's pre-eminent scholars on financing higher education – contributed to a special issue of the Journal of Higher Education in Africa. In it, we pointed out that "free" public higher education never actually is free.

In Africa, there's an array of heavily pressing and competing public needs. These include elementary and secondary education, public health and immense public infrastructure needs such as sanitation, water, housing, roads, telecommunications, a social safety net and public safety – among others.

This means that every additional public dollar, franc, cedi, shilling or rand spent on higher education is one that cannot be spent on these other urgent needs. This situation constitutes what economists call the "opportunity cost" of additional resources to higher education.

Higher education budgets in most African countries are already stretched to extremes. South Africa, which has been the site of #FeesMustFall protests since late 2015, is no exception. There's been a massive growth of government funding to universities from R9.8 billion in 2004-05 to R24.8 billion in 2012-13.

The government's purse is straining.

Governments can raise additional revenue either by borrowing or by raising taxes. South Africa, like other countries in Africa, is at the limits on both.

Universities under pressure

A major portion of government revenue is typically generated through taxation from both the indigent and the affluent. Such revenue, along with any that is borrowed from global financial institutions, is then distributed to public institutions. This process presumably happens according to a country's national plan and its priorities.

There is little or no way in the current economic climate for most African governments to raise additional higher educational revenue through increased taxes or more governmental borrowing.

Universities' financial constraints have driven a discussion in the past decade about revenue diversification. This supplements the increasingly scarce revenue obtained through tax or borrowing. It could come through entrepreneurship by a faculty or institution. It could also be generated through cost-sharing – that is, by passing some of the additional costs on to parents, guardians and students.

In Africa, a hugely disproportionate number of university students come from upper and middle income families. Malawi is an extreme case. It is one of the world's poorest countries and more than 90% of those in higher education come from the highest income quintile.

South Africa has a greater population and a much larger middle and upper class population. Still, parallel – but comparable – patterns are easy to contemplate.

No 'blanket amnesty'

Such inherent inequalities and inequities render the argument students are making for a blanket free education for all simply unfair – and unjust. If it's free for all, the whole society ends up paying more.

A quixotic slogan such as "free education for all" may make sense in countries like Norway and Finland. There, the economic stratification is more just and the social safety strands more robust. Similar approaches may also be relevant for countries which are either emerging from a massive national crisis or starting from scratch.

But in a society like South Africa, there should be no rationale for a barefooted peasant to subsidise the university education of the children of the "well-heeled". They are, after all, already enjoying advantaged, and privileged, upbringing and education. A "blanket amnesty" – free education for all – must not be granted to affluent students.

Instead, parents, at least those who are financially able, and students – at least those who are able to take loans at reasonable rates of interest – should share the rising costs of higher education along with the general taxpayer.

And different forms of funding higher education – businesses, NGOs, foundations, alumni – must also be pursued.

A more robust means-testing, effective loan-provision and aggressive loan-recovery schemes must also be put in place. It is no-brainer that not everyone is cut out for university education and individuals have to be realistic in their expectations and governments pragmatic in rendering and executing their policies.

The International Journal of African Higher Education will soon publish a piece by Johnstone that provides an excellent analysis and recommendation on student loan issues in Africa. It follows from already published research in which he [explored](#) the same issue in all low- and middle-income countries.

Heavy costs

In our 2002 article, Johnstone and I concluded that any forms of cost-sharing are not easy solutions, either technically or politically.

Consequently, there is no easy or obvious solution to the financial dilemma of higher education. Anyone is going to come with heavy opportunity costs and political costs.

Originally in the [International Network for Higher Education in Africa](#), of which Professor Damtew Teferra is the founding director.

The standard of university education in South Africa is relatively high, but unfortunately the large variance in the quality of education received at the primary and secondary level results in only a small percentage of the population being able to fully benefit from these institutions. In 2008, only 1.4% of working-age Africans held a degree, compared to almost 20% of working-age Whites (Table 5.28). This proportion for Africans has hardly increased since 1993, while the proportion for Whites has grown by 5.4%. Tertiary education policy provides many incentive and support schemes for African students but the poor quality and success rate of their secondary schooling effectively excludes them from achieving a university education.

Table 5.28. **Proportion of working-age population with a degree or higher in South Africa, by race, 1993-2008**[a,b]

	African	Coloured	Indian	White
1993	0.5	0.8	6.7	14.2
1997	0.8	1.3	5.5	12.5
2001	1.6	1.5	8.2	15.7
2005	1.6	1.3	6.5	18.5
2008	1.4	2.7	5.5	19.6
Difference 1993-2008	0.9	1.9	-1.2	5.4

a) Working age refers to the population between the ages of 16 and 65.

b) A degree or higher includes those with a Bachelor, Honours, Masters or Doctorate degree.

Source: PSLSD (1993), OHS (1997), LFS (2001), LFS (2005), NIDS (2008).

This inequality in schooling could go some of the way towards explaining the high levels of unemployment amongst Africans, as well as lower average wages. Education is