HOW SOUTH AFRICA COULD FUND STEEPER HIGHER EDUCATION COSTS

Recent student protests over tuition fees, university staff and curricula, university autonomy and outsourcing have highlighted a number of issues facing South Africa. The agreement not to increase fees in 2016 has left the country with a short-term education financing gap. The increasing demands for free university education leave it with a longer-term, and much bigger, financing issue.

Can South Africa meet the funding shortfall in 2016? Yes.

Can it afford free education for all? No. Someone will have to pay.

The impact of no fee increases
In the short term, the impact of the 0% increase is unlikely to raise eyebrows, if it is indeed a once-off. Cost estimates range between R2.6 billion and R4.2 billion, depending on the methodology used.

One fairly objective estimate of the cost is based on the weights from the consumer price index, where the cost of education accounts for 2.95% of consumer spending (basic and secondary education account for 1.72% and tertiary education accounts for 1.23%). GDP is now forecast at R4.35 trillion, which corresponds to R2.7 trillion in consumer spending. Applying the 1.23% weight to consumer spending gives an estimate of the cost of tertiary education.

Between 2009 and 2015, tertiary institutional fees escalated at around 4% to 5% above the rate of inflation. Similarly, student numbers increased over that period, suggesting the weights above need to be adjusted upwards. For that reason, we assume a 1.5% consumer weighting.

Thus, the cost of university fees (excluding bursaries) would be close to R40 billion per annum. Given that the student protests were sparked by a 10% increase, that implies R4 billion is needed. If that is the only cost, the budgetary impact will be small.

If funded by government, without using the contingency reserve (only R2.5 billion has been budgeted for the 2016 contingency reserve), the knock-on effect on the budget deficit would be no more than 0.1% of GDP (R4 billion from R4.35 trillion GDP, yields 0.092% of GDP).

Is free university education affordable?
Using the same values above, free university education would require a minimum injection of R40 billion from the public purse. Such an injection implies that the deficit would increase by nearly 1% of GDP, if not funded from alternative arrangements.

The amount could be raised through borrowing and monetising that deficit. But monetising leads to inflation, which is bad for the poor. Thus, tax revenues, either current or future, would need to rise.

Also, fees are not the only cost to university attendance. To attend a residential institution, students need “study-friendly” accommodation near the institution and adequate nutrition. The overall cost to the fiscus could be as high as R100 billion per annum.

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