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Social Policy Financing

A case for employer of last resort programs in the discussion on fee-free higher education in South Africa

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Introduction

At the end of 2015, South African students across all universities rose up against the rising cost of tuition fees in the post-school education system. These student protests, likened by some to the June 16 protests of 1976, marked the beginning of the national movement "*Fees Must Fall*". The "*Fees Must Fall*" movement has grown over the recent year into an exposition into the realities facing the higher education landscape in South Africa today.

It is evident from the continuation of tensions within the higher education sector that South Africa still faces historical institutional challenges brought forth from the Apartheid regime (Reddy, 2004). However, more pressing challenges have emerged for the maturing democracy in the form of social policy restrictions. Due to the global shift towards international competitiveness and the requirement of fiscal discipline, South Africa faces policy challenges that limit its ability to provide social services like (but not limited to) higher education (Reddy, 2004 and Wood, 2010).

The aim of this paper is to contribute towards the discussion surrounding the appropriate method for analysing social policy decisions given the evolution of the structural world economy and ascertain whether employer of last resort programmes serve as viable financing models for higher education. In other words, how do we design social policy that serves social, political and economic objectives given the evolution of the structural world economy; and can employer of last resort programmes, through the state theory of money, serve as a viable framework for the financing of higher education?

While most economies appear to be adopting some form of tax financing with deferred charges – in the form of human capital contracts – as the optimal financing solution (Belkovicsová, 2012 and Boldea, 2016), this paper suggests that such solutions are based on misrepresented theoretical foundations. Through an understanding of the state theory of money, this paper suggests that an employer of last resort programme is a better option for a sovereign currency government operating in the modern economy.

The paper begins with a discussion surrounding the realities facing higher education in the maturing South African democracy. This is followed by an understanding of the conflicts faced within the social sector policy space. Possible solutions to those conflicts are then discussed, and finally the conclusion is presented.

The realities facing higher education in South Africa

The financing of higher education is of crucial importance for the South African government given the dynamic global economic landscape and maturing domestic social environment. Currently available macroeconomic policy alternatives are founded on the orthodox belief that the government faces a budgetary constraint (Wray, 2009:1). The assumption here is that governments are, in many ways, like households (Mankiw & Taylor, 2008:443). However, according to Wray (2009:21) and Tcherneva (2006:78), a government is in fact not a household that it *should* face a

budgetary constraint. A sovereign currency government, operating in a modern monetary system does not require taxation or private sector borrowing to finance expenditure (Tcherneva, 2006:70). Sovereign currency governments do however face real, political and ideological constraints (Tcherneva, 2006: 81; Wray, 2009:21). The initial question therefore, is not one concerning financing, but rather one concerning real, political and ideological policy direction.

Universities appear to face two challenges in a maturing democratic state pursuing international competitiveness in an uncertain global economic environment. Currently, higher education is expected to contribute to international competitiveness through economic and social transformation (Department of Higher Education and Training, 2016). Universities are now expected to perform as viable corporate enterprises over and above their duty to serve the public good (Reddy, 2004:5). This vision however, appears to overlook the conflicting nature of socio-political and economic policies.

On the one hand, if universities are run as corporate enterprises it will lead to the promotion of free-market system forces which are in turn, espoused by international competitiveness. Despite these benefits to the goal, increased financial autonomy and independence is likely to result in increased exclusivity of higher education primarily due to the class, race and gender divisions still prevalent in South Africa (Reddy, 2004:8). On the other hand, if universities are run as intrinsic sites of civil society (Reddy, 2004:5), it will lead to the promotion of inclusive, enhanced societal well being which too bodes well for international competitiveness. Due to the shift towards a more knowledge and information based economy (Drucker, 1986:10), South Africa would be better off focusing on the role of higher education in equipping graduates to become sources of new and unbiased knowledge and information (Dees & Elias, 1998:169).

The current financial model for higher education in South Africa involves three pillars: government grants (constituting the largest share), student fees and private sources (South African Reserve Bank, 2015:71). Declining government subsidies, due to fiscal consolidation measures, have placed enormous pressure on the other two sources of income available to universities (Higher Education South Africa, 2014:12). While student fees have increased by as much as 9% per annum[1] (South African Reserve Bank, 2015:72), increases in private income sources have failed to compensate for the declines in government spending, “leaving universities in increasingly worsening financial positions” (Higher Education South Africa, 2014:12). By reducing government spending and increasing financial institutional independence and autonomy, South Africa is not only forcing exclusivity of higher education but also reducing its capacity to use education to increase international competitiveness.

South African higher education policy appears to be directed by two conflicting goals: universities are expected to perform as social *and* corporate enterprises. The current financial model for higher education is becoming increasingly unsustainable in the face of rising fiscal pressure, unemployment, household indebtedness and the changing global financial landscape. Because problem formulation determines problem solving methods (Wentzel, 2015:41-42), a better understanding of social policy decision dilemmas is required prior to a discussion surrounding possible solutions.

[1] On average, between January 2010 and October 2015 (South African Reserve Bank, 2015:72).

Social policy decision dilemmas

Universities as institutions belong to the economic domain known as the social sector (Dees & Elias, 1998). It is through this classification that universities garner their overarching goal of enhancing societal well-being over and above any institutional specific goals that they may desire to pursue (Dees & Elias, 1998:166).

Most of the available literature shows an acceptance of the new status quo, namely the market oriented goal nature of public policy making (Dees & Elias, 1998; Ball, 1998; Henkel, 1997 and Whyte, 2001). However, Dees and Elias (1998) identify three core academic values that threaten to be undermined by increased institutional autonomy of higher education: (1) knowledge sharing and creation for public good, (2) the priority of academic duties and public interest, and (3) the distribution of power and resources in the social mission.

Dees and Elias (1998) highlight the potential conflicts of interest presented by a shift towards increased university-business partnerships. For example, while universities advocate the open access and dissemination of knowledge, business considers it a matter of competitive strategy (Dees & Elias, 1998:168). In addition, "conflicts of commitment" may arise due to priorities shifting from social to investor values (Dees & Elias, 1998:169). Henkel (1997:142) however, finds that in Britain, higher education institutions have become more responsive to performance, efficiency and competition in emerging markets; variables once foreign to the decision making process of universities. Although it is noted that traditional university values are likely to be eroded, Henkel (1997:142) suggests that these values represent an elitist system – rather than collective responsibility – that is better done away with.

Ball (1998:120) brings forth the observation that this policy shift is driven by the 'new rules' of wealth creation set out by Western economies. While Drucker (1986) believes the structural changes to be permanent, Ball (1998:121) asserts that the accompanying policy changes are not absolute. Ball (1998:121) suggests that the uncertainty and congestion of 'disorganised capitalism' is transforming education back into an oligarchic good. While policy dualism in the social sector is prevalent in most economies today, Ball (1998:121) ascribes it to the increasing colonisation of education policy by economic policy imperatives. This, as Ball (1998:121) believes, leads to no real policy choice in the current sphere.

The biggest concern to the direction of policy is however, the fear that increased institutional autonomy would facilitate the "creative destruction" process of capitalism in higher education (Dees & Elias, 1998:170). Dees and Elias (1998:170) contend that power and resources are likely to be skewed towards universities that are most attractive to commercial interests. Because of the threat to the public nature of education through its production as a private good, Dees and Elias (1998) argue against market forces as the primary determinant of higher education resource allocation. Furthermore, in questioning the commodification of knowledge and the accompanying role of knowledge in the economy, Ball (1998:128) recommends a recontexualisation of social policy where the question, 'whose interests are served?' is asked.

Outside the context of finance, social policy decisions appear to reflect a growing conflict of values. As a consequence, a rise in the prevalence of policy dualism has resulted in a lack of real policy choice in the social sector. Free market forces are likely to exacerbate the already contentious inequality situation in South Africa by further skewing power and resources away from social interests. If we agree that universities are meant to serve social rather than commercial interests, the question now becomes: how?

Social policy financing solutions

There has been an acceptance of the fact that a shift has taken place in social sector policy making because of the nature of the changed world economy. This acceptance has become an assumption under which current educational policy is being framed worldwide. It is accepted that this leads to conflicts in educational policy, making most available solutions appear to favour or accommodate the commodification of education. Few studies offer solutions outside the paradigm of a trade-off between social responsibility and international competitiveness and even fewer question the economic foundations of these assumptions.

The available literature on the financing of higher education (Belkovicsová, 2012; Boldea, 2016 and Demange, Fenge & Uebelmesser, 2014) assumes that some form of tax financing is necessary for the funding of higher education. While Belkovicsová (2012:49) and Demange et.al (2014:343) both suggest a combination of taxation funding and student fee charges as the optimal financing model, Boldea (2016:157) believes that government subsidisation is unsustainable given the fiscal constraints placed on modern governments. Underlying most economic solutions however, is the misguided theoretical assumption that all governments face a budgetary constraint (Wray, 2009).

Orthodox macroeconomics ascribes to the notion that all governments face a budgetary constraint (Wray, 2009:1) that limits their ability to fund social services. Rather than being an actual economic constraint, this limitation appears to reflect the statement of an identity (Wray, 2009:16). According to Modern Monetary Theory, a sovereign currency government operating within a modern monetary system does not face any operational financial constraints (Tcherneva, 2012:70). Based on the emerging literature surrounding the state theory of money, it is not essential for a sovereign currency government to finance expenditure through taxation or borrowings (Tcherneva, 2012:70).

In a discussion on the mechanics of sovereign currency operations, Wray (2009) explains how modern sovereign currency governments create, spend and destroy money. Orthodox macroeconomics teaches that governments (whether sovereign currency or not) have three sources of funding for expenditure: taxation, domestic corporate borrowings and foreign borrowings. According to the state theory of money however, this is a misguided assumption given that most governments today (whether sovereign currency or not) operate within a complex monetary system in which money denominates reciprocal obligation (Wray, 2009:9).

In a modern monetary economy, governments spend by debiting bank accounts of recipients which results in a simultaneous matching transaction of crediting bank reserves (Wray, 2009:10). Therefore, from this perspective, government spending creates currency through the creation of a

money denominated government liability (Wray, 2009:10). In contrast, taxation destroys money through government crediting taxpayers' bank accounts resulting in a simultaneous matching transaction of debiting bank reserves (Wray, 2009:10). The implication of this logic transforms the meaning of a government deficit into a balance sheet operation of credits exceeding debits with a resultant net financial credit in the private sector (Wray, 2009:11). The opposite is true for budget surpluses which result in net financial debits in the private sector. It is through these mechanics and the realisation that deficits up to the point of full employment are not inflationary (Tcherneva, 2006:82), that we can begin to find solutions to the conflicts faced in social sector policy making.

Although not based on the state theory of money, Boldea (2016:157) advocates the use of human capital contracts as an equity-like approach to the financing of higher education. Human capital contracts are contractual agreements between a student and a private sector company that is providing educational funding for that student (Belkovicsová 2012:50). In exchange for the necessary funds to cover university costs and charges, contracted students are committed to employment for a defined period after graduation in which they pay a percentage of their income back to the company (Belkovicsová 2012:50). Despite removing the burden of financing from student fees, human capital contracts are constructed as optimisation problems. As analysed by Boldea (2016:157), investors will only engage in a contract if its value exceeds the cost to fund the student.

Based on the state theory of money however, Tcherneva (2006:82) proposes the alternative use of an employer of last resort programme. Developed by Hyman Minsky and Abba Lerner, the employer of last resort programme is a universal programme implemented without any means test therefore guaranteeing an infinitely elastic demand for labour (Tcherneva, 2006:82). Using the principles of 'functional finance', the government provides employment at a fixed wage with benefits to anyone who is ready, willing and able to work but has not found private sector employment (Tcherneva, 2006:82). The idea is for the government to set only the price of public sector labour while allowing all other prices to be determined freely (Tcherneva, 2006:82).

An overview of the mechanics of such a program is presented by Kaboub (2007). The government exogenously sets the price of labour at a fixed socially established basic wage with the goal of full employment and price stability (Kaboub, 2007:11). In addition, the programme reduces skills depreciation from unemployment and includes a training component for private sector employment (Kaboub, 2007:11-12). Furthermore, private sector employment is not displaced because the programme offers employment to private sector markets that are under supplied or not supplied at all (Kaboub, 2007:12). According to Tcherneva (2006), such a program may provide the answer to the duality of policy objectives faced in the social sector today. Kaboub (2007:18-19) shows that existing employer of last resort programmes in the US, Sweden, Argentina, India and France can produce high employment levels without engendering unsustainable inflation. Nevertheless, such programmes have yet to be applied to the study of financing higher education.

The social policy funding space is heavily constrained by orthodox macroeconomic beliefs. These constraints limit the policy space available for governments to fund crucial public services like higher education. South Africa is a sovereign currency government that operates in a modern monetary system. Given the rising demand and cost of higher education as well as the rising unemployment

rate, it would be advisable for the South African government to consider implementing employer of last resort programmes in an attempt to finance higher education.

Conclusion

The aim of this paper was to contribute towards the discussion surrounding the appropriate method for analysing social policy decisions given the evolution of the structural world economy and ascertain whether employer of last resort programmes serve as viable financing models for higher education in South Africa.

South Africa is a sovereign currency government facing real, political and ideological constraints rather than operational financial constraints. The assumptions of orthodox macroeconomic theory and the goal of international competitiveness have made the government question the need for institutional independence and autonomy of higher education in South Africa. It was concluded that this type of policy direction would further exacerbate the already prevalent social inequalities in South Africa and in fact worsen its international competitiveness position.

Policy solutions in terms of financing are limited by the theoretical orthodoxy of macroeconomics. Most available financing options are framed within the context of tax financing with fees. The most popular of these is human capital contracts between students and companies. Although portrayed as an equity-like approach, this paper rather suggested further research into the employer of last resort programme based on the state theory of money.

Although this paper contributed to the discussion on fee-free higher education and attempted to provide a solution, the paper lacks rigorous methodology in terms of applying and possibly testing the employer of last resort programme. Furthermore, additional research is required within the growing body of literature surrounding employer of last resort programmes in the context of financing education.

Education forms the cornerstone of understanding and innovation in any economy. Without an updated theoretical understanding of the mechanics of modern money, the conflicts surrounding the financing of education and other social policies is likely to remain unsolved.

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