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**SET 7H1 - DAY 1**

**COMMISSION OF INQUIRY INTO  
HIGHER EDUCATION AND TRAINING**

**PARTIES PRESENT:**

The Chairperson  
Commissioners  
Head of Evidence Leaders  
Evidence Leaders  
Experts  
Secretariat

**WITNESSES:**

Mr. X. Payi – Nascence Advisory & Research (Pty) Limited

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**SET 7H1- SESSION 1 – 20 FEBRUARY 2017**

JUDGE: Good morning everybody, good morning Miss Pillay.

ADV. K. PILLAY SC: Good morning Chair.

JUDGE: Would you care to introduce us to the witness.

5 ADV. K. PILLAY SC: Thank you Chair, the first witness in set 7 of the hearings which is where we consider the economic, social and financial implications of providing fee free higher education and training is Mr Xhanti Payi who is an economist and once he is sworn in I will ask him to explain his background Chair.

10 JUDGE: Yes Mr Payi do you have any objection in taking the oath?

MR. X. PAYI: I do not have commissioner.

JUDGE: Do you swear that the evidence you will give will be the truth the whole truth and nothing but the truth, if you do raise your right hand and say so help me God.

15 MR. X. PAYI: So help me God.

**MR. X. PAYI: [d.s.s.]**

JUDGE: Thank you.

ADV. K. PILLAY SC: Thank you Chair. Mr Payi perhaps we could begin with you just giving us a summary of your background, your educational  
20 background as well as your work experience.

MR. X. PAYI: Thank you, my first degree was a Bachelor of Commerce from the University of Cape Town, I have gone on to do from the University of London postgraduate diploma in economic policy and through the University of Pretoria I have done some work on

econometrics. I started my career in banking working as an analyst and an advisor through the Investec, I have also worked as an economist at Stanlib, a country risk manager with Standard Bank and I am currently what we call a research strategist and economist with Nascence  
5 Advisory and Research, a business I co-founded.

ADV. K. PILLAY SC: Thank you Mr Payi, now I know that you have prepared a presentation and one of the key issues which we have asked you to address is the implications which flow or specifically the economic and financial implications which flow from implementing fee free higher  
10 education and training but I know that the presentation focuses on the larger question of feasibility so perhaps you could start with your presentation and we will raise specific questions as you go along.

MR. X. PAYI: Okay that is fine. So I wanted to start with this which I suppose some people would say it is a theoretical or a philosophical  
15 question but I think it is a very practical one for the question that we are facing, these are not exactly my words so but it is sort of a summary that I have had that you know there is no such thing as government or public money, the debate has been that you know government should provide this that you know there is enough money from the government, the  
20 government has money but there is no such thing really in my belief and there has been a lot of commentators who have made this point or public money, there is just money from men and women who work and trust that the government will administer this money for their good and for the good of society in such a case as we all know that you know there have  
25 to be roads that are built, police that are hired, hospitals but because

also as society those of us who work we are happy that there is something called social solidarity in which some of the money must go to those who do not have the capacity to contribute but without which we would actually starve if some of us would not share what we have.

5           So human solidarity is an important part and I think in education particularly that is an important part of our system of tax and certainly government spending. So the big debate about well government must make it happen I think is troubling in the sense that it will not be, it never is and will not be government who pays but it will be those people who  
10 have something to give or who share of their income through our taxation system and by people I also mean of course company's because I think there is also a big question around whether or not company's pay but company's do not pay in any way rather than that they draw income from what they sell to us and they take that income  
15 and it is shared between the people who work for those company's and certainly paying taxes from whatever is left so anytime we talk about company's paying taxes it is that they have made what is known as profit but really the difference between what they pay and what they make and that actually is what becomes tax and that if we ask to increase company  
20 tax we are asking of course that whoever owns a business, who runs a business, who works for a business that there is more than maybe we would believe.

          So as the point I am making that there is no such thing as government money so whatever we talk about is important to understand  
25 that. If we take that forward it is just to outline some of that therefore in

our training we were told, of course that is the study of economics, about scarcity and choice that we have scarce resources and we must make some choices about how we actually use those resources for the betterment of individuals as well as society and so the question about government and plenty is probably a bit spurious, there is not so much there is just that we have what we have and therefore I want to address two questions which is how do we make up for yesterday which is a big question I think in this commission and who is the government and then there has been a lot of myths and poor language in the debate about this question of fee education or access to education that I will touch on as we go forward.

So over the past five years, we could have gone maybe for longer but if you look at the graph before us it speaks about what has government revenue been as a percent of GDP, I will explain that, and what expenditure has been as a percentage of GDP in this country so over the past five years. To start to maybe simplify the question of GDP, so GDP represents growths domestic product by in simple terms really represents our country or our nations income so what we produce on an annual basis so that will be our GDP and this is from which we can say we have an income because this is what we have produced nobody can have an income of course if they do not produce because we have actually have to make something whether you are a farmer or you are an economist you have got to produce something that people, that is of worth and that is what we aggregate together to come to GDP.

And then government and then therefore, as a business of GDP

we say revenue is a percentage of GDP we mean what government has collected if we were to look at it as a fraction of our production and what government has collected as what we have spent in expenditure as a fraction of our income, our national income and those two numbers are represented here over a period of time and we see here of course that what we spend as a percentage of GDP is less, I mean is more than what we collect which is revenue and this has happened over time and that difference is what we borrow which becomes national debt.

An important question here that I actually wanted to allude to and we will talk about this later when people talk about what we spend on education and what we have been spending on education and whether we are less or more than other nations will probably, I will make reference to this but really the point is that where we are today is that we are spending as a percentage of national income much more than what we are collecting so we are accumulating debt, it has been a very contentious question but it is an important one to consider whether or not we can afford or we can reprioritise education so that we can actually be able to do more in terms of what we spend.

Already we have made some choices, I am going back here to what I said at the beginning to say that you know we have got scarcity and choice but according to the current budget we have already made some choices about how we spend this money that we collect every year from individuals and corporations. Some of that money we spend on borrowing costs so, because whenever we have borrowed, in the previous slide, we showed how there is a difference between what we

are collecting and what we are spending because of that we have been borrowing and debts at this moment that would be at 164 billion that is 10 percent of the money that we have we spend on general public services, on social protection which I will show you a slide which  
5 represents maybe some 17 to 18 million South Africans that depend on that, we spend on agriculture, on human settlements or housing, economic affairs and the rest and basic education 245 billion and all of this money of course represent much of it and what I am trying to highlight here is that in part of what we would call maybe redistribution  
10 remember earlier on I was talking about the idea that some of the spending that we are spending is about what we are making up for lost time for the period in which people were not spent it that, such services were not delivered to all people in education as such.

So what we would call redistribution kind of spending is probably  
15 50 percent of our budget, part of it is you know in social services and basic education, economic affairs and that sort of thing so we spend a fair chunk of the money that we collect on redistributive purposes or trying to bring everybody to the same line go give everybody an opportunity in society not to starve but also to get ahead. And if we are  
20 making choices about future spending we will be making them amongst these very same lines of where would we actually given the limited resources therefore make the choices to shift around given the current paradigm that we already facing as we show it here.

And I was saying before we spend about R150 billion on social  
25 services or what we call grants, much of it you know to children and age,

the elder or disabled individuals in our society so there are 13 million children today who depend on social solidarity, 3 million elderly. And given all the paradigm one of the big debates has been whether or not South Africa is under spending on education or we are not spending  
5 enough, we are being out competed, we are behind and just as a matter of statistics to go back we spend about 1.3 percent of GDP on higher education that is half the rate OECD countries spend.

COMMISSIONER ALLY: Mr Payi I know you say there we have 1.3 percent of GDP on higher education, oh it is not you, I thought it was  
10 0.71 percent or is there the language you are using here is, perhaps you can explain yourself because we have got different numbers from different people.

COMMISSIONER ALLY: Even so and perhaps somebody says 0.71 percent.

15 MR. X. PAYI: Well I would have to find out actually how that person calculated it Adv. Ally I would explain how we got to that number here so we look at higher education as allocated in the budget and we say what is the gross domestic product of the country and then you take those two numbers and you divide them and it would depend perhaps what year  
20 reference it might have been, here I have used the last numbers that we have had to divide so I am not quite sure about the 0.71 percent. I could refute it until I have seen it.

COMMISSIONER ALLY: Well no you can continue because we have a guy coming this afternoon and I thought it was you who has also  
25 mentioned the amount and then comes back to the 0.71 percent, I was



just wanting to know, you see the debate has been that we are not spending enough and if you look at the amount of GDP of other countries as opposed to ours this represents a problem so they said maybe you could even move it to 1.1 percent but you already saying we  
5 are at 1.3 percent, I am just worried about the figures that we are using and I will have to go back to my notes to check Treasury what they have indicated or I am not sure Miss Pillay whether your recollection?

ADV. K. PILLAY SC: Commissioner Ally I think the difference comes in if one adds the once off payments to NSFAS etcetera and I think that is the  
10 question to pose to Mr Payi, did you add in that amount the once off bail out money paid to NSFAS etcetera?

MR. X. PAYI: Well so I took the number that was sitting in the budget last year so if that adds the bail out so basically what the government says on a line item this is what we are spending on higher education that  
15 is the number I took ja.

ADV. K. PILLAY SC: And when the Minister of Finance appears Chair we will then break down that amount that appears on the budget line item for last year.

COMMISSIONER ALLY: That is fine.

20 MR. X. PAYI: But I think the point really is Commissioner exactly what I was trying to get at is these comparisons we are making that if you are making a comparison about whether we spend 1.3 percent or 0.7 percent what does that relate to if we were to look at other countries so OECD countries they represent the organisation of economic  
25 cooperation and development these are much more advanced countries

than what we are and that really the point is that we probably spending half of what they are spending so that is true but we have got to also understand that has to be seen against their levels of GDP and their levels of taxation so if you look at the tax revenue as a person of GDP in  
5 South Africa it is about 28.8 percent, Germany is at 45 percent, the Belgium at 52 percent we are also below Brazil and Botswana who are at 33 and 39 percent respectively.

So this is what they take as taxes in terms of their income so if I say GDP is our income we are far lower than everybody else in terms of  
10 what we collect from the income in terms of taxes so that if we were to double how much we spend as a percentage of income we would also be required to increase our rates of taxation on that income but really if you look at what we spend as a percentage of the total budget so this is actually the amount that is available to government to spend that is  
15 about 5 percent of the budget to tertiary education, it is probably, it is about a quarter if you combine both primary and tertiary education so basic education or anything we call education would probably be a quarter of our national spending on this, this is against 3.1 percent seen on average in the same OECD countries so it is important therefore to  
20 note that we are spending much more of what we actually have in the pocket than these countries but we are spending less than we could if we actually made sure that this pocket actually gets bigger, that actually we have got to grow the pocket to be able to get to those numbers so this is the point I was trying to make.

25 ADV. K. PILLAY SC: And just before you carry on Mr Payi how does one

grow the pocket?

MR. X. PAYI: Oh to grow the pocket is simply, there are two ways one would actually to increase the income itself so you do not change the rate you actually create the income, higher income which is what we  
5 have been talking about in terms of growing GDP, GDP is our income so you actually just have to do that well it is not just doing that we have struggling about this for quite some time but in the other way though is to actually tax more and to ask these individuals who actually generate income to give us a little bit more of that income so that we could  
10 actually put more in the pocket. And then of course there has been in education this, and part of what I am trying to deal with here is the language aspect whether we are spending less or more to say let us look a little bit closer to what we actually mean by well we are not faring better than others that the language is a bit poor because people can  
15 use statistics in whatever way they like and I think there has been a sense that has happened so whether we are discussing 0.7 percent what do the statistics actually mean and this is what I have been trying to do in terms of discussing the language that we are using.

And of course part of the language has been this idea of  
20 commodification of education so people are saying, it is a commodity. There are two points here I wanted to make, the first one being that of course we come from an environment where we know we are country rich in commodities and that wealth has not been, people have not felt, well it has not been used to advance and develop people generally and it  
25 has gone to the pockets of minority and that of course is emotionally

taunting so words like commodities and commodification have a particular reference in our mindset as a society so that word I suppose have been emotive nonsense but it also may be slightly detracting from the real work we have got to do to think about what we do about the cost  
5 of education, the price of education given that those are two terms are probably have different meanings.

And then the second bit being that it is important also to look at if it is true that you know education has been a commodity, in what way has it been a commodity, is it in the way that we decided how to actually  
10 price education or format education in that the language itself is not enough but that we actually have to look into the words themselves and see what we draw from it and whether or not we do not stab ourselves by using emotive language that actually might detract us from finding the right answers into this very important question.

15 COMMISSIONER ALLY: Well Mr Payi the students that have been here before us have used the word commodification as a means to explain and express their concern of how particular subjects are given a price and how others well the pricing of various subjects and courses as well as programs and they then termed it the commodification of education  
20 and they are of the view some of them that what is supposed to happen is rather that you supposed to give the subject matter, give it the price that it is worth and not use what the Universities have called it which is a norm within Universities to cross-subsidise so you have a cash cow like BCom so you get a whole lot of people coming in who then pay some of  
25 the money towards the music students and the equipment and so forth

so it is within that realm that the people were talking about commodification, is that your understanding of commodification and what you meant to put across in your slide?

MR. X. PAYI: It certain is commissioner in the sense that it suggests and  
5 this is true of you know goods and services that are sold in the economy  
right people with cross-subsidise or cross-prices, I suppose people will  
talk about this also maybe in, you know in the health sector they will say  
you know it is commodified because you know maybe there is or the  
more, you know the products that sell more will attract a higher price so  
10 that it can actually subsidise those that cost less. I think that the main  
issue around that what actually it costs in education whether or not there  
is the real price is of a course, the true cost of a course is an incredibly  
important question in this debate because if you, the example you are  
making actually is important in the sense that if a BCom, why does a  
15 BCom degree cost what it costs over a period of time and why for  
example does it not get cheaper because if it is true that a BCom degree  
has that much more demand and that much more supply there is a lot of  
people who can buy this thing and all you have to do is keep repeating it  
at some point really you should not be adding costs because we are still  
20 providing it in the same building with the same lecturers who do not tend  
to be changing the product that much more any other year, they probably  
actually cost less and less to produce given the technology that we are  
seeing, the ability to you know to receive notes on the internet and all of  
those things but the question really is what is in this so called commodity  
25 that is so important about what it costs and what should we actually be

doing about that cost of education that if it is that commodity.

So but I was not relating to the example they are making but that the language itself lends itself to these kinds of meaning that are emotive and not so much in answering the question about what is in the  
5 commodity that we should be actually questioning so that we can arrive at a better answer of perhaps actually this thing could cost less if we looked at the components of the commodity itself if we should use the tram of course.

ADV. K. PILLAY SC: Mr Payi there is also an important philosophical  
10 basis underlying the call for decommodification and the philosophical basis is the fact that higher education is a public good and that therefore it should be provided at no cost and that it, decommodification in that instance means that the student should not be required to pay for higher education, do you have a comment on that, the notion that higher  
15 education is a public good?

MR. X. PAYI: Sure, I do believe that higher education is a public good but there are two ways in which we can look at something that we call a public good, as well as the word itself simply understood is that it is good for the public but also that it is a good that should therefore be, because  
20 it is for all of us but also education is a very private good because in a sense I am an educated person and that education actually resides within me, if I wanted to leave next year to go, because I live in a democracy and a free society I can take my education with me to France, to Nigeria and do with it as I please, that society decided to pay  
25 half of my education or all of it because they thought I am going to get a

Bachelor of Commerce degree that is going to be good for society and then I decide actually what I really want to do with my life is to curate art in Lagos, that public good would have left with me because actually I can take it so on the basis of that analysis we have one in which we say well  
5 we want an educated population of economists and commerce graduates because they can help us solve societies problems but they can also help themselves but it also means that because they are free people they can take it with them but actually there is that in between that if people decide to take their education it is still theirs.

10 So I think it is in that in between that I get concerned about because there are societies for example that provide this public good say for example some students who come to South Africa from Botswana get free education but they are required to go home and spend time paying back to society that. I believe that that impedes on the very basis of  
15 freedom because if you are a student from Botswana you come to South Africa you fall in love and you want to stay here with the partner of your choice to work for an income here you cannot do that you have go back and therefore the idea of that it is free for me it seems impeded because if you cannot do with it what you wish as a free person it sort of becomes  
20 a bit limited in the way in which it is called free.

But perhaps there is a different way of thinking about it that by free we just mean access and by public we mean it does not belong to you and if we then define those words in that sense then people will understand that, I think it will be a cruel hoax to let young people believe  
25 that there are free people who are getting a free education only to find

that actually the education and their freedoms will belong to the people who provided their education and I think that is the important bit even in discussing whether or not we are talking about public goods and we are talking about a free education that actually the word freedom perhaps  
5 has to be defined in the sense of which is actually part of the whole big debate about what we mean by free education.

ADV. K. PILLAY SC: Chairperson just to come back to the question of the percentage of GDP that goes towards higher education just to clarify the issue and for Mr Payi as well, we just went back to the National  
10 Treasury presentation and what the presentation states is that the total amount from GDP that goes towards higher education is 1.4 percent however that money is made up of, and I think that was the 2015/2016 amount, that money is made up of the University subsidies, the ordinary NSFAS allocation, the extraordinary NSFAS education, the monies paid  
15 to Tvet's and adult basic education, the money paid from the SDL, the skills development levy as well as other monies, other public money going towards Universities.

JUDGE: Thank you.

ADV. K. PILLAY SC: So you were not too far off Mr Payi, your amount  
20 was 1.3 percent, I think the official amount from Treasury is 1.4 percent.

COMMISSIONER KHUMALO: Just on what is on the screen, it says there is no such thing as government money and then it says it is from men and women who trust the government, does the trust make it optional?

25 MR. X. PAYI: Well they trust the government in the sense that they elect



a government and then they give them their income tax as it were so no, no, no this is not optional but I think by you know there is I suppose a trust even in our system of governance and you know there is a trust element in which we first must all trust each other that we have a contract between us and the go and our fellow human beings through the law to that you know tax law wheel meaning that we can give the government money in a trust with the basis I suppose.

COMMISSIONER KHUMALO: Is there maybe any studies that says if there is an alternative that the administration of these funds maybe they are not done through government in case there is lack of trust on a certain section of the community?

MR. X. PAYI: There is not, it would be difficult that anybody else outside of the government would actually receive taxes because government by definition is you know, the principle of you know Caesar that we all pay taxes to the government because the government is the only one who has the capacity obviously to levy the laws, our tax laws and then collect the money from us through the agencies, I suppose it would always be governed, I have not seen any alternative in which you would find a way to get away from government administering our taxes, first act forcing us to pay them and then secondly you know distributing them, I have not come across a theoretical basis from it.

COMMISSIONER KHUMALO: Just the last one on there, if maybe we are to secure funds for feasibility purposes are we limited to that purse, to that public money as far as you are concerned, is there money that you can access?

MR. X. PAYI: Ja, I think we are limited to this money as far as we have an institution that perhaps is much more abiding which is obviously the government, the government is a much more abiding institution that lives through and perhaps through all of us as an entity, as a social entity  
5 even when you have a coup you would still have a government even if it might be a different kind of government you know so now we have a democratic one perhaps we might have a different one as opposed to funding different kinds of money maybe from company donations which may not be the next year which could move to other countries so it is  
10 difficult to see how there is a different model of financing this particular kind of or any, or social systems as it were.

So if we were to find extra money from different organisations perhaps from donors across would they be as abiding and as longstanding as this one would be, I suspect that this is probably the  
15 only one that has the kind of long term social responsibility than you would an NGO or the World Bank or you know private company's that would say we are willing to finance this that we could trust that they would fund this in 2030 for example, I do not know what we could actually believe that that would be the case in 2030.

20 ADV. K. PILLAY SC: Now Mr Payi you testified that in your view higher education, University education is both a public good and a private good, can I ask you how does that translate into the question which we considering now which is whether or not higher education should be made free or not, what is your view on that?

25 MR. X. PAYI: It translates in this manner that, there are two parts of

course, that the public good, the part that we need an educated population as a collective of individuals in society is not a question, because that is true we want to make sure that it is accessible but also because we are the kind of society that we have decided that we are in  
5 the sense that we are a caring society that people who, everybody should be given the opportunity if it is that those of us who are educated can serve society, can contribute, that every single person should be given the opportunity to serve and if that is through education of course then we must do that and of course, I will go much more into the idea of  
10 obviously if it is a private good because it actually allows people to be free as we like to call freedom, everybody should be free and therefore we should give everybody an access so whether it is a public good or private good I think that raises the same questions about whether people should access it.

15           Where the problem is I suppose is whether or not that we think by if we give it to someone that person has an obligation so that the debate is that we will give the people a free education because it is good for everyone, that it will not always be good for everyone in that sense and that it is to be understood that does not limit that and I will back to  
20 why this important I think, not limit the discussion of why fee education must be free because the public good but also other permutations because these other permutations allow us to have a much more newer debate about how we then finance it, if and this depends of course how we will collect all the argument if we say we need to actually do more to  
25 provide it.

ADV. K. PILLAY SC: And what are the other permutations?

MR. X. PAYI: If we have a permutation that it will be, the first one say we will provide free education which means the public sector, the government will provide it as I said in my estimation that you would have  
5 to actually increase the taxes and if you do not you would actually have to borrow more and that borrowing of course has implications not just for us but for future generations, we have to pay that back and in that discussion you want to ask yourself why is therefore, on what basis would we impose the spirit on future generations for us, so as I say  
10 because if all of us decided you know we have got things like the brain drain and all those things, why would we be able to impose that on future generations, there is a number of things so the permutation is about free education, have a meaning for other people, partly paid or you know financing for the poor or the private sector inputs, all are important  
15 because everybody participates in a solution that is about how is it that we are formulated that how it is that we say to people how freedom must work and how people should be free and those permutations are important in a sense a free education on the basis of government has far  
20 more outlasting implications for not just us who will decide on it but for those who will not have the choice in the discussion in years to come and that free education therefore might be problematic on the first permutation in which just government goes and borrows the money and provides it and hopefully that it will pay.

ADV. K. PILLAY SC: Mr Payi can I just stop you there, you mentioned  
25 that that is the one permutation is that government increase its borrowing

and therefore that has implications going forward what are the other permutations?

MR. X. PAYI: The other permutation is that we have a mixture of that we call it free education and then the government goes and lobbies, through  
5 different people lobbies the private sector to help us fund whichever pass we would have to fund in order for us not to increase the borrowing. The others of course are that the borrowing for free education, shall we call it, is actually on the people who will benefit from it today so if all of us in this room think that free education is important how do we then limit the  
10 decisions we make without imposing that to other people, force for the student who says well this is free for them now but because they will have to pay later there is imposition of an increased tags should you be a graduate so a graduate tax that allows us to pay it back so that actually that burden is not extended to young people who will be born into 2030,  
15 2050 that they will then bear the responsibility that this is cleared so that others therefore get a chance also to consider this question for themselves.

ADV. K. PILLAY SC: And what happens to the graduate that leaves, on the example that you mentioned earlier decides to apply their trade in  
20 Lagos for example?

MR. X. PAYI: That they then have the, they actually will carry the burden so you will see this in the private sector for example, the private sector will look at an interesting talented young person and they will say well we will pay for your education over the next three years and that you will  
25 come you know and work for us there is obviously this part about

freedom but you will come and work for us and over a three year period because you have worked for us and you added value to our company that would have been you paying us back, if you refuse at some point you decide well actually I found a better company to work for or I have  
5 been given a greater opportunity overseas then they say well you owe us money, you owe us that particular portion or the whole portion and they will have things like buy outs so the company that has found you more valuable and you think you want to work for them will then pay that company to actually release you from the debt because in the end  
10 actually obviously somebody still owes so in a sense that people, we impose on ourselves the duty to say well if you would then decide this is not a public good but you want to treat this as a private good then we will as a society then require you to pay us back for that bit.

ADV. K. PILLAY SC: And that payback will be in the form of a loan at  
15 that stage.

MR. X. PAYI: At that stage yes.

ADV. K. PILLAY SC: It gets converted into a loan.

MR. X. PAYI: I think that would be useful as one permutation.

ADV. K. PILLAY SC: And for as long as you remain here it will be a  
20 graduate tax, you pay back through a graduate tax.

MR. X. PAYI: Through taxes ja.

ADV. K. PILLAY SC: And will that apply to all graduates?

MR. X. PAYI: Well this is the fear question of course, whether on, it should apply to all graduates who are actually have benefited through

the social spending in their behalf yes.

ADV. K. PILLAY SC: And for how long will the graduate tax last?

MR. X. PAYI: Well this is the calculation that we must make because as I suggest the question is whether or not we extend the borrowing and the  
5 burden for this education into future generations. If we say for example this is a program for the next 20 years or it takes an average graduate five years to finish a degree and maybe another you know postgraduate degree of a loan that it lasts as long as it pays back or at least stops future generations from carrying that burden which they had no choice in  
10 actually deciding about I would say.

ADV. K. PILLAY SC: And in this paradigm that you suggesting corporates do not come to the party at all?

MR. X. PAYI: Ja I absolutely think corporates should come to the party, corporates are in the party of course through taxes but they are better in  
15 other ways they could share in it because I suppose it very importantly it is a question if it is true that it is a public good corporates are members of the public, in any way that serves the public they are certainly serve themselves and how should we make it therefore that they are part of this very big solution including ways in which we plan right corporates  
20 have a lot of knowledge and expertise that sits within them in helping us answer these questions about how we formulate a solution that works over a long period of time so they should be part of it in terms of extending the resources but also the know how in how we might you know administer such a system of education.

25 ADV. K. PILLAY SC: Now you mentioned that one of the prime factors

that we have to consider is improving accessibility, have you given any thought to how you can improve accessibility of higher education and training to large population of our country.

MR. X. PAYI: Sure, I think one of the things we have to remember is that  
5 we are living in power different times, in the society that we are living is modern and there are new ways, innovative ways of extending this, part of it is to change the language of what we think and perceptions of society around what higher education is and training and skills so there has been a lot of focus and I suppose I should be the last one to make  
10 this point that I had the opportunity and the privilege of a University education but that it is not the only thing we can do to allow people to be productive, to contribute to society that there are various other ways that education should be provided for, the social needs.

One of the things that we have seen over time, I looked at this at  
15 the beginning that a University education is expensive for a number of reasons in South Africa that it is very expensive, very expanded, you know it is big buildings in very expensive city so for example the institutions that are well liked in South Africa are in the, right in the middle of Cape Town in the middle of Johannesburg in very expensive  
20 suburbs so that it makes it very expensive to actually to run such an institution because it is on very expensive land and rates and all sorts of things like that and it provides far more than just education but rugby fields, tennis courts, swimming facilities and all those things that contribute to how expensive that education is and that if I walk in there  
25 and all I want is a BCom degree and nothing else part of my fees still go



to financing this whole infrastructure whereas if you went for example to a New York University you might find that it is in the city but it is just a normal building as if you actually saw a hotel not with all these other things, is that an important consideration for example about how we  
5 provide education as we go forward.

What about facilities where we actually have using technology, the internet for people to be educated in the same way as receive lectures, we are finding now more and more Universities allowing overseas their lectures to be free on line or to be available on line so that  
10 you do not have the infrastructure of new seats because it should be obvious that in a way if we were to have free education as such it would need more facilities not only for people to be able to pay for what it is but to build more buildings and to create more facilities to allow this, how do we use technology that would allow people to receive lecture materials  
15 are online, even watch lectures at home, to participate in tests, in all sorts of interesting and kinds of examinations that we have not explored before but how you examine someone for knowledge, how you examine someone for expertise.

That we use different kinds of things that will allow us to expand  
20 the system in a way that shows that we are actually now a modern society with all sorts of other things that we can use apart from the ordinary ways in which we have always provided education which contribute to making it so as expensive as it is to say it is commodified so there are different ways and I think we should now look at it to say  
25 how do we extend this thing to everybody, even the most remote people

who may not, who will come to Cape Town, to the University of Cape Town and find that they cannot find accommodation because the University cannot provide it but if they were at home, because part of the privilege sometimes is the idea that education is not so expensive for  
5 someone who is born or lives in Cape Town, if you are going to UCT because you already stay at home but if you could stay in Lebote in the Eastern Cape and there was an ability for us to provide a computer, the internet and these lectures at your home hopefully you have some discipline to be able to keep up.

10 How would that work in a paradigm in which now we are saying well how do we do things differently so that is one of them you know in the provision of education, obviously there is all sorts of things about how you finance that education, when you start, how long term is it, there are products now people are bringing that allow us to contribute as we  
15 sometimes do for funerals and we do for disability that we start early when you think about that at some point we have got to do this and in ways that are protected that run really in terms of how we think about all other things that we think about spending on when in time, when that time comes.

20 ADV. K. PILLAY SC: But on what you have just described now the approach would be that the individual pays a portion for him or herself.

MR. X. PAYI: In what?

ADV. K. PILLAY SC: The student would pay towards his or her fees.

MR. X. PAYI: So I mean depending on what we mean by, so if for  
25 example we are thinking we have obviously a short term problem so we

need to pay for free education this year already next year, that is true, there is also that it is not a problem that is going to go away we will still have this problem in 20 years times so we are going to have to talk about how we allow people today to be able to participate in that so if  
5 some, I saw such a product that says look if someone is a domestic worker they are able to say you know they can put away R50 today and you create a pool of money that other funders could actually co-finance with them over the next 10 years so that in 10 years time that money will be released to this particular student to be able to do that, we have done  
10 this in may other ways where we think about co-funding solutions as a society so and especially NGO's, we find a lot of this co-funding happening so we have got to think about the solutions as we think about the short term but also the long term because the problem will stay, we have a very young population that population is going to be entering the  
15 sector in increasing numbers over time so we cannot sit back and say well if we are able to provide it now we will always be able to, what are other ways in which we plan for that contribute to this over a period of time.

As I said earlier this decision we are making is a decision that  
20 will affect perhaps this generation, we had a choice about it, in the next generation we need to find new ways of thinking about it so that when they arrive at this question there would have been other ways in which we had thought about to resolve the issue.

COMMISSIONER ALLY: Mr Payi you see we are not really interested in  
25 a short term solution, the solution or the recommendations that this

commission comes up need besides being feasible need to be sustainable and as an economist how does one go about that, you see the Treasury will come here and say to us or has come here and said to us that is what we got and they a description to us about how budget works and so forth is that and you have mentioned it already, the more you borrow the more you get into trouble and if you are not getting the income as you indicated if your income is not being generated fast enough for you to pay your debts as well as do everything else you have to do then it becomes a problem so the short term solution anybody can do that but you see it is the people that you are talking about 20 years down the line so somewhere you have got to come up with some kind of philosophy of same, does our, is our society ready for what we call free education and what that free education is, whether just tuition or all the rest of that and if it is a priority for the country as the person that holds the purse strings what then do you do in respect of that, do you then plough your money where your priority is or you still got to spend your money around that everybody also lives well, not comfortably but is able to live so it is those kinds of philosophies that come up when discussing the long term solution in my mind.

20 MR. X. PAYI: Commissioner I think the issue, so in our business we always ask the question what question are you trying to answer and there has been a lot of questions around this question, if we have a question for example of redress it imposes a different kind of solution if we have a question of access that is also part of perhaps the same  
25 question, there are many questions, we have got to decide at each

junction what it is that we are trying to answer, I suspect that if we say for example we want an answer about the question of access we ask ourselves access to what because the word free education speaks to all sectors of education so if you say free higher education you mean  
5 Universities, training colleges, University of Technology and all these other parts of the sector and the question there is important in the sense that these things will have different cost implications and long term implications even if we were to be able to do it today or tomorrow that as our society evolves even our needs, the important thing here that we  
10 have to notice and I perhaps should start from the beginning to say if we are planning a society because there has been a very isolated kind of approach to this free higher education, our site has very many needs in terms of how we develop.

So even if we were to for example say well let us allow  
15 everybody free education and they all flock to Universities it would not have answered the question of what kinds of skills do we need for a modern society for a growing society we are going forward with all sorts of different things that are happening for competitive society globally and all the things that we are facing about being a, you know thinking  
20 sustainable so this sustainable is important but it is important that we know what we mean by sustainable. Would it be sustainable to actually allow everyone into University given what the Universities posture is on education and skills do we need actually other areas which people should be getting competency and training and why are those parts  
25 important, what will it serve today in the future, this also relates to this

idea.

ADV. K. PILLAY SC: May I just interrupt you because I know you have got strong thoughts on vocational training and perhaps you would want to share those with us the importance of vocational training.

5 MR. X. PAYI: Yes, so as I was saying that the, so if we are planning anything about sustainability it has to reach out to what we mean by something that is sustainable because sustainability suggests that we, this thing keeps holding and reproducing so that actually it does not actually collapse and what we have not done is actually have a proper  
10 planning strategy session about what questions we are trying as I say to answer about the site we are trying to create. The question of access is important but it only has to be about access to what, the economy of today is very different to the economy of tomorrow and thereafter and we leave behind a lot of questions to other people because we are hoping  
15 we can find one that answers the question of the individual students, even those students who are able to actually come and sit before this commission.

Vocational education is important for example because if we think about it there are various, people say this economy has not grown  
20 they only mean that big GDP number has not grown, they are not actually focusing on the parts of the economy that are doing very well because everything is aggregated into one, it plays into a very dangerous paradigm that we have grown so vocational training for example is important because when you have a very important  
25 agricultural sector with great opportunities about creating in the

agricultural sector the economy of tomorrow that we now no longer just grow potatoes, the agricultural sector is important for energy, for bio fuels, for clean energy, how shall we plan to include young people into this important sector of growth that is actually also about a modern  
5 society and a better society the question has not actually been answered, we still think of agriculture because we think we can grow some potatoes, it is about opening new markets in the wine sector, in you know in kinds of food that is now of tomorrow but how it sustains to live more healthier.

10           These questions are very specific to how we actually will say this is a sustainable solution because we would have gone through things that important about you know what we call vocational training which really at the back of our heads when we talk about vocational training we actually mean plumbers, we do not actually mean that somebody could  
15 actually be working in the farming sector producing some, we have got agricultural colleges in this country, some people call those vocational but in the minds of South Africans, of young South Africans we mean when we say they should get, they should become mechanics, they should be plumbers and already we look down on those whereas  
20 actually we are trying to discuss a question about access, to participate in a modern society and a modern economy and in tomorrows economy and this sector has, if we were to plan properly that is about vocation has very, very important implications even on this question of free higher education because we can train young people who will meet the  
25 challenges of today and the challenges of tomorrow.

So a sustainable solution is not one that says we are going to need R42 billion over the next few years because that is how much it cost to go to University, it is one that says, and also because we think you know there is something that translates between higher education and GDP, we should have learnt a long time ago to abandon these notions of you do one thing and therefore it leads to another, you know this trickle down effect of that that we need a really strong strategic intervention that looks at who we are today, who we will be tomorrow and of course it seems very heavy because this commission will have to go through a lot of stuff to say that but it is the only way we can talk about sustainability because we need to reach out because otherwise we are going to be three years later find that the sector has collapsed because we missed one thing because we did not quite lean into the question of what it is that we are trying to solve when we sat here at these commissions.

COMMISSIONER KHUMALO: On sustainability you were saying that, you were saying it is not a system that says we need so much because this is how much it costs, you are saying it is a system that says, sorry?

MR. X. PAYI: It is not a system that says how much it costs today or tomorrow but a system that says what are the needs today and what will be the needs tomorrow so that we can continuously provide for those needs because access today will be a very different thing to access tomorrow given that things are changing.

COMMISSIONER KHUMALO: From an economist's perspective have you been able to answer that?



MR. X. PAYI: Only as far as to say that the solution has to be a very strategic forward looking one, economists spend a lot of time of course you know planning both you know given history and looking ahead to say what will the world look like in 50 years time, one of the interesting things that has come out and it is every time economists you know defend themselves about what they can do to see into the future it is a question of there was a time for example where we thought that you know everybody was using a horse and that you know when people were using horses as transport that you know there was a belief that what are we going to do in the next 50 years because the more people have horses those horses will be you know flooding this place you know it is horse dung and all of this and so we will not be able to actually, how are we going to manage, the big question was how are we going to manage you know horse dung in our streets given that everybody will have a horse.

Little did we of course think that the economy and the transport of tomorrow would be trains and cars and that that would not be our problem at all and this is what I am trying to get at and there was a time for example we were worried about oil prices, little did we know that we would find that over a period of time oil would not be as expensive because we would find more wells or we would find new ways of being efficient in technology so the point I am making is really that the problem of today is a big problem of course but it will not always be the problem of tomorrow, we will find different kinds of things and this is why our thinking today has to do with the strategic plan looking ahead into what

the issues will be over a period of time rather than providing a solution that seems quite feasible today or sustainable but that even now as we said things are changing very fast how do we prepare for that sort of situation.

5 JUDGE: What is the relationship between the National Development Plan and your strategic intervention?

MR. X. PAYI: I think they are relatively close except in definition so that the National Development Plan looks ahead and it says we need to answer those questions right, the thing is in the detail, the new ones and  
10 I think this is where we have been failing and I think everybody says well we know what we need because it sells so about we need to plan ahead that is absolutely true but we have got to say what does that actually mean in the details of what we put a lot of criticism around National Development Plan is exactly that that one has got really good you know  
15 descriptions and narratives on our vision as a society, our vision must be translated into very practical terms of things that we can do to make sure we get there in answering the basic questions about where people are and where people are going, where they were talking about geography special planning, education, the future of education how it will all work.

20 So NDP is an important part of how we actually answer a question but the depth of it is what we continue to mesh, again what is the question we are trying to answer and perhaps we should, we could be comfortable saying, I would not agree with this but that actually let us answer the questions of this generation and leave everything else to  
25 tomorrow, when they arrive they will have to deal with it themselves.

ADV. K. PILLAY SC: Now that we have established that 1.4 percent of the GDP goes towards higher education or went towards higher education in 2015/2016 in your view Mr Payi is that an adequate amount of money given the size of our GDP or should government be spending  
5 more?

MR. X. PAYI: As I was trying to explain, that number on its own is not particularly useful it has to be compared to other numbers so 1.4 percent of GDP on its own is not useful because actually that 1.4 percent is against compared to other people so we like to compare ourselves, so if  
10 we like to compare ourselves against compared to other people so we like to compare ourselves so if we compare ourselves to the developed nations they spend double that but they set as a percent of GDP but their GDP is higher but also their tax rates are much higher so they could actually do that so 1.3 percent of GDP just says this is the percentage of  
15 income that we are spending but we have got to do that, depending on the income that you are spending depends on how much income you are actually drawing as I was showing.

If you say that 1.3 percent of GDP could be more that means you are saying we could spend more of our income in that because we are  
20 spending less of that income I would agree with that but we would also have to agree that we need to find a reprioritisation of how we spend our income because it is just 1.3 percent of national income which is GDP. And the way other nations have been as I have showed you earlier to be able to spend more of that is to actually take more of the income from  
25 those people who produce it so to say more would actually be naturally

to impose that we take more from that so if we say we spend 3 percent of national income requires that we actually take, it is about taking it so I think the words people use it as a nice number but really in its meaning it says this is how much we take and spend on national income, to spend  
5 more means we take GDP's income so it is this, so now we are going to ask for more from your income which you produce every year so that we can spend on this particular thing. So I think that is the main thing so the question really cannot be answered by we should spend more without saying we could, obviously going to have to take more.

10 ADV. K. PILLAY SC: And on the existing budget do you think there is, it is possible for government to reprioritise other funding to move it towards higher education?

MR. X. PAYI: As I said earlier, government priorities are the peoples priorities because that is their money so it is public money so every time  
15 the budget is put before parliament the Minister of Finance is saying to the people this is what we are going to, because we have been entrusted to administer this money do you agree that this is the way this money should be spent and parliament says yes so the Minister is going to do the same thing at the end of this week he is going to go and say you the  
20 representative of the people do you agree that we reprioritise this money so priority is really should relate to what we think a society as tax payers, individuals where we should be spending so I think if we are going to say do I think ...[intervenes]

COMMISSIONER ALLY: But is that practical, that which you are doing  
25 now Mr Payi is that practical within a given year of budgeting because if

you say we the people are saying yes to that you can only change it after every five years that no you are not doing what I said you must do so is it correct to say actually I am saying to, the Minister is saying well I am asking you whether these are the, and they say yes therefore the people  
5 will have, is it helpful to put it in that manner?

MR. X. PAYI: No commissioner I think that it happens every year so it is every year, our budget happens every year so ...[intervenes]

COMMISSIONER ALLY: No, no not that part budget happens every year but you the people can change what is happening there only every five  
10 years because you have no, between those five years you stuck with what you got until the next five years.

MR. X. PAYI: Oh I see, do you mean that our, the people who sit in parliament can be changed every five years therefore that there is no possibility for the public to engage in this question now?

15 COMMISSIONER ALLY: Well I am saying to you is it helpful to say that the Minister well when the Minister gives the budget it is actually the peoples priorities, I am saying is it helpful because is it not governments priorities which you are then transposing to the people and you say it happens every year does that argument help us in any way?

20 MR. X. PAYI: Oh I see, I think then under that argument then we would not be able to ever change it because of course every time you know you, as you know our system works in the manner that it works so but the Minister always says for example you know tips for the Minister and this is what the public said that actually our communication does over a  
25 period of time, so for example we know the students who have brought

this very important question before society have put it out there and it also to be able to say to the parliamentarians I am sure they presented in front of the Ministers, this is the reprioritising so it is not possible that as South Africa democracy we sit back and we say every five years, but that

5 if we have alternative priorities and reprioritisation we bring it forward for it to be responsive, I think that is where the failure has been in the sense that we have not been able to rewrite a new set of priorities as interested parties so I sit around here as an economist and I should have been participating in rethinking the priorities so if I think these are the priorities

10 and something that I spend a lot of time writing also for articles in the public media except I have not actually put one where they are reprioritising but that is our system of government there is no, if we had taken this before parliament when by the time the Minister comes there is other options that have been put forward, I think those options have

15 been lacking in the detail that would tell us that we need to reprioritise and how we actually do it because all the numbers are there for everyone, all those numbers that I was showing you I do not, it is not because I am the economist that I have them, that any single person can go onto the internet and download all the line items and the detail to

20 reprioritise and submit to the relevant parties to ask for time in parliament before these, how about these priorities the next time you come and we have that system.

We cannot wait every five years because as people, because we are never able at any point in the cycle even after five years to draw up

25 our own, unless we start our own party that allows us to then go with the

different kind of minute for now we can contribute to the current processes and I think that is the better in which I was saying that.

COMMISSIONER ALLY: Okay so to return to Miss Pillay's question, the priorities as they are now should we have education or higher education  
5 as a higher priority than the others that are around.

MR. X. PAYI: Yes.

COMMISSIONER ALLY: Such as water, sanitation, land and health.

MR. X. PAYI: Yes.

ADV. K. PILLAY SC: Should we, how do we have a look at those  
10 priorities and are we doing it in the right manner?

MR. X. PAYI: And that is really the million dollar question, if you look at the value for example, do we need a standing army, you know students are amongst the brightest of ours alright, they are the few percent, the elite who enter University and allow us, and if we succeed in actually  
15 providing higher education and access what we would have done is to give ourselves the brain people of this country that will allow us to answer these questions. One of the questions is do we need all this other spending, could we do it differently, do we need a standing army, some countries go without why have we chosen to have one, do we  
20 need to spend as much money as we do on the protections and all of this stuff.

COMMISSIONER ALLY: Now when you put these forward Mr Payi perhaps examples will help strengthen your argument, you say some countries do not have a standing army and how many of those countries  
25 in the world have no standing army?

MR. X. PAYI: I only know of two but the question ...[intervenes]

JUDGE: I only know of one perhaps you can add to my knowledge?

MR. X. PAYI: Ja one I have only heard but that is the point right, they are determined whether or not this is an important priority, an army is a  
5 priority so that is only the point I am making that the question is when we think about priorities you look at yourself and say is this a priority and this particular country said no it is not a priority for us and there are many things we can do to choose because by priority we mean is it something that is important to us as a people, even if it is a priority is it at  
10 the way in which it is configured today so even if we decide it is a priority it might need to be configured differently. For a long time we spent a lot of time expecting some things as the way they are even within the education sector that do we need the structure and output of Universities today as it is, students raised some very important questions about that  
15 when they were talking about decolonisation of education, part of the question they were raising was the kind, the structure for a University, the questions that are being put and being answered by the University today are they relevant, are they important so it is about really these prioritisations.

20 JUDGE: Well you know it is a very difficult question, supposing the function of this commission is to determine priorities, we have had evidence about the number of, we have had submissions about the number of embassy's that South Africa keeps abroad and it has been said to us that these are too many and too expensive that could be  
25 regarded as a priority issue, the standing army could be raised as a



standing issue, as an issue but there is limits to what a commission enquiring into the feasibility of education can or should do, is it for us at all to tell the government you should not have a standing army, I think not.

5 MR. X. PAYI: Chairperson I think that the question that generally has been posed in some ways actually, when somebody says is it feasible were you being asked to go and look at the budget and say is it something that we can afford, if the question is that you should look at everything else it does in some way impose on you the idea that well  
10 there is all these other things that we are spending on right because there is this question and this question relates to all these other things and I suppose we might have to select which parts of the question are important and which parts are not.

JUDGE: Well you see we could never say education is more important  
15 than the national health scheme, it may be that in 56 percent of the vote as it is and 44 percent possibly do not care but we could never make that judgment call and neither is it for us to make that call so we are immediately hamstrung in certain respects in looking at the question of feasibility.

20 MR. X. PAYI: Yes, because I suppose the word itself I have wondered often what it actually means this word feasible.

JUDGE: So have we and no doubt we yet will.

MR. X. PAYI: So perhaps that is the whole contention about what it means about something to be feasible because if you mean affordable  
25 that is one question but that question if the word affordable it is you are

still, you know for example if I am sitting at my house and I want DSTV and I think can I afford DSTV it is likely that I can afford DSTV if I stopped driving around so much on the weekends.

JUDGE: Well I think we can assume that the economic aspect is only  
5 one size of the feasibility.

MR. X. PAYI: Yes.

JUDGE: The practical realisation is another side, we might think of a solution but it is not practical you realise well it is not feasible.

MR. X. PAYI: Yes and that is what I was alluding to right at the beginning  
10 that the people have these resources and the job is to actually break them up into ways in which we can say we have got priorities, things that we need to do and at any point in time it is this the administrator, the government that has to have that determination obviously.

JUDGE: Well exactly, supposing we were to say well it is obvious if you  
15 increase the VAT by 10 percent the money is there, everything you need is there.

MR. X. PAYI: Sure.

JUDGE: Is it for us to say whether that is feasible or not, surely not, it is a government policy.

20 MR. X. PAYI: Yes but is it not that that is what they handed this part of their question to you in that their policy making ...[intervenes]

JUDGE: Sorry are you saying that they handed to us because they want everyone to decide ...[intervenes]

MR. X. PAYI: Is that not the point of the commission to go and say well

this is one of the questions we have to answer as a government now given everything that you are doing perhaps we need to hand this over to Judge Heher to say look Chairperson please could you answer this question for us and let us know what you think.

5 JUDGE: No but that is defeating the whole purpose of democracy I would have thought but anyway.

MR. X. PAYI: Well they are given ...[intervenes]

JUDGE: Whatever Judge Heher's views may be on a particular matter it does not mean to say that they are in accordance with the democratic  
10 view.

MR. X. PAYI: Well the democratic view is supposed to give this government the mandate to answer the questions the government then uses that mandate to pass on the mandate in some sense, they still will decide I suppose in the end but the point I was making is that one of the  
15 things that are clearly important is to really to lean into that question of actually what are the priorities because we have got the priorities we have got or at least the priorities that are said to be priorities, the question is now how we reprioritise and we will show that those priorities are clearly in the way we are now already expressed in the way we  
20 budget, it is too, for example if we increase VAT by 15 percent it will be taken to parliament which is the peoples representatives across the board, that debate will be about is 16 percent something that is fair, is good enough, is worth to do that and if they decide actually no they could reject it right because that law, the tax law is what the  
25 representatives do across the board.

I do not suggest that you know the government is one place, perhaps it is majority one particular political party but when it gets to parliament it gets debated by different kinds of heads and we hear from a lot of them to see what it is. I suspect that there has not been a lot of  
5 robust debate about even how we tax and how we distribute money over a period of time and that has set the, and has been assumed to be the priorities, part of it is suppose in this commission is to ask, even if to ask the question have the priorities as read in the budget being true priorities given what we mean by priority at the very least.

10 ADV. K. PILLAY SC: Just on the question of priorities Mr Payi, we had before us Mr Michael Sachs from Treasury in July I think it was 2016 cabinet had decided that higher education would be an Apex priority now we have also had testimony from Professor Magoba who is the Deputy Chairperson of the planning commission who testified that his  
15 interpretation of the NDP is that it recognises education as an Apex priority but there is a disjuncture between that and the preparation of the budget so in other words that the budget does not reflect governments commitment that higher education is an Apex priority, do you agree with that?

20 MR. X. PAYI: Yes as far as of course the budget represents, the NDP represents exactly what we mean because it represents our commitment to such a thing as an Apex priority. Many people have seen over the past few years since the NDP that there has been expression in our budgets where the different Ministers would say when they deliver a  
25 budget that in line with the intentions of the NDP we are allocating more

money to infrastructure, in that language they are suggesting to us that as an expression of the governments will to see this thing through we are actually going to spend an, and of course we know that education if it is such a priority there must be some presentation.

5           Now the difficulty of course is the question would be if we are spending 25 percent a quarter, it is nearly a quarter of what we spend on education both primary and secondary that is a quarter by many standards people would say that is a really a strong expression of a priority, a quarter of what we spend goes to education both in the primary  
10 and the tertiary sector, I would say that that is a strong representation of that, I think perhaps even as I was saying earlier that perhaps part of it is to now look inside that 25 percent and ask ourselves is it being allocated in the right area, some people for example say we do not get, we are not getting value for money, I do not know that if this commission is  
15 entrusted to actually even answer that particular question about well there is actually this money but is this, are we getting value for money, are we spending on the right things to bring about this idea of access, what do these government spending, what is government subsidies for example play a role in doing.

20           Are subsidies doing the right thing in terms of what government is saying they should do as opposed to other funding that goes into the system, whether it is fees or even donations that come from you know private individuals, so those kinds of questions. So in some sense it is perhaps we should take a little bit from primary education to feed the  
25 tertiary sector and see how that takes us but it is about the detail and

nuance that of the stuff we are already doing and there has not been a lot of leaning into the nuance, into the detail of the way in which things are currently structured across the board.

ADV. K. PILLAY SC: Now Mr Payi you are a prominent social  
5 commentator on the notion of structural inequality in our country and perhaps you would want to address that just very briefly, the notion of structural inequality and the role of education in perpetuating that inequality.

MR. X. PAYI: Sure, so inequality as I divide over a period of time is  
10 firstly to start what we mean by inequality is that some people have more wealth than others or some people earn more than others and over a period of time it is defined really by what we have by way of surplus so I have more left in my bank account at the end of the month than the lady who comes to clean my house and that surplus is what will continue to  
15 sustain me in being able to acquire more assets and to build a house and do all wonderful things and her lack of surplus is what keeps her back because all her money is spent really between transport, food and all of that, that is quite a clear thing because those who have a little bit more means that they have a little bit extra and this is the manner in  
20 which we build things.

Our economists who are working on this question now, say for example that it has been that way that over you know centuries people build more wealth because they are handed things over because they come from dynasties or rich families and that immediately lends them the  
25 surplus that many people who start from zero and have to continue do

not have. Where education has come in has been that it gives you access to the possibility of earning such a surplus, so getting a job for example is one way to get into but getting a higher paying job is one way to get into higher surplus. Statistics show us that you have double the  
5 chance if you have a degree than somebody who does not have a matric certificate of getting a job, once you have got a job, a higher paying job if you are working in the banking sector and you are an actuary, so education is good in the sense that while you may not have inheritance as your way of surplus you might have a higher level of income as your  
10 way of creating surplus and that takes you away therefore from those who are at the bottom of income earning into those who are at the upper end of it.

So education is important in the sense that it allows you only access into earning a better income than you would otherwise do and it  
15 is that surplus that a lot of people are looking at, there has been the big debate of course that in this country education for example has a very high return, that is what we mean by inequality, that some people earn very high returns and other people earn very low returns and the difference between those two is what we have called inequality so if  
20 education really an investment in education it is an investment and it gives you a higher return you must have it if we are to defeat we are to produce more people who are educated, gives them choices, they do not have to sit at a minimum wage, there is no discussion about minimum wages amongst the educated, it is only amongst the poor that we  
25 discuss minimum wages, it would not apply to me, it certainly is not

going to apply to many people in this room, this question of a minimum education, I mean minimum wage which obviously does not produce much surplus.

So education saves you from all of those kinds of questions and those are, and therefore the word structural that it is built in the structure of the way the economy works, it is structure in the way the world works and to change a structure of our economy requires, inequality requires that we change the structure of the economy more educated people are more people therefore sharing in the surplus and being able to demand their part in the surplus and so it is absolutely critical that we have education and we expand it, we expand access.

ADV. K. PILLAY SC: And do you want to link that to the quality of the education that you receive?

MR. X. PAYI: It is in, the quality of education is important and in my observation in that it meets the demands of the economy so people in the banking sector make much more money even though they have had the same quality of education as it were with people in the agricultural sector for example so if you say you know, or in the social sector, if somebody, if I have a friend of mine who is a social worker with whom we were students and I ended up in the financial sector and she ended up in the social sector as a social worker, even though we had the same college of education that I ended up in banking gives me much more surplus than it does him, that is an important question about what we mean by quality of education, I rather would say that, it is also important to consider the needs or the drivers in a society about this idea of



equality or inequality so you cannot, as I have been arguing in the beginning these things are really connected, are people being brought to parts of our economy that are much more productive, that are growing and are we doing the right things obviously about distributing the excess.

5 I mean the thing is that they should be more money for them, we should be paying our social workers more right but we are not, it does because we have thought for some reason that the priority is actually to have competitive bankers and competitive banks that is the question that actually permeates through every decision in our society and in the way  
10 we say it but more importantly how we actually express it. So quality of education is one thing but it also relates to how that quality of education is expressed, there is many things that I would suggest that even if we were to look at the structure of our basic education and say what kind of education are we providing, even if it was to be quality, the good quality  
15 product that is of very little relevance to the consumer or to the society is not particularly important to answer important questions so I can produce really, really, really wonderful bricks but if nobody wants a brick because they are building in wood it really is not part of the answer so I would suggest that quality is important but it is only as important as it answers  
20 the question at hand about you know the right kind of production, the right kind of demand.

ADV. K. PILLAY SC: And are you able to comment Mr Payi on the notion of the right kind of product, are you able to comment on the marketability or employability of graduates?

25 MR. X. PAYI: Look it is quite clear right now that if you are a graduate

your chances of finding employment are very high, what kind of employment you will get is a different question and what kind of income you will make but really it is quite clear by all statistics that just having a degree gets you a much, much better chance of getting a job. Now how  
5 much income you are going to draw from that job, what kind of job it will be is very different things, we have got a lot of graduates complaining that I did a degree and I have an honours but I am working in something far from what I thought, I am actually working at a call centre with my degree I am clearly not making a lot of money and being outpaced in  
10 terms of earnings by people who are not working in call centres.

So the question is therefore what was our strategy to begin with about these degrees that we are producing about these students we are producing, in some countries like Germany they have had an evaluation of the kind of economy they want and the kind of production that they are  
15 doing and they start in school to say to them already we are having discussions with company's, with corporations, we are having discussions ourselves about the economy of tomorrow and we are entering that sector already with the mindset that we are going to be producing the graduates of tomorrow and if we do not want them to be at  
20 the call centre then we must make sure that they are in banking and how do we make sure that that is, or in production of cars and technology, so the quality of education I think relates to that point.

And that the strategy of ours and the different sectors is something we are going to lean in and say if it is true what I am saying  
25 that we have got different sectors, agriculture being one, tourism being

another very important sector given our economy and all these other things that we can do, manufacturing bio fuels and all of that then we starting at a very bad place if it is already at the time they are graduates but that their education is useful because it was determined yesterday  
5 that this is where we are going and these are the skills that we need and we provide free education in some sense, we know we are driving free education towards this particular outcome.

Our discussion is on the general sense that education gives you jobs and gives you a better chance but of course that is a very limiting  
10 notion, free education should be that we are providing it because we know that we are going to be investing in this kind of person at this kind of level over a period of time so that the real argument that actually education produces better results is actually true because we plan for it that we would grow that income, our problem is that if we borrow some  
15 people, for example we would have said to you and arguing against me this idea of income and taxes, actually if we provide more education to people then we will grow the economy and then the economy then actually pays off because a bigger pie means that we can then draw more taxes and pay off that debt but where that is not true of course is  
20 that we have not failed at producing degrees, we have not grown the economy and the reason we have not grown the economy is that we have not directed our resources and our skills towards areas in which we can grow the economy so that we will only grow it if we say part of education, free education plan is that we know that we need 50 000  
25 young people in the next year to be going into tourism and making sure

that that flourishes, if that happens we will earn more income there and therefore by definition they will be able to pay for their own loans or as it were of education so that is the kind of thing I am trying to say.

ADV. K. PILLAY SC: Just to go quickly back to the topic of inequality in  
5 society, we have had a submission being made to the commission that because of the inequalities that exist in our society, even if the government were to make higher education free for all that the effect of that would be purely to benefit the rich more than the poor because they already have access to higher education institutions, do you have a  
10 comment on that?

MR. X. PAYI: So this is not a question I understand very well or at least the kind of thing I understand very well except from this perspective that inequality as I said is about surplus, if you are rich you have more and if that extra you had that you were going to spend on education now you  
15 suddenly do not have to spend on education but you can actually invest it in high yielding government bonds or instruments or buy a house or do alright these other things that are extra then of course it continues to give you a higher level of earning over time than other people so you have always the extra whereas if you had to now spend I think  
20 somebody had determined about 80 000 a year, that 80 000 will do much better, grow much quicker over the time, over the three years you are at University because you have invested it and somebody else is paying the reason rich people do well is because they have got that much extra to put into investments and homes and in shares and other assets and  
25 now you are saying to them oh save some more, here is a little bit more

extra actually for you to go and invest while we actually fund your education, it seems to me that that would actually exacerbate the question of inequality in that instance so that is the side from which I understand it. I am not sure I understand the other arguments that have  
5 been put forward.

ADV. K. PILLAY SC: And just the last topic we wanted you to deal with Mr Payi was the notion of social impact bonds. Now if you can just share with us your understanding of social impact bonds and the positive and negative aspects of using that as a fund raising tool.

10 MR. X. PAYI: So my understanding of a bond really is an instrument of borrowing so big corporation can, like Eskom, big banks and the government can issue bonds and what they are doing is to say give me this amount of money to people who have got excess savings or excess funds and they say to them listen because you have got surplus funds I  
15 need them, can you give them to me I will pay it back to you in the next five years, in the next 10 years and this is the level of interest I will give to you given that money. It is of course borrowing in the manner in which governments and company's have all the time so bonds are borrowing in basic terms except you can name a bond according to what you intend  
20 to do in those, so we have people talking about infrastructure bonds so the government goes to market and says actually we are raising an infrastructure bond they might even call it a Europe infrastructure bond so I want to borrow in Euros or in Dollars because we want to build infrastructure, you making it now attractive to a particular segment of  
25 investor or saver and you say and this is how much I will pay you.

So here we are raising funding for a particular social cause, it is not infrastructure but it is education and in some countries they have for example even in taxes they will actually separate what kind of tax we are putting forward and this bond probably then gets ring fenced, the money  
5 that comes from that bond, so the government can very specifically say working with the central bank and the other banks that will market this kind of bond, all of us who have extra cash buy that bond, that money will go directly into this pool and this pool will only be used to actually pay for this and then the way we get the money back is when these  
10 students afterwards pay a tax that is particular to repaying this, I am not quite sure how this one is being formatted but really it is just a structure, it is an ordinary way of, it is a way of borrowing but you can in different kinds of ways to you know secure that funding, make it interesting to certain kinds of bond holders or you know of savers or investors because  
15 you give it this particular name, you say for example you do not trust the government perhaps to actually use it properly so then they promise to ring fence it that it is not going to be spent on salaries, it is not going to be spent on fancy cars or anything like that and that there is a way also of repaying that is particular and it is obvious they are always going to be  
20 attractive on the basis that government will always stand behind it as a guarantor because we trust that the government will always be able to pay it back the money even if we are borrowing on behalf of students.

If the students fail to pay the government will then pay that debt back and we trust that the government will do that if they secure or  
25 guarantee it so it is important in the sense that it perhaps makes it easier

to attract that funding, it might even make it cheaper in terms of any other ordinary kind of borrowing that the government can do alright maybe it makes it a few percent points cheaper, allows for different kinds of permutations so, and it has a social impact in that sense, in some  
5 countries they have, they would not even go to borrow it they would actually just say everybody we are going to levy a 1 percent social impact tax and that social impact tax is put there or social solidarity tax put, then ring fenced that it will do specific work in order to aid parts of society or certain particular problems as opposed to other taxes that go  
10 into one pool and then get divided and maybe wasted on a standing army for example.

JUDGE: Well an education tax.

MR. X. PAYI: I beg your pardon?

JUDGE: An education tax.

15 MR. X. PAYI: An education tax yes.

ADV. K. PILLAY SC: And your views on the social impact bond as a tool to raise funds for free higher education Mr Payi.

MR. X. PAYI: I think it would be good if it is able to, because it is still borrowing it imposes a burden on the tax payer, it is still very much the  
20 same thing as increasing taxes and borrowing in any other manner, it would be good I think if it is structured in such a way that it allows us that borrowing, particular borrowing to be cheaper so that if government ordinarily borrows at 8 percent and this allows the government maybe to borrow at 6 percent per annum you know it gives investors that kind of  
25 thing, that it can do some special things around other people who are

interested in education for example to contribute to the repayment of the bond so if company's say look actually we will come and buy that bond even though, and we will waive a return on the bond so we want our capital back but we will waive the return on the bond, that would be  
5 something that makes it much more attractive but it will be in the way we structure it but it only becomes attractive if it really differentiate itself in terms of the burden that in regards to must ordinarily impose on an ordinary tax payer.

ADV. K. PILLAY SC: And how sustainable is it for government to  
10 augment its funding for higher education and training by using a social impact bond on a year by year basis?

MR. X. PAYI: I think it would be interesting in the sense that what is a structure of that augmentation, how the government pays it back, bonds are great in the sense that you can always push it forward, you can  
15 always renegotiate and recalculate and say actually we are rolling it over so even if we promise to pay you back the capital in 10 years then the government goes back to investors and say oh we are rolling it over increase, unlike a normal tax we cannot increase taxes all the time but we can once in a while increase the borrowing and say well actually this,  
20 we started out at 100 million we need more money maybe let us make it 120 million you know and we are still paying less in the interest and all of that so really the structure of it is important, how the government will structure it, who the partners will be, how much it will cost and all those things are important in this particular question.

25 I think that there should be enough people in our society to be



interested in the success of such a bond and you will probably see a lot more interest in terms of how even if there is a payback from the students and if we say for example it will pay back by the students at a certain time that when they pay back it allows it to keep going, 5 regenerating more insurance over a period of time, it gives us better success than we would if we kept going back to borrow at high interest rates and all of that kind of work or increasing taxes continually.

JUDGE: You may be too young to remember but there have in the last 30 or 40 years been occasions when the government has taxed, I use 10 that it the broadest sense, the tax paying population with a tax which is simply a loan and has been repayable after five years without any interest, do you know whether those systems work?

MR. X. PAYI: I do not know it is the first time I have heard of that sort of taxation that is repayable, no I did not know.

15 JUDGE: Well we have certainly been through that.

MR. X. PAYI: Okay, look I mean if it has been successful it is one way actually to do it, again I suppose it would limit the burden only to us now and then maybe we re-tax again in 20 years time but as I say I have not been aware of that sort of tax system.

20 ADV. K. PILLAY SC: Thank you Chair we have no further questions.

COMMISSIONER KHUMALO: I just I want to find out from, from the sustainability point of view, the social impact bonds do you think if they are applied in a manner that you are, are they sustainable, if it was part of the strategic intervention you spoke about earlier?

25 MR. X. PAYI: Well it really does depend on how we plan to pay it back

so if the plan to pay it back is you know through, in the way that I suppose NSFAS works now that students pay part or all of that and we find ways of keep recapitalising and paying back and then they are sustainable because at a juncture, every time we go and borrow right we will be meeting a particular need for particular period so and bonds work best when, or any borrowing really when you know you borrow for a car and over five years you will pay that card back and then once you finish paying it perhaps you buy another car and you repay it back, it is sustainable I suppose in that sense.

10           Where it would not be sustainable is if we do not have a particular way of how we aim to actually pay back those people who will put money into this pot, sustainability really is about will it keep alive over a long period of time to meet the kind of problem that we think we are trying to face, it seems to me that if structured correctly it would be sustainable.

COMMISSIONER KHUMALO: It works alone in that structure or you have also all kind of, maybe different kinds of borrowings or is it just the social impact bonds and then we have got different ones on the side?

MR. X. PAYI: In respect of this particular issue?

20   COMMISSIONER KHUMALO: In respect of feasibility?

MR. X. PAYI: Of education?

COMMISSIONER KHUMALO: Yes.

MR. X. PAYI: Well I mean we already have other means of borrowing, we are already borrowing we have bonds already in the system, the government through bonds so I was showing earlier that every year what

we collect in taxes is higher than what we spend every year so and the difference we make up by going to market and borrowing so we keep going back and borrowing more money and that is what is going to be announced this week that we are going to go back and borrow so and

5 the way we promised to pay back is always that we will grow the economy and draw more income, very dicey kind of determination so here we would actually, if this is the whole, if you are asking me if this is the whole solution it is again about how it is structured, I doubt that this is the whole solution but if it is the whole solution I always depend on

10 how that whole solution, because if we say free education now and that there is nothing else it goes to the same thing it is just that here perhaps it gives us advantages that a free education today does not because it just asks us to take more tax and all sorts of things that happen when you go and actually increase taxes from avoidance to all sorts of things

15 that can happen so this suggests that we could have a different way of doing it and it might be more efficient because we collect and we put in one way, it might be more convincing it might be cheaper those kinds of things so if it meets all these things as a sole solution it really might be a good thing that we do but it depends on who we structure it.

20 COMMISSIONER KHUMALO: You saying you already on borrowing but the borrowing is for the bigger pot, it is for different, it is not for education only.

MR. X. PAYI: Yes that is true.

COMMISSIONER KHUMALO: So if the borrowing is limited to social

25 impact and the allocation goes there that is the borrowing you are talking

about?

MR. X. PAYI: That is what I am saying so ja, so obviously the borrowing we do now is not for education only but it is partly for education, as I said you know 25 percent of that borrowing roughly speaking goes there so  
5 now what we are saying is well actually we are going to go and create a separate structure for this clearly particular problem and we go and we say this bond will, you know we need 500 million over the next year so this bond will be that or we need 5 billion this will be structured for that and everybody will pull in and we will pay back and the structure yes as I  
10 say it will all depend on how effective it is on how it is structured and how it therefore answers because this is part of the solution, what of the solution is different from taxation, what of the solution is different from just issuing an ordinary bond as we do and just add up more so why would this be different, why can you know this week the government say  
15 look actually we have decided to increase our borrowing by this much and we are going to the bond market to borrow it, what about this special naming a special bond makes a difference, I think it is in the way we communicate and we structure it and how it is paid and how we convince social partners and investment partners about this particular bond and  
20 why it should work.

JUDGE: What I was referring to just now the government called a savings levy and it was a 1 or a 2 percent levy on income which paid no return but was repayable after five years so the government had the benefit of the savings levy over 5 years and of course it had the, it did  
25 not have to fund any interest repayment.

MR. X. PAYI: Ja.

JUDGE: It is not being repeated I wonder if it may have been a failure but I do not see why it should be a failure.

MR. X. PAYI: Sure in other words people for example have talked  
5 Chairperson about a wealth tax alright they say because if you are rich  
we should be able to help us solve this problem and we have a savings  
levy on the rich and we determine what we mean by the rich and we go  
and we levy this and we tell them look we are not going to pay you  
interest but we will pay our money back later, it seems to me that it is a  
10 better palatable kind of levy or tax that could work even amongst the rich  
who themselves are held back on paying more taxes but there are all  
these questions and all these solutions and we have got I think through  
the better ones of them.

ADV. K. PILLAY SC: Thank you Chair we have no further questions.

15 JUDGE: Thank you very much Mr Payi.

MR. X. PAYI: Thank you.

JUDGE: Appreciate it.

**NO FURTHER QUESTIONS**

ADV. K. PILLAY SC: Chair may we ask that we take the lunch  
20 adjournment now we believe that the food is ready to be served now and  
convene in an hours time?

JUDGE: Yes very well we will commence again at 13:30 thank you.

**END OF SET 7H1 DAY 1**

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**SET 7- day 1**

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