

DATE: 01-03-2017

SET 7 – HEARING 1 – DAY 3

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

PARTIES PRESENT:

The Chairperson
Commissioners
Head of Evidence Leaders
Evidence Leaders
Experts
Secretariat

WITNESSES:

Dr. N. Makgetla – Trade and Industry Policy Strategies
Mr. M. Ndlovu – Trade and Industry Policy Strategies
Ms. B. Gqubule

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SESSION 1 – 1 MARCH 2017

JUDGE: Good afternoon Miss Pillay, good afternoon to the presenters.

ADV. K. PILLAY SC: Good afternoon Chair. Thank you Chair the next stakeholder is the Trade and Industry Policy Strategies and we have got
5 three presenters from TIPS. It is Dr Makgetla, Ms Gqubule and Mr Ndlovu.

JUDGE: Yes are you all going to be talking.

DR. N. MAKGETLA: Yes but after the presentation and [inaudible].

JUDGE: Alright Dr Makgetla, do you have any objection in taking the
10 oath?

ADV. K. PILLAY SC: Chair I meant to alert you to the fact that Dr Makgetla prefers to affirm.

JUDGE: Oh that is alright. Do you affirm that the evidence that you will give will be the truth the whole truth and nothing but the truth?

15 DR. N. MAKGETLA: I do.

JUDGE: Thank you.

DR. N. MAKGETLA [Affirmed]

DR. N. MAKGETLA: As far as anything in economics can be considered the truth.

20 ADV. K. PILLAY SC: And the evidence will be led by Miss Lekoane.

JUDGE: Yes Miss Lekoane?

ADV. M. LEKOANE: Thank you Chair. Chair TIPS will be addressing the socio and economic implications of providing fee free higher education and they will also be looking at skills development and its link to the

inequality in higher education and training.

JUDGE: Yes.

ADV. M. LEKOANE: TIPS have prepared a presentation for us Chair and I would ask Ms Makgetla to start with the presentation, Dr Makgetla I beg
5 your pardon but maybe before that you can just tell us what TIPS is and its areas of focus, what they are?

DR. N. MAKGETLA: Ja, in fact we put it on the first page so I think we also give you hard-copies if that is better. Okay so we were asked, as you said, to speak on the broader social, economic and financial
10 implication of fee free higher education and training under Section 7 but also specifically to talk about whether the economy can in fact absorb more graduates so we put some in on that as well. What TIPS is, we are basically a research institute that we were set up to support economic policy decision making, we are funded in, our core funding comes from
15 the Department of Trade and Industry.

ADV. M. LEKOANE: And when was TIPS established?

DR. N. MAKGETLA: 20 years ago, whenever that was, around 1994, 1995.

MR. NDLOVU: 1996.

20 DR. N. MAKGETLA: 1996 there you go, one way or the other. The one year I left out. Okay, so what we are trying to say is that, we are looking at it in terms of the implications of university education for broader economic and social development and in that context effectively what is the link between the skill shortage and income inequality that is also
25 because we wanted to talk about the shortage, whether there was in fact

a skills shortage because that is the issue about employment of graduates and then how the fees fit into that and then about the impact of the current fee system. It is quite a long presentation and I do not know if you want to stop me and ask questions or just through it.

5 ADV. M. LEKOANE: Yes when it is necessary we will stop you Doctor, thank you.

DR. N. MAKGETLA: Okay, yeah and then we have tried to say here are some of the core options that are in the discussion or that we think would make sense and evaluate them using the socio economic impact
10 assessment system methodology which is currently required in government for evaluating policy proposals. Well for evaluating laws and regulations and fortunately not policy proposals.

So to start with the issues around economic inequality and the skills shortage, you know South Africa is amongst the most unequal
15 countries in the world in terms of economic outcomes and there has been a lot recent literature, most recently from the IMF that points out that that in itself becomes an obstacle to economic development and growth for basically three reasons, because you get major policy contestation which I would argue we are now seeing here, you have
20 lower productivity because poor households cannot get education and health, which is obviously relevant to what we are talking about now, and you also have weaker domestic demand because the high income group accounts for the bulk of consumption and they are more likely to use imports and to save.

25 In South Africa you have a continued alignment of inequality with

race and gender which means that the social contestation becomes even worse as a result, the social and political contestation and the skills shortage in particular is a key factor behind inequality and that is why this is, why universities are particularly relevant in addressing this problem. So this is just to put up the household income distribution partially because I think when we talk about fees it is important to realise how low peoples incomes are relative to fees that for people who are usually making these decisions you know school fees are actually relatively low but if university fees are not that high particularly by international comparisons but for the people who are affected by decisions on fees they can be devastating.

Okay so if you look at the poorest 30 percent of households, half of them live on less than R2 000.00 a month and half of them also depend on - sorry they are all living on less than R2 000.00 per month by definition and half of them depend primarily on social grants and remittances whereas the richest 10 percent earn over R40 000.00 a month which means they can pay the fees with one months pay whereas the people at the bottom of the scale you know it is many years of work to pay for university fees.

And of course it does also align with race and gender. Basically what you can see from, in two ways the charge just looks at income but unemployment is also much higher for black people and particularly black women and then to the extent they are employed their incomes tend to be much lower. So the other problem which also comes up in the fees discussion is that even where people get the same income black

people have less inherited asset so there is much bigger stress on their incomes.

So when people talk about the black tags, it is not only about having to support more people because of the higher unemployment in the community but it is also because you are not inheriting your house, do you do not have your parents to pay for your car. All of those things that upper income people in other countries or whites in this country can assume.

So if we talk about the skills shortage and inequality, in many ways South Africa is unique in terms of the skills shortage and it is unique because in many ways apartheid functioned to maintain higher incomes for whites by limiting access to education and certified skills for other people and that was particularly true in terms of unequal access to tertiary education, there are also very exclusionary professional associations and also at that time they encouraged in-migration and opened up jobs, I mean like you could see the documents, I remember reading Iscor annual reports about how they were going to promote white woman so that they would not have to promote black men basically. This was particularly ...[intervenes]

ADV. M. LEKOANE: Sorry Doctor is that what in-migration means?

DR. N. MAKGETLA: In this case I mean in-migration from white people from outside the country. It is a problem now for the skills discourse because that is one reason you get to push back on migration even though it would make sense now to have, make it easier for skills migrants to come in.

So that is really more to say we are in many ways unique. We tend to say well how come it is different here from other countries, this is why we are different here and the skills shortage was particularly important because it aggravated the gap in pay between skilled and unskilled workers compared to other countries but it also encouraged very hierarchical and unequal work organisation where you would have a few highly skilled people at the top and deskill the other jobs and you can see it in a whole host of organisations including in the state.

And it also promoted mediocrity because it limited the pool of students, it reduced competition and it reduced diversity and there is a lot of research now that shows that diversity is important for excellent work so my favourite is they did a study of diversity in authors of academic papers and the ones that had more diverse authors were more cited in the literature which is how we measure whether they are, you know, whether academic publications have an impact but they had done studies also of management of companies and so on as well.

So if we are assessing the skills shortage, I think one important thing, and I am assuming this is - sorry, we did not get to talk beforehand but I am assuming the question about graduate employment was linked to this. In the economy a skills shortage will show as extremely high pay for people with skills, usually not just that you cannot find anybody to do the job.

So in the economy where the market sets the price a shortage will appear as, we cannot afford to buy what we need, like with the housing market. It is not that you know you cannot buy houses at any

price, you cannot buy a house at the price you can afford and by the same token where there is a skills shortage it means you cannot hire the people at a price which is affordable for your business and it is linked to both demand and supply so the supply has been limited because of the way the educational system historically and now but it is also demand for skills has been going up.

The indicators are, and we will go through each of these in terms, the low share of graduates in the labour force, the tertiary education has extremely high rates of return in South Africa and the graduates, actually there is a very low rate of unemployment for graduates, and I just found a paper by Servast van den Berg going into that which we can send you.

So if you look at the share of graduates in the labour force, we found a sample of 38 countries report on this in the World Bank data and the red one is South Africa, and basically the weight of the average is 25 percent of the work force. The work force is people who are employed plus people who are unemployed that is the actively seeking work. So you would expect a somewhat higher share of tertiary educated people in the workforce than in the adult population as a whole but in the workforce the weighted average of these 38 countries, and we only took up and middle income economies, because South Africa is an upper middle income economy, so that is the relevant peer group. 25 percent have tertiary education overall, in South Africa the figure is 17 percent, and we rank 27th out of the 38 countries so we are quite far at the bottom in terms of the share of tertiary skills in the labour force.

If you look at returns to tertiary education, by which they mean how does the pay for people with a tertiary education compare to others, it is much higher in South Africa than in any other country in the sample. This is another World Bank study so what that would tend to indicate is
5 that there is a shortage because in effect it is saying you can get a much higher price for having a tertiary education in South Africa than in most countries however you measure it we are the highest, we actually have the highest single figure in this sample which is over a hundred countries with several observations for many of the countries.

10 Just to make this more concrete, if you look at the current, like the 2015 figures, there were just over a million graduates in the adults of working age with a degree and they earned a median income of R34 000.00 a month. If you only an FET or a matric with a diploma you earned less, about less than half of that, if you had matric you earned a
15 quarter, if you had less than matric the median income was R5 000.00 per month.

So what that shows is that there really is, you know a much higher pay for graduates. Now the one thing I want to flag because - because I had to redo all my numbers because of it - is that stats South
20 Africa considers anybody with post-secondary degree, with post-secondary diploma they call tertiary so in effect those last two columns in the end and their published data are combined but I think for this conversation it is important that we distinguish between people who actually go to university and people, any diploma over six months they
25 are putting into tertiary so it is mostly nurses and police.

COMMISSIONER ALLY: Well Doctor, perhaps you need to understand the South African context and where we are now in terms of talking about post-school education. Now we have a lot of presenters coming and talk as if we all understanding that it is University so what has
5 happened is that the evolvement of the system has indicated anything outside of matric that we in the old days would have regarded as tertiary is now regarded as post-school and then when you start differentiating you then break up into diploma, although you can get a diploma at university also obviously, as well as the certificate and then you get the
10 different distinctions so I am not understanding your point with regards to the tertiary and any other distinction?

DR. N. MAKGETLA: I am just trying to make a point about the data that if you look at just tertiary in the stats South Africa data, which show that the unemployment rate for people with a tertiary degree was around 10
15 percent and that would be quite high, and it might indicate, I think this maybe where you can - I am sorry, I am trying to second-guess your concerns, that there was, we were asked to speak to graduate unemployment and I think that that might be where some of these concerns come from but when you break it down just to university then
20 the unemployment rate is 6 percent, which is actually pretty much the norm internationally.

So that is why I am trying to make this distinction that if we are looking at university people it turns out that the tertiary pool is much bigger and that people who have that non university tertiary education
25 typically are more likely to be unemployed, much lower pay you know all

these other issues arise, they are not so much with university graduates.

COMMISSIONER ALLY: I see so the point basically you are making, when the statement is made at the unemployment rate, although you have the 6 percent, what has been given out has been that the
5 unemployment rate amongst graduates is less than 5 percent. What you were saying you need to distinguish that because the diplomats there is much higher unemployment rate and you need to make that distinction when speaking about unemployment, that is the point you are making?

DR. N. MAKGETLA: I think also in terms of this particular section the
10 fact that university graduates are paid so much more than diplomats and everybody else, points to the fact that there is still a shortage of university graduates in the economy.

ADV. M. LEKOANE: Sorry Doctor, just before we move on, if I may go back to your slide 8, assessing the skills shortage, on the side there the
15 indicators, on the second one you said the usually high returns to tertiary education reflected in large pay gaps between graduates and others. Now we have heard evidence that says that the cost sharing model in South Africa is justified because it has both private and public returns, now the wage differential here would speak to the private good, the
20 private benefit of that. Now you are saying we are seeing that because of the skills shortage?

DR. N. MAKGETLA: Yes and in fact, I mean I do think that every, the issue, we will come to this, but the issue about whether people, how people go into debt and so on, to me it is more about how do you recoup
25 the money in a way that is fair because the fundamental argument that

people with the degree will be better paid in most cases is true.

ADV. M. LEKOANE: So if that skills shortage is addressed would the cost sharing model still be justified, in your opinion?

DR. N. MAKGETLA: Look, in virtually every society graduates earn
5 more than other people because there is an issue about, oh god I hate to say this, there is an issue about martial productivity so basically because they are more productive they will be paid more. It is more that the fact that the return is so much higher here than to other, than in other countries points to the idea that it is not just about productivity.

10 Okay there is - I do not know how much you want to go into the economics of this. There is a complexed interaction there because of course when skills are high then you put them in places where they will have high productivity. So part of what you want to do is, you want to flood the market so that people employ them at lower levels of
15 productivity which might also lead to a more equitable work organisation, and which I would argue is very important for our industrial relations.

But I think what is important in any society, they expect university, in most societies university graduates pay something, because they do have higher incomes, even if they just pay higher tax,
20 you know I mean just higher income tax because the easiest way to do the cost sharing is to say rich people pay, they are more likely to have degrees but we do get to that down the road.

So then as we were saying, if you look at the joblessness figures, I am using, we use two indicators of unemployment, we are not
25 crazy about the unemployment rate because it is very subjective so the

unemployment rate says, the share of unemployed people, if you look at work seekers and people who are employed and so it depends on whether people say they are actively seeking work or not whereas the employment ratio just says of people in that group who are working age,
5 what percentage is employed.

The international norm is 60 percent, the figure for South Africa is around 40 percent so we are way below the international norm and in fact we have one of the ten lowest rates in the world in South Africa.

ADV. M. LEKOANE: So is the 60 percent the overall ratios, using all
10 measures?

DR. N. MAKGETLA: Ja, the overall ratio of both educated and less educated and the 40 percent is both educated and less educated but what you can see from the chart is that for university graduates it is a very high employment ratio by international standards, compared to the
15 average though, I could not find any just for university graduates.

So again that points to the idea that there is actually still a shortage of university graduates, and by the way if you have any university graduates in your family you know they do not have a hard time finding jobs in most cases there are some exceptions we can talk
20 about.

Okay so the implications are the impact of the skills shortage again is that we have a very, unusually unequal wage distribution and this is from the ILO and there is two things here you can see that firstly the best paid one percent gets a much higher share of total income in
25 this country than in almost any place else in the world where they have

data, and the ratio - and this is only wage income, and the ratio between the 90th and the 10th percentile is much higher in South Africa than in almost any other country there are a few that were up this side but it is like less than ten.

5 So basically if you look at the person who is at the 10th percentile of the wage distribution and the person who is at the 90th percentile, in South Africa it is more than, it is almost 20 to 1, in most of the world it is under 10 to 1 according to the ILO, this is all ILO data. Okay so there is a second way that education affects the economy though besides
10 helping to adjust the skills shortage and the one that I think is more important for the fee story is around how it affects social mobility.

ADV. M. LEKOANE: Sorry Doctor, sorry to do this.

DR. N. MAKGETLA: Ja.

ADV. M. LEKOANE: Just on the last bullet point on the previous slide,
15 you talk about reducing the cost of skills?

DR. N. MAKGETLA: Ja.

MS. LEKWANE: What do you have in mind there?

DR. N. MAKGETLA: So this is something where I think there is a lot of misunderstanding, from the standpoint of society you want skills to be
20 cheaper and not more expensive. One of the problems in South Africa is that there were a whole range of systems set up to maintain high returns for skills at the top of the income distribution and you can see it for instance, like I said, professional associations in the legal profession I think you know all of this, that there are a range of systems that were in
25 place to ensure that a small number of people could effectively have a

monopoly on some skilled positions and that would push up their pay.

From the standpoint of society in the economy what you want is cheaper people not more expensive people and you want to reduce that gap in pay, you know both for the sake of social cohesion because this
5 does contribute to us being one of the most unequal countries in the world but also for the sake of a more productive economy. So if you could pay your engineers and scientists less and your senior management and your advertising people and all those people with high levels of skills you could compete more effectively and produce goods
10 more cheaply and that is desirable for the economy.

So like any other input you would like to keep costs down. You do not want to keep down costs for ordinary workers because they are already low paid by compared to the rest of the world but our skilled people are relatively well paid compared to the rest of the world.

15 COMMISSIONER ALLY: Sorry Doctor, I am at a loss in terms of where you are and the expression you are giving about having skilled persons paid less, which makes them more competitive. I suppose that is a world where you start from base naught because in global, in the globalised world today you know what the guy is earning in Australia and the guy is
20 earning in London and therefore unfortunately for countries who have had a capitalist market and a market economy you are going to have the situation that he believes that the earning power determines how important he is so the issue you are raising is one of philosophy in terms of whether you are going to get a more competitive person or not and it
25 is debatable I would submit of, if you pay a person less you will have

more competition, I just do not see it, if that is what you were saying?

DR. N. MAKGETLA: You know I think there are obviously very complexed issues here but I would say that the fact that we have such high wage gab is a problem for society, both socially in terms of the
5 income distribution and economically and it is clearly linked to the skills shortage that we have.

So the logic is, one of the reasons we have this very high returns to university compared to everybody else is because of the skills shortage and they are able to compete with the lower rate of returns to
10 universities compared to us and so I have to assume that we could also compete if we somewhat reduce, look nobody is saying, and let me just repeat this, nobody is saying the people with the degree would be earning no more than somebody in the factory. We are saying that the gap does not have to be quite as large as it is here and that if you had
15 more skilled people there would be inherent pressure to reduce that gap and that in many ways that gap is sustained by systems that were set up to exaggerate the gap under apartheid based essentially on race.

Those systems have persisted including in terms of how universities function, in terms of how work organisation is structured, in
20 terms of professional associations and immigration and all these other things and that part of what we have to think about if we are looking at the fee system is, how do we ensure that it does more to contribute to reducing those inequalities because they have a devastating impact both on the economy and on society and I think people are more and more
25 aware of the objective qualms with inequality.

That it is you know we used to talk about inequality like it is your choice whether you think it is important or not, what the IMF and others are now saying is actually society cannot sustain itself if inequalities become too large and certainly not democracies, by the way.

5 ADV. M. LEKOANE: We have heard evidence that spoke to some of the Nordic countries, the Scandinavian countries and it shows that in those countries there is more equality so the market will drive the wages, so it is a price that is set by the market so is this the kind of scenario you are talking about here?

10 DR. N. MAKGETLA: Well it is more that the market sets wages here too but it sets them in a case where you have had an artificial scarcity created compared to other country. I mean what is an artificial scarcity, as an economist I can just say well if there is less then there is less but the fact is compared to other countries we have less and that means the
15 price will tend to be higher and I am just saying that has two sets of negative impacts and one is simply on the cost to the economy, you know that it becomes more expensive for employers to hire skilled people, that means to me say do not expand at all and that means you are not creating jobs and investing, okay do you want to say something?

20 MR. S. NDLOVU: Ja, I think we need to make a distinct ...[intervenes]

JUDGE: Will you place your name on record please?

MR NDLOVU: Okay. My name is Mbongeni Ndlovu from TIPS. I think we just need to make a distinction between the cost of skills which is what we are talking about here and the compensation so there might be I
25 think a sentiment, a misleading sentiment that we are suggesting that

compensation needs to be somehow structured or manipulated which is not what we are saying. We believe, we are happy and we support the idea that compensation can be determined by an open market but what we are saying is that there are structural factors underlying that which
5 are skills that needs to be addressed so if we lower the cost of skills then the equilibrium price in the market for skills will be lower as well but we are not saying that one needs to manipulate the market system for compensation.

DR. N. MAKGETLA: Okay, so if we can talk a bit about education and
10 social mobility because universities do have a unique role in social mobility and we would argue that inequality is particularly problematic where social mobility is limited because on the one hand it means the system as a whole loses legitimacy, if you feel like you can never move up and because you are poor your kids will never have a chance to
15 advance, that is very demoralising and again particularly in a democracy where people can vote and where we say to you, you are politically equal but economically you can remain unequal and your children do not have a chance as well as you, no matter how hard you work.

The second think is that it means you are not having an
20 advancement based on merit and as we said we end up with a less diverse and less sufficient and effective society and economy so your institution, both in the economy and elsewhere are weakened, if basically you get there because of you have some other privilege other than your own work. So in the long run the solution to inequality is to generate
25 more opportunities for the people at the bottom of the pyramid but in the

short run it helps to improve social mobility and education has always been seen as a critical vehicle to achieve that end but I think we would all agree that in South Africa, although there has been a lot of progress since 1994, access to higher education is still largely shaped by your
5 race and your family income.

So if you want, so we did some work which is about universities and the reproduction of privilege and basically what it shows is that if you come from a high income family you are still much more likely to go to university and that of course it turns out as we said it means you are
10 more likely to be at the top of the pile economically so for every thousand households in 2015 around 45 people, from the poor, 60 percent went to university.

The ratio for people in the top 10 percent was three times as high or almost three times as high, and member of the richest deciles
15 therefore counted for almost two out of five university students, so that is ten percent, the richest ten percent of households account for two out of five university students while the poorest, although they only account for about a tenth of learners in, and people in further education, they do tend to have fewer children at that level so it is particularly
20 disproportionate.

Whereas if you are in the poorest three deciles only twelve percent of people at universities come from families in the poorest three deciles so in effect if you are in the top deciles you are basically around ten times as likely to be in university as if you are a child from the
25 poorest 30 percent.

ADV. K. PILLAY SC: Dr Makgetla may I ask the question around the first bullet point where you state that people from high income households are far more likely to go to university. Is that purely because of an inability to afford fees or does it go beyond that?

5 DR. N. MAKGETLA: As you know, and we do get to that, and we are trying, we found with very long presentations is that you try to build it up logically, so we will get there but as you know the bigger problem is the structure of the schools, you know and I would argue that fixing the fees is an important short term fix but it is a short term fix and the long term
10 fix is to fix the no fee schools.

ADV. M. LEKOANE: Sorry Doctor, just on the second bullet point and the second bullet to that, when you speak about people in the richest decile having less children. Now we have heard evidence from stats SA, and were drawing a distinction between affordability as the issue as
15 opposed to income, do you have a comment on that?

DR. N. MAKGETLA: I will have to know the context, what were they saying?

ADV. M. LEKOANE: I do not know if you will know but there has been a proposal of setting an income threshold at 600 000 for the missing
20 middle.

DR. N. MAKGETLA: Oh yes.

ADV. M. LEKOANE: Now the question is, is the question about whether a household can afford to send their children to higher education and that should surely also depend on how many children it has to send to
25 those institutions and not so much the income itself.

DR. N. MAKGETLA: I do not know if they spoke to this. Okay so to me the issue is not about affordability it is about commodification or not. That the people who say people at the top should not pay or saying nobody should pay irrespective of affordability and that that is because
5 education should not be commodified. As you will see we do not even bother to look at that in this because we do not think it is useful.

I think, when I say there are fewer children there are not that many fewer children, I mean I can send you the data if you are interested but most households, the average size of households in South Africa is
10 around four. It goes from like the smallest at the bottom, I think it is like, I will have to look it up but it is about 3.5 and 4, in the middle it is like 4.2 and at the top it goes down to 4. For various complicated reasons the size of households have dropped dramatically in the past 20 years so we tend to think of households being very large and actually they are very
15 small now, and it tends to be the nuclear family and not much else, I mean there are obviously exceptions and people are often supporting people outside their households which is why you have the big remittances story.

But people are actually living together, which is how they define
20 the household tends to be quite small. And so I have to say, in this we did not even look at the issue of the size of households and how that would affect affordability and that might be something you would want to build in so there are you know schools where they will charge the second child less. You know some of those issues you can look at but it is not
25 quite the same as saying you know everybody at the bottom have many

kids, in fact the poorest deciles is smaller than the other ones because basically what moves you out of being in the poorest deciles is whether you get social grants so by definition they tend not to have extended families so they have no grandparents and they have few children.

5 Okay so one of the issues is because race and incomes are still aligned it is one of the factors that means that particularly the historically white universities are still not at all representative but I do think that is interesting and relevant for this discussion is that, if you look at people in the top deciles you have more or less the same numbers going to
10 university whatever there is. If you look at the lower deciles whites are much more likely to go to university even in the poorest groups and I am speculating, but I think that it is reasonable speculation that there is two reasons for that one is they tend to have assets, well three.

 One is they tend to have assets, one is they tend to have
15 relatives who can pay and one is they tend to be going to historically white schools because they tend to live in historically white neighbourhoods and one of the issues in education is, you still get to go to the school near you before anybody else, irrespective of income and to the extent we still have residential segregation that means even
20 whites with low income, which is what we are measuring here, still have kids in better schools than black people with the same income but what the point to me is, that it is also true that kids from poor schools are less likely to go, part of the issue is clearly around income because children from well off black families are able to go to university at the same rate
25 as whites.

Okay so finally this is the context as it were so what we were trying to say was, this is why we think from an economic stand point you need a university system that is more equitable and representative and it is also continuing to grow and then the question is, how does the fee system impact on this picture and what we are arguing, exactly what you were saying, that unequal rights as to university results from inequalities in the general education system, depending on your income and your location. That in fact we are ending up charging the sticker price, as they say so the price you see as a student is the same, almost the same, and we will give the evidence as we go through, so this is kind of a summary of the argument.

It is almost the same no matter what income your family has, and that the loan system that is supposed to address that still puts a disproportionate burden on low income households and then all of this was aggravated because fees went up very rapidly from 1994 to around 2002 in particular basically because there was a decline in government subsidies from 1994 to 2002 was solely because the student population grew far faster than the subsidy in real terms but also because they stabilised the subsidy after 2002 by expanding the loan system and that builds in an incentive to universities to increase fees in order to get the money.

So if you look at education costs by household income and this is all from the general household survey, what you can see is that, and basically the question is how much do you pay for school alright and we limited it to the schools where you have people in university, that

basically there is some difference but very limited difference in terms of what people see themselves paying by income level so people at the bottom, just over half of the poorest 90 percent all say that they are paying, they only give fee categories so you cannot nail down the actual
5 feet but say they are paying more than R16 000.00, it goes up slightly more at the top but not that much, given the huge differences in incomes between these groups and it comes, and the difference is that if you are at the bottom of the income distribution it is four years of pay that you are putting into this for each for four years whereas if you are at the top it
10 is four months.

So there is a huge difference in the burden on people in terms of that sticker price and one of the reasons I think people really feel that it is this, that if you look at the similar data for other educational levels poor households are paying almost nothing, almost all of them go to
15 school for free so from their point of view they go from being in a system where they do not pay anything to a system where they pay enormous amounts relative to their income.

Okay so the loan system is supposed to say, actually you do not pay now, you pay when you have the money so you should not compare
20 the cost to your current income you should compare it to your income when you have graduated but from their point of view what they are seeing is, the fees are high and their debt goes up so they do not see it as we are actually not paying they see it as we still have to pay.

It also means that people may not go to university at all because
25 they look at the cost and they think they cannot make it and it means

that from their point of view, if you look at it just from a standpoint of fairness they are piling up debts that for other people it is a stab. I mean I did send my own children to university and I did not think twice about the fees. You know I mean I was just glad it is not as much as it was
5 overseas kind of thing you know.

But it also is a problem and I am assuming you have heard testimony about this and I have not seen any research on this, but if you talk to people you hear it all the time which is any, because they have no fall back mechanism any deviation in cost can mean that they cannot
10 afford to go to University or it can be text and materials, you know I mean my daughter is doing fashion and the materials is R6 000.00 and the people in her class who are on NSFAS, NSFAS would not cover it you know.

Sometimes getting a bursary can disqualify you, if they have
15 problems with accommodation, if they do not graduate or repeat years, they are on a knife edge the whole time and you can hear from the way the discourse goes it puts them under extreme stress even though theoretically these you know from the people making the decisions these are not large sums of money but if your family has no money there can
20 be a complete blockage to staying in school.

If you look at the price of education it has gone up about 25 percent in the past ten years, it actually the price of education as a whole doubled in real terms from 1994 so deflating it by CPI, school fees doubled, the thing is that poor households does not pay for primary and
25 secondary school they only out separated out tertiary from 2008 in the

data and in those last basically eight years, well in the seven years to 2015 the price of tertiary education went up by basically a quarter in real terms or nominally it went up more like more than 50 percent.

You can see there that they are just by putting the increase at the last, in the last year had quite a significant impact on the increase in price but you can see why people who are in university you know they are looking at this price going up even more in nominal terms and it is quite a shock to people.

ADV. M. LEKOANE: And why would primary and secondary education fees increase at a higher rate than higher education?

DR. N. MAKGETLA: One of the things with inequality is people at the top can pay anything so I am assuming, because remember the poorest people are in no fees schools so the school down the road from you in some white area they can charge anything they like and they do if you have had kids in those schools. So particularly in Gauteng it is much higher fees than in the rest of the country even followed by the Western Cape because the market that they are looking at the fees are still low, even though they are extraordinary burdensome for people, for an ordinary South African they would be very high.

The trouble with universities is there everybody pays and the factors driving the higher fees are, firstly as we said you had this almost tripling in the number of students, in cost in rand, I do not know if people have given you these numbers already, I did this in 2014 but the fees, funds per student dropped from around R40 000.00 in '97 to around R27 000.00 in 2005 and since then they increased, sorry this is, I should

say government funds, so this is the government subsidy and then they increased 8 percent from 2005 to 2014.

But virtually all of that increase in subsidies was from NSFAS and not from direct funds to universities and I will argue this builds in a very perverse incentive because from the university's point of view, they are getting a lower subsidy, they put up their fees and NSFAS will cover it o it builds in an inflationary pressure, they have to cover what they see as a reduction in subsidies. Even though on the budget it looks like the subsidy is going up in real terms, from the point of view of the universities it is going down and fees are going up, from the point of view of government they are paying, it is the mechanism they are paying in tends to push up fees.

There has been inequalities here in terms of between historically black and historically white universities and other universities that I think should also be a cause for concern so basically what you have is that most of the growth has been in historically black universities, particularly for African students and Unisa, although the white universities still have more black students even than the other ones, what that has meant in effect is that historically black universities on the one hand they have tended to see lower subsidies, they have actually seen a reduction in subsidies per students, which I have not managed to unpack but I am assuming has a lot to do with the research funding and as well as relatively rapid growth because the research funding is not linked to a number of students but also they do not get any private funds.

Now I know that Wits were saying that we should see private

funds as a way to go funding for universities so that is one reason why are looking at this. The fact of the matter is only the historically white universities seem to be able to raise private funding and so that is not a solution for universities, you know for historically black universities that
5 still account for a very large share of total student numbers. And then the other thing that I think shows is that if you look at the figures for fees which are the light blue, you can see the very rapid growth in student fees as a share of the total, that it has been the largest, fastest growing component of university income.

10 So in short we would argue that the current fee system places a disproportionate burden on low income students and yet fees for South African students for people at the top are trivial, for people at the bottom are much higher than you find in most of the international, and then in part that is because of the shifts of loan funding from 2002, which
15 provides an incentive for universities to increase their fees and that in turn means you are building in an increased cost to the state so one of the funny things is, treasury people if you talk to them will say but it is because it is a loan fund over time the amount we pay should go down, but one of the problems is the way the mechanism is set up, I mean it is
20 not actually happening because they are not recovering as much as they hope but the fact is that even when they start recovering with this mechanism they are not going to make the savings they are expected to save if fees continues to go up well above inflation.

Okay so then, and I do not know how much time you want us, we
25 then went through some policy options using the SAIS methodology. So

we looked at policy options saying that if you wanted to fix the system how could you ensure that the cost of university is more fairly shared across households, how could you ensure that universities have sustainable funding and how could you ensure that they also remain free to fulfil their role in terms of critical thinking and research because I do think when you talk to university people, one of their concerns is they do not actually lobby for higher subsidies very hard, because they are scared that they will get the higher subsidies and that will make them subject to political interference, whether rightly or wrongly but that is my impression.

So we are using the SAIS methodology which basically says you should look at cost benefits and risks for different stakeholders because they have different impacts on different groups and we are not always going to quantify them, also because of pressure of time, some of these things cannot be quantified but under SAIS the argument is, if you can describe them that may be useful in itself.

So the options that we are looking at is to say, take the current situation as an option then look at increasing funding to replace fees through a surcharge on income tax for graduates, expanding the NSFAS funds through a once, through a zero interest loan from the UIF surplus, different shedding fees for the benchmark to income in order to equalise the burden relative to household income and increasing private funding. In each case we are assuming that the total cost per student will remain fairly constant in real terms, we are using the DHET figure for total fee income which was R21 billion and that the number of students does not

change radically one way or the other so we just, what that means is we could ignore issues around real cost of fees and number of students that how that would affect the cost model.

What we are saying is in terms of stakeholders we look at the
5 cost benefits and risks for families in the poorest 80 percent, for families in the richest 20 percent, for the universities and the state, so what we are not doing mostly for time is we are not saying what is the impact on for instance, what we normally do overall employment and some of those kinds of issues, so just to be clear about the context again, and this
10 comes back to what we talked about before, we are agreeing that this is only a quick fix, that the really biggest obstacle to ensuring that a higher education supports an equitable society with greater social mobility is the general education system and that goes beyond, I assume, the scope of this commission.

15 But additional steps would include firstly fixing the no fee schools and just like we are saying about universities saying, could we have more equitable and merit based access to the quality secondary schools and there are mechanisms for doing that. Fixing the no fees schools is difficult, improving access to the quality secondary schools you just have
20 to say you take the top, you know, three people from every primary school no matter how bad they are but then you have to support them, for instance.

Then you need to make the learning environment generally more hospitable to students from poor backgrounds which would include
25 moving to a four year degree which, there is no other country in the

world that I know of that have 12 years secondary school and then a three-year degree and many people as we all know take four years but by making it three years they take it in a way that is highly unproductive because they repeat there is nothing stupider than repeating a course, 5 but also improving communication with accountability to the students, based on a review of governance communication structure so many of these things are not fixed because it seems like the people who made decisions did not even know about them, until the building burns down, to be blunt and that says there is a problem with communication.

10 To undertake research into the actual cost of attending university and ensuring that the options actually cover the full costs, so it is quite clear that NSFAS for instance was not even thinking about registration fees and the impact that could have and there are other costs, like we said, that maybe NSFAS could cover and would be willing to cove, but 15 clearly does not seem to know about them until they cause havoc in peoples lives.

Reviewing salaries at universities so you can get more representative faculty and I will avoid going on about that but I could, and then also reviewing the incentives for research and curriculum to 20 ensure that they promote research and teaching that is relevant to South Africa because otherwise it becomes very hard politically and in a democracy to put more money into universities and that is because a lot of the research funding in particular focusses people on the international discourse and not the local discourse.

25 Okay, so if we look at the status quo option basically you would

stabilise the subsidy to universities at around R35 000.00 per student, including NSFAS, which would be basically a decline in NSFAS funding in terms of the current budget but an increase in the number of students covered which is kind of scary and I do not quite know, I could not quite
5 figure out their logic on that.

Okay so the benefits causing risks, for low income students, about 20 percent of students would get some kind of loan from NSFAS, by their own figures. High income students would still get you know very low-cost quality education by international standards, the universities
10 would not be more dependent on the state and the state would see no disruption in terms of system so there is no transaction costs for the states if they do this, for the state.

The cost for low income students is that even with these targets it seems like many would not, you would still have the doughnut hole,
15 like NSFAS, with those targets I do not see how they could increase funding for students who are earning above their current maximum and the amounts would continue to be very tight compared to the actual costs of going to university and they would still end up with what they would see as a very high debt. For high income students there would not be
20 any additional costs for universities, I do not see any additional cost. You could argue there is an opportunity cost but not an actual cost, and for the state that have to continue to increase budgets for universities and for NSFAS, above inflation to the extent that the number of students is growing.

25 The risks are, for low income students, the system continues to

build an incentive for university traverse fees so low income students would see quite possibly fees continuing to rise well above inflation and their debt also therefore rising well above inflation.

ADV. T. MABUDA: Doctor just, if I may interrupt you, on your previous
5 slide that says option 1, the status quo, the second bullet point there, where did these numbers come from?

DR. N. MAKGETLA: Estimates of national expenditure for Department of Higher Education, I can send them to you but they are on the treasury website. You can get them in Excel, sorry in case you want to download
10 them you can get them in Excel as well as the PDF.

ADV. T. MABUDA: If you can please?

DR. N. MAKGETLA: Ja.

ADV. T. MABUDA: Because I was under the impression that the allocation to NSFAS was going to increase?

15 DR. N. MAKGETLA: You know what it increased rapidly in the last two years and then they wanted to stabilise, this is the fiscal consolidation story, I have not talked about the fiscal environment but treasury is not going to spend more money on anything, if they can help it right so basically they want it to go up with inflation effectively that is what it
20 means, okay.

So bear in mind, I have deflated these figures, they always put them in nominal but they also give you an inflation estimate which they expect to be 6.4 percent this year. They do inflation estimates through 2018 but there is a reason they always put it in nominal if you see what I
25 mean so you have to deflate it by 6.4 okay.

ADV. T. MABUDA: Thank you.

DR. N. MAKGETLA: So risks ja. For the high income students the big risk is there will be disruption on campuses continually. For the universities that is also a risk but also it is not clear the state will actually
5 provide the funds given the physical consolidation and to the extent they continue to become more dependent on private capital, that can also affect their accountability and their ability to do independent research and from the standpoint of the state the big risks are also protest action and again with the problematic physical situation it is not clear they will
10 have the money for this.

Okays so the second option is a graduate tax which would subsidise fees for students from the poorest 90 percent of households or around 60 percent of students. Let me just flag, as an economist I cannot get my head around the idea of completely free schools for
15 everybody and we can, I know the students some of them feel strongly about it but in a highly unequal society it does not make a lot of sense. If we are going to talk about stopping commodification then I think we should start with the healthcare system. I mean there are many things that we should not commodify ideally but ideally you start with basic
20 necessities, not with things that are relative luxuries from the standpoint of most of the population.

So we are saying that only the poorest 90 percent of households or around 60 percent of students on the current system, although that percentage would hopefully go over time, would end up not having, not
25 paying fees and so then the cost for those students would be 60 percent

of the total, which is 12 billion and we assume that NSFAS would, so I am only looking at fees, we are assuming NSFAS would pay for accommodation so they would still end up with some debt and that the income tax, proposed income tax surcharge would be targeted at all
5 graduates no matter when or where they graduated because they all benefitted from in fact a much cheaper system historically so even people who graduated 40 years ago would pay that, that is important because those are the people who have money, you know it is like when they ask the guy who rob banks, why do you rob banks he says because
10 that is where the money is but it also true that they received a highly subsidised education historically.

ADV. M. LEKOANE: Now would this tax be paid by all graduates?

DR. N. MAKGETLA: That is what I am saying.

ADV. M. LEKOANE: Irrespective of income, when they were students?

15 DR. N. MAKGETLA: No, it is a surcharge on the income tax so it would be relative to your income so it would be a flat tax relative to income. That is what we are proposing but it would not be like everybody pays the same. Alright that is why it is important that you capture people with the higher income who are you know more, particularly with graduates
20 income goes up rapidly with years of experience.

Okay and if the bulk of the cost is now by the top 20 percent of tax payers, this is from Source Data, they contribute about half of all personal income tax so you need a surcharge of about 1.8 percent to fund, to get R12 billion for fees so the benefits and you know I can put
25 this forward, you know what treasury will do, they will die on the spot,

quite possibly they do not want to raise taxes further than they have.

So the benefits are for low income students they only have to pay the fees, that means hopefully the stress would go down so we would like to think their performance at school would go up. For high
5 income students they would see less disruption in, at the university but also in society because when they graduate they are still going to be in the top ten percent and the inequalities in South Africa creates stress for people at the high income group as well, through policy contestation, through crime and through protest action.

10 For the universities they would see reduced disruption and they would have low income students would be able to actually focus on their work, and for the state again reduced protest action, hopefully higher graduation rates, so that is actually a savings for the state and hopefully because it is a surcharge they would not actually have to displace
15 spending on other priorities directly.

In terms of the costs, low income students would still end up owing for accommodation and once they are employed they would pay tax you know. for high income students they and their parents most likely, would end up paying the tax because most of them their parents are also
20 graduates but it would be proportionate to income and there would hopefully be more competition for university places as there are more applicants.

So right now if you, you know if you come from a high income family, you went to a decent school honestly your kids can walk into the
25 best universities in the country that is a benefit that might go away over

time. The universities would be under greater state and public pressure to moderate their costs and their fees because people would say, that is my tax money as opposed to somebody else is paying for it as an individual household and for the state they would run into a conflict with
5 their physical targets and that is actually to me the binding constraint because Treasury sets itself its tax targets as a percentage of GDP and they do not like to play with that and even if you said this is a surcharge it does not take money from other aims, they would say yes but we could raise tax anyway and use the money for anything you know.

10 That is why we said make it a graduate tax rather than a surcharge on the income tax which would be easier and faster because it is very hard in the policy discourse to say, university students who are making more money when they graduate we should subsidise them. What I would argue is from, objectively speaking from the standpoint of
15 the state it does not really matter if you capture it through debt or through tax, in both cases the same people are paying. The advantage of capturing it through tax is actually just so that it reduces the stress on the student.

They end up paying anyway but they end up paying in a way that
20 they do not see as, while I am at university I am going to end up, you know nobody sits at university and says oh my gosh, my income tax will be two percent higher but you do sit there and say oh my gosh I am going to owe hundreds of thousands of rand when I graduate. Okay so the risks are, the scheme falls apart if the universities raise their fees too
25 high because you know you have to keep raising the tax and at some

point you run into resistance.

For high income students universities might continue to raise their fees rapidly because they are subsidised so you need some way of, all of this requires that you regulate fees more effectively. The
5 universities will again see pressure to hold down the fees and that could lead to cuts, the risk is that can lead to cuts that they do not want to make so they keep their salaries and administration but they cut the departments. I can be very cynical about university administration, if anybody who has worked at a university will know why.

10 And for the state again, the risk is it affectively would mean high income people are paying that much more money, they will resist other taxes much more that can undermine tax morality but a further problem is if, what our colleague here was saying, if skills people start leaving the country then your tax base also declines so the system has to be that the
15 tax cannot be too high and that means the cost of fees and keeping people in university cannot just go through the roof.

ADV. T. MABUDA: Doctor just before you proceed, this proposal has been made, we have heard evidence about graduate tax a number of times during the course of the commission and the problem seems to be
20 that this has not been successfully implemented anywhere else in the world and there is a concern in relation to when students graduate ultimately they are going to leave the country to avoid paying higher taxes based on this specific proposal?

DR. N. MAKGETLA: So there is two issues you can raise there okay,
25 and let us be blunt there has been particularly white students have been

leaving the country and I have not seen any evidence of it but I can tell you look at the share of the population and the age of the white population and it is clearly happening. So to me we should be doing what they do in many countries which is to say, to the extent we subsidise your education you pay it back before you leave that is not unusual. I do not think, I think this thing has not been imposed anywhere else just because they captured it with the income tax as a whole and that would be a cleaner and better solution, I have my doubts whether we can get it through Treasury. Treasury is torn because they do not like dedicated taxes but this is one where the logic is clear and the money would go into their budget and then go out for a specific purpose so they would really resist saying the law would say it can only go to the Universities that they will not do, okay they hate tight taxes.

I think it would not be, I cannot see anybody leaving the country because of a 1.5 to 2 percent increase in the income tax. What I can see is that if income taxes go up a whole lot more and you are not able to build social solidarity, it is a problem and there needs to be more thinking about that but I do not think this would be the clicker, you know. I do think there is a problem in South African generally which goes like this, and this is what I was trying to say, well I say at the end about disruption, anything that disrupts unequal systems, people at the top have power they can leave, they can go, you know and do the capital strike as well when the money leaves the people go.

That is already happening and has been happening since 1994 to some extent but if you do not fix inequality then you maintain the

conditions that lead people to leave, if you see what I mean so the issues around social conflicts, the issues around crime, the issues around like lack of social cohesion is one of the reasons people go and there is slow growth in the economy, all of those can be traced back at
5 least a large part to the inequalities.

So part of our problem is always, anytime you want to do something about an inequality you are told that is disruptive you cannot do it, but then we are, you know it is like the frog in the pot, I understand this is not true, put the frog in the pot and the pot of boiling water right,
10 then we sit there in a bad condition for a very long period of time. I think we look just like Latin America you see and we could go on like this forever and they have had a huge brain drain for years and we have better tax morality so whether we can sustain that over centuries like they you know, they have very bad tax morality generally because they
15 are the other big group of unequal countries, okay.

MR. S. NDLOVU: Sibongeni from TIPS again, maybe to say it in clearer terms, having instabilities in the universities that we have now over fees is also likely to create a brain drain where people will choose to take their kids overseas to study somewhere else so the status quo is not as
20 better at creating stability and keeping those people that you feel will leave in as this proposed option.

DR. N. MAKGETLA: That is a good point thank you. Okay so the third option was the UIF loan to NSFAS.

ADV. T. MABUDA: Just on that issue, just one last issue with regards to
25 taxation, and I think this has been raised by Treasury before when they

did come here is, if taxes are going to be raised regardless of whether you call it graduate tax or just increase personal income tax, why should it specifically go to education as opposed to Health for instance or social grants?

- 5 DR. N. MAKGETLA: And see what I would argue is two reasons, okay so there is the logic that says, and the thing about doing budget priorities and trust me I have been there and done that, is that it is always negotiated right, and it is negotiated based in part on power and in part on what are the social aims so part of the problem here is that, as
- 10 Mbongeni says is these guys have power, we cannot afford to shut down our universities.

But the social aim I actually think is worthwhile that it is incredibly, critically important for the society to have social mobility because again it is a short fix. The long term fix is to fix the inequality but

15 to have inequality without social mobility is much more explosive than to have inequality with social mobility and I think that Treasury should be able to see that.

I do think like I said, the counter argument is, and this is the argument they always made, they have made this personally to me for at

20 least the last 5 or 6 years which is the point about NSFAS is when they graduate they will have money, it is not really a burden but I can make the same argument about a tax, whether graduate or income tax which is one reason, it is an investment, is you put the money into them now and they pay you back later. We are just changing the mechanism by which

25 they pay back to one which is, to be blunt, less transparent and therefore

easier for people to deal with emotionally.

ADV. M. LEKOANE: And would it be fair to say that the more graduates you get the bigger the tax pool you get.

DR. N. MAKGETLA: Absolutely.

5 ADV. M. LEKOANE: And more people to share that tax burden.

DR. N. MAKGETLA: Yes totally and to the extent that you can reduce the stress on students so they are more likely to complete because they are not worrying about the extra R5000.00 for their text books. Then you are actually getting more money in the long term because fewer people
10 are dropping out on the way so I think really a lot of this is about, you are going to recoup the money from these people anyway because their productivity does go up, the question is what is a better mechanism because the current mechanism has some perverse incentives in it.

ADV. K. PILLAY SC: Is the difference between the two models Dr
15 Makgetla not that in the one instance it is the user who is paying ultimately through the contingency loan, whereas in relation to the graduate tax all graduates would pay more taxes irrespective of whether they self funded the university fees or not.

DR. N. MAKGETLA: There is a difference there you are right but since I
20 think that is not a bad thing because basically you are saying, we are distributing from rich people to poor people in a way that helps cause inequality in the long term by increasing the amount of skills that is actually from my point of view that is a good thing particularly because fees here are so low so I really do not think this is a huge burden on
25 anybody. At some point you cannot manage highly unequal, one of the

problems with highly unequal societies is this is the point, you need to build social cohesion it is automatically under stress you know.

I actually know, very few rich people I know would mind paying an extra 1.5 percent you know if it gets above that then we start talking
5 seriously, you know but I think a relatively small percentage for something that would get more people into school and grow the economy and all of those things, you know in theory I could probably do a model which would show that they all end up netting out more because their incomes go up faster than if you have a highly divided, unstable
10 economy that tends to get into crises and everybody loses.

JUDGE: Well we have just had an increase of that magnitude.

DR. N. MAKGETLA: No I am saying, and there is some push back.

JUDGE: Pardon.

DR. N. MAKGETLA: That is why I am saying Treasury will not like this
15 because that is from their point of view they would want to increase the tax for other things. They do not like to be dictated to at all, I can tell you now so to me this is the cleanest one and all it is really saying is that instead of saying to students you pay up front and we lend you the money to pay it back, we saying we pay upfront and then you pay us
20 back.

JUDGE: Do you envisage that this graduate tax would apply to people who have received their degrees overseas?

DR. N. MAKGETLA: I would say yes but you know the logic there, the economic logic is harder but see like I said optimally for me you would
25 do it based on income not on whether you studied or not because that is

really you know you want to get the money from the people who have money. The reason for making it a graduate tax is about legitimacy not because there is any actual clear logic about it from the broader socio-economic standpoint.

5 COMMISSIONER ALLY: Doctor you lost me now, you are saying it is the income and not whether you graduated so I am not sure that is what you meant.

DR. N. MAKGETLA: It is what I meant.

COMMISSIONER ALLY: Just explain it to me then because graduate tax
10 as defined is for all people that graduated and are earning an income will then pay whatever percentage so perhaps you can explain what you mean by graduate tax.

DR. N. MAKGETLA: No I am saying that is what I mean by graduate tax. I am saying actually from my point of view, and I think my colleagues if I
15 remember correctly felt this even more strongly, because when we discuss it, it TIPS everybody else off even more strongly. It is cleaner just to have a surcharge on the income tax. Most people who are paying high levels of income tax have a degree and even if they are not they can afford it as a way to invest in the society.

20 I mean we do have this metaphor of human capital and in effect we are saying we are building human capital, we should all be happy to invest in that because it benefits all of us as a country but there is a different set of logic that many people seem to find more attractive which is you are paying back what you got, you got the degree you are paying
25 back for it, both of those logics have some validity.

I do not actually think it matters which logic you use, you will end up in the same place because most people in the top deciles who pay most of their income tax have a degree so the impact is not very different so it depends which of those logics you want to use, but I agree with you
5 sorry, the definition of the graduate tax would be graduates pay.

Okay right so the next one. Okay we are not moving, what have I done here guys, it has just stopped working. Okay so the UIF loan, this is based on the fact that the UIF now has over R100 billion in surplus and the amount is actually growing very rapidly because remember the
10 UIF also is a relatively new institution in its current form and clearly when the new UIF Act, also around I think 2002 they over estimated the costs and underestimated the fees, so basically now they have been taking the surplus and putting it away in the bank and now the interest on the surplus will cover two thirds of their pay outs. We did a briefing around
15 this that we can send you, so my line is it is basically becoming a saving scheme in the middle of an economic slow down so I am not really happy about it.

So the argument is if the UIF lent NSFAS the money to pay for the fees, you would basically not hurt the UIF but you would vastly
20 increase the NSFAS budget.

JUDGE: Why do you want to lend it, have it lent?

DR. N. MAKGETLA: Because it is hard for the UIF just to give the money away.

JUDGE: If you amend the legislation you could do that.

25 DR. N. MAKGETLA: Ja you would run into, you would, look workers and

employers see it as their money. We have had this debate many times, just so you all know, I would be happy to take it away but then you do not have to do it through NSFAS then you could use it instead of a graduate tax and pay the fees directly. The advantage of doing it through NSFAS
5 is it stays as a loan and that would make everybody at the UIF much happier. They have made low interest loans to the IDC historically so they know this is something.

I mean I should tell you they will fight, the UIF sees it as their money and all the stakeholders on the UIF board see it as their personal
10 money and they do not want to give it away for anything no matter what except to improve benefits for the unemployed, which is actually kind of I mean, but even then their actuaries also get it systematically wrong. I see you have looked at this stuff but their actuaries always exaggerate the cost of every measure they ever come up with.

15 COMMISSIONER ALLY: Well let us put it to you this way, the UIF officials got it wrong and the actuary got it right.

DR. N. MAKGETLA: Did he ja.

COMMISSIONER ALLY: The actuary says in about 10 years you would have approximately, with the new changes without, there is new changes
20 that are coming that are under discussion at Nedlac, you would get approximately R240 billion and if you have other changes to the new ones you would in 10 years have approximately R124 billion plus minus. When the officials came here and explained what will be happening from now until 2025, 2030, these surpluses will have been used up but that is
25 not what the actuary is saying.

DR. N. MAKGETLA: Okay [inaudible – mic off], because we looked at their figures and I actually went over them again because I used to do this kind of thing. I do not know if you know that I used to work for COSATU so I have looked at these things.

5 JUDGE: Well they did not give us figures for the new situation, they just described them in terms which led us to believe that the new amendments would do away with the surplus when in fact the surplus is going to continue to grow at an enormous rate.

DR. N. MAKGETLA: Ja that is exactly, I have not seen it but I just, they
10 must have had some initial actuaries report because they did show us something but I think the actuaries may have revised it.

JUDGE: We have seen the report.

DR. N. MAKGETLA: Ja, so I mean I just think, but I know because I don't know if Treasury told you but if you just go and talk to the board,
15 the board always says no. So the only way anybody would get this through would be to talk to the actual business and labour associations at a higher level which we tried to explain to Treasury and they did not listen to us so they got chowed.

JUDGE: But it does seem to me that one can suggest that what has
20 been happening over the past half dozen years and will continue to happen is that they are not fulfilling the function of reducing or mitigating unemployment.

DR. N. MAKGETLA: Yes.

JUDGE: But that they are acting as a money lender.

DR. N. MAKGETLA: Mm.

JUDGE: In order to increase their own capital.

DR. N. MAKGETLA: Yes, well that is exactly it so some place here it is saying exactly that, the one thing you can certainly argue from the way
5 you were before that increasing the number of people from university, increasing social mobility in itself should help improve the environment for job creation.

JUDGE: And reduce the burden on the unemployment insurance fund.

DR. N. MAKGETLA: Well exactly or if they lose they raise on debt so
10 anyways. Okay so the benefits are low income students would get higher NSFAS funds if you do it as a loan fund. I mean I would love to, I think politically and legally taking the money away is difficult but they can easily make it part of their investments if they lend the money to NSFAS that is why I put it in this forum.

15 Higher income students again they would see less protesting, creating social cohesion, the universities would also see reduced disruption but unfortunately they might continue to just raise their fees unless there was some kind of regulation in there because the money would come from NSFAS and for the state again you would have social
20 cohesion and graduation rates.

The corsta [?] that the lower income students would still end up with high debts from their point of view, now you could maybe think about changing the repayment requirements to make it clear that if they do not have income they do not have to pay and some of those things
25 because there is a specific problem here which constrains their choices

also so that if you are, although you are graduating with a big debt you cannot afford to go onto the arts, you cannot afford to be an entrepreneur, you know you just have to go with the biggest salary you can get and that is also not optimal.

5 ADV. M. LEKOANE: Sorry doctor just on this point, on the previous slide you say that one of the possibilities is lending money to NSFAS on low interest, a low interest rate.

DR. N. MAKGETLA: Ja.

ADV. M. LEKOANE: Now could NSFAS pass on that benefit to the
10 student as possibility to lower the debt?

DR. N. MAKGETLA: Ja you could do that as well but the fact of the matter is, think about it, you are graduating with 100 thousand to 200 thousand rands of debt probably, in most cases. If you did not come from a desperately poor background you may well realise that when you
15 got a job it will not be that hard to pay it off, you see what I mean. so I think the underlying logic is not all bad, the problem is the stress it has created firstly because NSFAS does not have enough money so they put everybody on a shoestring and then any small crisis gets them out of score. And the other problem is the people look at 200 to 300 thousand
20 rand even and then they think it is enormous but think about your housing bonds, I mean let me be blunt okay, how much are you paying on your car.

So it is also about how do you make this easier for people to live with so that they do not just drop out or refuse to come to school and
25 some of that could be done by changing how NSFAS makes the loans

right and the requirements and how clear are the requirements and how generous are the loans. So for high income students again there is a big problem with all of this, you are still keeping that perverse incentive, unless you find a way to regulate universities at the same time, from
5 their point of view as long as the NSFAS is paying they do not get buyer resistance they can just keep raising fees.

I do not see any major cost to the Universities, for the state there is this problem that the Department of Labour and the UIF are not going to support this, flat out I can tell you now because we have tried on other
10 things, that does not mean you cannot get them on your side, it means that for the state that will become a major obstacle, no matter how strong your recommendation would be.

JUDGE: It rather depends on how high a priority you put on promoting tertiary education.

15 DR. N. MAKGETLA: Well and it is also whether people are prepared to engage seriously with the UIF because to tell the truth when they did it before you know they get one angry reaction from the board and they run away you know and then forever after they tell us it cannot be done. Trust me we have had this conversation many times over the last few
20 years. I do think though that you have the exact same problem as with the tax which is if you are going to take money from the UIF, this is your point really, why not for university why not for something else?

One of the advantages is that you can make it a loan front because part of the problem with the UIF is many of the things we need
25 money for they will never be repaid so like you put it into Public Works or

you put it into social grants or something, they will not get the money back, here you can get a low interest loan but at least they are not saying we are giving you the money for nothing you know and never getting it back, but I do think from the point of view from government
5 there are many thing they will want money for, why would they use this money for this purpose that comes back to why, to me it has to be saying why do we need more university students, why do we need universities to become engines for social mobility that it is worth putting the money in for that.

10 ADV. M. LEKOANE: And what would guarantee that the UIF would get the money back, for example if a student defaults and does not pay it back, is there guard against that?

DR. N. MAKGETLA: That is true for the NSFAS generally right so there would be more pressure on NSFAS to repay the money but I mean my
15 ideal thing would be something like this, most of the money will come back because students will in fact earn enough, one of the attractions of the low interest thing is you could pass on some of the interest, you know you could charge a slightly higher interest rate and that would cover anybody who defaults or never earns enough to pay. And you
20 know as we are talking here there are a bunch of things you could do, like even if you gave people 3 years of grace, so you say to the UIF not only low interest but you only start paying in 3 years so students know they will have 3 years to get themselves established before they have to start repaying. I mean it gives you space to do a lot of things that now
25 you can think about but NS Financial aid scheme is so busy trying to live

on a relatively small budget but there is a bunch of things they cannot do that might be viable.

JUDGE: Well I take it you do not know about the report of the ministerial task team.

5 DR. N. MAKGETLA: No I have not seen the report on the ministerial task team.

JUDGE: You do not know that NSFAS is going to have a slightly different role from you.

DR. N. MAKGETLA: Oh okay.

10 JUDGE: And you have not seen.

DR. N. MAKGETLA: I have not seen the report no.

JUDGE: And you have not seen what they have proposed as a means of funding the education of the poor.

DR. N. MAKGETLA: No I have not seen it, what are they proposing?

15 JUDGE: Well.

DR. N. MAKGETLA: Oh sorry.

JUDGE: It will take too long to tell you now.

DR. N. MAKGETLA: Okay I will go and look it up.

JUDGE: But I think that it would be in your interest to have a look at
20 that.

DR. N. MAKGETLA: No I will definitely will do that. Okay so the risks are again low income students, if you do not fix the actual loan relationship it is very difficult. For high income students again you would have more competition for university places, I do not see any risk for

Universities, for the state again exactly what you are saying, the risk is that students do not repay their loans and also the UIF stakeholders are unhappy with the whole process even if they actually would get, it would not actually affect their ability to make payments and so on but they like
5 having the money there, that clearly makes them happy.

Okay so then there is an option of differentiated fees where you could for instance, and this is all just to say this is a possibility, you take in terms of months income and this is really the Harvard model, I do not know if you know that but this is what Harvard does which is you give
10 everybody the same sticker price but not everybody pays the same amounts so this is saying we would not have the same sticker price but it is completely linked to your household income.

COMMISSIONER ALLY: Ja well Dr Max Price and the University of Stellenbosch have a problem with the model of this nature and have
15 expressed why and so forth but this is one of a lot of models as you have those options this is also another option.

DR. N. MAKGETLA: Yes so what we were trying to do is say we can go through systematically and evaluate the options and look they all have different costs and benefits and that is, sorry core of the SAIS thing it is
20 just any impact assessment thing is you look at different options so that you get a sense that you have at least tried to exhaust the field.

Anyway so what we were suggesting was if you pegged it at two months household income for the richest 20 percent and one month for the remaining 80 percent then the fees people would pay would range
25 from 800 a year to 79 000 a year and the reason for that is not just the

differentiation in terms of the amount of time, number of months but it is even more because incomes are so extremely unequal.

And roughly estimating you would get R23 billion off of it based on the attendance at university figures by Desar and in effect you would
5 have poor subsidies for the rich to replace NSFAS that is effectively what is happening since rich people pay more tax at the moment, you are just changing the mechanism to a certain extent.

ADV. M. LEKOANE: Doctor we have heard evidence, just with regard to the last bullet point, that questions the sustainability of such a model.

10 DR. N. MAKGETLA: Well see ...[intervenes].

ADV. M. LEKOANE: Sorry, it says that where you get richer students paying more to subsidise the poor you get less richer students going into the education system so that pot just keeps going down, what would you say about that?

15 DR. N. MAKGETLA: You know if you are looking at the top 20 percent and particularly the top deciles if they were to send their kids overseas, in most cases they would be paying much, much more. I mean in the US people pay basically 6 months to a year per year of University so I think they would certainly not be happy with it, from their point of view the
20 costs would double per year but the options of going overseas are, you know and that is not even looking at issues of how you pay for the transport and the accommodation and everything else, the university fees tend to be much higher.

Now of course there are some people who could do it, I did send
25 my daughter to Harvard, it was cheaper than UCT because they have

this thing right where they link it to your income but that is not that easy for most people you know and there is the issue of many people do not want their kids to go overseas so I do not think that would have a huge impact, I did initially put in 4 months pay and my boss suggested at that point it gets to the point where people start going overseas so we took it down.

MR. S. NDLOVU: Sorry and to add to that we are not assuming any change in the requirements to get into university here so we have based this model or estimation on the existing students who are coming in and their distribution of incomes, household incomes so if the requirements are the same we would not assume that this particular intervention would increase the rate of poorer students getting into University.

DR. N. MAKGETLA: No they are worried about buyer resistance from people at the top and I am just saying I actually think you have to take into account how rich people are at the top in this country you know and people, you might want to phase it in, I will say that because in countries where overseas people save for many, many years for their kids to go to school, precisely because it is so much more expensive.

And so I think that you might want to say you would phase it in so people can start saving but the fact is that I think the incentive to go overseas you know because it is so much more expensive, I mean look at the UK you know you are looking at over R100 thousand a year in rands you know and the US is even more and that is for British citizens. So the one place where you would have a problem is dual citizens because in many of their countries as citizens they do not pay right and

many people in that higher income group still have two passports.

So all of these options to tell the truth you would want to do a lot more research before deciding on them but I thought it was useful just to go through and say how do we think about some of the major issues
5 because the other thing I think is important to be aware of is many of these systems rely on cross subsidies and often the risks to the state are not quite as you would expect, this is why we do SAIS, it makes you think through issues from different standpoints.

Okay so for lower income students the benefit is a much lower
10 cost although they would still be paying something. For higher income students the benefit is reduced protests and greater social cohesion. For the universities also reduce disruption hopefully and then we get an increase in fee income, particularly at the struggling white Universities, one of the problems here is historically black universities do not have
15 that many rich people so unless you cross- subsidise from historically white to historically black universities the thing might not work.

I did not think about that when I did the option but I think it is something we need, so historically black universities do not have people they can charge that much and for the state again, the same as for the
20 other ones and then in fact it goes through, it does not have to go through the budget in the same way. Through the costs lower income students would still have some costs and likely some debt. High income students would be paying much higher fees so that is the biggest cost that is in your face here. For the universities they would have to come
25 up with a way to administer the scheme so you can use income tax to

look at peoples income that is fairly easy but they still have, you know it is a very complex system to manage and again the HPU's might not benefit.

And from the state they get pushed back from the higher income
5 group and these are people who can lobby, they have a voice, believe me if you have ever sat in some of these meetings the higher income group you know is more articulate, has more skills, could bring a court case of some kind who knows you know. The risks are that lower income students might be unable, you know even though you save one
10 month, for somebody who is earning R1000.00 a month to save even a months salary is almost impossible, for the high income students again they might see there is more competition for university places because more poor students actually apply.

The universities again, it does make foreign options more
15 desirable even though this would still be much cheaper I think as proposed here, but it does reduce the relative gap and for the state there is a risk that you get a skills fight that people just move overseas and their kids do not come back so all that money you put into secondary education in particular is gone.

20 Okay and then the final one we did was higher private funding and that is just because at one point that is what Wits was pushing and the argument is that the universities can get higher corporate and individual funding through donations, bursaries and by selling services and the state it is usually implied the state should provide a bigger tax
25 incentive to get us there and they could also, there has been a proposal I

gather that they could also use things like charters to get companies to fund bursaries at a larger scale.

I have to say I have not seen any, I personally do not see, I mean have engaged with these guys, I do not see a huge amount of money
5 coming through this but we thought we should look at it because it has been raised. And the argument is, so the benefits are it moderates the increases in fees for low income students and also for high income students because the universities would have other sources of funds. And I do think that this is one reason people like it, they do not want to
10 be dependent on the state, they do not trust the state not to politicise the relationship so they see it as a benefit to get money from other sources in itself and for the state it means they do not have to worry about it they walk away.

The costs for low income students you are still going to be paying
15 fees. The high income students they also would not see a reduction in fees and I should have said a cause could be if protests continue because I think people are kind of set on seeing a significant reduction in fees. For the universities there is a cost to fund raising and there is a social and political cost to getting your money from the private sector
20 and it shapes how research works, which is a problem and also it does not help the HPU's at all because they cannot raise any, it seems like they are unable to raise private money in a significant way.

And then finally for the state if there is a tax subsidy they would be paid. The risks are, you know it only works if you can raise the
25 money and I am not convinced they could, same for high income

students. For the universities in addition there is the risk that they are under pressure to reduce social activities and we have seen this at universities, for instance in China where they became highly commercialised.

5 And I personally worked in Zambia for a while and you know once everything gets, you have to look at the cost of everything you do and where you are going to get the funding from, it totally constrains your research agenda which is not what you want at universities. And again that from the point of view of society and the state in particular
10 universities might be unable to meet some of the social needs they now need in terms of research in particular.

 So what we are concluding from this is actually that there are some questions that there is an issue about redistribution and disruption. We already went through this but that if you have a highly unequal
15 system the system may be not sustainable but changing it is very disruptive and you get pushed back from somebody, whether it is the UIF or rich students and their families or the Treasury and so it is hard to bring about a radical change even if we know we need to.

 But then there is the, where this really comes from is if you are
20 going to continue to have mass protests then you will have to do something. I used to be a negotiator so I think in terms of power. Students at this point have some power and that is not going away. I do think I would like to get some more evidence on whether the NSFAS is really as burdensome as people say because what you hear is that
25 people have been affected telling stories but it may be that for everybody

else it was not so bad and I think some research into that and into the actual costs of universities including all the bits and barbs would be really useful.

And then finally there is this issue about, part of the problem here
5 I think is that universities like to get money from fees because they maintain their autonomy. All the other options they become dependent on somebody else and that I think clearly when you talk to them makes people nervous so one would have to say if you are going to increase the subsidy, if you are going to take money in any other way except fees,
10 how do you manage this issue of ensuring university autonomy at the same time you want them to be accountable to society as a whole.

JUDGE: Well now might I put something to you?

DR. N. MAKGETLA: Say what?

JUDGE: Might I put something to you, because we have had a number
15 of presenters who have come with financial solutions, you are one of those who have come with a financial solution and for the moment let us accept that it works. One of the things that we in this commission have been subjected to is a huge variety of views from a large number of people and the presenters have not had the benefit of those views,
20 although the wiser among them, and I am sure you are one of them will know what I am going to talk about now, and that is you have spoken about a long term fix, one of the things you said was the long term fix is to fix the basic education.

Now let me put to you that a number of presenters have come to
25 us and said the long term fix requires a great deal more than that

because the money solution provided by you and by others pours money into a bucket that has no bottom or a bucket that has holes which have worn through in various places or the bucket which is not designed to accept what you want to put in it and so the long term fix does not only
5 involve putting money into the tuition and the fee free students because remember our mandate is a viable, a feasible solution which I understand to mean one which will work in practical terms.

The long term fix requires fixing all sorts of systemic defects in the education system, not only in the universities but in the Tvet
10 colleges, not only in the universities themselves but in the schools which put students into the universities and so on, and so to say here is the money is really only a partial solution, what is your comment on that?

DR. N. MAKGETLA: I think the most important thing goes like this, any policy is problematic because you can never fix everything you know and
15 I mean I have personally been in many policy processes and if you ...[intervenes]

JUDGE: Well let me ...[intervenes]

DR. N. MAKGETLA: Let me just ...[intervenes]

JUDGE: Sorry might I just interrupt you to make the point that I should
20 have made and that is the evidence is that 30 to 50 percent of students do not graduate and so of every R1000.00 you put in 30 to 50 percent is immediately wasted.

DR. N. MAKGETLA: Yip.

JUDGE: And so whatever money you say we can find now, if it is put in,
25 in the present system you must deduct 30 to 50 percent or maybe 70

percent of what we are getting in.

DR. N. MAKGETLA: Okay so two things. One is I would argue it is worth saying is there a fix on the fees thing because it is clearly a problem in itself even if you cannot fix the other things, I do think that
5 from my standpoint what you are in effect saying is maybe we should be saying what are the core problems for the universities and one of the things that drives up the cost is the high dropout rate. It is also deeply unfair to the students involved, I mean if you have been there.

And I would totally agree that one of the, it is also a financial fix
10 would be to say we need to fix the dropout rate it is not normal in other universities in other countries that you have this kind of extraordinary high dropout rate, how could you fix that, although it is higher in other countries than you might think. I was horrified to find out how high it was in the United States for instance.

15 I think it would be worth saying myself that we should get a study done on that properly as part of the cost mitigation measures, my problem is like I said that in any policy process if you do not, you know you can end up saying we have to fix everything and we cannot you know, and I do not know how to manage that.

20 JUDGE: That is why I referred you to the word feasible.

DR. N. MAKGETLA: Yes.

JUDGE: If that means practically, that it is practically, practically possible then one has really got to look as to whether you can pour money into a hole and say that that has a practical solution.

25 DR. N. MAKGETLA: Look speaking as an economist I would argue,

guys you can correct me, that clearly if you take you know this concept of *ceteris paribus*, so economists have this thing that you know if you hold everything else the same and you change one thing how do you think about the impact of that one thing, I could argue *ceteris paribus*
5 that even with the situation you are talking about these financial fixes will work in the sense that they will relieve the fees.

The problem is something else that they may be highly inefficient and they are imposing unnecessary costs because we are wasting resources by having a high dropout rate. They would still be feasible in
10 the current situation in the sense that students would see lower fees, universities would not go broke, we as a society help, in any of these things the cost is borne by different groups, we as the society might be paying more than we should but the universities will continue to function and students will continue to go and many of them would graduate, do
15 you see what I mean.

So I could argue the problem is that is an underlying inefficiency but it does not change the viability depending on how you define feasibility and sustainability. It might be an undesirable outcome but it would not be a disaster, I do not know if you guys want to say anything
20 about it, no, okay. So I would say though really strongly that part of the problem here is that the fees thing is the thing that is actually destroying universities right now so I think one has to fix that as a short term fix but where I think I can see everybody agrees, some of these other issues need to be addressed.

25 JUDGE: It is like saying I have not got sufficient money to buy an

umbrella or a raincoat but I can see over there, there is an umbrella for sale and unfortunately that umbrella has 15 holes but nevertheless it is an umbrella.

DR. N. MAKGETLA: I would rather say it is like deciding to go out in the rain and saying all I have is an umbrella and you know it will not keep my feet wet but I would still rather have an umbrella than no umbrella, it might have made more sense to stay home. I am trying to think of an easy, we can take these metaphors forever but you know what I mean.

JUDGE: Of course we can.

10 DR. N. MAKGETLA: I just feel like, you know every time we have worked on policy stuff if you start worrying too much about fixing everything you end up tying yourself up in knots and the one thing I am worried about is the longer term fixes are in crises, you know a lot of policy gets done in response to crises and I do think that this is a crisis, 15 you know and that is a problem because crisis driven policy making can be bad. Personally I feel strongly that any one of these solutions would be better for low income students and better for society than the status quo they still would not be perfect, there is no question.

COMMISSIONER ALLY: You see from where I am sitting it would have 20 been easy if it was just about fees and unfortunately it is not from where I am sitting because if you look at the mandate and the reference that we must have in coming to certain recommendations it is much broader than that so we have got to look at certain policies that have been made in the past, present and going forward what will be able, what will be feasible in 25 that kind of situation where, all things being equal, we fixed up, there is

certain things you need to do in order to fix the quality and your graduation and success rates whichever one you want to use and then to ask the question which I have been asking all the time is which is what is the cost of a particular course.

5 And we have had many presentations which are logical that say it is not only about that because providing education is much deeper than that, there are other things and you do not start with a zero based budget. In other words Harvard has their football fields and tennis courts and the rest of that whereas you get the University of Venda that might
10 have nothing so you have got to take those things into account in having a look at the whole situation unfortunately.

JUDGE: In other words you must provide a great deal of infrastructure for one thing.

DR. N. MAKGETLA: Look if we wanted to talk about the university
15 system as a whole I am just worried that you could bog down, you know this is your decision you know.

JUDGE: It may mean that there are, that accessibility to fees is a very important thing which must be achieved, sorry accessibility to education I mean must be achieved but perhaps the way to do it is not entirely fee
20 free.

DR. N. MAKGETLA: Look let me say again, if you have noticed none of these were entirely fee free because I do not think that any economist in the country will support it, except possibly Patrick Barn, he is a geographer not an economist, would actually support free education and
25 the reason for that is when you have a highly unequal society, I mean

there are really two sets of arguments here right.

The one is somebody will bear the cost and it should be borne by people who have money and the other argument is we want decommodified basic necessities in the name of human solidarity so
5 people should never worry about where their next meal will come from no matter what that is what decommodification is about. My problem is why are we starting with tertiary education and not with actual basic necessities like I said transport, housing and basic education and healthcare are things that people now pay for even when they are very
10 poor you know, not the poorest of the poor but the very poor.

If we wanted to start decommodifying let us start there, so my problem is more, I understand the arguments but I do not quite see why you would start with this particular service and not other services and I had a fight in fact with some of the Fees Must Fall over this personally
15 because I think that that is an issue of your perspective on society, I do not think there is evidence that you use to win the fight with.

JUDGE: So what you are saying to us is, in your view which you are entitled to, this is not a priority as compared with some of the things.

DR. N. MAKGETLA: No I am saying we are leaving the 20 percent at
20 the top of any cost is not a priority that the problem is, I think you said maybe stats SA this is how they were using it, there is an issue about affordability but because our income distribution is so unequal, fees that look low by international standards are unbearable for people for most households in this country.

25 JUDGE: Yes.

DR. N. MAKGETLA: And so that I think should be addressed but I am not particularly thinking you need to design a system that says people in the top 20 percent also do not have to pay anything.

JUDGE: No, no. Now let me tell you that the ministerial task team has
5 designed a model where there is a sliding, a graduated scale from the bottom quintiles up to the 500 thousand. If at the bottom level everyone will get for nothing and gradually, as your income increases to the 500 thousand you will have to provide a loan or you will have to live on the basis of a loan for the rest.

10 DR. N. MAKGETLA: Yes that is basically, if we actually had an option, the difference is we were saying do it in terms of months of pay for each year of school and the only problem with that is you cannot obviously push it up so far at the top where people will say, oh well I can afford to go to a school overseas at that point. I mean that would be the limit for
15 that option.

But our data suggests that the extent of post subsidisation you can get to with that because of these big inequalities, that you could actually, if people had the political will to say to people at the top we are going to double the cost of university for you, then the core subsidy is
20 actually enough, assuming the universities don't push up their fees dramatically. The core subsidy is enough so you could do that economically, I mean this is back in the envelope stuff but that is our data would seem to show and I suspect they have come to a similar place.

25 I do think then you would have to be able to take on the people

who say no we want any fees for anybody as a matter of principle and that is my problem, it is an ideological position, it is not something you can test with evidence.

JUDGE: There has been very little support for that before us.

5 DR. N. MAKGETLA: Oh okay, well I always used to think it was a straw person until they had the fit about the R600 thousand so now I am not so sure. But I do think that is where the issue of communication also becomes critical. I think we have not been good about communicating these issues with the people who have power in this as students, and
10 they do have some power, you know and I would encourage you.

JUDGE: Well one of the problems is that none of the students, seemingly have been particularly interested in and listening to this sort of evidence that we have been obliged to listen to. They have come as some of their presenters have naturally with preconceived views and
15 what everybody else has said does not matter.

DR. N. MAKGETLA: Okay well I am just saying I feel like the minister actually thought he was giving them what they wanted and he was wrong about that and I would hate to see that happen again. You know. Can I just flag, we were actually to talk about the economics and to me the one
20 thing that I really feel strongly about is that the, look to me part of the problem with the way the students have presented this is you cannot fix this if you only look at the impact on students, that the justification for societies supporting universities and supporting poor students to go to universities has to be in terms of the benefits for society you know and
25 then we can come up with some of these arguments whereas if it is just

in terms of poor students having to pay too much and how they suffer, it is very hard to justify ever paying for people to go into tertiary education.

JUDGE: I see and then you are in favour of students working at university.

5 DR. N. MAKGETLA: It depends on the context, no I am actually in favour of poor students having exactly the same experience as rich students so they either all work or nobody works.

JUDGE: Yes.

DR. N. MAKGETLA: But I am in favour of people, I mean I just think that
10 it is true that once you graduate you will be making a lot more money. It is how do you make that process one which is acceptable to the individuals concerned and ensure that the fact that they see the price upfront and get the benefits later does not mean that people who should go to university end up not going, I mean that is the big risk with the
15 current system.

JUDGE: Anything more.

ADV. M. LEKOANE: No further questions Chair, thank you.

JUDGE: Doctor thank you very much indeed and to your colleagues also for taking the trouble to come along and we are grateful for the fact
20 that you have provided your services other than at the rate which you would initially have wished to have.

DR. N. MAKGETLA: No problem.

JUDGE: Well it is to our advantage, thank you.

NO FURTHER QUESTIONS

ADV. K. PILLAY SC: Thank you Chair we will adjourn until 10:00
tomorrow morning.

MEETING ADJOURNS

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SET 7 – HEARING 1 – DAY 3

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

<u>CASE NO:</u>	Inquiry
<u>RECORDED AT</u>	Pretoria
<u>TRANSCRIBER</u>	A Gordon Brown/S Laas
<u>DATE COMPLETED</u>	03-03-2017
<u>NO AUDIO FILES</u>	2
<u>NUMBER OF PAGES</u>	71

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