Free higher education disregards fiscus

- What about the NHI?

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HIGHER Education and Training Minister Blade Nzimande came close to fiscal recklessness on Monday when he promised to avert fee increases for university students whose families earn less than R600,000 a year. He was in no position to accede to demands for "free higher education for all", and he will not be in such a position any time in the conceivable future.

In a low-growth economy, trade-offs are especially hard. The Treasury's dogged efforts to return SA to a sustainable fiscal path are already embattled. Global economic growth is weaker than anticipated. The South African economy has been hit by low commodity demand, an energy constraint, and high headline inflation. Drought, the depreciating rand and parastatal price rises will maintain these inflationary pressures.

The government has already taken aggressive steps to increase revenue, raking back R7bn-R8bn this financial year from fiscal drag, and raising more than R10bn from fuel levy increases, excise duties and adjustments to capital gains tax.

Further tax increases of about R15bn per annum are already in the pipeline for the next two financial years.

On the expenditure side, annualised reductions in the compensation budgets of national and provincial departments will save R10bn in 2017/18 and R15bn in 2018/19. A block was placed on administrative and managerial recruitment in April to protect service delivery and capital expenditure from the consequences of these cuts: Finance Minister Pravin Gordhan has repeatedly emphasised that government recruits too many unproductive administrators and too few frontline professionals.

The government is already wrestling with the funding challenge of National Health Insurance (NHI). By 2025, NHI will probably require upwards of R100bn in additional annual public health expenditure. Raising such revenues in a stagnant economy is a major task. As the Treasury notes mildly, "achieving an appropriate balance" in the funding of NHI is "necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings".

The revenue-raising options include some combination of income tax rises, a new payroll tax and higher value-added tax (VAT). A surcharge on taxable income is administratively feasible but will encourage evasion and undermine savings. Payroll taxes will increase the cost of employment. VAT, the most likely contributor to funding NHI, will be politically unpopular. It will also hit the poor.

There are strong intellectual and welfare grounds for an overhaul of the national health care and health financing systems — no matter how extraordinarily hard it may be to make these reforms work. It remains unclear why the government would shift resources from such carefully planned initiatives to fund university students, many or most of whom could be serviced by a better-designed loan scheme.

The government's budgetary priorities are inevitably set by a combination of political and public welfare considerations: university students would not normally figure prominently when viewed through either lens. Consider the many alternative uses for scarce resources: expanding the social protection system, widening death and disability benefits, helping the old to retire in dignity and deepening protection for the unemployed. Other priorities include providing free basic services, attending to backlogs for road maintenance, upgrading peri-urban townships, and improving access to water and sanitation.

It is conceivable that the Davis Tax Committee and others will identify certain appropriate changes to the overall tax policy framework that will create unexpected fiscal space. It is far less likely that university students will be able to propel themselves to the front of a queue that contains numerous potential beneficiaries.

by Anthony Butler in Business Day

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