



UNIVERSITEIT
iYUNIVESITHI
STELLENBOSCH
UNIVERSITY

100
1918 · 2018

forward together · saam vorentoe · masiye phambili

The financial challenge for South African Universities and the role for sector specific responses

Purco SA: Conference 2019

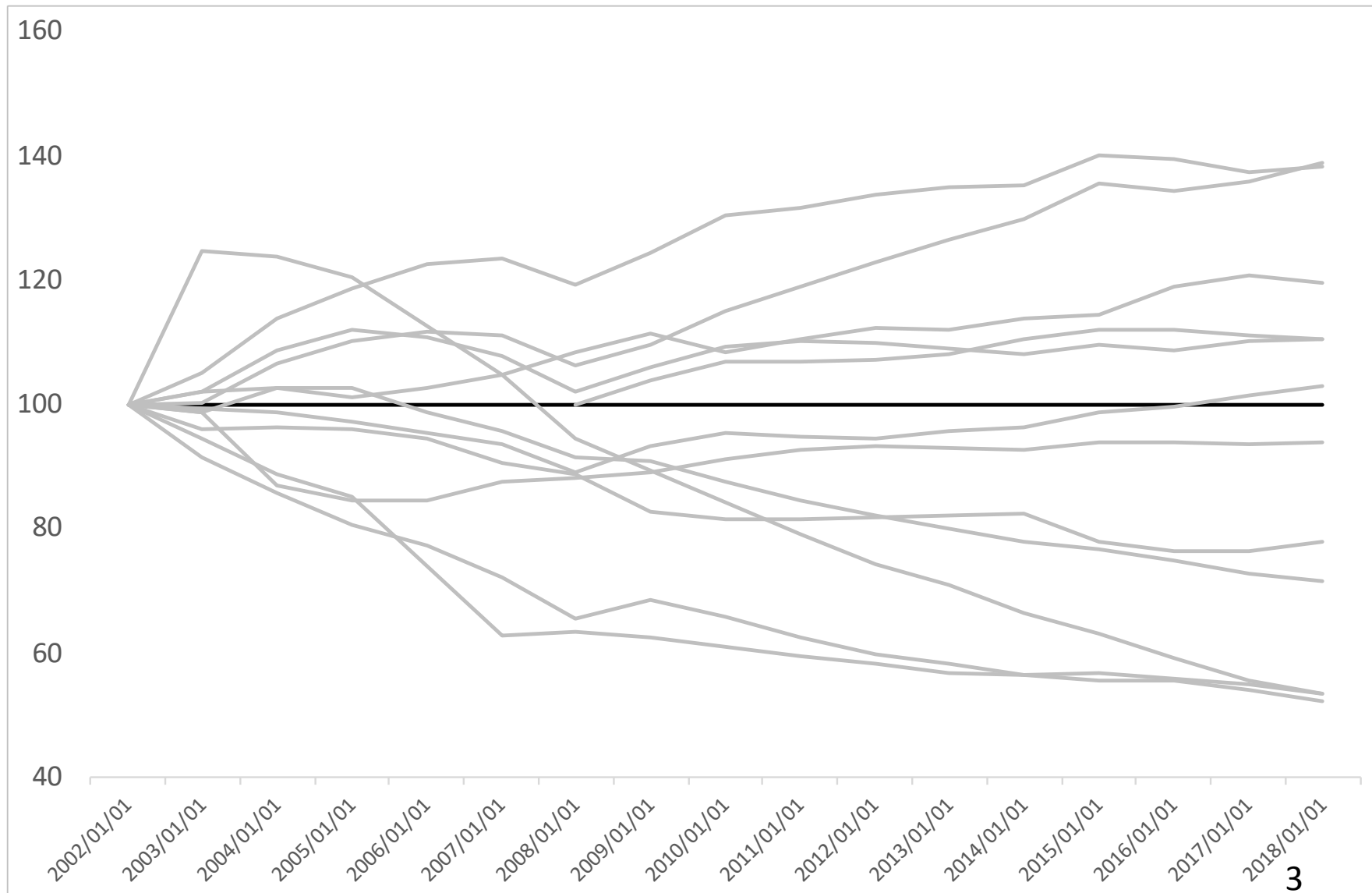
Stan du Plessis

Chief Operating Officer

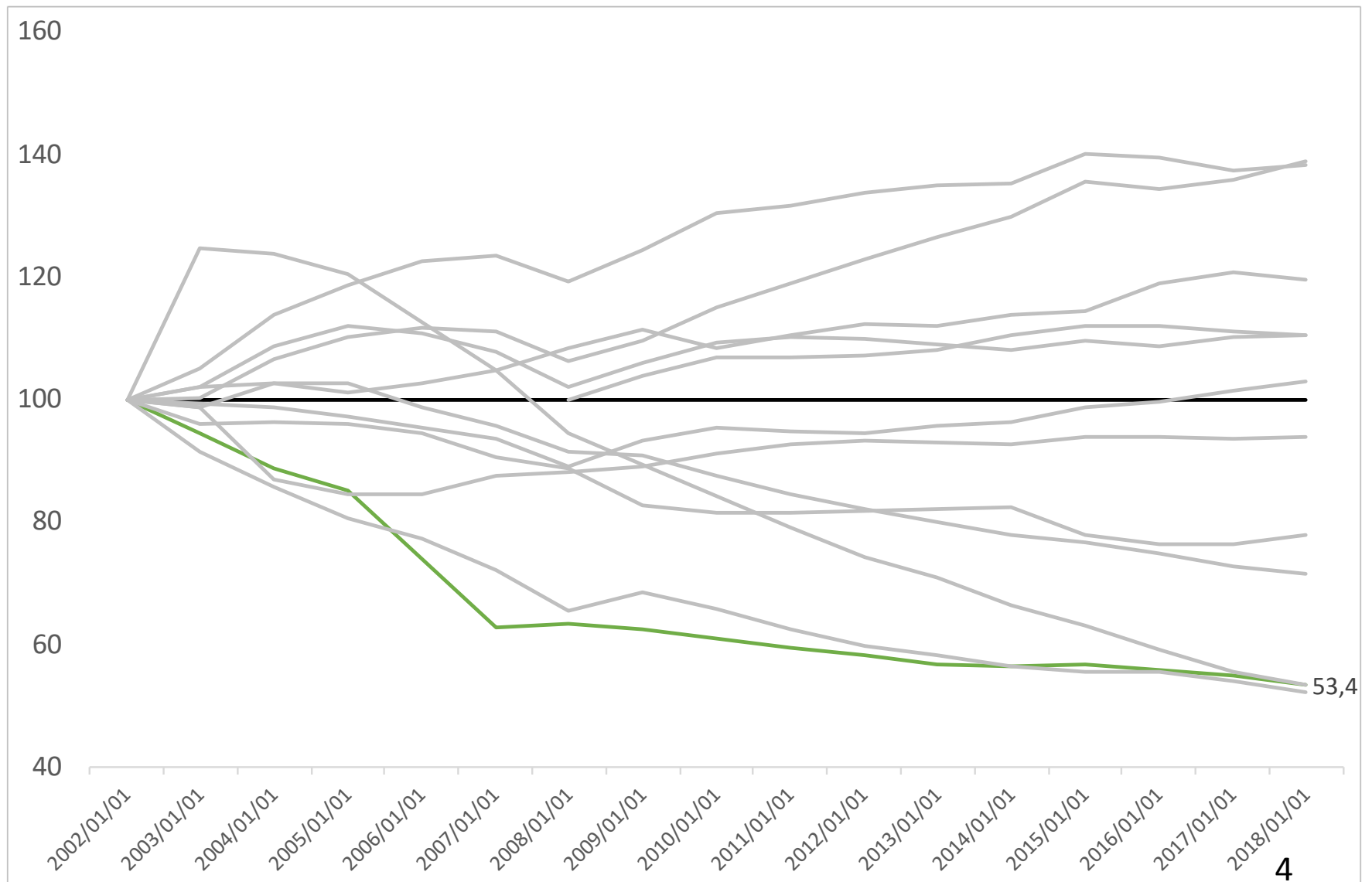
Stellenbosch University

The “cost disease” in South African Higher Education

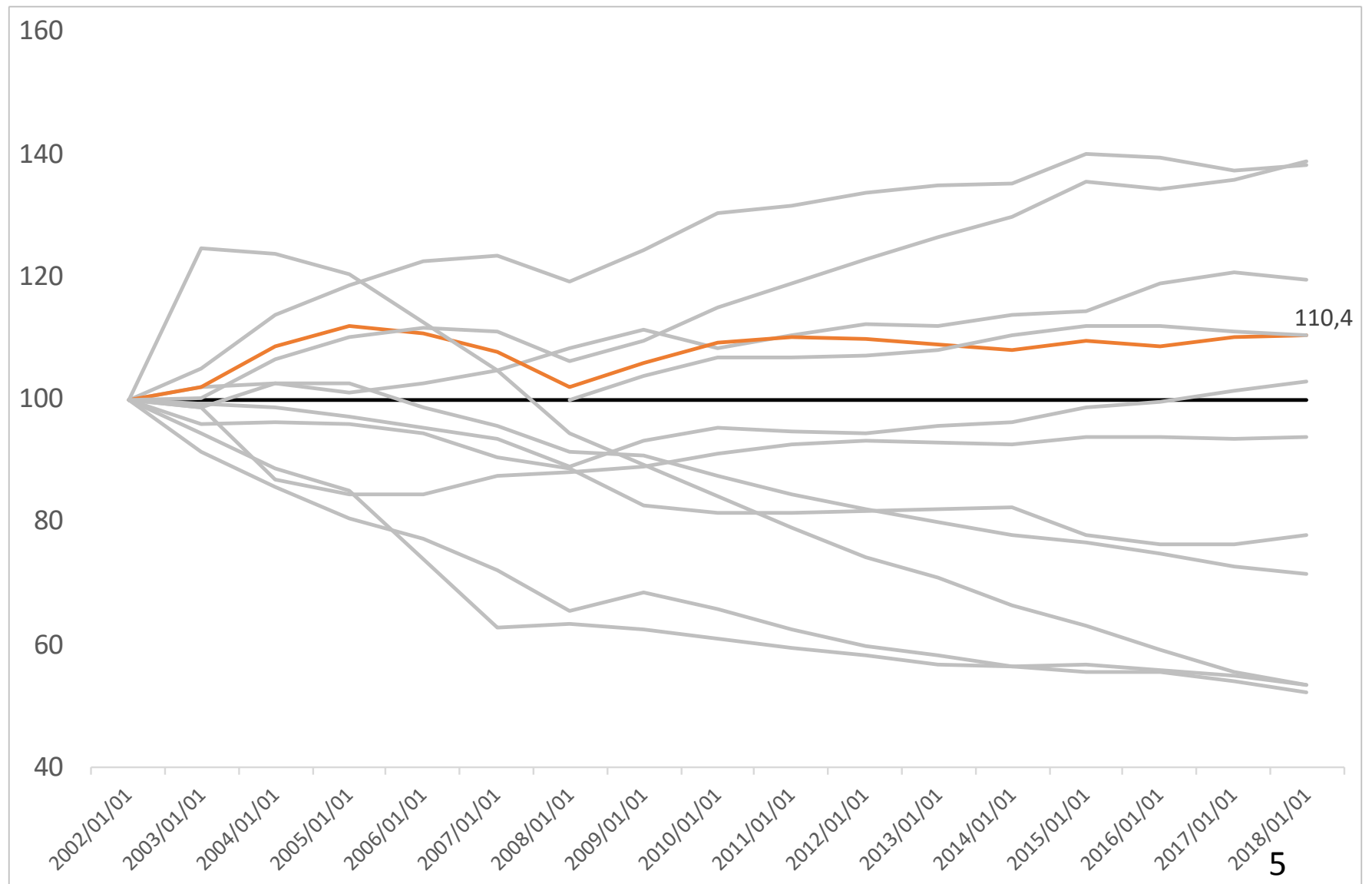
The relative evolution of the components of SA's Consumer Price Index since 2002



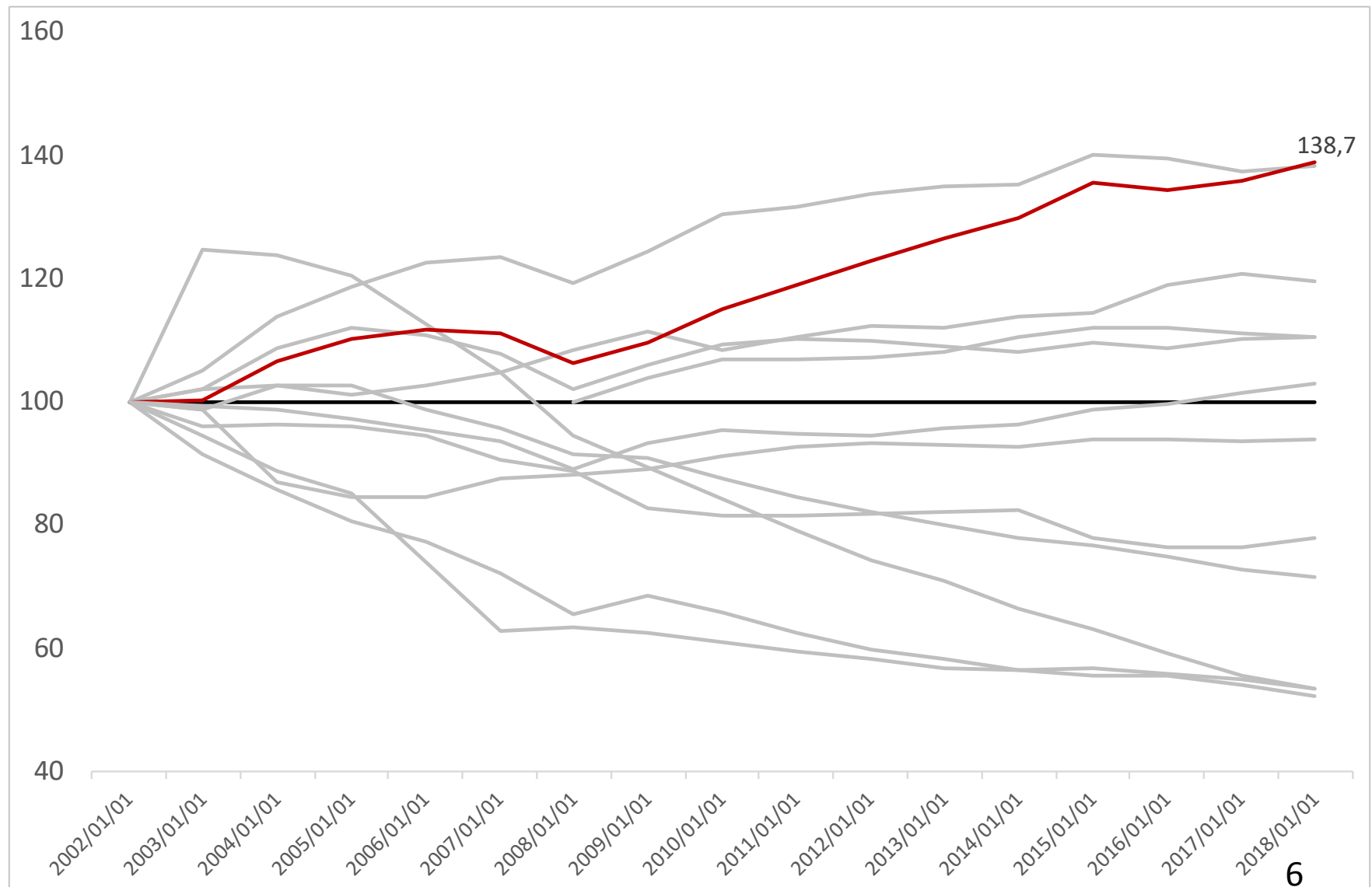
The relative price of “clothing and footwear” declined by 47%



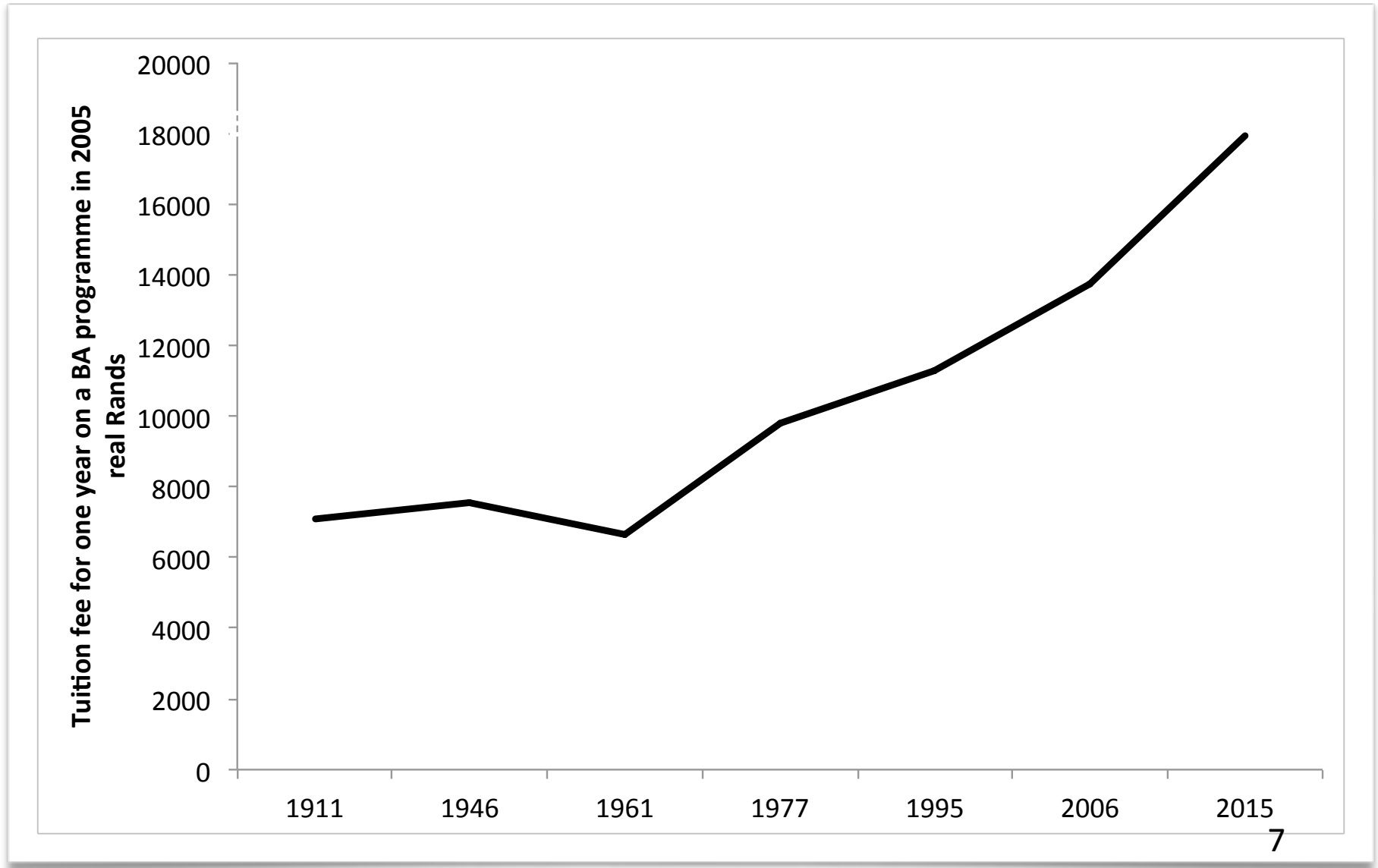
The relative price of “health” increased by 10%



While education became relatively more expensive by 39%, (1.9% p.a. faster than CPI)



With an adverse impact on the affordability of HE

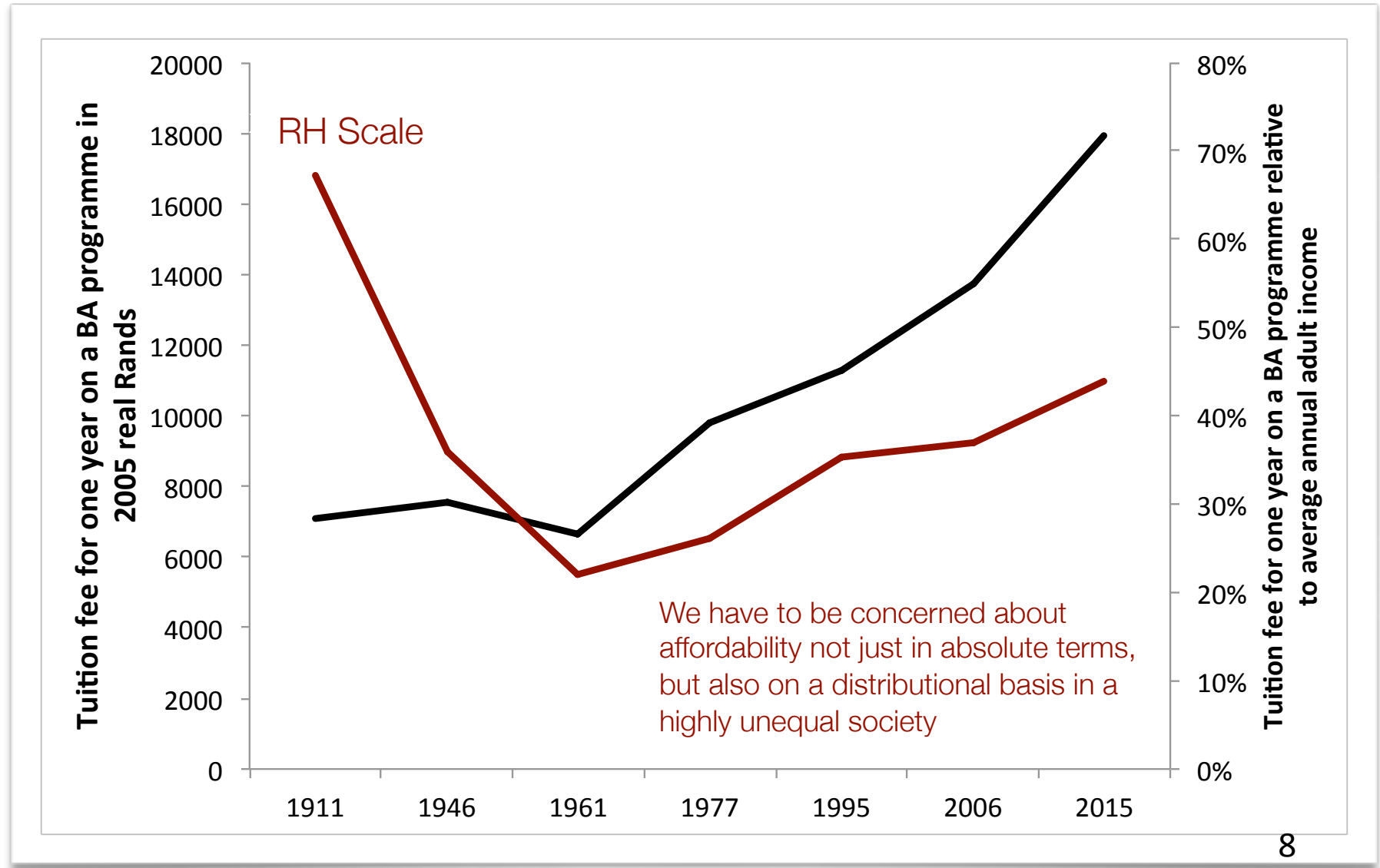


Source: Data from Calitz, E. and J. Fourie (2016). The historically high cost of tertiary education in South Africa. Stellenbosch Economic Working Papers: 02/16



100
1918-2018

With an adverse impact on the affordability of HE



Source: Data from Calitz, E. and J. Fourie (2016). The historically high cost of tertiary education in South Africa. Stellenbosch Economic Working Papers: 02/16

Two main traditions to explain the HE cost disease

1. Factors specific to HE
2. Factors that are present in HE but also in other sectors



Many HE specific factors

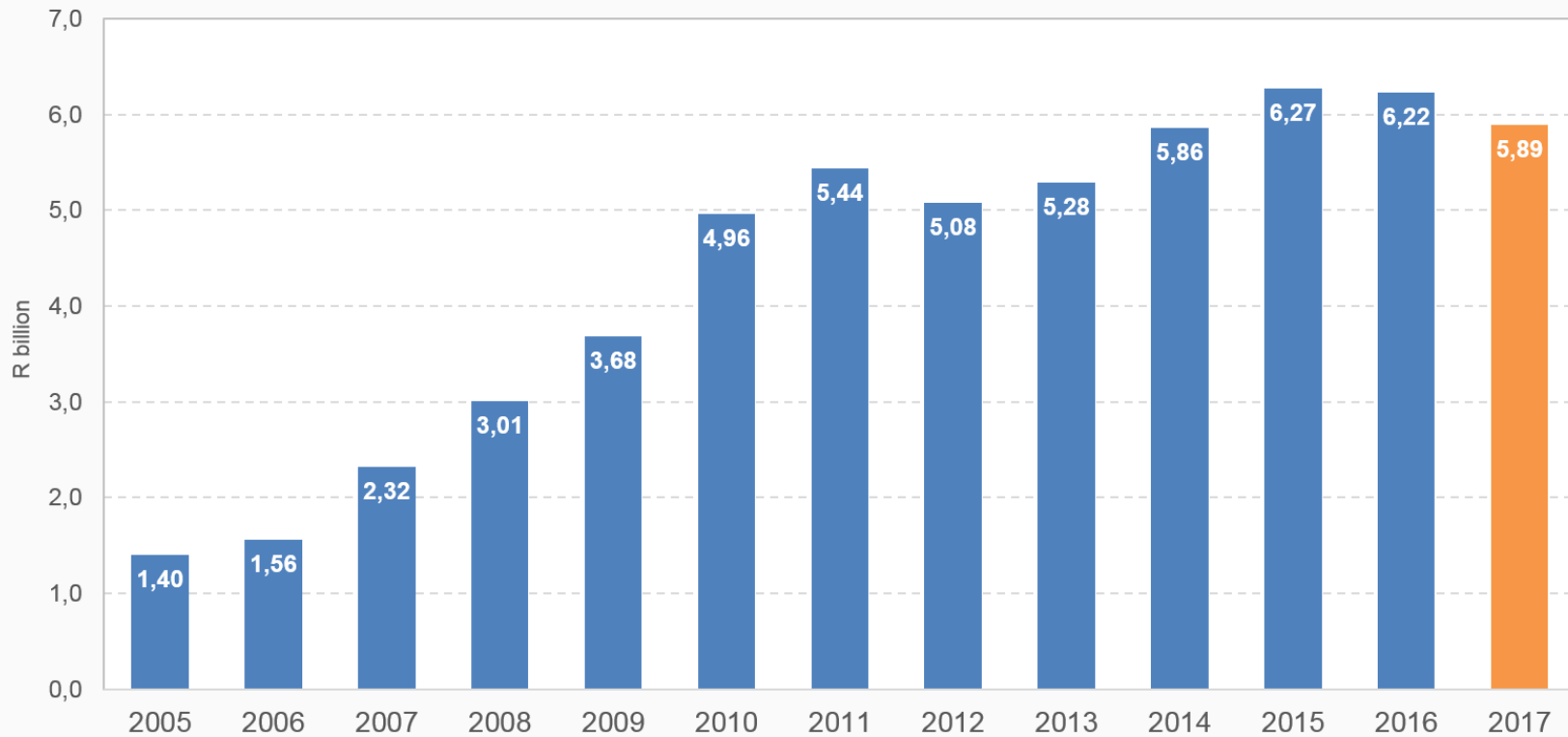
- The nature of the HE sector - labour intensive
- Administrative lattice
- Academic ratchet
- Move towards costly disciplines
- Desire to buy the best
- Government regulations
- The “revenue theory”



Cutting capital expenditure is risky

Higher education institutions spent **R5,89 billion** on capital expenditure in 2017

Money used to acquire, maintain or upgrade fixed assets such as buildings, land, equipment, vehicles and furniture



Source: Financial statistics of higher education institutions, 2017



THE SOUTH AFRICA I KNOW, THE HOME I UNDERSTAND

Implications of the “revenue theory”

- Cost control comes from revenue control
- In SA this logic supports the case for HE fee regulation
 - Supported by the combination of government’s precarious fiscal position and the massive NSFAS commitment



Leads to the “unholy trinity” of HE funding

1. In the face of relative HE cost increases,
2. Capping tuition fees, with constant subsidy
3. Must reduce quality

... except if ...



Two main traditions to explain the HE cost disease

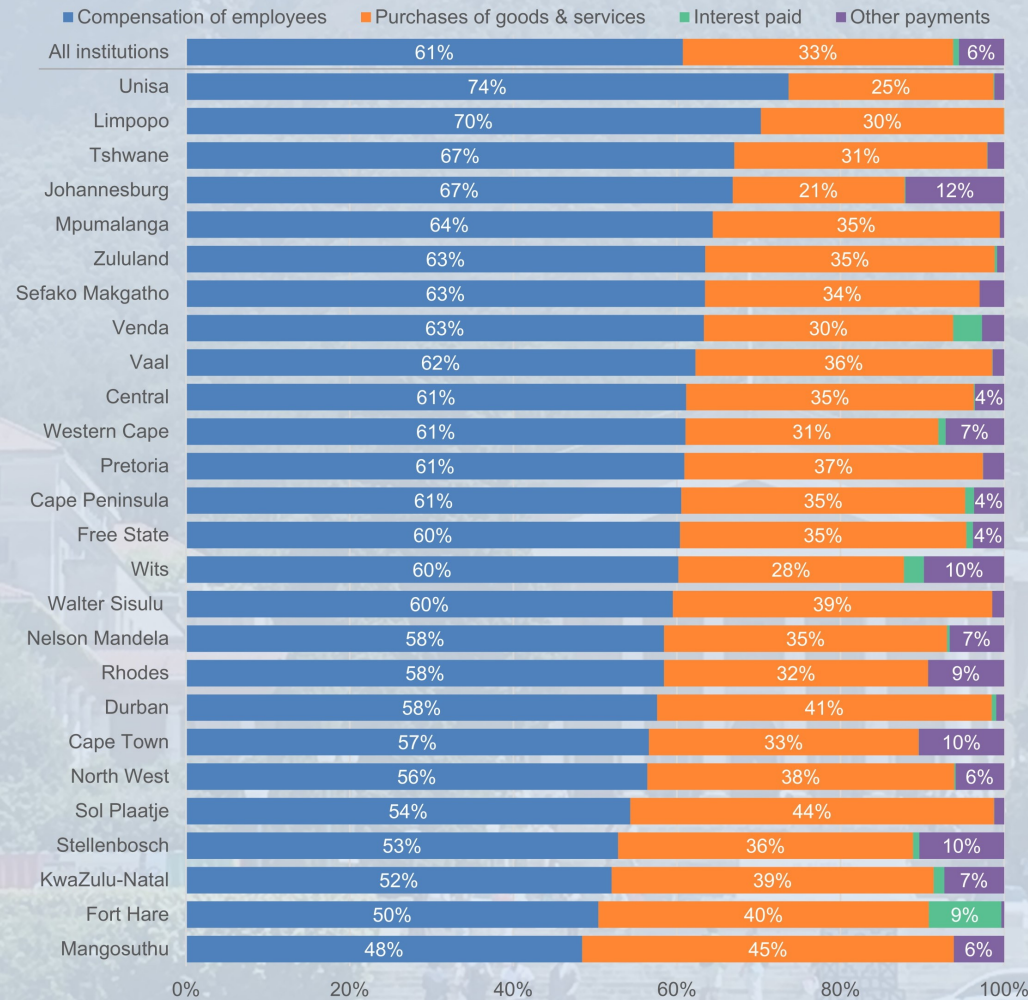
1. Factors specific to HE
2. Factors that are present in HE but also in other sectors



Salary expenditure as a share of total expenditure at SA HEs

Salaries took up 61% of total higher education spending in 2018

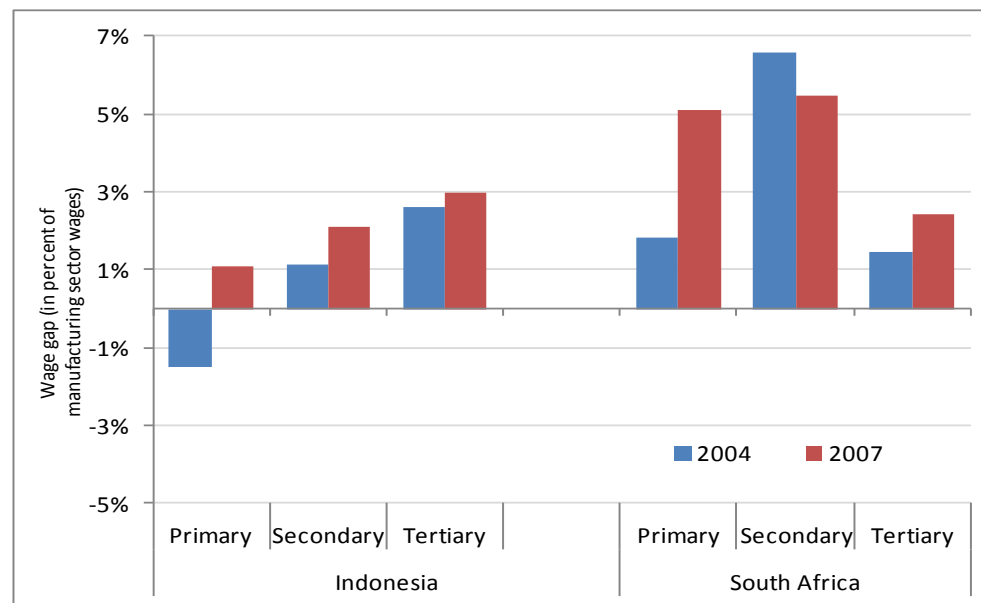
Breakdown of total expenditure for all 26 higher education institutions



Source: Financial statistics of higher education institutions, 2018

Wages driving HE costs in South Africa

Figure A.1. Median Wage Gap between Public Education and Manufacturing Sector: by Level of Education Attainment
(Percent of Manufacturing Sector Wage)



Sources: Susenas, PALMS, and IMF staff calculations.

Note: For South Africa, the sample covers only workers who are the member of the labor union to control for the unionization effect on the wage gap between public education and manufacturing.

The cost disease is not inevitable, but a real problem

- The reality of price-minus, not cost-plus
- Wage negotiations have to become more realistic
- Universities can adopt productivity enhancing strategies
 - Including smarter procurement of goods and services



the **end**