

## Background



### MEDIA STATEMENT

#### NATIONAL TREASURY NOTES THE PRESIDENT’S ANNOUNCEMENT ON FEE-FREE HIGHER EDUCATION

National Treasury notes the announcement by the Presidency this morning and is in the process of reviewing the details of the higher education proposals, as well as possible financing options. The proposal will also be considered by the Ministers’ Committee on the Budget (MinComBud) and the Presidential Fiscal Committee. Any amendments to existing spending and tax proposals will be announced at the time of the 2018 Budget.

Issued on behalf of National Treasury  
Date: 16 December 2017

The South African government recently adopted a “fee-free” higher education policy as a means to engender socio-economic redress. The policy hypothesizes that historically marginalized groups would leverage higher education credentials for favorable labor market outcomes. This research tests the viability of this hypothesis.

## Theoretical Motivations for Education-Based Socio-Economic Redress

A huge body of economic and policy research in developed economies shows a high correlation between education and positive labor market outcomes (see e.g., Autor et al, 2007; Bailey & Dynarski, 2011; Esping-Andersen, 2007; Hout, 2012; Light & Strayer, 2004; Reardon & Bischoff, 2011; Wright, 1978).

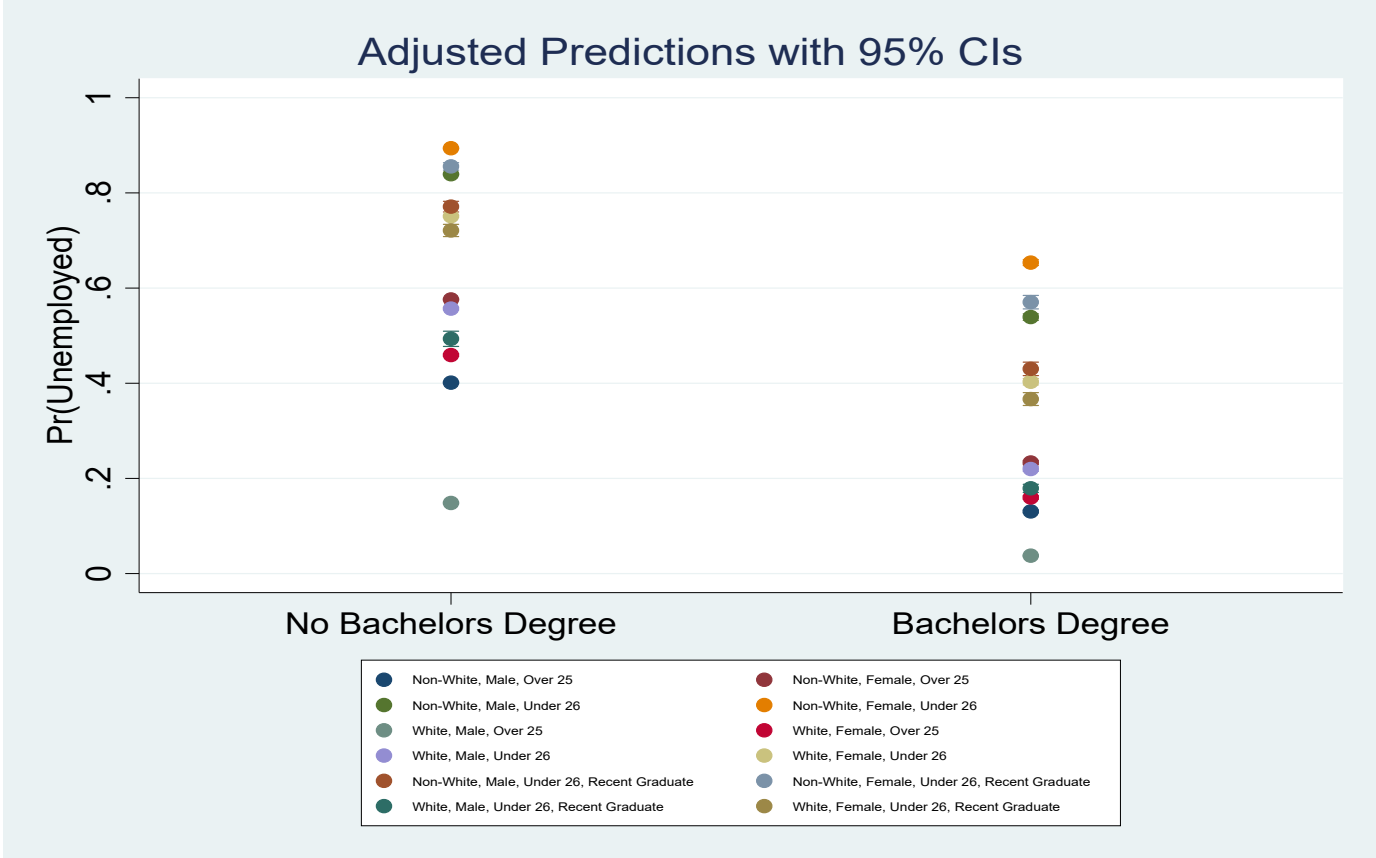
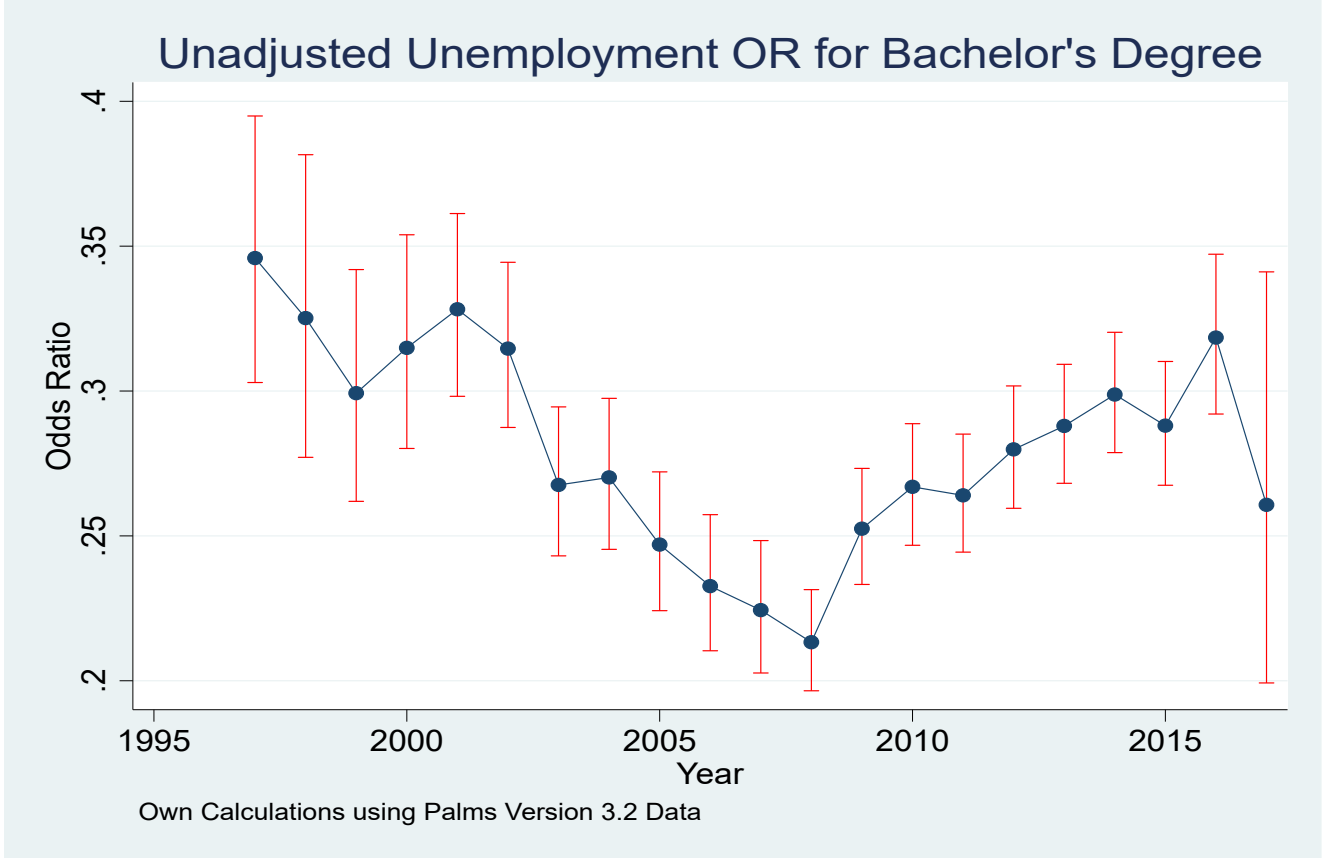
## Data

I use the Post-Apartheid Labor Market Series (PALMS) Data. Period = 1993-2007, N= 3, 394, 550

## Empirical Strategy

$$Pr(Y_{ijst}) = \beta_0 + \beta_1 EducAch_i + \beta_2 Under26_i + \beta_3 EducAch * Under26_i + \beta_4 Year + \beta_5 Race_i + \beta_6 Gender_i + \beta_7 Race * Gender * Under26_i + \beta_8 Province + \beta_9 Metro + \epsilon_i \quad (1)$$

## Findings



### Summary of findings:

- The probability of unemployment for degreed non-whites has been on the rise suggesting that there are significant structural barriers faced by this demographic group in South Africa’s labor market.
- The marginal effect of a bachelor’s degree does not have an impact on the hierarchy of the probability of unemployment among different social categories. That is, even when factoring the effects of a bachelor’s degree, the probability of unemployment for the targeted beneficiaries of the “fee-free” education policy remains comparatively higher. This suggests that an education based intervention for social redress within a labor market structure characterized by structural barriers is unlikely to deliver intended socio-economic mobility.

## Findings Cont’d

Table 1. Abridged version of the Likelihood of Unemployment Status from 1993 to 2017]

Independent Variable	Likelihood of Unemployment Status		
	Odds Ratio	CI on OR	p
a) Bachelor's	0.22	(0.218 - 0.230)	***
b) Racial Groups			
African/Black	3.83	(3.781 - 3.876)	***
Colored	2.43	(2.399 - 2.464)	***
Indian/Asian	1.80	(1.767 - 1.832)	***
Other	1.55	(1.274 - 1.880)	***
c) Gender			
Female	1.37	(1.363 - 1.383)	***
d) Age Groups			
Under 26	7.25	(7.200 - 7.290)	***
e) Key Interactions			
Bachelor's*Under26	0.82	(0.768 - 0.872)	***
Race*Gender*Under26	1.01	(1.007 - 1.007)	***
Intercept	0.14	(0.139 - .1445)	***
Pseudo R^2	0.1581		
N	3 394 550		

Note: Reference Categories are the following: a) Non-Bachelor's, b) White, c) Male, and d) 26+ years. Asterisks indicate statistical significance at these levels: \*p≤.05 \*\*p≤0.1\*\*\*p≤.001. See appendix for full regression table with provincial and year estimates.

## Implications

The correlation between education and labor market outcomes in developing economies such as South Africa is dissimilar to trends observed in developing economies. Therefore, interventions designed to engender socio-economic redress via expansion of higher education ought to account for structural barriers in the labor market in order to be optimum.

## Acknowledgements

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