



*(Thinking about) Prioritising  
Education Spending (Or,  
Escaping the Human Capital  
Trap)*

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Fiscal Workshop 2 – 25 April 2024



# Overview

1. All kind of traps looming – and a framework
2. Education finance (high-level) recap – trends, composition
3. Comparing South Africa – spending & value for money
4. Strategic directions for escape?

# All kinds of traps looming for new, developing democracies



Yuen Yuen Ang's "poverty trap":

- "... the poor are simultaneously beset by problems of instability, corruption, patrimonialism, and weak policy enforcement that arise from and deepen poverty. ... (Ang, How China Escaped the Poverty Trap 2016, 9)

World Bank's "middle-income trap":

- "inability to advance from middle-income to high-income levels, ... ." (Ang 2016: 289)

# ... and a range of others



(state) “capability trap” - “regional development trap” - gender “low wage work”  
poverty trap

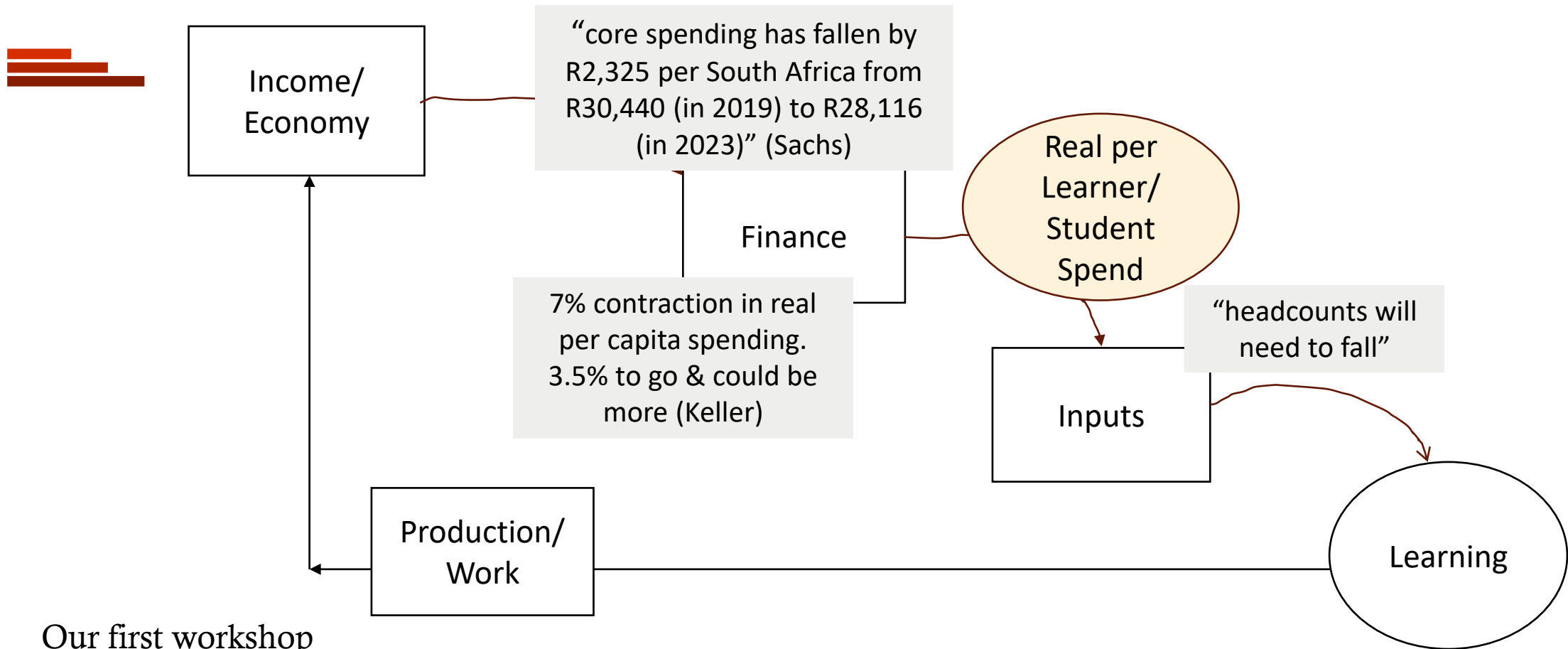
And, prominent currently ... the “fiscal” or “debt” trap

With interest rates exceeding the economic growth rate, government debt continues to grow as a proportion of GDP, becoming a “vicious circle”

“Higher debt makes investors and ratings agencies nervous, meaning the interest rate they are prepared to pay for our debt rises. This increases borrowing costs and hurts investment spending, making fiscal consolidation (and counter-cyclical fiscal policy) more and more difficult, making the fiscal position worse and raising the sovereign risk premium. The interest rate rises again, and the cycle continues.”

Hollander & Haveman 2024

# A framework for a “human capital trap”



Our first workshop

- ... raised warnings about seeing this too simplistically (and see also the pointers from people like Stephanie Allais - Allais & Marock 2023, Buchanan et al. 2020)
- ... and outlined the severity of the pressure

# Large education spend

- Widely defined, the biggest function in budget: PSET, Skills Training, School (Basic), ECCE
- In 2023/24 followed by:
  - Social Protection: R376.9 billion
  - Debt service cost: R356.1 billion
  - Health: R263.2 billion
- Debt service overtaking Social Protection over next three years

Category	2023/24 R billion, Nominal	% of Gov Non- Interest Spend	% of GDP
Gov. Educ Dept Spend	473.0	24.7%	6.7%
Gov Spend (excl debt- service cost)	1,912.7		27.1%
GDP	7,049.0		

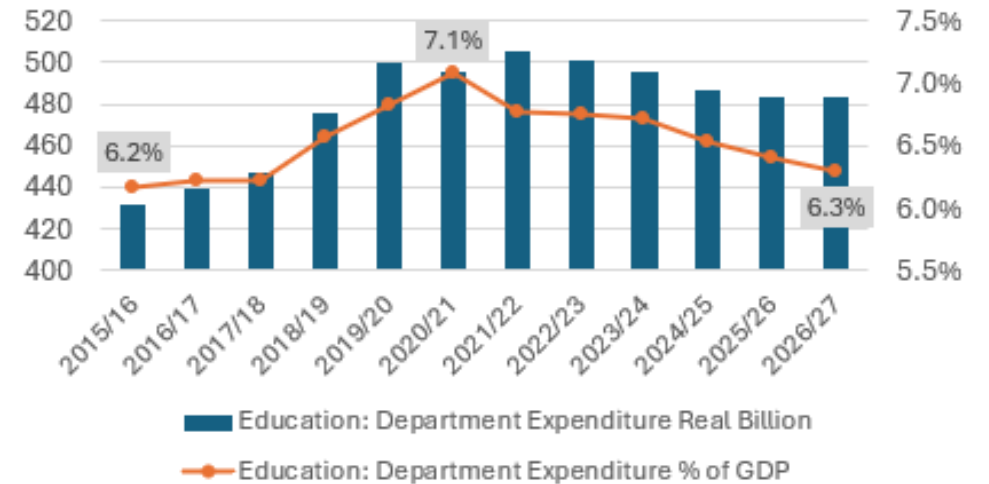
Source: National Treasury 2024, Budget Review (BR) Tables and Annexures (GDP, Total Spending) & Estimates of Provincial Revenue & Expenditure (EPRE)

# In 2020, spending growth interrupted

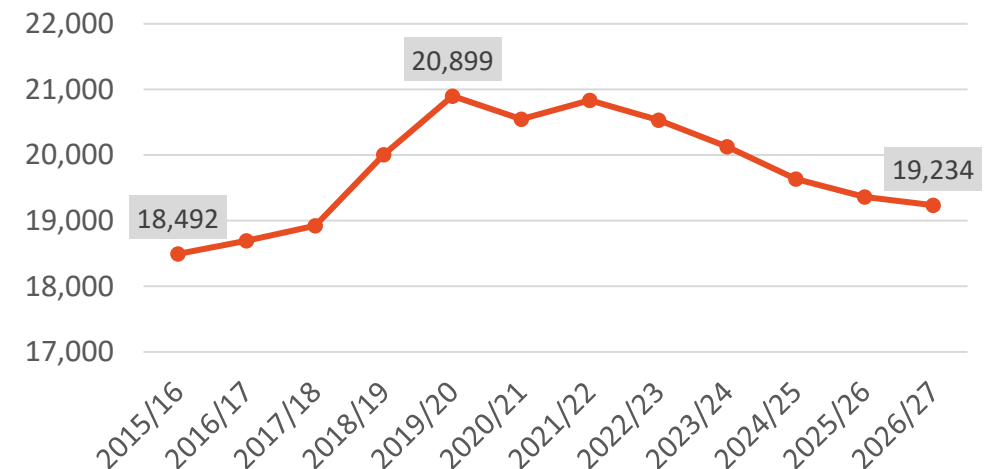
- Education departments spend rising from 6.2% of GDP in 2015/16 to 6.8% in 2019/20
- Then a Covid-19 spike and decline to close to 2015/16 level by 2026/27
- Real and real per capita spending also this shape
- Post-Covid Austerity, but of course more than Covid-19 involved
  - Slow growth
  - Build-up of debt
  - SOE burden

Data source: National Treasury 2024, BR Tables and Annexures (GDP, Total Spending) & EPRE

Real Education Departments Spending/Budget as a % of GDP



Real Per Capita Education Departments Spend (0-22 year olds)



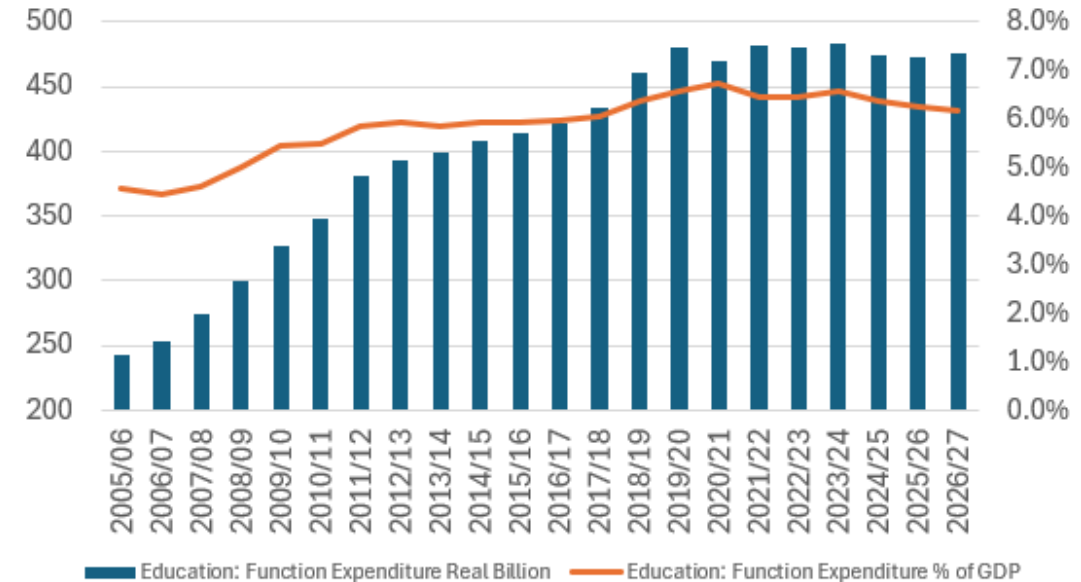
# End of a long period of spending growth



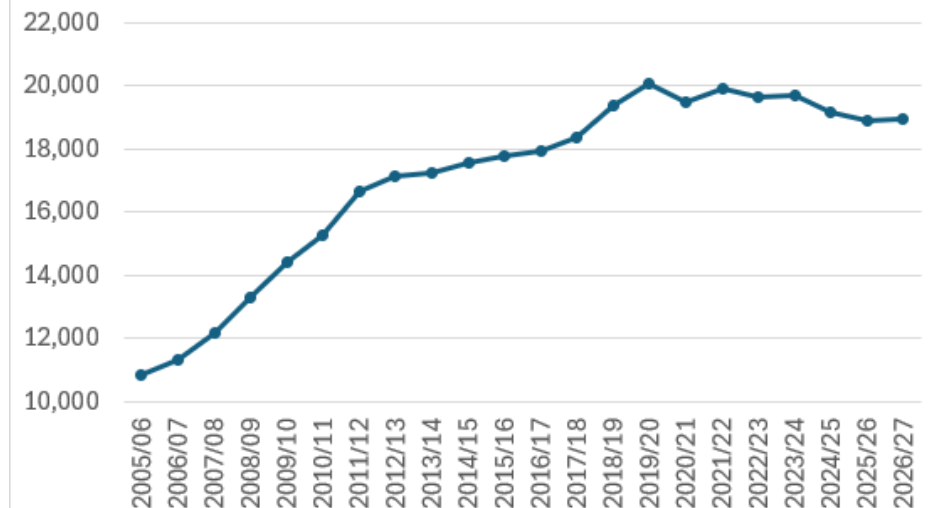
- More than two decades – nearly a doubling of spending, real and per capita, from 2005/06 to 2019/20
- But picture underestimates pressure on the sub-sectors:
  - CPI underestimates cost pressures, especially wage pressures
  - Population growth underestimates learner/student growth
  - Very different trends in different subsectors
  - Quite a broad definition of education spending

Data source: National Treasury 2024, BR Tables and Annexures (GDP, Total Spending) & EPRE

(a) Real Education Spending and as a % of GDP

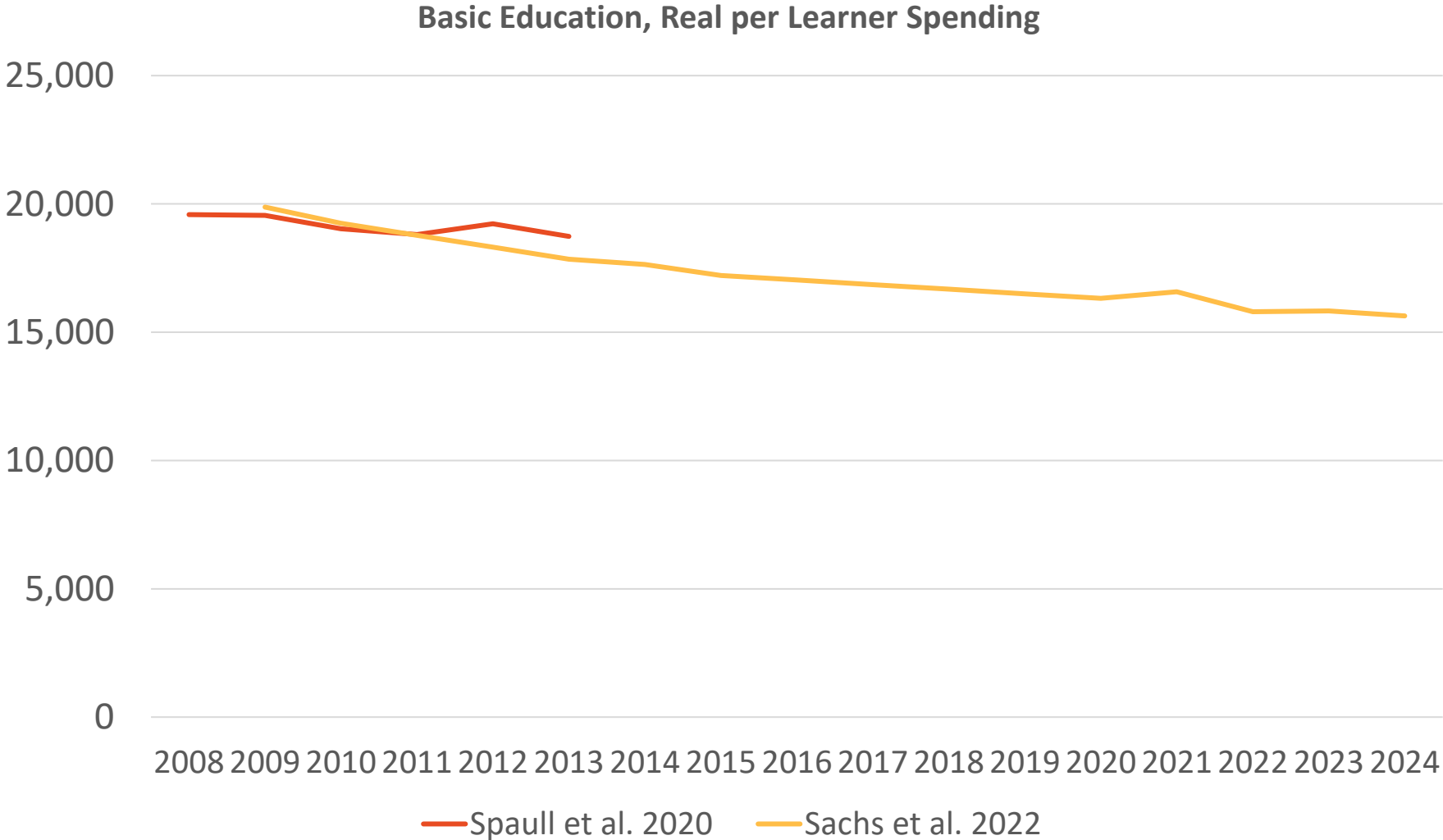


(b) Real Per Capita Education Spend (0-22 year olds)

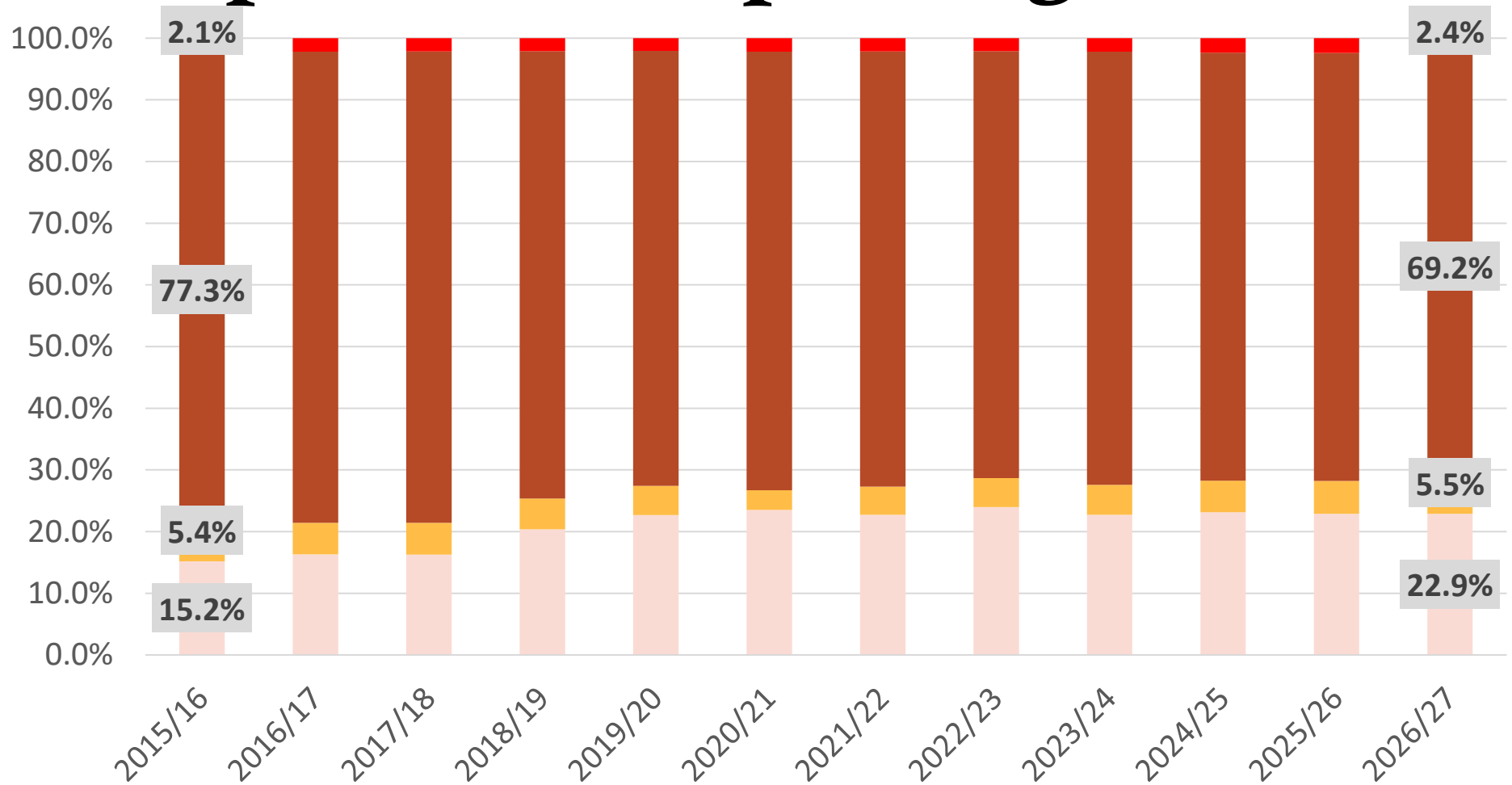




# Not all had been growing recently – depending on your deflator (factoring in sector cost)



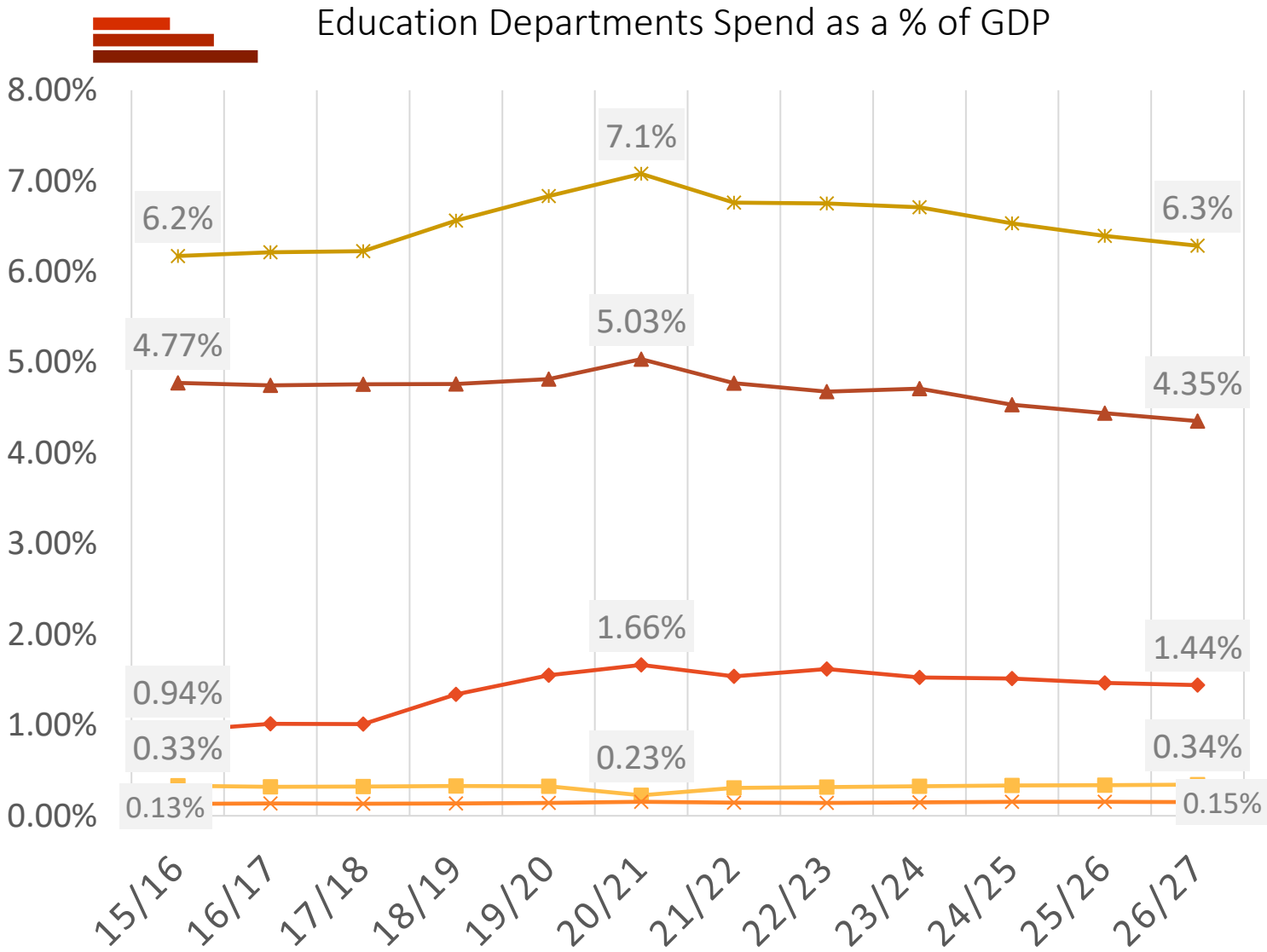
# Shifts in composition of spending



Data source:  
National Treasury  
2024, EPRE

- ECCE smallest followed by skills, PSET and then BE
- Significant change – much faster real growth in PSET, driven by NSFAS, smaller ones holding their shares

# And diverse trends in the subsectors



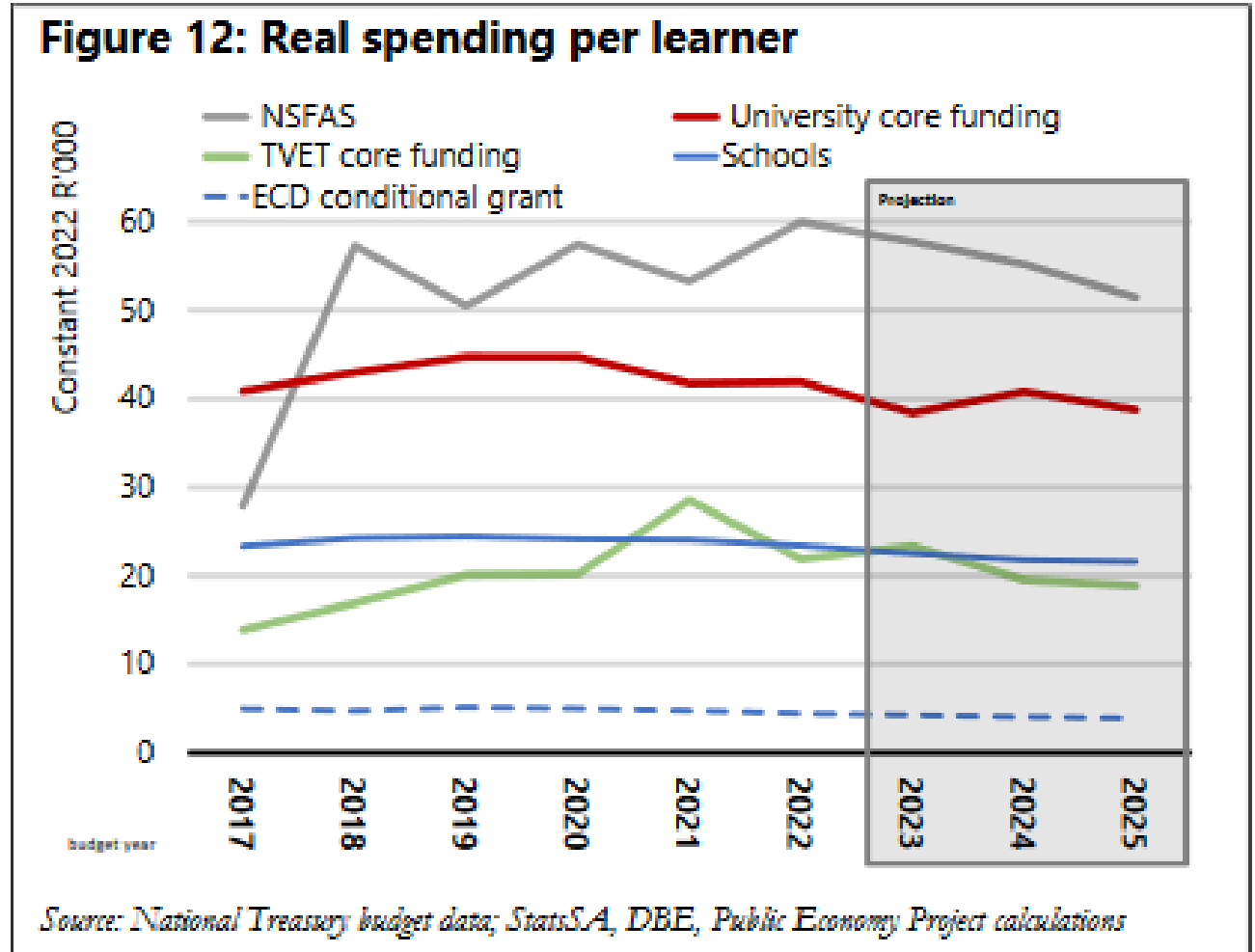
	2024/25
Total Education Departments	R486.8b
Basic Education (excl Gr R)	R337.8b
PSE (excl skills)	R112.7b
Skills	R24.8b
ECCE	R11.5b

Data source: National Treasury 2024, BR Tables and Annexures (GDP, Total Spending) & EPRE

# Per learner/student spending



- Per learner spending also an indication of the limited prioritisation of ECD and the growing pressure in all areas
- Will need a further reduction in teachers in schools and increasing class sizes, also a scenario facing PSET institutions
- Key takeouts?
  - Severe pressure on sectors
  - “Adverse prioritisation”
  - More to come?

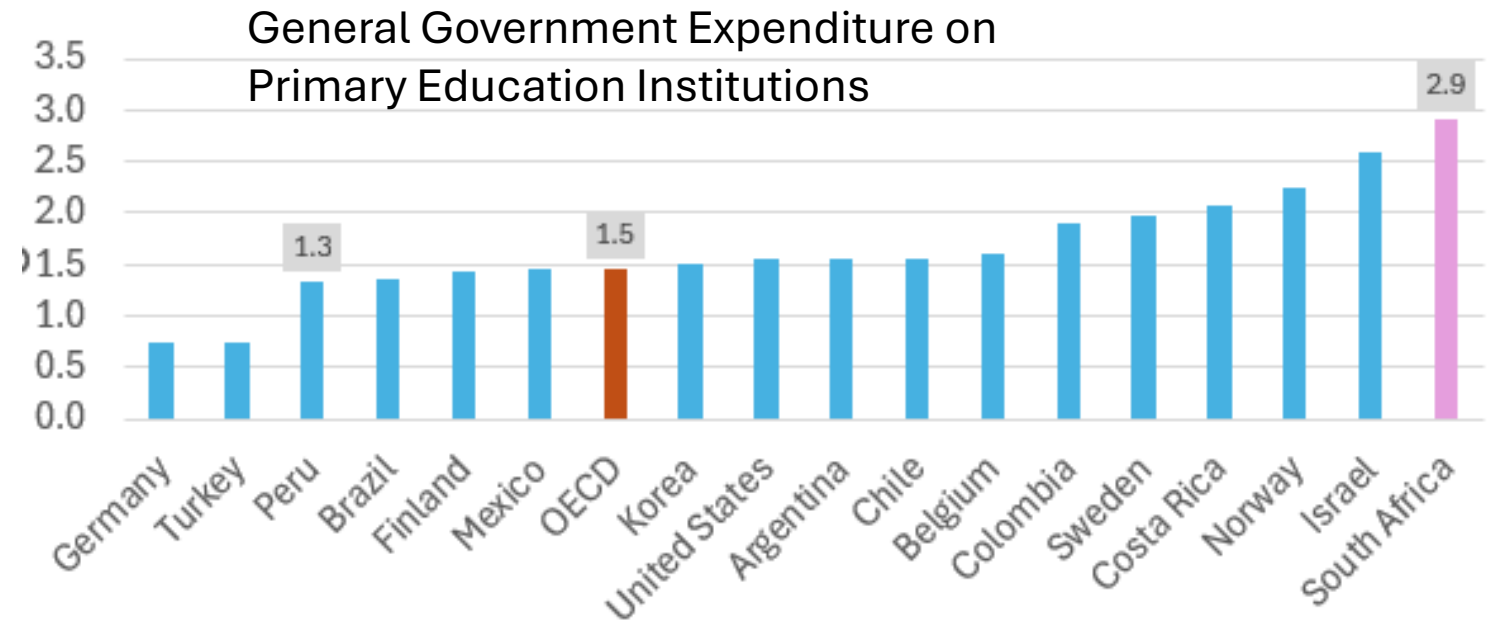
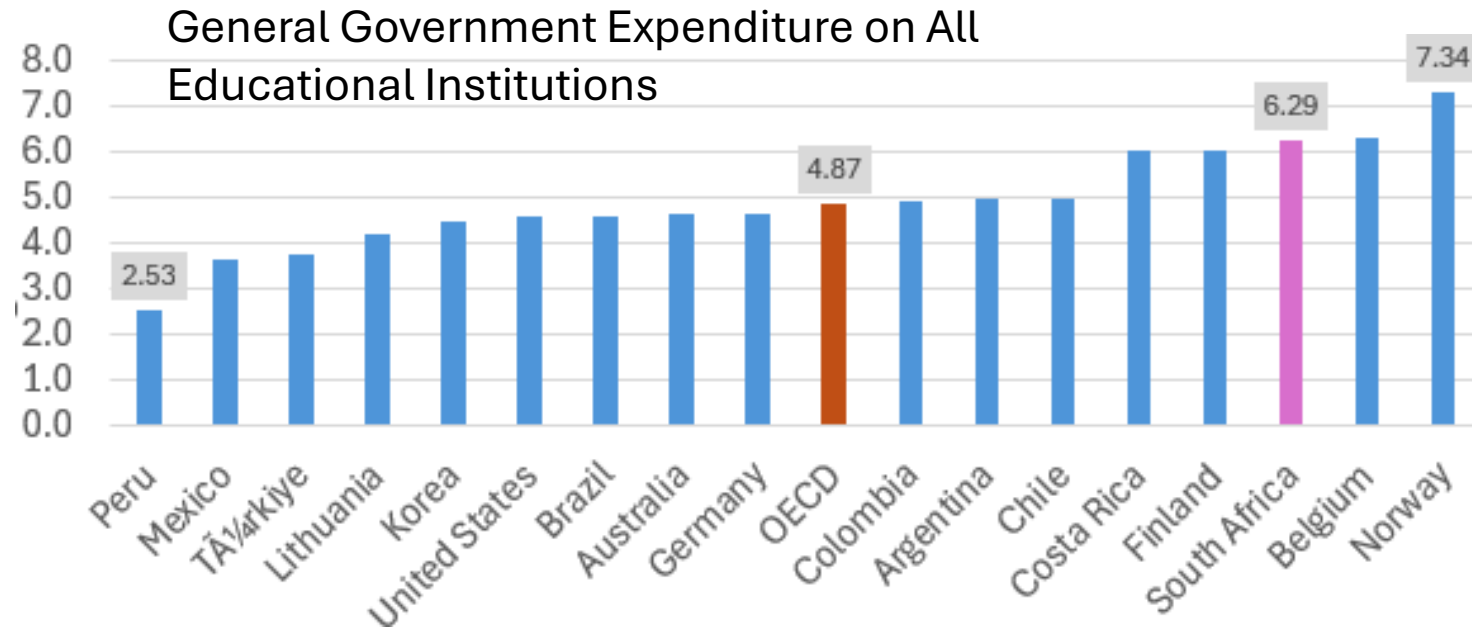


From Sachs, et al. (SCIS) (2023) Austerity without Consolidation

# Comparing spending levels



- Can we learn anything from where we rank in terms of spending to GDP?
  - In terms of general government spending on all education, round the top with the Nordics.
  - No private sector data for SA, but if bring in others go past us (Chile, Costa Rica)
  - Bringing in non-OECD data, things stay very much the same but Botswana and Namibia also move ahead of South Africa
  - Primary spending particularly high relative to GDP

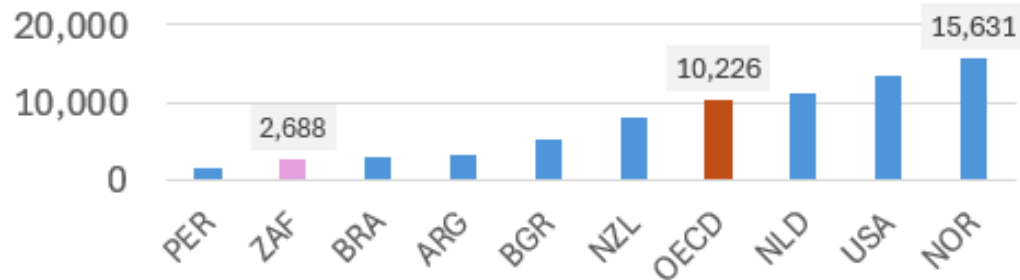


# Comparing spending levels (2)



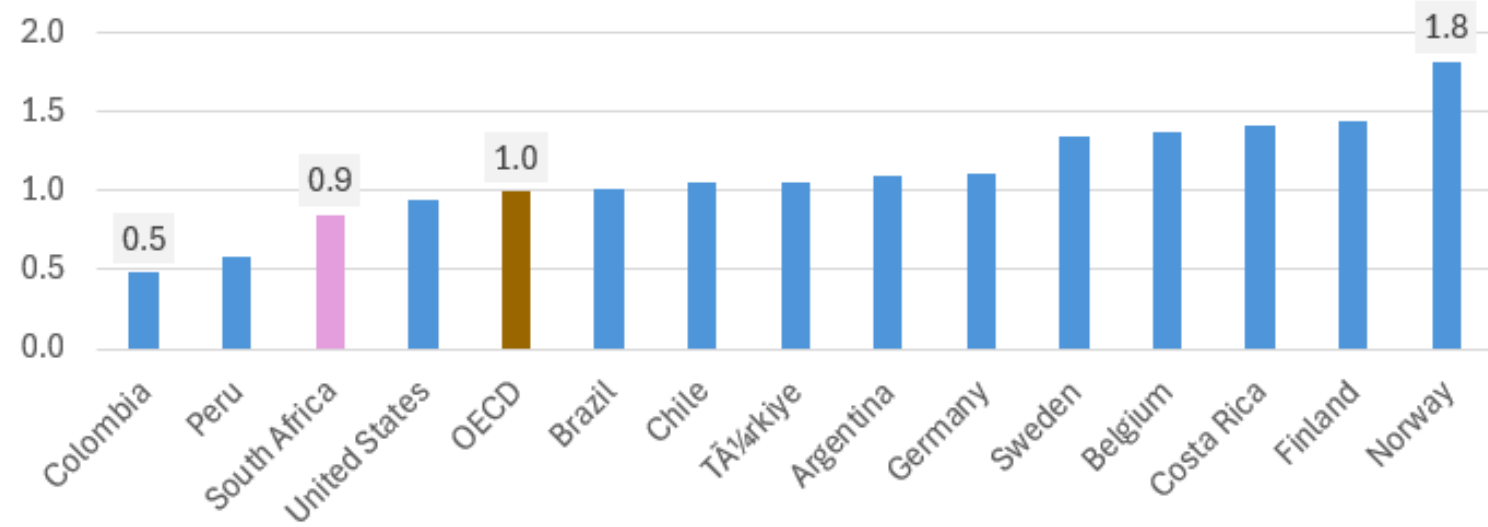
- But middling spending on PSET/Higher Education
- Low spending on ECD
- Not exceptional in \$ spend

General government spending on primary education, US\$ per student, PPP converted 2020

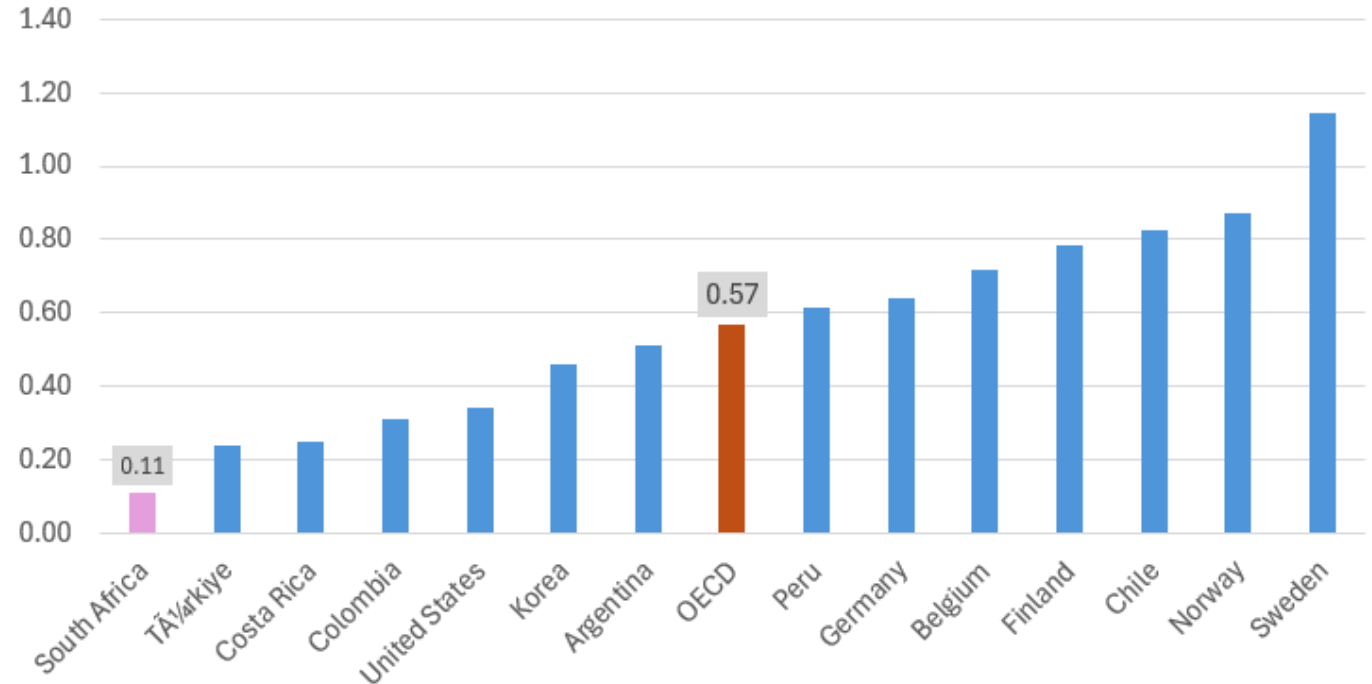


[Data from OECD Data Explorer](#)

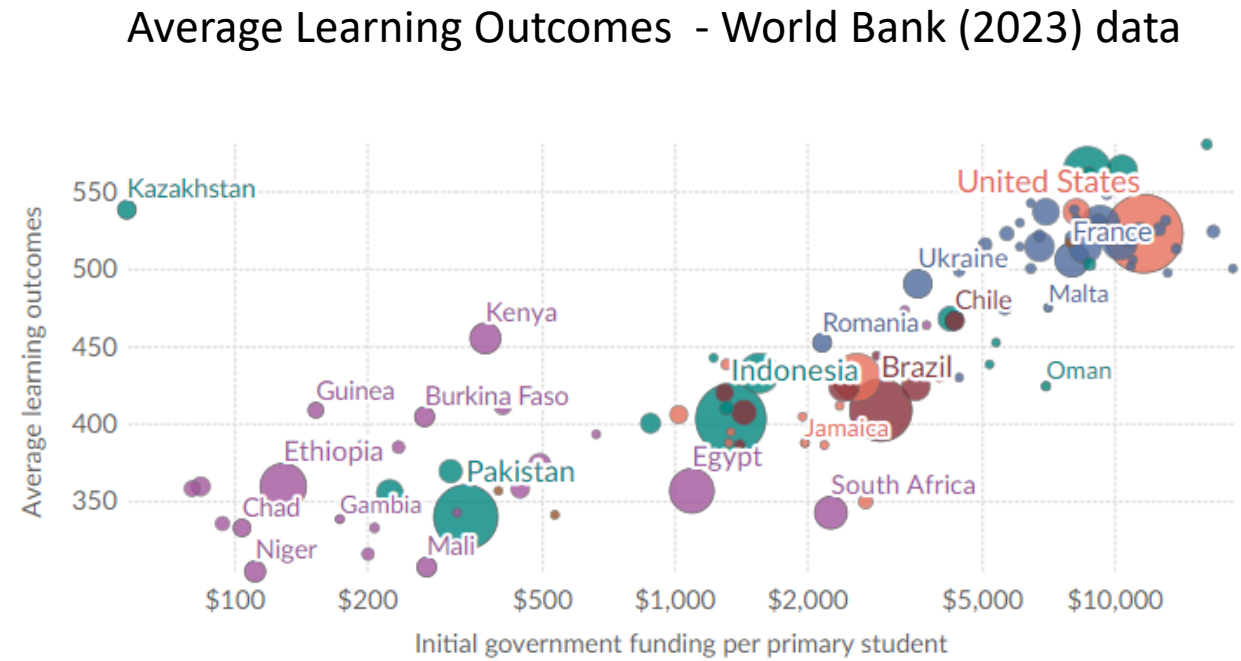
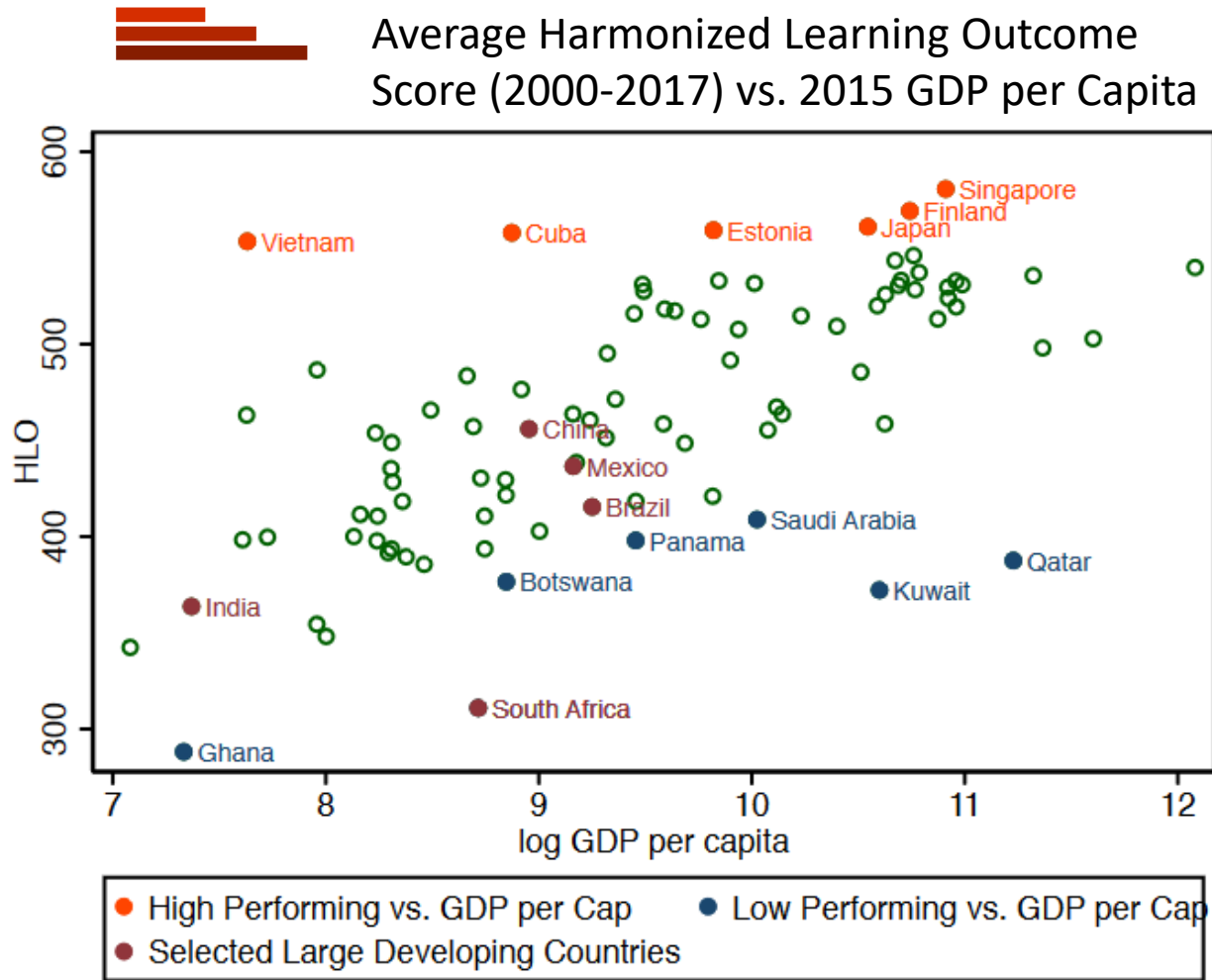
General Government Spend on Tertiary as a % of GDP



General Government Spend on Pre-primary as % of GDP



# And the big issue on value for money

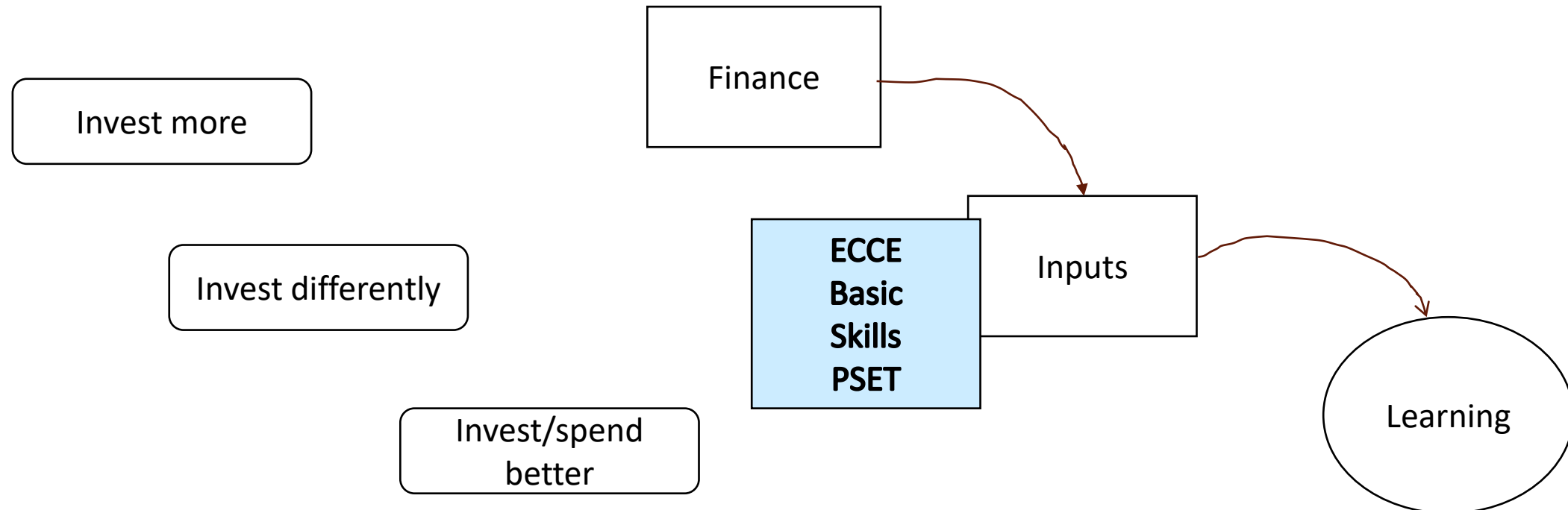


Data Source: World Bank (2023) – processed by Our World in Data. “Average learning outcomes” [dataset]. World Bank, “World Bank Education Statistics (EdStats) 2023” [original data]. <https://ourworldindata.org/grapher/national-average-learning-outcomes-vs-government-expenditure-per-primary-student?tab=table>

Source: Patrinos & Angrist (2018), Global Dataset on Education Quality (2000 -2017)

# ... back to thinking about the trap

- In 2011 Vander Berg et al. argued that our weak education performance relates to the “double burden” of poverty and low-quality schooling which South African children face (and which leads to “low quality education as a poverty trap”)
- So what are the strategic directions for changing around this tragic situation?





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# THANK YOU

Research on Socio-Economic Policy (Resep)  
Stellenbosch University

<https://resep.sun.ac.za/>

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# But, how DID China escape the poverty trap?



“directed improvisation ...

... constructing a set of underlying conditions that fostered an adaptive, bottom-up search within the state for localized solutions

... Central reformers direct; local state agents improvise”.

(Ang 2016, 17)

“... crafting environments that facilitate improvisation among the relevant players”

(Ang 2016, 16)

# Beware the many & interrelatedness of traps

“It is important to keep in mind that each model of the poverty trap is designed to highlight one particular feedback mechanism behind the vicious circle. To this end, other sources of the poverty trap are deliberately assumed away. In reality, of course, many sources of the poverty trap are likely to coexist.

If there is one important lesson from the literature reviewed above, it should be that there are hundreds of traps that the economy can fall into, and any policy intervention that attempts to pull the economy out of one trap may end up pushing it into another. As we know, any attempt to solve a problem can often become a source of another, even bigger problem.”

Matsuyama 2010 in Palgrave Dictionary of Economics



Peter Clarke *For Some the Pathway to Education Lies Between Thorns*, 1994. Linocut print. (Collection: The artist's estate, Photo: Warren Nelson).

See Clarke discussing this work at <https://www.pcac.co.za/>  
<https://www.youtube.com/watch?v=sUOjys0cIU>



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