

Investigating wage trends in South Africa – An assessment of the public sector wage bill

Executive Summary

The public sector wage bill is one of the largest components of the government's current expenditure. A continued increase in the public wage bill poses a risk to fiscal sustainability. Fiscal sustainability is the capability of a government to consistently meet its financial responsibilities in the long run, and is concerned with the availability of adequate revenue for services, capital levels and the demands of the public. An unsustainable compensation structure within the public sector wage bill is therefore a cause for concern.

To assess the sustainability of the public sector wage bill, the Commission undertook a study to consider the wages and wage dispersion of public sector workers in South Africa. The study used the national and provincial wage bill, as well as the post-1994 household survey datasets. It employed descriptive statistics to determine how the size and shape of the wage bill has evolved over time and the impact it has had on the overall fiscal framework. The study also employed rolling regressions to determine the relative sustainability of the public sector wage bill.

Finally, a reduction of the wage bill is warranted since it has ballooned faster than revenue growth, and government expenditure is significantly fuelled by spending on remuneration. Additionally, there is a positive relationship between the budgeting techniques used to determine the compensation framework annually and the unsustainable wage bill since 2006.



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The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Background

Wages in South Africa's public sector have grown relatively rapidly over the last two decades. Indeed, since 2004, the public sector wage bill has grown at an average rate of 10.5% per year, which is almost double the inflation rate, and also considerably above the pace of growth in gross domestic product (GDP) per capita (National Treasury, 2020)¹. Public sector employment has also expanded since the early 2000s. Recent estimates show that, by 2020, it accounted for close to 20% of total employment, depending on which sectors of government are included (Bhorat et al., 2021)². At the same time, research that compares earnings across the public and private sectors suggests that, relative to the private sector, the average public sector worker receives a wage premium of over 20% (Kerr and Wittenberg, 2017; 2021)³.

The observed increases in both wages and employment have generated an aggregate public sector wage bill in South Africa that now commands a substantial share of the budget, accounting for 35% of government's consolidated spending in 2019 (National Treasury, 2020). As such, there are concerns about the impact of the growing wage bill on the country's finances. The overall aim of this study was to inform and provide policymakers and legislators with a better understanding of the wage bill structure. Finding the underlying drivers of the high wage bill is critical in reforming the currently untenable public finance situation. To address the aim of the study, the research used government's Personnel Salary (PERSAL) datasets for national and provincial government, the Post-apartheid Labour Market Series (PALMS) data, as well as labour market data from Statistics South Africa (Stats SA) to understand wage trends in the public sector.

Research findings

South Africa's public sector

In Figure 1, data from the Organisation for Economic Cooperation and Development (OECD) (2022)⁴ is used, as well as additional data compiled by De Vries et al. (2021)⁵ to compare the size of the public sector across 76 countries. The range of public sector employment shares is large, between 3% (Ethiopia) and 35% (Norway), with a mean and median of 15%. South Africa's public sector employment share is measured at 15.1% and is thus in the middle of the distribution of countries sampled here. This suggests that, while the public sector in South Africa may have grown over the last decade or so, it does not appear to be unusually large in international terms. The impression that the country has a bloated public sector purely in terms of employment numbers does not appear to be correct. However, this may be sensitive to the inclusion of local government employment and employment in state-owned companies in the calculations, which could push the share up closer to 20%.

¹ National Treasury. 2020 Budget Review, Available at: <http://www.treasury.gov.za/documents/national%20budget/2020/review/fullbr.pdf>

² Bhorat, H., Stanwix, B., & Thornton, A. 2021. Changing Dynamics in the South African Labour Market. The Oxford Handbook of the South African Economy.

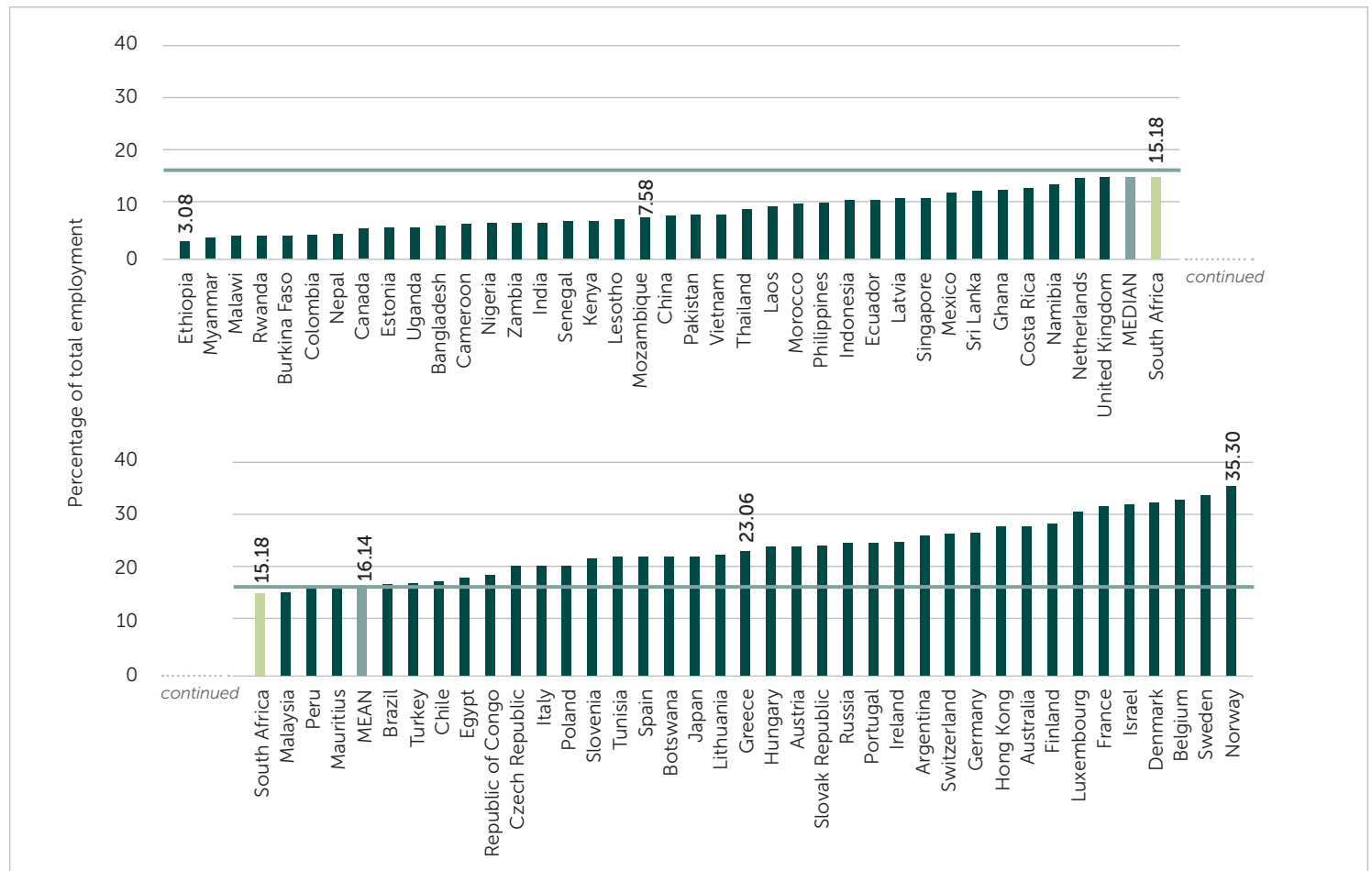
³ Kerr, A., and Wittenberg, M., 2021. Union wage premia and wage inequality in South Africa. *Economic Modelling*, 97, 255-271.

Kerr, A., Wittenberg, M. 2017. Public sector wages and employment in South Africa. Cape Town: SALDRU, UCT. (SALDRU Working Paper Number 214).

⁴ OECD. 2022. Labour force statistics. available at: https://stats.oecd.org/Index.aspx?DataSetCode=ALFS_EMP

⁵ De Vries et al. 2021. "The Economic Transformation Database (ETD): Content, Sources, and Methods". WIDER Technical Note 2/2021.' DOI: 10.35188/UNU-WIDER/WTN/2021-2.

Figure 1: Public sector employment as a share of total employment, selected countries: 2018

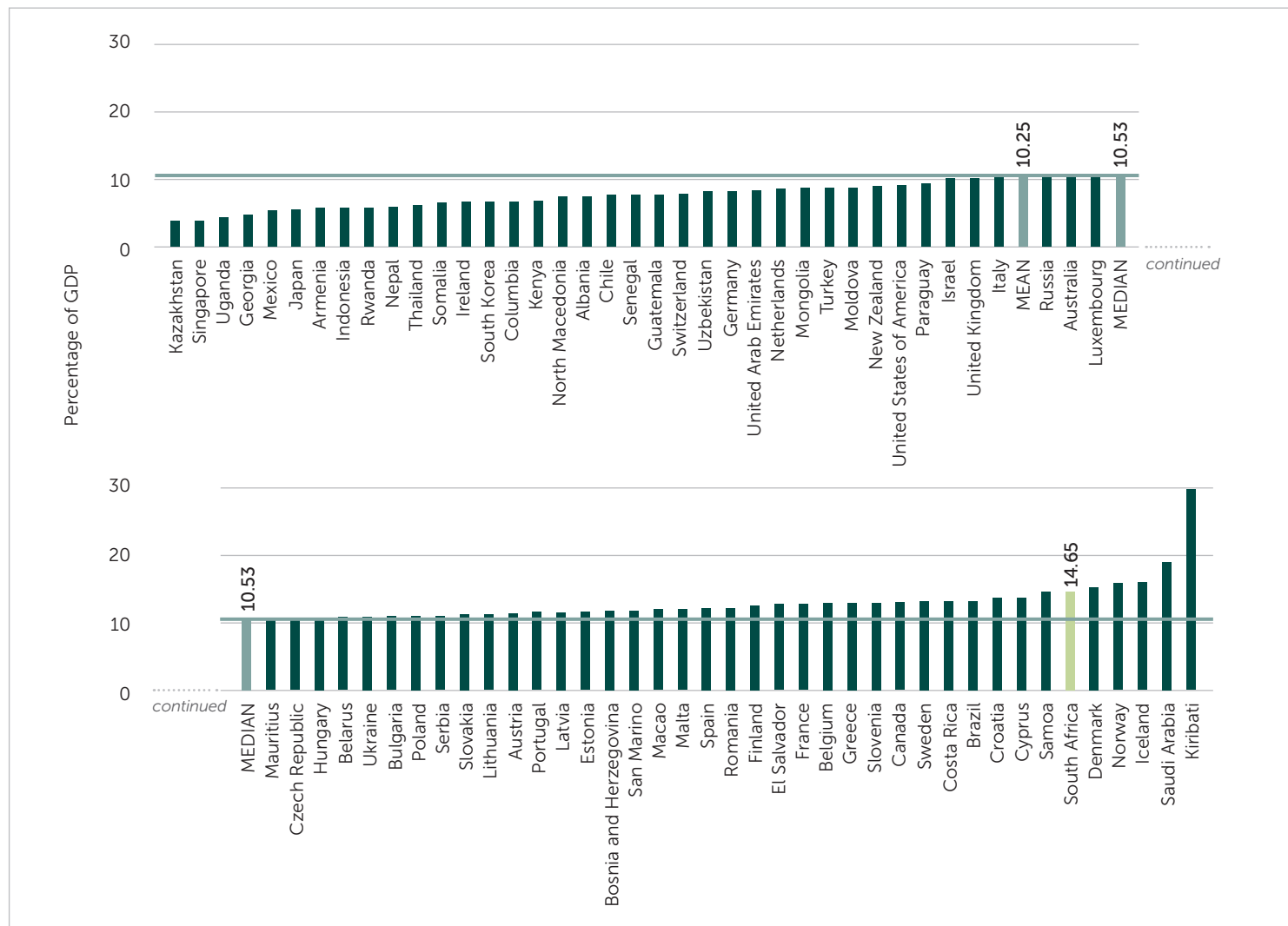


Note: Sample includes 76 countries. The definition of public sector is based on the IMF’s categorisation of “general government”.

Source: Commission’s calculations based on OECD (2022) and De Vries et al. (2021)

In Figure 2, use is made of data from the International Monetary Fund (IMF) on public sector compensation, where the public sector wage bill is measured as a percentage of country GDP for 75 countries. In the sample of countries for which data is available, the range of the compensation ratio varies between 3% and 29%, with both mean and median levels of compensation measuring approximately 10% of GDP. South Africa has the sixth-highest level of public sector compensation among the countries in this sample, at 14.6% of GDP, far above both the group mean and the median. In relation to earnings, the general impression that South Africa spends a large proportion of its national income on the compensation of public servants, relative to its international counterparts, appears to be correct.

Figure 2: Compensation of public employees as a share of GDP, selected countries: 2020



Note: Sample includes 75 countries.

Source: Commission’s calculations based on IMF (2021)⁶

Real wage and employment

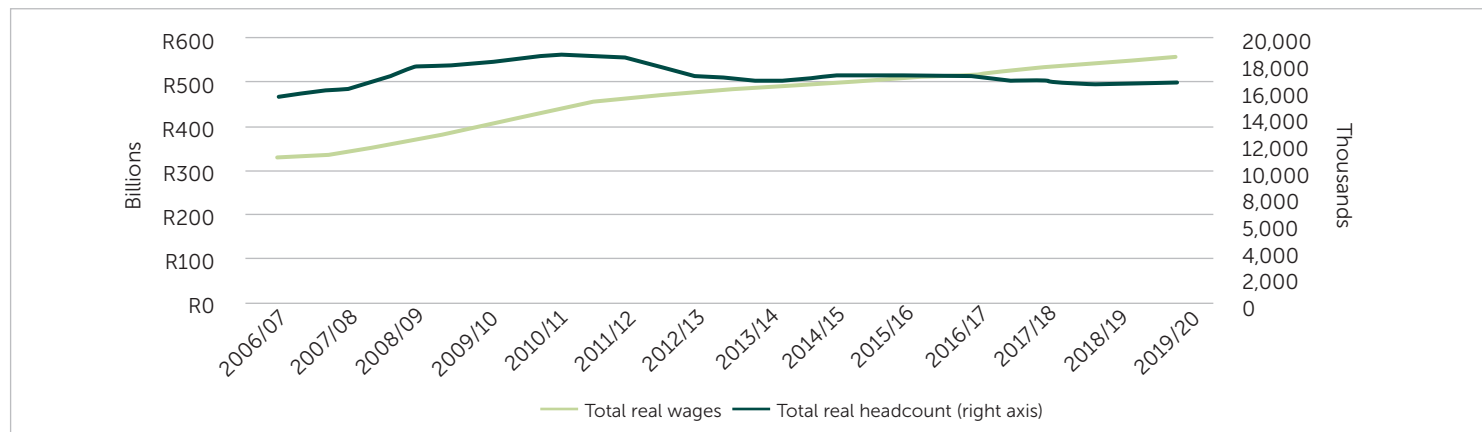
Figure 3 depicts the total real wages compared to the number of employed individuals in the public sector from 2006 to 2020. The total real wage curve shows a steady decline in wages since 2006. In contrast, the number of employed individuals has not changed much. There has only been a slight decline in the number of employees since 2012. In addition, there seems to have been a steady convergence of wages to the number of employed individuals since 2006⁷. However, a divergence started to occur from 2016. After 2016, a clear trade off takes place between the number of salaries compared to the number of employed public servants. This indicates that employment has stagnated or even declined since 2016, and the salary range per person has increased.

⁶ International Monetary Fund (IMF). 2020. IMF (2022), Available at: <https://data.imf.org/regular.aspx?key=60991457>

⁷ South African Reserve Bank (SARB). 2019. Compensation data. 57–60.

National Pay Commission. (2018). Effects of Budgeting and Wage Bill Sustainability (Issue November).

Figure 3: Total real wages vs headcount

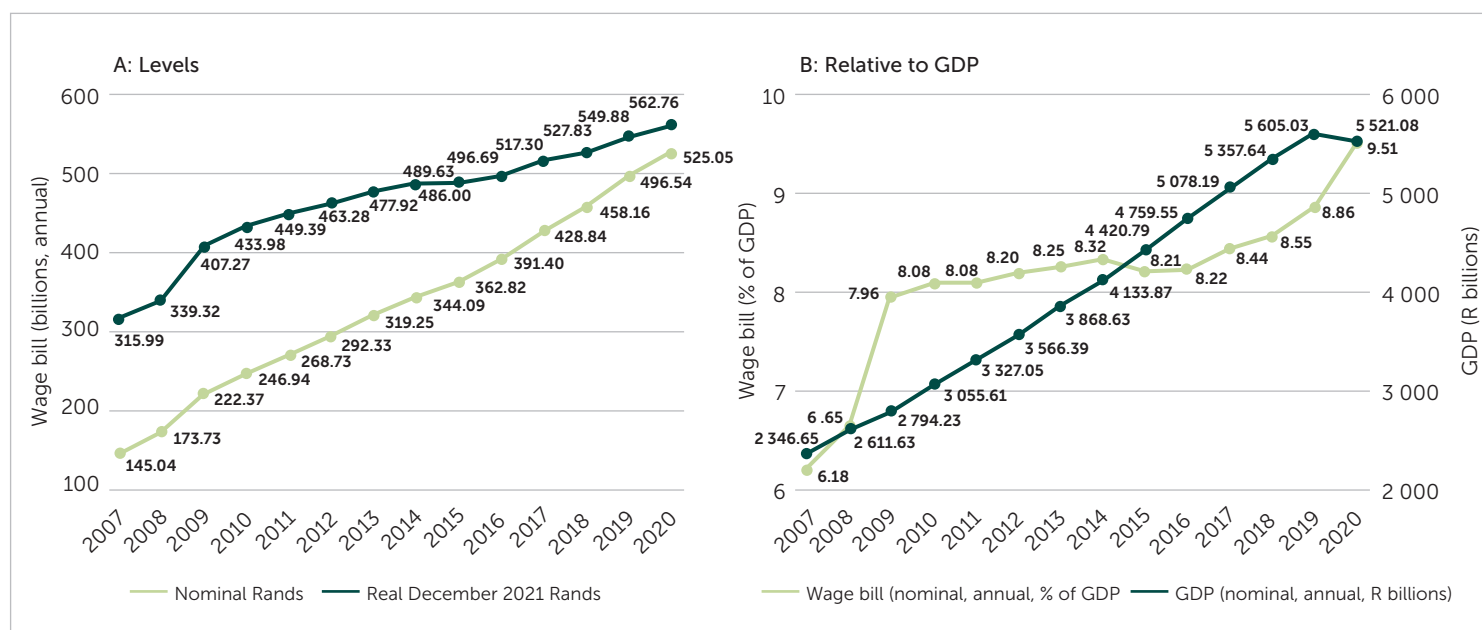


Source: Commission’s calculations (based on National Treasury, 2021)⁸

Growth of public wage bill

Using PERSAL data, which covers the majority of South Africa’s public sector employees, it can be seen that the total wage bill has grown by 78% in real terms between 2007 and 2020, and as of the latter year, is equivalent to nearly 10% of GDP – the highest in the post-apartheid period. Its growth has far outstripped that of real GDP in levels or per-capita terms. When compared to other fiscal measures, including government expenditure and revenue, the wage bill has also increased in relative terms. Overall, although both growth in employment and wages affect the growth of the wage bill, the latter has been the driver (mean wages grew by 42% over the period, compared to 25% employment growth). This suggests that there is reason for concern regarding the pressures that the wage bill places on South Africa’s fiscus.

Figure 4: Public service wage bill and GDP: 2007 to 2020



Notes: Data includes population of workers in all national and provincial government departments as well as national entities in South Africa.

[2] Data for January of each year used.

[3] Wage data expressed in both nominal and real terms; for the latter, the data is deflated to December 2021 Rands using Statistics South Africa’s CPI headline data.

Source: Commission’s calculations. Source: PERSAL (2006/07 – 2019/20), StatsSA (2020a; 2021a).

⁸ National Treasury (2021). PERSAL data. Republic of South Africa. Pretoria

Determinants of wages in public service

Finally, to assess the key determinants of wages in the public sector, a set of standard multivariate regression models was conducted following a Mincerian earnings function specification. Evidence of a positive and very steep wage gradient with respect to skills was found in every year, with top management employees earning 241% more than so-called unskilled workers in 2020. However, dynamics over time is suggestive of a reduction in these earning differentials. Expectedly, on average, workers who work more than one job, work on a full-time basis, and have more experience working in the public service earn higher wages. Notably, in 2020, a wage premium was observed for national department workers relative to all provincial departments and for workers in the agriculture sector relative to all other sectors. However, in both cases, the magnitudes of the premiums are small and have varied over time.

Conclusion and recommendations

Public sector employment (as a share of total employment) in South Africa is in line with comparator country estimates, and close to the global average and median, suggesting that it is not an outlier in this regard. In contrast to this, the data on public sector compensation shows that South Africa's public sector wage bill is significantly higher than that in the economies of comparator countries. The total wage bill grew by 78% in real terms between 2007 and 2020. The wage bill has now risen to reach 10% of GDP – the highest level in the post-apartheid period. When compared to other fiscal measures, including government expenditure and revenue, the wage bill has also increased in relative terms.

The Commission makes the following recommendations:

- 1. The Department of Public Service and Administration, through the bargaining council, should consider balancing notch progression and cost-of-living adjustments and pressures to the fiscus during wage negotiation. The Commission highlights that the growth of the wage bill has largely been driven by wage increases relative to the increase in the number of employees.*
- 2. The demographic composition of the public sector has changed over time, but the proportion of young people has not grown. The Commission recommends that the Department of Public Service and Administration, together with the Department of Women, Youth and Persons with Disabilities, develops frameworks to guide the public sector on the inclusion of youth in public service.*
- 3. Wage growth at the top end of the wage distribution in the public service has not been excessive, but after 2010, it appears that wages for those in the bottom 20% of the distribution fell in real terms, potentially widening the wage gap in the sector. The Commission recommends that National Treasury commissions further research to determine what is driving the decreases in real terms of wages for those at the bottom distribution of wages*

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