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# NEVA MAKGETLA: Government more focused on reassuring lenders than helping workers

The main problem facing the public service is not labour costs, but the lack of clarity about mandate

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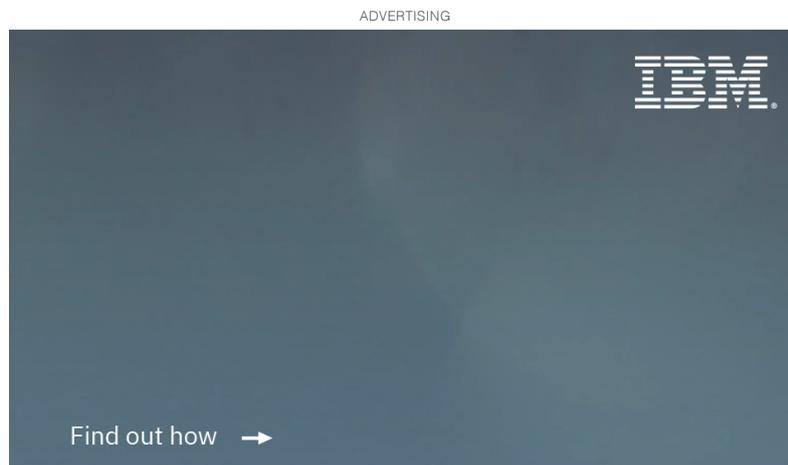
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A contradictory approach to workers and unions threads through turnaround efforts in the public sector. The government pleads with private investors to employ more people and increase pay for ordinary workers, but state-owned enterprises (SOEs) and the public service prioritise cutting jobs and restraining pay increases.

Moreover, efforts to push through these plans have often been remarkably ham-fisted. Many seem designed more to reassure lenders and let managers show off their resolve than to achieve their stated objectives.

This situation gives rise to two questions. First, are high labour costs really the main source of inefficiency in the public sector? Second, how do we explain the self-sabotage that afflicts so many efforts to reduce labour costs?

Certainly, high staffing levels and pay are a problem for many SOEs. At Eskom employment climbed by a third over the past decade while the amount of power generated remained almost unchanged. Still, despite rising numbers, the share of revenue absorbed by labour has remained at just under 20% since 2011. By contrast, payments for primary energy increased from 40% to 55% and finance costs from 5% to 15%.



The real challenge for Eskom is to redesign its generation operation and sort out its finances. The battles about labour costs risk distracting it from these core problems.

Similarly, the main challenge for SAA has long been the lack of a developmental mandate that would justify its persistent losses. National airlines can be forgiven some financial burden if they promote tourism and maintain affordable air links with secondary cities. But SAA has never managed to define or quantify external benefits to justify its continual drain on the fiscus. Until its contribution to the economy and society are clarified, it remains virtually impossible to determine an appropriate level of service and staffing.

In the public services, more than two-thirds of employees are teachers, health-care workers and police. It's hard to argue that these services are overstaffed. Moreover, as the medium-term budget policy statement points out, the number of public servants actually shrank by 1.4% over the past six years, while the population grew more than 8%. In other words, the number of public servants per SA citizen fell by close to 10% in this period.

Nonetheless, the medium-term budget prioritised containing public service labour costs by holding the line on pay increases. According to national labour market surveys, however, for workers with similar education levels median pay in the public service is now more or less the same as in the private sector. That is, public servants earn more than private employees only because they generally have higher qualifications.

More than two out of five national, provincial and local government employees have a post-secondary diploma or degree, compared to just one in seven private workers. Cutting the pay of professionals working in the government below that of their peers in private employment is likely to create higher vacancy rates and worse services. As it is, graduates in the public service have a lower pay ceiling at the top, so their average earnings still lag the private sector even though the median has caught up.

Of course, there is scope for improvement in the systems of staffing and remuneration at state agencies. The public service combines seniority notches with above-inflation hikes in basic pay, which means in effect workers get a double increase. But the core problem facing the public service isn't labour costs. It's the lack of clarity about mandate and how much SA should pay to carry it out, combined with profound inequalities and often deep inefficiencies in delivery systems.

In these circumstances, insisting that slashing labour costs is a top priority in every turnaround strategy seems rooted mostly in ideology. That in turn helps explain why efforts to hold down employment and pay often appear designed more to provoke a test of strength with workers than to find effective, win-win solutions.

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