Ballooning public wage warning

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Durban - A yawning budget deficit and increasing debt levels can no longer be ignored, the Financial and Fiscal Commission has warned, pointing the finger at one of the main culprits for the country's deteriorating finances - the public sector wage bill.

This more than doubled over a six-year period, from R140 billion in 2003/04 to R290bn in 2009/10.

Over the past three years, wage costs in the sector rose by an average 8.3 percent thanks to above-inflation salary increases and "a substantial expansion" of the public service.

This has not been matched by increased productivity, however, as shown by a simultaneous growth in the number of government employees to more than a million.

The advisory body on government finances warned in its latest report to Parliament that "in the current economic environment, the growth in the real wage bill may be difficult to sustain". If it continued to grow at the same pace, spending on social and economic priorities like infrastructure and social security might have to take a back seat.

Growth in the wage bill also coincided with a "significant increase" in net loan debt, from R474bn (36.8 percent of GDP) in 2003/4 to R1.2 trillion (38.6 percent of GDP) in 2012/13.

While this compared well with some advanced economies battling debt-to-GDP ratios of 80 to 100 percent, they were mostly paying long-term interest rates of 5 percent, compared with 7 percent for South Africa.

This meant the government's costs for servicing its debt were not much lower than countries with much higher debt levels, the commission said.

It said the two main causes of the sharp increase in public debt were the global financial crisis of 2008/09 and the ballooning wage bill.

The poor budget balance, which went from a positive 0.9 percent of GDP in 2007/08 to a deficit of 6.9 percent in 2009/10, would add large and potentially unsustainable amounts to public debt, put upward pressure on interest rates and discourage private investment.

"The commission is of the view that fiscal consolidation is necessary and cannot be deferred in the hope of a possible global economic upswing."

Successful fiscal consolidation would include the simultaneous reduction of the budget deficit, reduction of overall debt and increased GDP growth.

While the commission hailed the conclusion of a three-year public sector wage agreement last year as "a victory for the negotiation processes", it said unless this was accompanied by increased productivity the wage bill would continue to eat into total government expenditure, of which it already accounts for 60 percent.

Public Service Minister Lindiwe Sisulu has vowed to make the public service leaner and more efficient. She admitted last week that it was bloated and in need of a trim.

The commission said that in provincial health and education departments, both highly labour-intensive sectors, total headcounts had increased by an annual average of 6 percent and 5 percent respectively between 2004/05 and 2011/12 - at the same time as wage levels were rising above the inflation rate.

Worse, both departments had substantially increased the number of contract staff, by 50 percent a year for education, and 38 percent for health.

Cutting the government's consumption spending - consisting mainly of the wage bill - was one of the most effective "levers" for balancing the budget without damaging economic growth.

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