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The government wage bill: Employment and compensation trends in South Africa*

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ABSTRACT

This paper reviews government employment and compensation trends using data derived from the government's payroll. Employment levels and average pay grew strongly in the 2000s, but in the last decade, headcounts have stagnated or fallen, and increases in average pay have been moderate. The distribution of pay between government employees is compressed, especially when compared to income inequalities in society. The paper suggests attempts to reduce government's wage bill that rely on blunt, across-the-board measures will have their largest impact on core public services – basic education, healthcare and criminal justice – and are likely to erode the value of these services and the quality of service delivery.

KEYWORDS

Government wage bill; fiscal policy; South Africa

1. Introduction

For over a decade now, government has identified the rising cost of its wage bill as the most important imbalance in the public finances. Fiscal consolidation is presented primarily as a matter of reducing government consumption and acting against the tendency for the wage bill to rise faster than nominal GDP. The government wage bill has been the subject of intense pressure over the last decade, particularly after the Covid pandemic (see Sachs 2021 and Sachs et al 2023).

This approach presents a dilemma. Even if we accept the need to reduce the wage bill, it is not obvious that this is possible without reducing access to, and diminishing the quality of, public goods on which poor citizens depend.

The value of economic resources allocated to public services largely depends on the number of people and the quality of human resources employed by government. Many public service activities – teaching, caring for others in health or social work, maintaining public security and the rule of law – depend critically on human inputs. These are activities where Baumol (1967:416) observed, 'labor is an end in itself, in which quality is

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judged directly in terms of amount of labor'. Moreover, personal services require 'direct, face-to-face interaction between those who provide the service and those who consume it' (Baumol 2012:20). Production and consumption take place simultaneously, so it is difficult to reduce the amount of labour devoted to services without reducing the value of the output generated.

As an empirical matter, economic development is typically associated with increased government wage bill spending as a share of GDP (IMF 2016). How might government lean against this trend for an extended period without eroding the value of public services? An IMF review asserts that prolonged use of ad-hoc, across-the-board measures to contain government wages 'can affect morale, especially among workers where the public-private wage premium was initially small' (IMF 2016:31). Efforts to contain the wage bill over the last decade in South Africa have primarily relied on expenditure ceilings rather than carefully designed structural reforms. What has been the impact of these measures on service provision? Given the structure of government employment in South Africa, can further reductions of employment and pay be achieved without compromising service delivery?

This paper hopes to shed light on these questions by considering quantitative trends in government employment and pay over the last two decades. We analyse descriptive statistics generated from government's payroll system, focussing on core government services – healthcare, basic education and criminal justice. We are aware that the data we analyse can do little to shed light on the effectiveness or productivity of public services, a factor that is undoubtably critical in fully answering the questions we have posed. Nevertheless, we consider these proxy measures of the amount of labour deployed to provide services an important starting point for a broader understanding of fiscal policy choices over the longer term.

National Treasury has presented similar analyses of payroll data in a series of annexes to the medium-term budget policy statement (National Treasury 2017, 2018, 2019, 2020, 2022). This paper complements that work by deepening the analysis of employment and pay trends available in the public domain.

The following section describes the data sources and the analytical methods we use. Section 3 considers the evidence on headcounts and compensation over the longer term, using payroll data and estimates drawn from contemporary budget documents. Section 4 provides a snapshot of current wage bill spending, the structure of public service employment, and a consideration of how this structure has shifted (or not shifted) in the decade leading to the Covid-19 pandemic. Section 5 considers changes in pay amongst different categories of government employees, and section 6 looks at the compression of salary structures over the last decade. Section 7 considers evidence from StatsSA's quarterly employment survey to compare employment and average pay trends in government and private social services sectors. Section 8 discusses the analytical insights that we believe are supported by our reading of the data. Section 9 makes concluding remarks.

2. Data and analytical methods

Government payroll records are confidential and not publicly available. However, the Public Expenditure and Policy Analysis (PEPA) unit at the Government Technical Advisory Centre (GTAC), an agency of the National Treasury, has published a dataset based

on government's payroll (GTAC-PEPA 2022). This forms part of a GTAC project that analyses government compensation spending. The underlying data and its uses are further described in Boraine and James (2023, in this issue)

The dataset groups employees on payroll by several categories: the employing department province and department, salary group (indicating the 'key scale table' which defines the relevant remuneration structure), and salary level (which groups employees into one of the 16 salary levels or bands applied across the public service). The data is reported by fiscal year, between 2006/2007–2021/21 (from here on we use the convention that '2006' refers to the 2006/07 fiscal year).

Employees are disaggregated according to the number of full-time equivalent personnel that fall within the grouped parameters relating to the above fields. The method of estimating full-time equivalents is described further in Boraine and James (2023, in this issue) but essentially involves averaging employment levels over the fiscal year. For each group of full-time employees, the dataset reports total emoluments processed through the payroll system, excluding travel and subsistence claims. This total includes basic pay, pension contributions of employee and employer, housing and medical benefits, and other allowances, all before tax deductions.

We have processed the GTAC-PEPA dataset by standardising department names (which varied over time and between national and provincial administrations). We have consolidated the 'salary group' field by aggregating 'key scales' into homogenous groups to allow for the clearer identification of occupational categories (such as various Occupation Specific Dispensations discussed in the paper). We also constructed a new variable for 'average pay', which is simply total expenditure divided by the number of full-time equivalents. In the following discussion, we use 'headcounts' interchangeably with 'full time equivalents'. It is important to note that average pay can change due to adjustments in remuneration but also because of changes in the composition of employment. We have not attempted to decompose these factors, but we do discuss the issue where appropriate.

Boraine and James (2023) set out various considerations and limitations when working with the GTAC-PEPA data. Government's payroll is a subset of public-sector employment. It includes only the employees of national and provincial departments, except for the South African National Defence Force and the intelligence services. The employees of local government, universities, state-owned companies and subvented public entities also fall outside government's payroll. The data set excludes temporary workers, such as those on public employment programmes. Some cohorts of previously temporary workers – such as Community Health Workers – have been brought onto payroll in recent years, and the varying coverage of these workers in the dataset can confound conclusions about headcounts and average pay.

Another confounding factor might be the balance between permanent employees and contracted or outsourced staff. During the 1990s, there was a notable shift to outsourcing, especially of security personnel, cleaners and caterers (see Badenhorst-Weiss and Nel 2008; Tregenna 2010). Over recent decades government has been committed to reversing these trends. Outsourcing and the use of agency services (for instance to employ nurses and other professionals on temporary contracts) could, when used as a substitute for full time employees, change the classification of spending from 'compensation of employees'

to 'goods and services'. These temporarily employed workers are no longer on the government wage bill, but potentially remain important elements of the workforce necessary for the production of public services.

We define the 'government wage bill' as spending on payroll augmented by estimates of defence force employment sourced from the official Estimates of National Expenditure. This unit of analysis corresponds very closely to the elements of public pay that are under the direct control of the executive (i.e. cabinet), and which are the subject of ongoing debates about fiscal policy choices. It is equivalent to the funds appropriated by Parliament and provincial legislatures for 'compensation-of-employees'. When the budget attempts to contain public pay, it is this variable that is at the centre of debate. For the rest of this paper, we call the cohort of employees that is remunerated from the government wage bill, somewhat inaccurately, the *public service*.

Employees paid from the government wage bill account for around 75% of general government employment (see Table 4 in Section 7 below). Other elements of public sector pay – people on public job creation programmes and employees of local government, higher education institutions and public entities – are also financed by budget appropriations, mostly in the form of transfers. In contrast to the government wage bill, transfers to universities and local government have been the fastest-growing elements of the budget in recent years (see Sachs et al 2023). Public entities are not bound by collective agreements in the public service, and remuneration structures are often aligned against private sector benchmarks. Indeed, the desire to remunerate specialised employees at competitive rates is a key reason for the widespread shift of functions into entities whose wage structures can deviate from those of the public service.

We complement the GTAC-PEPA data with other official sources, where appropriate. In section 3 we use PERSAL numbers and audited spending outcomes reported in contemporary budget documents to extend our analysis to 1997. We exercise appropriate caution in comparing these sources, because past budget documents often reflect headcount estimates drawn from the payroll system on a particular date. In contrast, the GTAC data is averaged over all months of the year. Nevertheless, we believe the comparison of overall headcounts that this comparison enables is informative, and it is the best we can do without access to PERSAL data prior to 2006.

3. Long-term trends in government employment

What have been the trends in government employment since the transition to democracy 30 years ago? Table 1 shows national and provincial department data from 1997 and payroll data for selected fiscal years from 2007 onwards.

Before 1994, South Africa was a fragmented state, divided into myriad racial administrations and ethnic jurisdictions. Contemporary national and provincial government departments were created out of disparate apartheid provincial administrations, nominally independent states, self-governing territories and their various racially or ethnically defined civilian government structures and security forces. The creation of an integrated public administration system began with the interim constitution enacted in 1993. However, it took several years to complete, and, as a result, there was considerable uncertainty about employment levels in many departments at the beginning of the transition

Table 1. Estimates of government employment and average pay, 1997–2019.

	Budget estimates		GTAC-PEPA data			
Budget year	1997	2002	2007	2012	2019	2021
Healthcare	**213,765**	**216,092**	**256,587**	**313,114**	**317,339**	**333,629**
Average annual pay (2020 prices)	219,942	218,970	270,567	348,893	421,385	418,257
Employees per 100k uninsured people	554	548	616	722	654	669
Basic education	**434,995**	**426,915**	**437,002**	**467,298**	**473,611**	**474,701**
Average annual pay (2020 prices)	267,581	263,474	300,370	386,345	438,172	424,843
Employees per 10k learners	363	355	364	392	382	374
Police	**131,730**	**131,560**	**163,015**	**196,028**	**189,494**	**178,673**
Average annual pay (2020 prices)	274,034	281,771	275,516	314,131	374,340	372,753
Employees per 100k people	306	283	328	371	323	297
Courts and prisons	**45,679**	**49,769**	**63,091**	**68,145**	**65,223**	**66,085**
Average annual pay (2020 prices)	361,481	348,500	345,569	420,243	476,418	456,508
Employees per 100k people	106	107	127	129	111	110
Defence	**99,430**	**75,290**	**74,576**	**78,442**	**73,988**	**73,153**
Average annual pay (2020 prices)	199,794	221,484	282,967	368,550	442,430	402,890
Employees per 100k people	231	162	150	148	126	122
Other employees	**312,380**	**215,308**	**191,523**	**212,850**	**210,466**	**208,265**
Total Employees	**1,237,979**	**1,114,934**	**1,185,793**	**1,335,876**	**1,330,122**	**1,334,506**
Average annual pay (2020 prices)	216,438	243,459	296,772	376,636	437,302	429,529
Employees per 100k people	2,880	2,402	2,383	2,529	2,265	2,219
Share of formal employment	19.8%	15.2%	14.5%	14.9%	13.0%	13.4%
Memo						
Population ('000)	42,987	46,409	49,757	52,828	58,727	60,143
Uninsured population ('000)	38,615	39,446	41,632	43,375	48,559	49,844
Learners in public schools ('000)	12,335	12,039	12,009	11,924	12,409	12,706
Formal sector employment ('000)	6,241	7,347	8,179	8,965	10,261	9,989
CPI index (budget year 2020 = 100)	29.3	40.5	50.3	68.1	97.2	105.2

Notes and sources: Employees are full-time equivalents. Note that the GTAC/PEPA data reports FTEs as averaged over the fiscal year, whereas budget reports and estimates for 1997 and 2002 report FTEs based on a single month/pay run of data. Healthcare and basic education numbers reflect provincial headcounts and expenditure only, excluding personnel employed by respective national departments. Average pay is total spending on payroll divided by the number of full-time equivalents or reported headcounts. For GTAC-PEPA data, this is spending processed through payroll; for Budget reports and estimates, audited outcomes for compensation of employees' spending, as reported in budget documents, are used.

Aside from the GTAC-PEPA dataset, we employ the following data sources and imputations: Basic education: We impute total employees for 1997 using the number of educators reported in Gustafsson and Patel (2008), assuming the ratio of educators to administrative staff (reported for later years) is stable. Employees in Further Education and Training Colleges were transferred from provincial education departments to the National Department of Higher Education (DHET) in 2015. GTAC/PEPA data shows DHET employment increasing by 22500 in 2015. This number is subtracted from employment provincial education departments in 2007 and 2012 to accommodate this function shift. Healthcare *1997*: National Treasury: Intergovernmental Fiscal Review (2001). *2002*: National Treasury: Intergovernmental Fiscal Review (2004). Police, Courts and Prisons: *1997*: Estimates of National Expenditure (2001). *2002*: Estimates of National Expenditure (2005). Defence: Estimates of National Expenditure, various years. Other employees: Total government employment less sum of employees in sectors shown in the table. Total government: For 1997 and 2002 Altman and Hassan (2010) report total payroll numbers, which correspond very closely with national and provincial employment reported in Siebrits (2000), also sourced from PERSAL. Total employment for 2007–2019 reflects the total in the GTAC-PEPA dataset. In both cases, we add Defence Force employment to estimate total employment. Average pay for total government is spending on compensation of employees for consolidated national and provincial government, as reported in Budget Review (2001) for 1997 and in Budget Review Statistical Table 5 for other years. Population: StatsSA mid-year population estimates for 2002-2021. United Nations World Population Prospects (2019) for 1997. Learners: National Treasury (Intergovernmental Fiscal Review, 2005); Department of Basic Education (School Realities reports, various years). Uninsured population: 1997–2008: Council for Medical Schemes; 2012–2021: National Treasury. Formal employment: Shows formal sector non-agricultural employment. Figures for 1997 and 2002 are the closest date reported in (Barker, Yu, and Roos 2018:65 Table 3.6). Figures for 2007, 2012, 2019 and 2021 are fiscal year averages reported in StatsSA Quarterly Employment Statistics, with the 2007 figure reflecting the third quarter of 2009 (the closest available date) CPI index: StatsSA.(Barker, Yu, and Roos 2018:65 Table 3.6).

(Siebrits 2000). Full coverage of all national and provincial government employees on PERSAL was only achieved in 1997. Before this, the data included an unknown number of unfilled vacancies and 'ghost workers'. As such, headcount estimates in the early years of the transition should be treated with caution.

The creation of integrated structures of a new public administration coincided with a period of fiscal consolidation, especially between 1996 and 2000. In this period, employment levels were permanently reduced, and government remuneration structures were centralised and deracialized. Fiscal policy aimed to reduce employment sufficiently to cover the costs of increased pay without compromising fiscal consolidation targets (Siebrits 2000).

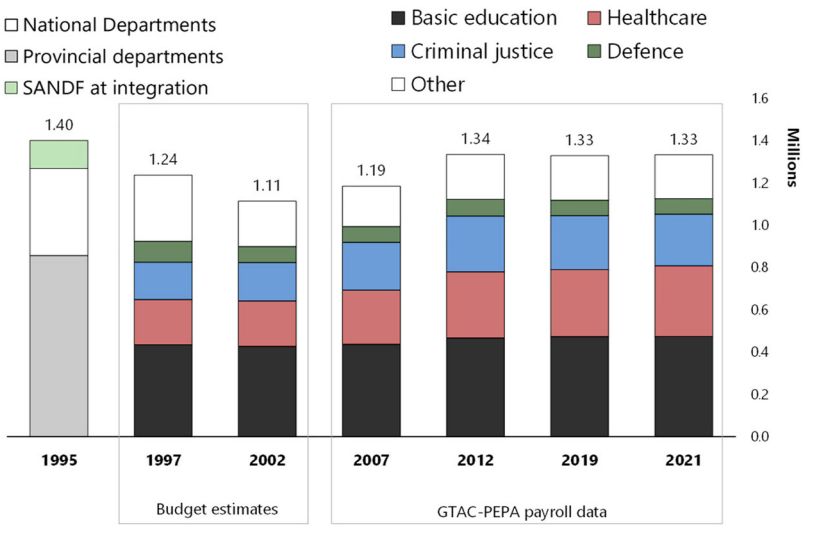

Figure 1. Government Employees by Sector, 1997–2021. *Source Data:* Table 1, except for 1995, which reflects Siebrits (2000 Table 2) for national and provincial departments (based on contemporary PERSAL Reports) and Mills (1999 Table 1), which reflects the size of the SANDF on integration, including TBVC states and liberation movement forces.

Employees on government's payroll fell by about 230 000 between 1995 and 1998 (Hassen & Altman 2010), while remuneration was improved across many cohorts of the public service. In the basic education sector, reforms 'essentially brought [the pay of] all teachers up to the favourable level enjoyed by the minority of white teachers in the past' (Gustafsson & Patel 2008:10). In the police, black police officers were compensated for discriminatory promotion policies in the past, leading to an increase in average remuneration. Given fiscal constraints, especially after 1996, this was paid for by reducing headcounts, and a moratorium on new intakes was implemented (Altbeker 2005; Buys 2007).

Sieibrits (2000) reports that pay for unskilled public servants increased by more than 50 per cent per annum in real terms between 1994 and 1998. On the other hand, senior manager's pay was reduced by 0.5% in real terms over the same period. The ratio between average pay of the highest and lowest ranks of the public service fell from 25:1 in 1994–17:1 in 1998 (ibid p65). At the same time, employment of lowest paid workers – including soldiers – fell. For the whole public service, the ratio of unskilled workers to higher-paid managers and professionals fell (Ibid p66), possibly reflecting (at least in part) a shift towards outsourcing of catering, cleaning and security functions.

Figure 1 illustrates the data in Table 1, showing the fall in total employment between 1997 and 2002. It also shows a rough estimate of government employment in 1995, suggesting that the drop was even larger if compared to apartheid-era employment levels. The reductions in employment in the 1990s varied across sectors. The Estimates of National Expenditure report a huge drop in Defence Force employment, from 99 430 in 1997 to 75 290 in 2002, reducing force size by about a quarter. By our estimate, the fall in total employment in basic education departments was moderate, but Gustafsson & Patel (2008) report that the number of teachers in schools fell by about 20 000.

Although the previously mentioned moratorium on recruitment led police numbers to fall by around 13 000 between 1997 and 2000, this drop was fully reversed by 2002. Employment in courts and prisons expanded between 1997 and 2000, and employees in government healthcare also increased moderately. Aside from the significant drop in defence employment, headcount losses were strongly concentrated outside these core government services. Government employees not in basic education, healthcare, criminal justice and defence (i.e. 'other' in Table 1) fell from 312 000–215 000 between 1997 and 2002. A significant fraction of this decrease probably reflects the creation of public entities and state-owned companies, which shifted employees off the direct government wage bill.

Headcounts reached their lowest point in 2002 but employment grew strongly after that, substantially reversing the impact of rightsizing on employment levels in core services. Headcounts grew particularly strongly in healthcare and criminal justice. Healthcare, basic education and criminal justice had more employees by 2007 than in 1997, and employment levels in these services continued to grow strongly until 2012. Employment growth was remarkably rapid in healthcare and criminal justice, with police employment increasing by nearly 50% between 2002 and 2012.

Following significant falls in employment during the 1990s – concentrated amongst soldiers, lower-skilled workers and other employees – the expansion in headcounts in the 2000s was strongly concentrated on core government services. Figure 2 shows how the overall composition of government employment shifted between the 1990s and the 2000s.

In contrast to the rapid gains in the 2000s, employment levels have stagnated across the board after 2012. Total employment in 2019 was below the level of 2012 in absolute terms. Relative to the size of the population served, Table 1 shows the extent to which

Table 2. Employees in selected national and provincial government functions.

	2007	2012	2019	2021
Economic regulation and social infrastructure	**106,031**	**107,919**	**102,891**	**98,982**
Agriculture, rural and environment	25,687	30,845	28,810	27,123
Public works	24,459	27,043	23,256	22,203
Transport	21,209	17,073	17,751	16,700
Economic regulation	14,810	17,631	18,043	18,303
Water	14,265	7,161	6,743	6,503
Housing	5,602	8,167	8,289	8,149
Public administration	**28,662**	**36,850**	**38,813**	**38,232**
Home Affairs	7,762	9,160	9,772	9,220
Cooperative governance and traditional affairs	5,940	7,102	7,849	8,150
Finance	4,192	7,016	7,562	7,051
Executive	4,618	4,887	5,921	5,507
Planning and statistics	2,791	4,844	4,052	4,921
Foreign affairs	2,143	2,446	2,204	2,016
Public service and administration	776	894	988	883
Information and communication	441	500	465	485
Social	**26,684**	**32,304**	**60,025**	**62,423**
Social development	21,359	26,305	26,986	27,522
Sports, recreation, arts and culture	5,325	5,999	7,010	6,691
Further education and training*			26,029	28,210
Total	**161,377**	**177,072**	**201,730**	**199,636**

*Employees of FET colleges were paid through provincial education departments prior to the function shift to the National Department of Higher Education in 2015.
Source data: PERSAL (GTAC-PEPA).

Table 3. Average gross monthly compensation (2020 prices).

	Occupation Specific Dispensations									Non-OSD by salary level						
	Doctors*	Nurses	Social workers	Educators	Police	Corrections	Legal**	Judges+	Engineers	[1–3]	[4–6]	[7–9]	[10–12]	[13–17]	Mean	Median
2009	52,825	28,360	28,475	31,466	26,789	29,436	57,711	113,650	36,404	11,280	18,482	31,785	56,064	104,173	27,392	30,426
2010	59,340	30,218	28,801	33,435	27,510	30,242	63,051	113,013	43,655	12,199	19,695	32,624	58,545	105,853	29,200	33,536
2011	55,101	30,816	29,437	34,802	27,975	31,010	63,372	118,639	45,534	12,481	20,242	33,888	63,419	111,627	30,266	34,706
2012	55,046	30,924	30,193	35,609	28,546	31,690	63,403	114,594	46,070	12,384	20,638	34,633	64,512	109,308	30,738	35,887
2013	56,027	31,351	30,181	35,948	29,288	32,337	63,438	117,335	44,308	12,379	20,957	34,389	62,921	105,709	31,284	36,424
2014	56,833	31,510	30,274	36,314	30,216	32,085	63,123	116,466	45,009	12,869	21,172	34,884	64,530	106,819	32,010	37,016
2015	57,396	31,891	30,712	36,714	31,069	32,581	63,388	114,805	45,728	13,022	21,569	35,301	64,908	106,952	32,491	37,798
2016	58,492	32,731	31,577	37,098	31,542	33,406	65,716	104,293	46,929	14,588	22,133	36,239	66,320	105,541	33,323	39,005
2017	60,609	33,450	32,667	38,085	31,773	34,450	68,263	105,281	48,463	14,985	22,935	37,025	67,727	105,885	34,332	44,117
2018	61,987	34,555	33,946	38,702	32,450	35,102	70,857	105,741	49,901	15,544	23,811	38,050	68,934	106,912	35,151	43,415
2019	62,738	35,374	35,042	39,340	33,362	35,885	72,370	103,772	50,859	15,920	24,555	39,043	70,033	108,224	35,636	42,999
2020	61,502	34,334	33,868	38,382	33,190	35,039	68,005	103,243	48,921	15,203	24,064	37,953	67,811	104,792	34,812	41,352
2021	60,337	34,034	35,135	37,567	33,047	34,023	63,390	96,421	49,004	16,077	24,444	38,059	66,710	102,498	34,839	41,223

* Includes allied healthcare professionals; ** includes prosecutors; + includes magistrates.
Source data: PERSAL (GTAC-PEPA), StatsSA (CPI index).

headcounts were eroded in core government services in the decade prior to the coronavirus pandemic. In 2012 there were 722 government healthcare workers for 100 000 uninsured people (i.e. those without access to private healthcare facilities). This number fell to 669 by 2021. Relative to the number of learners enrolled in public schools, employees in the basic education sector also reached their peak in 2012. For the police and criminal justice system, the ratio of employees to the population is lower today than in 1997.

4. The composition of the government wage bill

Today's wage bill is dominated by remuneration of employees in basic education, healthcare and criminal justice. Table 1 shows that 474 000 out of 1.33 million were employed in the basic education sector in 2021 (i.e. more than one-third). Healthcare and criminal justice accounted for 334 000 (one-quarter) and 236 000 (one-fifth), respectively. These core government services account for more than 78 percent of employees.

Figure 3 shows the same core services absorb 81 percent of spending. Defence accounts for a further 5.8 percent, and various economic and infrastructure services account for around 8 percent. Figure 3 also divides the wage bill between those on Occupation Specific Dispensations (OSDs) and other employees. The OSDs, which we will explain and discuss in the next section, are mainly frontline professional employees, such as teachers, nurses, doctors and other clinical professionals, police officers and legal professionals. These workers account for 72 percent of spending on the government wage bill.

Returning to our analysis of headcounts, Figure 4 shows that educators account for a very stable 80% of employment in the basic education sector. Nurses, doctors and other clinical professionals account for a stable yet rising share of employment in government healthcare (around 60%), while police officers make up between 70 and 80%

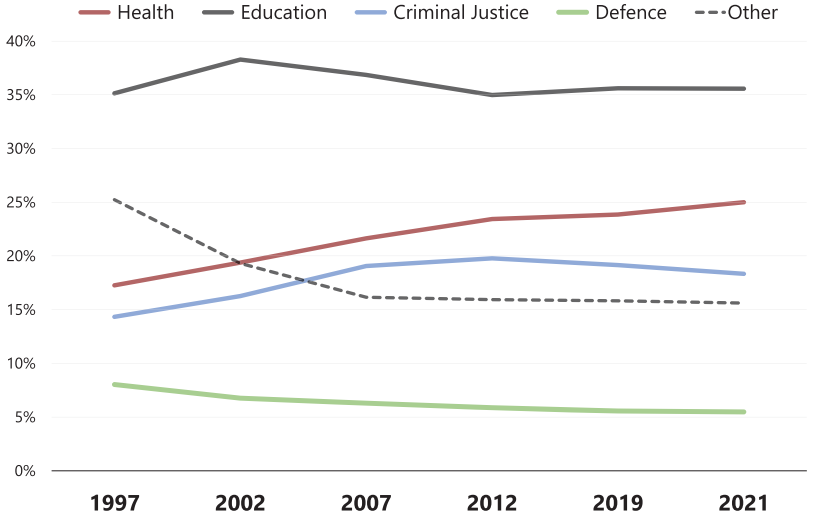

Figure 2. Share of employment by sector. *Source*: Table 1.

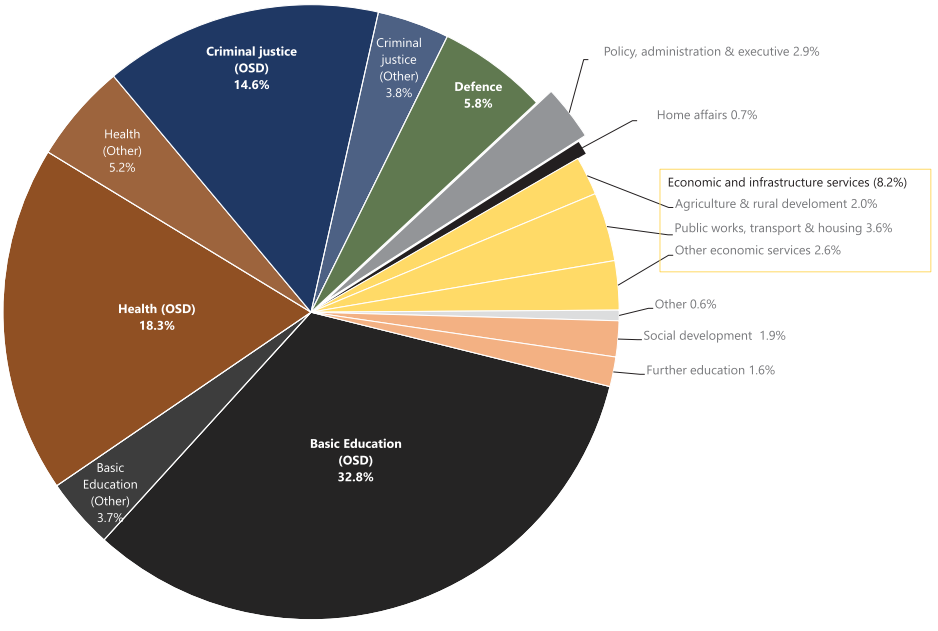

Figure 3. Spending on payroll – % share. Notes: Calculated using average expenditure through the payroll system between 2017 and 2019. Sectors are grouped as follows: Policy, administration and executive includes finance, executive and legislative services, cooperative governance, traditional affairs, planning, statistics, foreign affairs, public service and administration, and information and publicity. Other economic services includes labour; water; economic development; environment; trade and industry, minerals, energy, tourism, science and technology, communications, public enterprises, small business development. *Source* data: PERSAL (GTAC – PEPA) except defence, which is based on Estimates of National Expenditure.

of employment in the department. Figure 5 shows headcounts by both OSD designation and salary level. Government ranks remuneration on a scale between level 1 and 16, with middle management starting at level 10 and senior managers between 13 and 16. One notable trend in Figure 5 is the falling number of employees in lower salary levels. This factor has raised average pay and contributed to the compression of the wage structure. Aside from this, Figures 4 and 5 point to remarkable stability in the composition of government employment over the last decade. This stability makes us more confident when making inferences about trends in average pay after 2012.

Effective government services require an appropriate balance between professionals, managers and administrative staff. Firm conclusions about the balance between frontline and 'back office' employment would require a detailed investigation of the conditions in each department. Nevertheless, from the bird's-eye view given in Figures 3, 4 and 5, most employees are frontline professionals, and reductions of back-office, administrative and auxiliary staff to create space for expanded employment of professionals could easily undermine the quality of services.

Figure 5 shows that the number of senior managers also remains small compared to the number of professional frontline staff, and the senior echelons have not grown

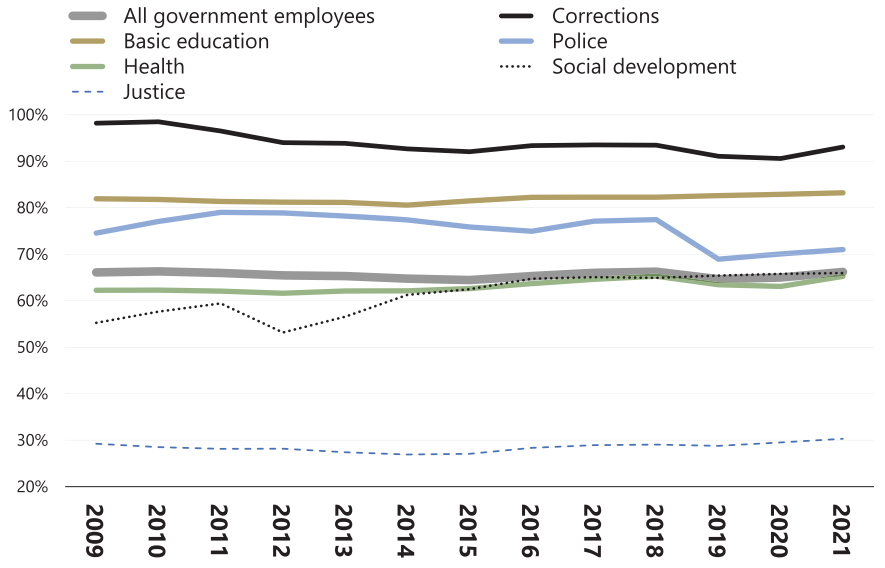

Figure 4. OSD headcount as a share of total employees in each sector. Source data: PERSAL (GTAC-PEPA).

substantially over the last decade. Figure 6 decomposes spending on payroll by salary level and shows that about 23% of the compensation budget goes to the middle and senior ranks on a salary level of 10 and higher. However, of this spending on senior echelons, about 70% is allocated to professionals on an OSD. These senior OSD employees (earning top salaries in the public service) are mostly doctors, allied healthcare professionals, and the highest-ranking teachers, police officers, engineers, judges and

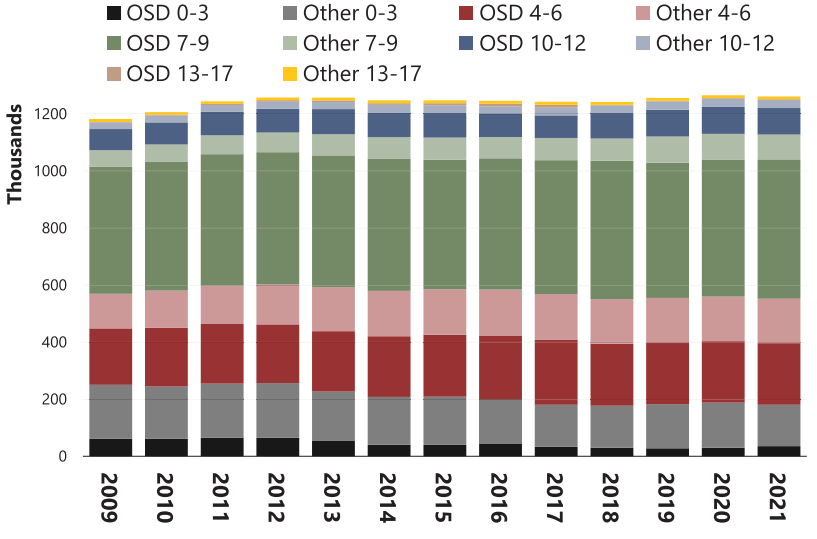

Figure 5. Headcounts by salary level and OSD designation. Source data: PERSAL (GTAC-PEPA).

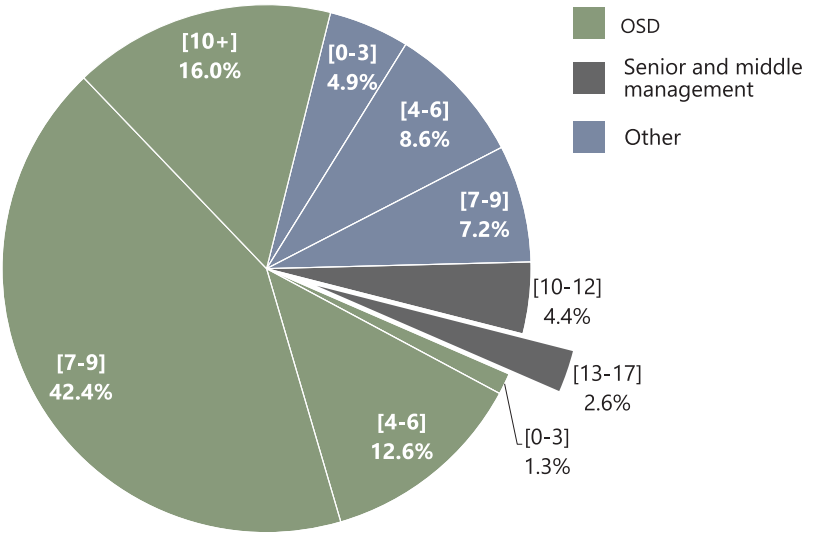

Figure 6. Spending on payroll by salary level (Average spending over 2017–19). Notes: Excludes defence. Source data: PERSAL (GTAC-PEPA).

prosecutors. As Intellidex (2020) observes, 'the increase in top-earners in the public service has been driven by a dramatic rise in the number of medical professionals – overwhelmingly doctors – rather than ordinary public servants, administrators and policy makers' (p13). If we exclude these professionals, senior managers proper (i.e. those on salary levels 13–17 but not on an OSD dispensation) absorb only 2.6% of wage bill spending. These managers number about 17 000 employees, and Figure 7 shows their distribution across government functions.

The management echelon grew after 2009, but this growth halted and, to some extent, was reversed after 2017. Most management employees work in economic regulation, social infrastructure functions, and public administration. By contrast, the core public services – healthcare, basic education and criminal justice – have relatively few non-OSD managers. It should be pointed out, however, that professionals on an OSD dispensation often occupy management positions in these sectors.

Table 2 shows the number of employees in other functions, helping us gauge employment trends outside the core public services. There has been some growth in these departments, and this may be a cause for concern in some cases. For instance, against the backdrop of stagnating and falling headcounts in core public services, it is disconcerting to see that the number of politicians and their executive office staff has grown by around 1 000 since 2009. Significant growth in finance and cooperative governance functions is also notable. On the other hand, total employment in all the public administration departments shown in Table 2 remained less than 40 000 in 2019. Set against more than 1 million public servants in healthcare, education and criminal justice, it is hard to see how reducing these functions would yield significant resources – either for improved employment in frontline services or as part of a fiscal consolidation strategy. It is also the case that these administrative and policy functions are critical components of effective public administration.

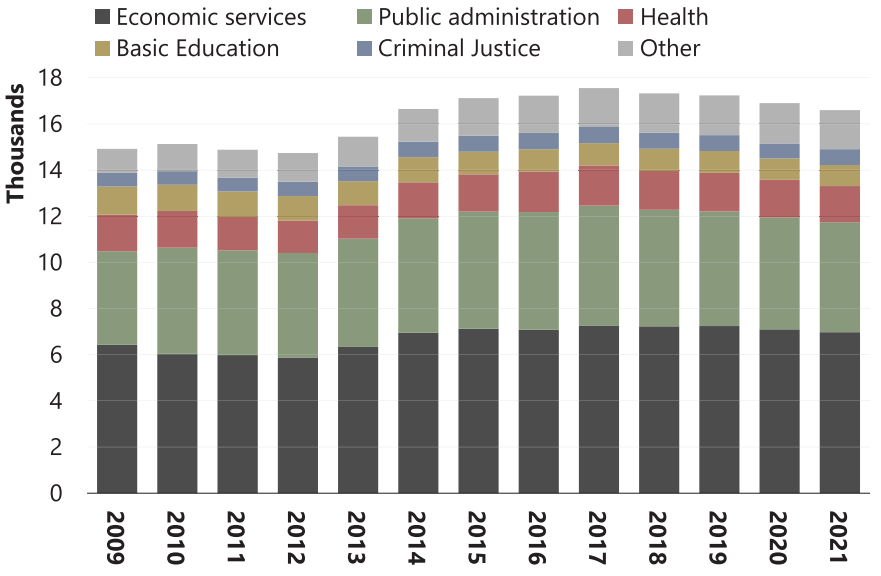

Figure 7. Headcount of senior and middle management by sector, 2009–21. Notes: The Figure shows the total number of employees on salary levels 12–17 without an OSD designation. PERSAL data excludes defence. Source data: PERSAL (GTAC-PEPA).

5. Trends in average pay

Changes in average pay can reflect both shifts in remuneration and structural changes in the composition of the workforce. As noted in the last section, there were very large shifts in employment structure both within and between sectors during the 1990s and early 2000s. The 1990s also saw extensive reforms to compensation and remuneration frameworks. We do not attempt to disentangle these effects, so cannot infer trends about adjustments in salaries from changes in average pay in this earlier period (beyond those reported in the secondary sources discussed in section 3 above). Moreover, we use contemporary budget reports in 1997 and 2002, and GTAC-PEPA data, which constructs headcounts on a different basis, is used for 2007 and subsequent years.

These caveats do not apply after 2007. Not only do we use a consistent data set, but employment structures were far more stable after 2007. Trends in average pay, therefore, align more closely with adjustments to remuneration. The one structural change we noted in the last section is the fall in employees at lower salary levels, which would have added upward pressure to average pay.

Payroll data show a substantial increase in average pay between 2007 and 2012. This coincided with the implementation of Occupation Specific Dispensations (OSDs). These new remuneration structures were agreed upon in collective bargaining in 2007. They aimed to attract and retain qualified personnel by increasing pay (Ditlopo et al. 2013). In particular, there was a need to plug the drain of professional nurses, doctors and teachers because – even with the improvement of pay in the 1990s – better prospects for the most qualified and effective staff were still available in the private sector and overseas (George & Rhodes 2012). There is some evidence, at least in the health sector, that the

OSD policy narrowed the pay differential of similarly qualified, skilled health workers in developed countries, which had given rise to outmigration and shortages of nurses and doctors (George & Rhodes 2012; Labonté et al. 2015).

Implementation of OSD's coincided with a significant shift in the level of pay during the first years of the new Jacob Zuma administration. It may be that political leadership was keen to deliver a dividend in the form of improved pay in the wake of the ANC's 2007 Polokwane conference, where public sector unions were a critical force behind the elevation of the new incumbent (see Sachs 2021 for a discussion of how these political dynamics impacted on fiscal choices). In this context, it is notable that increased pay reflected the combined effect of new OSD salary scales and the simultaneous award of unusually large annual cost-of-living adjustments. Building on work by Spaull et al. (2020), Figure 8 shows evidence for this using pay trends of educators (i.e. those on a educator OSD). Cost-of-living adjustments awarded in 2009–11 were conspicuously higher than inflation (by 3.5 percentage points on average), compared to the subsequent pay awards (only 1.6 percentage points). The impact of OSD-related adjustments can be seen in the large difference between gazetted cost-of-living adjustments for educators and increases in average pay between 2008 and 2012.

For the whole public service, the surge in remuneration associated with the OSDs slowed after 2012, while average pay increased at a moderate pace of around 2.5% a year in real terms, compared to 4.5% in the years before 2012. These improvements reflect annual cost-of-living adjustments and the effect of grade progression (promotions to a higher notch on the salary scale).

In the wake of the Covid-19 pandemic, government has acted strongly to curtail average pay, holding down pay improvements relative to inflation (See Sachs et al. 2023). Payroll data in Table 1 shows real average pay falling by 1 percent per annum between 2019 and 2021.

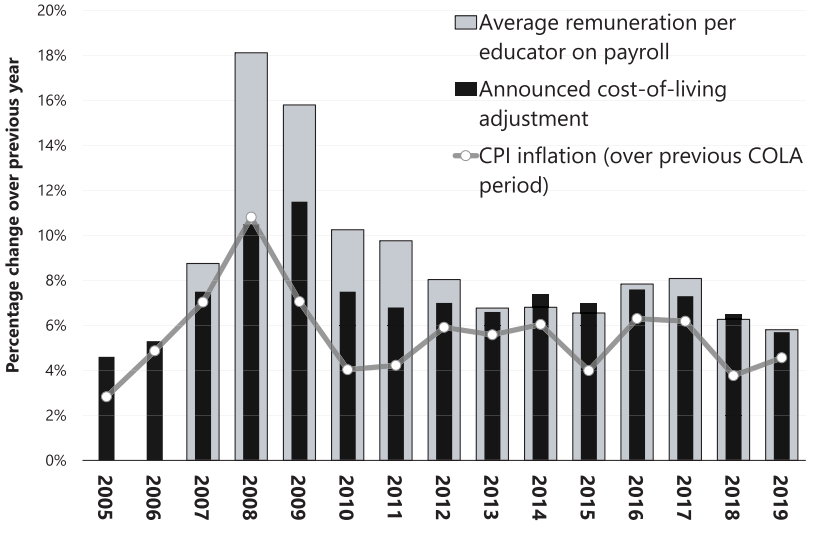

Figure 8. Educators: Growth of average pay, cost-of-living adjustments and CPI. *Source data*: GTAC/PEPA dataset for average pay, StatsSA for CPI inflation and Government Gazettes for cost-of-living adjustments.

6. The distribution of government pay and wage compression

Pay across the public service is far more evenly distributed than in society at large. Redonda and Axelson (2021) estimate the Gini coefficient on disposable income calculated from taxpayer data at 0.58, giving a proxy estimate of wage inequality in formal sector employment. We estimate the Gini coefficient between groups of government employees defined in the GTAC-PEPA data at 0.25 in 2021. Bhorat et al. (2020) report that the wage Gini has increased over the post-apartheid period from 0.58 in 1995 to 0.69 by 2015. By contrast, inequality in the average pay of government workers has fallen substantially over the last decade (see Figure 9). Over time, the government salary structure has become more 'compressed'. As noted earlier, Siebrits (2000) reports that the ratio of average government pay between the highest and lowest rank was 25:1 in 1994. We estimate that this ratio had fallen to 14:1 by 2021.

Table 3 shows the evolution of real average pay for various categories of employees over the last decade. Monthly pay averages around R100 000 for senior managers and judges and R15 000 for those on the lowest ranks. Average pay for the lowest-paid workers (those on levels 1–3) has increased by almost 30 percent in real terms. Employees on OSD scales have also seen significant increases in average real compensation since 2009, except for judges and magistrates, where pay has fallen quite consistently since 2013. Senior managers' average pay has also fallen quite consistently over the period. Notably, managers and judges fall outside the ambit of bargained agreements in the public service.

Over time, therefore, several forces have driven compression of the payroll. First are collectively bargained agreements, which frequently award higher percentage pay adjustments to lower-paid workers. The remuneration framework has also broadened access to

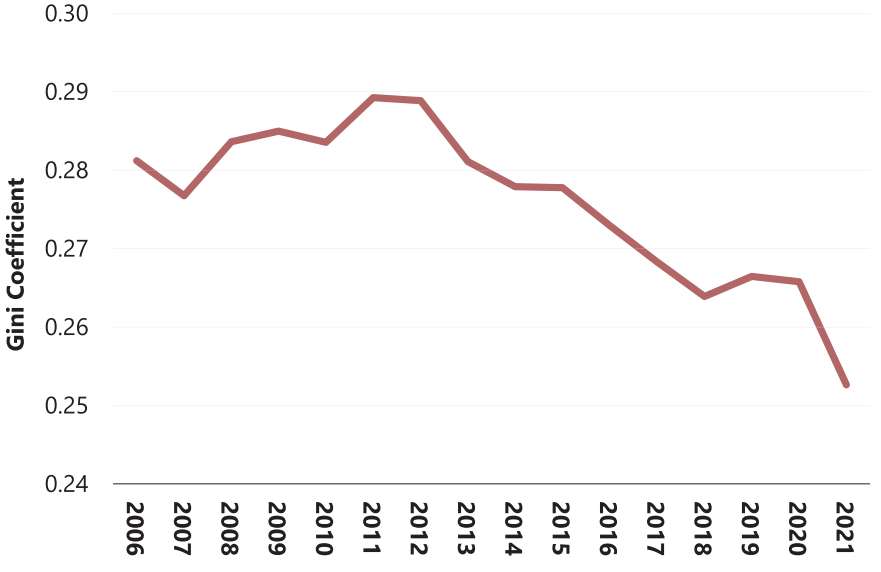

Figure 9. Gini coefficient on government payroll. Source data: Author's estimates based on PERSAL (GTAC-PEPA).

capped housing and medical benefits which grow in line with pay awards. Senior manager's pay on the other hand is in the form of an all-inclusive package.

Second, headcounts at the lowest ranks of the salary structure have fallen (shown in Figure 5 above). This has been the result of regular, annual (and almost universal) promotion, as well as administrative proclamations that upgrade the salary level for whole categories of the workforce. Other changes in the structure of employment (as opposed to changes in the remuneration) probably impacted on the fall in the Gini coefficient shown in Figure 9. The surge in employment of entry-level police officers, for instance, may account for rising inequality between 2007 and 2011.

Third, in conditions of fiscal stress and to contain compensation spending, the government has eroded the real value of remuneration of workers who fall outside centralised bargaining. The President makes decisions about pay adjustments for senior managers after consultation with the Minister of Finance. In the case of judges, this follows recommendations of an independent commission and consultation with Parliament. In both cases, significant declines in average pay can be observed.

7. Public and private social services: evidence from the QES

This section uses Quarterly Employment Statistics (QES) survey data to consider the trends between government and private employment and average pay between the two sectors. The QES is an enterprise-based sample survey conducted by Statistics South Africa which draws it samples from the non-agricultural, formal sector of which the government wage bill is a part. The 'community, social and personal services' (CSPS) sector is sometimes considered a proxy for government employment, but also includes a significant number of private-sector employees, as can be seen in Table 4.

The payroll data we have looked at in the preceding sections corresponds with 'national government departments' and ' provincial government departments'. In this regard, several observations are worth making. First, the QES data supports the conclusions we reached above using payroll data, with employment in national and provincial departments stagnating over the last decade. Their share of total (non-agricultural, formal sector) employment fell from 17% in 2009 to 15% in 2019. Table 1, using payroll data, shows the public service falling from 20% of formal sector employment in 1997–13% in recent years. As a share of the working-age population (reported in the Quarterly Labour Force Survey), employment in national and provincial government departments fell from a peak of 4.5% in 2012, to just below 4% in 2023. Government employees have fallen relative to the population they serve and absorb a falling share of the working-age population. This reduced contribution of the public service overall labour absorption occurred over a decade in which the strictly defined unemployment rate increased from 23% to more than 30%.

Second, other components of public employment (i.e. oustide the public service) have grown significantly over the same period. Employees of extra-budgetary funds increased by 49% between 2013 and 2019. University employment has increased by one-third between 2013 and 2019, partly reflecting the 'insourcing' of staff since the commencement of the fees must fall movement in 2015. Local government employment has grown by 45%, from 237 000 in 2009 to over 345 000 in 2019. Municipal employment growth may also reflect the move to insourcing, and the 'expanded public works

Table 4. Employment in the community, social and personal services sector.

Average employment by fiscal year	2009	2013	2019	2022
Government				
Provincial government departments	1,000,887	1,102,208	1,081,331	1,158,981
National government departments	412,387	452,830	461,830	453,172
Local government departments	237,367	286,457	345,243	345,290
Extra-budgetary institutions*	133,432	71,652	106,686	101,049
Universities and technikons*		88,244	117,073	116,628
Total government	**1,784,074**	**2,001,391**	**2,112,162**	**2,175,119**
Private and non-government				
Healthcare and social work	253,097	274,049	397,830	409,599
Recreation culture and sport	78,515	86,930	113,480	100,259
Other educational institutions	33,095	41,975	67,556	63,556
Private other	12,509	21,220	27,245	23,196
Membership organisations	17,798	20,535	24,429	22,994
Total private and non-government	**426,951**	**477,935**	**680,332**	**661,179**
Total community, social and personal services	**2,211,025**	**2,479,327**	**2,792,494**	**2,836,298**
% National and provincial government	63.9%	62.7%	55.3%	56.8%
% Government	80.7%	80.7%	75.6%	76.7%
Total non-agricultural formal employment	**8,205,013**	**9,095,125**	**10,261,061**	**9,964,306**
% CSPS sector	26.9%	27.3%	27.2%	28.5%
% National and provincial government	17.2%	17.1%	15.0%	16.2%
% Government	21.7%	22.0%	20.6%	21.8%

* These reflect social security funds as well as other public entities. 'Universities and technikons' were reported separately from other extra-budgetary institutions from 2013.
Source data: StatsSA (Quarterly Employment Survey).

programme', through which national government subsidises the creation of short-term, unskilled work opportunities. Note that state-owned companies fall outside this segment of the QES data, but there is clear evidence of increased employment and improved pay at the largest of these, Eskom (see Aboobaker 2022)

Third, whereas government employment in basic education, healthcare and policing has stagnated over the last decade, private employment in the CSPS sectors has grown significantly over the same period. Employment in the private healthcare sector has grown by 57 percent, while employment in the private education sector has increased by 80 percent. The private sector now accounts for nearly one-quarter of employment in the CSPS sector, up from one-fifth in 2019. This indicates that attempts to contain government spending on core public services have coincided with increased employment in the same social services, albeit delivered through private systems of provision. This growing weight of private employment in social services means that divergences between remuneration for similar jobs in the two sectors could give rise to increasingly important flows of employees from government to private employment.

We now consider the QES evidence regarding the possible convergence or divergence of pay in the public and private sectors. It's important note that QES data are highly aggregated, so any changes in the composition of employment affecting average remuneration are invisible. Moreover, while we know for certain that rising remuneration in the public sector is associated with a compression of wage distribution, we do not know that this is true in the private sector where increases in average pay might be driven from the top of the distribution.

There is considerable evidence that government workers enjoy a wage premium over their private sector counterparts in South Africa (Bhorat et al. 2015; Kerr &

Wittenberg 2017), althought the size of this premium is similar to other middle income countries (see IMF 2016). Studies of wage premia in South Africa find that it tends to be highest at the lowest levels of pay, and lower at higher pay levels (Kerr & Wittenberg 2017). At the simplest level, without controlling for differences in skill, education, gender or other attributes, the average earnings of national and provincial government employees in the community, personal and social services sectors were about 30% higher than their private-sector counterparts in 2009, according to QES data.

Figure 10 compares the increase in average pay from government payroll data with average pay in private social services calculated from the QES (which only dates back to 2009). The implementation of the OSDs after 2007 coincided with (nominal) increases in average pay of more than 10% per annum in those years. From 2012–19, the increase in average government pay is around 2.2% higher than the consumer inflation rate. By contrast, the average earnings of social services workers in the formal private sector increased 3.5% faster than CPI over the same period. Increases in average pay across all formal non-agricultural workers were about 1.7% faster than inflation in the period. This evidence cannot be taken as decisive, as differential shifts in the employment structure also impact the evolution of average pay. However, it does suggest that government pay increases have broadly aligned with private sector trends in the period following the implementation of OSDs. As we showed above, there is evidence that public service pay has been eroded since the Covid-19 pandemic.

These patterns suggest that the wage premium probably emerged with the improvements in conditions of service that began soon after 1994 and accelerated with the implementation of OSDs. Since around 2012 government wages have been stable, but have fallen in real terms since the Covid pandemic. Senior managers, who probably started out with a smaller premium, have seen significant pay falls over the last decade. Trends in the remuneration of private sector executives might be proxied by

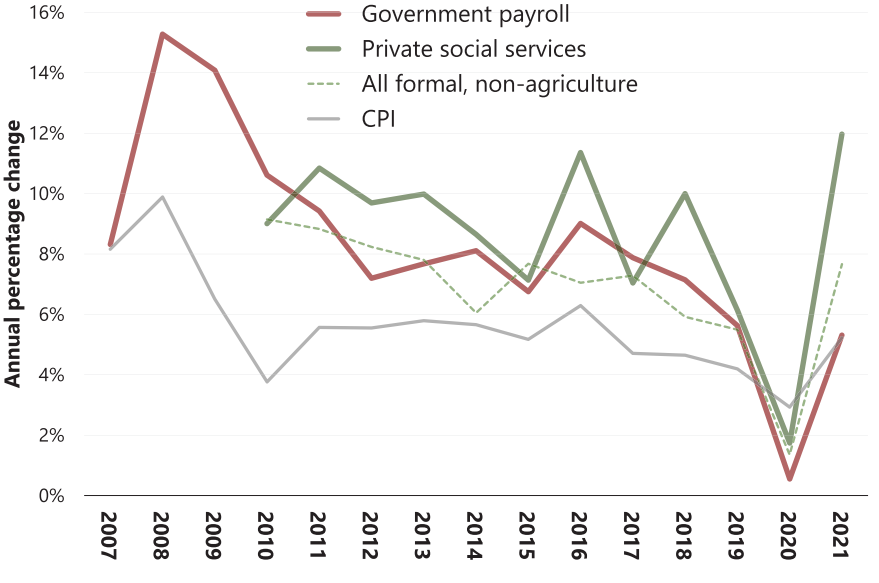

Figure 10. Annual increase in average pay. Source data: StatsSA (Quarterly Employment Survey).

Bassier & Woolard's (2020) estimate that South Africans in the top 5 percent of the income distribution experienced 'a large real compounded average growth rate (CAGR) of four to five per cent, with real income nearly doubling over the 14-year period [between 2003 and 2017]'. These factors point to the possibility that the private sector now enjoys a pay premium when it comes to executive management and leadership roles.

8. Discussion

Reviewing payroll data over the long term, we can periodise government wage bill dynamics into five distinct phases:

Rightsizing and rationalisation (1995–2002): The first period after the democratic transition saw a fall in government employment, 'rightsizing' of the public service and a sharp reduction in defence force personnel. Reforms also equalised pay, raising remuneration for the lowest-paid workers, reducing the pay of senior managers, and deracializing remuneration structures. Many employees moved off the government's payroll, as lower-level staff were outsourced and non-core functions were shifted into independent public agencies and state-owned companies.

Employment take-off to extend services (2002–07): Between 2002 and 2007, there were significant increases in the number of employees overall. Employment gains concentrated on core services such as health, education and criminal justice. These gains extended services and increased the incidence of government professionals – such as teachers, nurses, doctors and police officers – relative to the population they served. From the data we have analysed here, it appears that there were moderate improvements in real average pay for some sectors, with declines for others.

Wage shock with continued employment growth (2007–12): From 2007, headcounts continued to expand rapidly, further extending services. In addition, there were very substantial pay increases for government employees, amounting to a 4.9% real increase per annum on average. These pay increases resulted from Occupation Specific Dispensations – a deliberate policy intended to align the pay of government professionals with their private sector counterparts and stem the drain of personnel oversees. Added to this, annual cost-of-living adjustments were also unusually elevated during this period, an outcome that might relate to the political transition after the ANC's Polokwane conference in 2007, in which public sector unions had played a prominent role in supporting the new incumbents.

Employment stagnation with moderate wage increases (2012–19): Headcounts across national and provincial government stagnated in the decade leading to the coronavirus pandemic. Police employment fell by around 10 000 personnel. Employment in healthcare and basic education remained flat in absolute terms but declined significantly relative to the population served. The composition of employment remained stable, and was largely dominated by frontline professionals. Pay gains during this period were moderate, averaging 2.1% per annum across the whole payroll in real terms, and broadly in line with the private sector.

Employment shedding and pay reductions (2020 – today): While the most recent trends are not analysed in detail in this paper, government acted resolutely to reduce the pay of government employees in the wake of the coronavirus pandemic.

Preliminary analysis shows that average pay has been reduced by as much as 9% in real terms, which would imply a substantial reversal of the pay gains awarded during the implementation of the OSDs (see Sachs et al. 2023). Tough ceilings on compensation budgets led to reduced employment in relative terms in basic education and healthcare, and in absolute terms in criminal justice and defence, adding to the squeeze in service provision.

We believe that several broad conclusions are suppored by the evidence we have presented. First, the level of employment and spending on government's wage bill has been lower in the democratic era when compared to the apartheid regime. This is the case in an absolute sense but, perhaps more significantly, national and provincial government employment has fallen as a share of formal-sector employment in South Africa. Despite the dramatic rise in unemployment during this period, the role of the public service as 'employer of last resort' has diminished. On the other hand, in the early years of democracy many employees – especially in catering, cleaning and security – were outsourced, effectively shifting funding for their remuneration from the budget for compensation of employees to the budget for goods and services. The move towards insourcing over the last decade may have partially reversed this effect. Furthermore, a sizable number of employees were shifted onto the payroll of public entities and state-owned companies, removing them from the government wage bill but keeping them in the public sector. These elements of public sector have expanded, and so has compensation spending of local government, which is similarly excluded from our analysis (see Sachs 2021 for evidence of these trends). Nevertheless, concerns about fiscal sustainability and action to contain the government wage bill has focussed almost exclusively on employment and pay in national and provincial government, with very little effort aimed at other elements of the public sector. In this regard, policy may be aimed at the wrong target, especially if we take account of the social and economic importance of education, healthcare and criminal justice.

Second, the transition period in the first decade of democracy saw significant changes in the composition of employees on government's payroll. Defence force employment fell dramatically. Many non-core employees were shifted onto public entities and lower-level auxiliary staff were outsourced. This focus helped avert reductions in employment of frontline professionals. After these permanent reductions, headcount growth in the 2000s was firmly focused on healthcare, basic education and criminal justice. These core sectors now account for 80 percent of the public service today, up from 67 percent in 1997. Overall, then, the restructuring of government in the 1990s served to both reduce employment funded from government's payroll (relative to the apartheid state) and concentrate this employment in core social and civilian security services.

Third, compression of the salary structure is a critical issue in government's wage bill. Lower-paid workers have had the most significant improvements in pay, while senior managers have seen the real value of their pay eroded, especially over the last decade. Relative to the private sector, differentials between the top and bottom of the government pay structure are moderate. These findings are important in respect of the managerial capacity of the state in a context where government now aims to professionalise the public service.

Fourth, a common assumption in public discourse is that government employment has grown in 'back office' or administrative functions while the employment of 'frontline'

workers has stagnated. The perception that the state is bloated with unnecessary employees leads to the conclusion that the government wage bill can be reduced without compromising core public services. To the extent that there is 'bloating' or excessive employment of the wrong personnel, this does not appear to be a problem affecting core public services, where the balance between professional and administrative staff appears stable and sensible. Instead, the bulk of managerial and administrative support staff – and the relative growth of these functions over time – is concentrated in political and executive office, economic regulation, infrastructure services and public administration, particularly finance, 'cooperative government', and similar functions.

Related to this point is the idea often presented in public discourse that the state as a whole is bloated and needs to be reduced. This may well be the case in respect of public entities, state-owned companies and local government. We have shown, however, that the vast bulk of the public services are professionals employed in the provision core services. The public service is large because government provides extensive health, education and criminal justice services free of charge to South African citizens, not because it is unnecessarily bloated. It might be argued that this model of direct state provision of collective goods is inefficient and wasteful and should change, for instance, in favour of private provision or contracting with the state (for example, see CDE 2015). However, this type of argument is very different from the idea that the state is 'bloated' and instead indicates preferences for private over state provision and their attendant ideological biases.

Last, it is sometimes asserted in public discourse that the key factor behind South Africa's current fiscal crisis is the result of an unsustainable growth of government's wage bill. The data presented in this paper, and the periodisation constructed above, suggests a more nuanced view. Decisions to increase pay and employment in the first 15 years of democracy had a clear rationale: to expand critical services and align pay for government professionals with their private counterparts. Moreover, these decisions were taken in the late 2000s, when the fiscal position was widely regarded as stable and sustainable. For the last decade, during which the fiscal constraints began to bind, the number of employees has been stable, average pay has grown moderately and government employment has fallen relative to the formal private sector.

It is notable that these phases of expansion and deterioration in government employment and pay strongly correlate with South Africa's overall economic and fiscal fortunes (see Sachs 2021). During the period of strong economic growth, supported by the commodity boom up to 2012, government employment expanded, and significant improvements in public pay were awarded. Once the economy slowed and fiscal deficits became entrenched (after 2012), authorities contained the gains in pay, and held compensation budgets in check, leading to falling or stagnating headcounts. In the wake of the coronavirus pandemic, as the economy has fallen into even more profound stagnation, there are even stronger efforts to reduce employment and pay. In this reading, the central problem posed by the government wage bill is not the sustainability of fiscal policy, but profound procyclicality in both employment levels and pay awards.

9. Conclusion

The thorough restructuring of government employment and pay in the first decade of democracy was part of an explicit strategy negotiated with trade unions, widely canvassed in society and given high political priority. The restructuring preserved employment in core services, balanced pay and headcount trends, and was underpinned by clear policy frameworks. This contrasts very strongly with the current approach, which has relied on blunt, across-the-board measures to contain headcounts, largely by imposing ceilings on compensation budgets or withholding funds to line departments to force attrition.

In a review of policies to manage government compensation and employment, the IMF notes that:

> In their efforts to contain wage pressures, governments have often resorted to blunt measures to reduce high wage bills, which only provide temporary relief. Governments have typically relied on quick fixes such as across-the-board freezes in wage and employment levels. While these measures can be effective in reducing wage bill spending in the short term, they tend to decrease morale, distort wage and employment structures, and adversely affect service delivery. As a result, they tend to unravel over the medium term resulting in recurring wage bill pressures. Undertaking functional reviews to inform structural reforms, as well as institutional reforms that focus on weaknesses in the management of wage and employment processes, can help prevent the recurrence of wage bill pressures. (IMF 2016:36)

It is likely that the current approach will suffer from many of these defects. Moreover, further attempts to reduce pay and employee numbers will unavoidably impact frontline professionals in core government services such as healthcare, basic education and criminal justice. Efforts to restore fiscal sustainability need to involve more conscious plans, negotiated explicitly with line departments, agreed in cabinet and supported at the centre of government. Greater focus on public entities and local government may also be warranted.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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