



## **Initial Principles of for Three-Year Wage Negotiations**

**20 February 2020**

.....

### **Background**

1. The Public Service Coordinating Bargaining Council (PSCBC) Resolution 1 of 2018 set out a disputed agreement on wage increases in the public service for the next three years. The agreement did not fully take account of the rapidly rising cost of living that public servants were to be faced with. This was more so for categories of civil servants who have historically suffered low salaries in crucial professionals like education and healthcare.
2. The final agreement, based on a January 2018 offer, did not reflect the changing environment public servants have had to deal with. South Africa suffered a technical recession in 2018 and in 2019. The recessions in both years, reflected worsened state of economic activity. This decline of economic activities for two consecutive quarters in both years has had implications on the job outlook in the economy. In the third quarter of 2019, the number of unemployed individuals by 455 000 (to 6.7m). A year-on-year comparison showed a 9.4% increase in unemployment. With employment outlook flat, the demand in the economy remains weak.

3. Since the 2018 Agreement was signed and implemented, prices for a number of essential services have been increasing at a significantly faster rate than CPI. Many of these services are not a matter of choice: workers have to spend money on housing, healthcare, transport, education for their children. Combining those four measures, you can create a new CPI for what we refer to as Critical Services. For the past five years, the cost of critical services has been rising faster than the CPI for every month except for three. Between April 2017 and March 2018, CPI inflation was 3,71%. Inflation for Critical Services was 5,13% - significantly higher than CPI, and higher than the CPI +1% agreement for April 2019 to 31 March 2020.
4. Since April 2018 when the Agreement was signed, prices on various other essential items have surged. Petrol prices have risen 16,22%, water prices by 10,6%, and electricity prices by 7,63%. According to StatsSA, housing, utilities and transport make up 49% of spending for an average South African household – meaning civil servants have seen prices increases of above 7% on nearly half of their monthly spending.<sup>i</sup> The public sector wage increases should be at or above 7%, and with a further 1.5% factored for economic uncertainty, and as an insurance against poverty.
5. In essence, the 2018 Agreement did not take into account economic uncertainty, including indeterminate tariff increases and short-fall cost recoveries in electricity. Those at the base of society, the workers and the poor, have little influences on economic events which are largely driven by politics and policy uncertainty. In the last decade, the major factors that influenced economic performance have largely to do with politics. In critical sectors of the economy such as state-owned enterprises corrosive tendencies that are related to state capture, corruption, and financial mismanagement have been the manifestation of the kind of rent-seeking politics whose indirect effects are felt on the economy. The latest round of tariff increases at Eskom is a by-product of politics and economic mismanagement. To the extent that this induces economic pain for the workers, it justifies the need to re-open public service wage negotiations.

6. Public servants play a critical role as demand drivers in the economy. More importantly, when unemployment levels are high, the dependency ratio also widens, with public servants and middle classes playing a cushioning effect against descent to worst forms of deprivations. This is more so in black communities. Over 80% of those who are employed in the public service are black, and 44% women, and these are categories that play a secondary welfare distribution role at the base of society. Therefore, as a matter of principle, three-year wage negotiations should acknowledge this reality and recognise the role of public servants in cushioning the effects of unemployment and poverty. At the least, the starting point for negotiations should be cost-of-living adjustment and enhancement in conditions of service for public servants.

### **Key Issues in Preparing for Negotiations**

1. The public sector wage agreement should primarily account for the rapidly rising cost of living. The last agreement, based on a January 2018 offer, did not reflect the changing environment public servants were to deal with, especially rising cost of living, economic uncertainty, indeterminate tariff increases, and short-fall cost recoveries in electricity. Those at the base of society, the workers and the poor, have little influences on economic events which are largely driven by politics and policy uncertainty. In view of the high dependency ratios in black households (77% of those employed in the public sector are African), any containment of public sector wage bill will be disproportionately felt by poor households who depend on subsidisation by working public servants.
2. Questions related to the size of the head-count (what others referred to as ‘bloated public service’) should not be brought into wage negotiations since this stance about wage count lacks legitimacy given that over 80% of civil servants are in health, education, peace and security sectors – and these are critical sectors in society.

The 'bloat' in the wage bill has been created by political mismanagement and lack of strategic direction by different political principals or ministers during periods of change in administration, and this can therefore not be used to punish public servants without any credible plan demonstrating that such political actions will not happen in the future. Changing the wage setting processes in government, encompassing different public entities, will take a long period of time and this should be a review that proceeds in parallel to the PSCBC processes.

3. Negotiations should be held with all affected parties at the PSCBC and bilateral engagements between the employer and individual unions should be prohibited as that creates mistrust and dampens good faith. There should therefore no stakeholder that should be excluded. All parties should agree from the onset that exclusion of any stakeholder shall invalidate the negotiations. In order to maintain goodwill throughout the process, there should be no collusion between the employer and any individual or group of unions in a manner that isolates others.
  
4. Given that the negotiating parties, especially labour, represent significant constituencies, it is important that that all parties, including the employer, agree to a balance between interest-based negotiating approach and broader economic interests of the country. The former aspect will need to consider seriously the impact of any outcome on the welfare of public service employees and how such outcome contributes to sustaining demand in the economy. The latter aspect should consider various drivers of economic underperformance and the role of various agencies of state, including State-Owned Enterprises, in generating ill-effects in the economy. Importantly the role played by state capture should be probed so that public servants are not made to pay for damages caused by politicians. Further, we need to be convinced that the state is doing everything in its power to curtail wastage created through unproductive deployments and bad resource management including at local and provincial government level; other state institutions; and in diplomatic missions that sprawl across 124 countries.

The employer should present a comprehensive plan that demonstrates convincingly that efficiencies are achieved in other areas of government.

5. Reviewing and reducing the number of South Africa diplomatic missions abroad could help with cost containment and in a manner that does not adversely affect public servants. In the context of exchange rate fluctuations and lack of clarity on the benefit creation of these missions, South Africa can do more with less. This will not affect the employment conditions of public servants who are serving in these missions since their posting is tied to confirmed posts at the head office. Further, government should limit the use of political appointees in diplomatic positions as such roles can be performed by civil servants. There is a need to make proper accounting of the cost to the fiscus of South Africa's sprawling diplomatic missions, and determine the precise shape and size following a clearly defined foreign policy that is linked to creating distinct economic benefits for South Africa. Other institutions and bodies of the state that are not adding value to the economy and society should be reviewed and de-established.
6. PSA is aware that the state of the economy is gloomy at the present moment. However, we are yet to fully understand the factors that have contributed to economic underperformance. In the last decade, the major factors that influenced economic performance have been largely driven by politics. In critical sectors of the economy such as state-owned enterprises corrosive tendencies that are related to state capture, corruption, and financial mismanagement have been the manifestation of the kind of rent-seeking politics whose indirect effects are felt on the economy. These practices have not been fully uprooted with very low levels of conviction.
7. There are administrative decisions that have adversely affected public servants. Tariff increases (14%) by NERSA in favour of Eskom in 2019 was a by-product of politics and economic mismanagement.

There will likely be more clawbacks for the outer years of 2021 and 2022. In early 2020 Eskom submitted another request for tariff increases to the tune of R27bn. These increases could be worsened by fuel levies that might be announced by the finance minister Tito Mboweni at his 2020 Budget Speech as he did in his February 2019 Budget Speech. Some economic analysts have indicated that there might be VAT hike as well. Energy tariff increases, fuel levy, VAT hike, and general price increases in the economy will contribute to rising cost of living for public servants. The starting point for negotiations will, therefore, have to be the cost of living, and the impact cost containment can have in worsening the socio-economic challenges faced by public sector workers who play a critical subsidisation role at the base of society.

8. Before the negotiations commence, there should be an agreement on the baseline negotiating point, on the basis of which an upward adjustment can be considered based on the offers that various parties propose. Such a base line should be established in terms of the 2018 Agreement.
9. Finally, negotiations should not be conducted on the basis of pre-determined outcomes or based on the final outcome that is envisaged, i.e., cost-containment of public service wage bill. Rather it should be broadened to consider various factors that have contributed to the current economic conditions. Further, the cost of living of public servants should be the priority consideration in the negotiations, especially given that the last three-year wage negotiation was unfair on public servants in view of cost escalations in the economy.

## **Conclusion**

1. Simply maintaining current wages is not adequate, with pay in the public service continuing to be inadequate for fair living conditions. Almost 25% of public servants are among the bottom half of wage earners in the country.<sup>ii</sup>

High levels of debt reduce the amount of disposable income available to public servants, with the amount paid in public sector garnishee orders reaching R1 billion in 2006/2007.<sup>iii</sup> These garnishee orders undermine current wage levels. With compensation for public servants at national level growing at rates below CPI in 2015 and 2017, these problems are only getting worse.

2. It is for this reason that public sector wage negotiations should aim at defending public servants from sinking down into levels of poverty in the current economic conditions. The levels of economic uncertainty make it compelling to consider wage increases above those that were agreed in April 2018. At the minimum, the starting point for negotiations should be cost-of-living adjustment. It needs to be borne in mind that public servants take great risk in agreeing to a multi-year wage negotiations rather than negotiating every year. This is their contribution to stability in the public service and in the economy. They should not be required to pay more for consequences they did not play a part in creating.

---

<sup>i</sup> StatsSA, 2014/15 Living Conditions Survey

<sup>ii</sup> Calculated based on StatsSA, Labour Market Dynamics, 2016 sample

<sup>iii</sup> Public Service Commission, 2007, "Report on the indebtedness of public servants"