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Mike Schüssler

THE 11TH UASA EMPLOYMENT REPORT

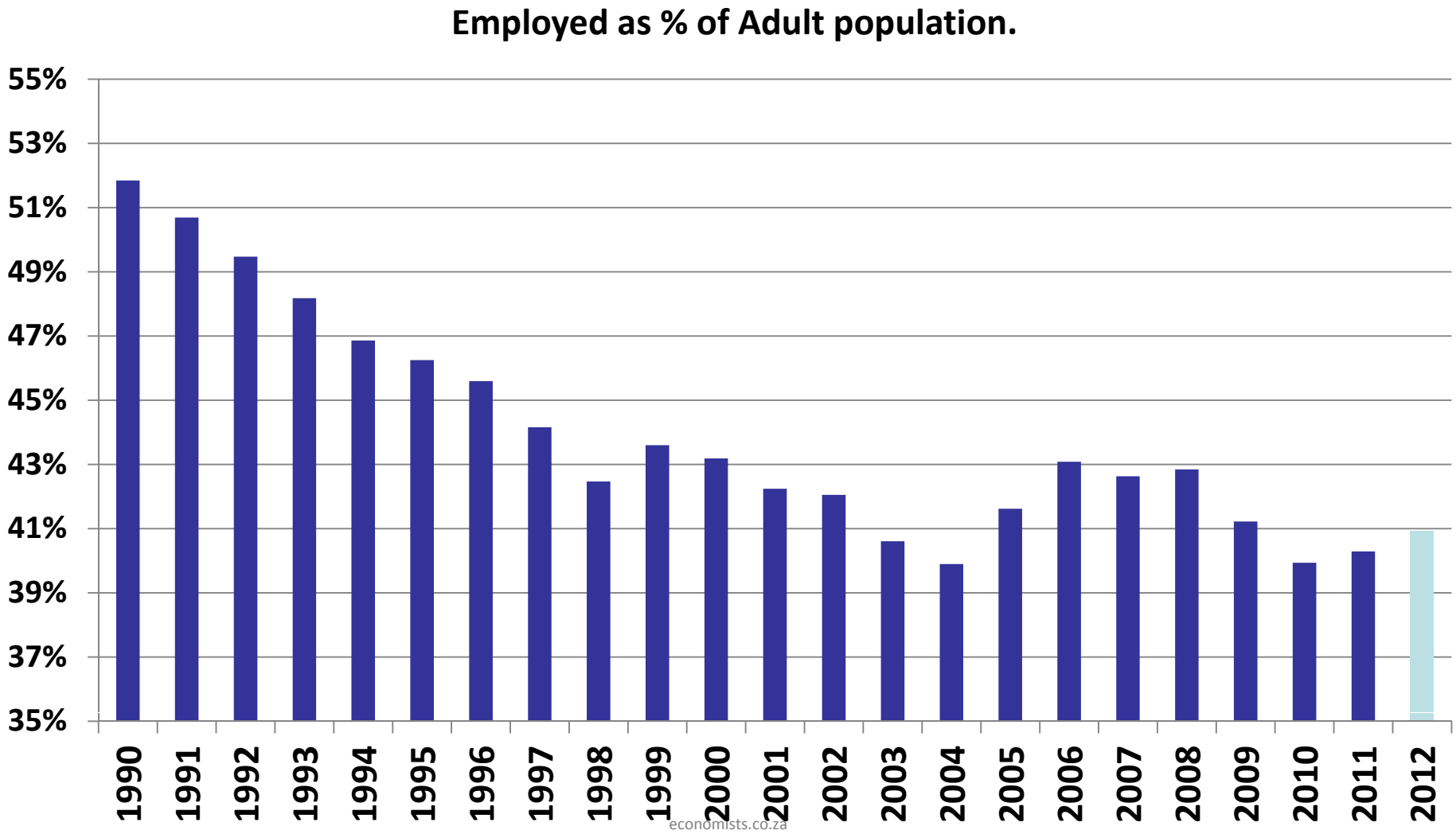
South Africa can not afford South Africans

Busting myths and rhetoric with a long-term comparison of formal sector employment, salaries and living standards

11th UASA employment report.

- Link to last year.
- SA wages compared to the rich world.
  - Gross and net wages.
  - Social security and why comparisons are not easy.
- Unit labour costs compared.
  - Remuneration: state vs. private.
- Is the **working wage gap** really that big?
- What SA employment numbers look like.
  - Formal non farm private sector and government
  - Why employment is not growing where we need it to.

A recap from last year.



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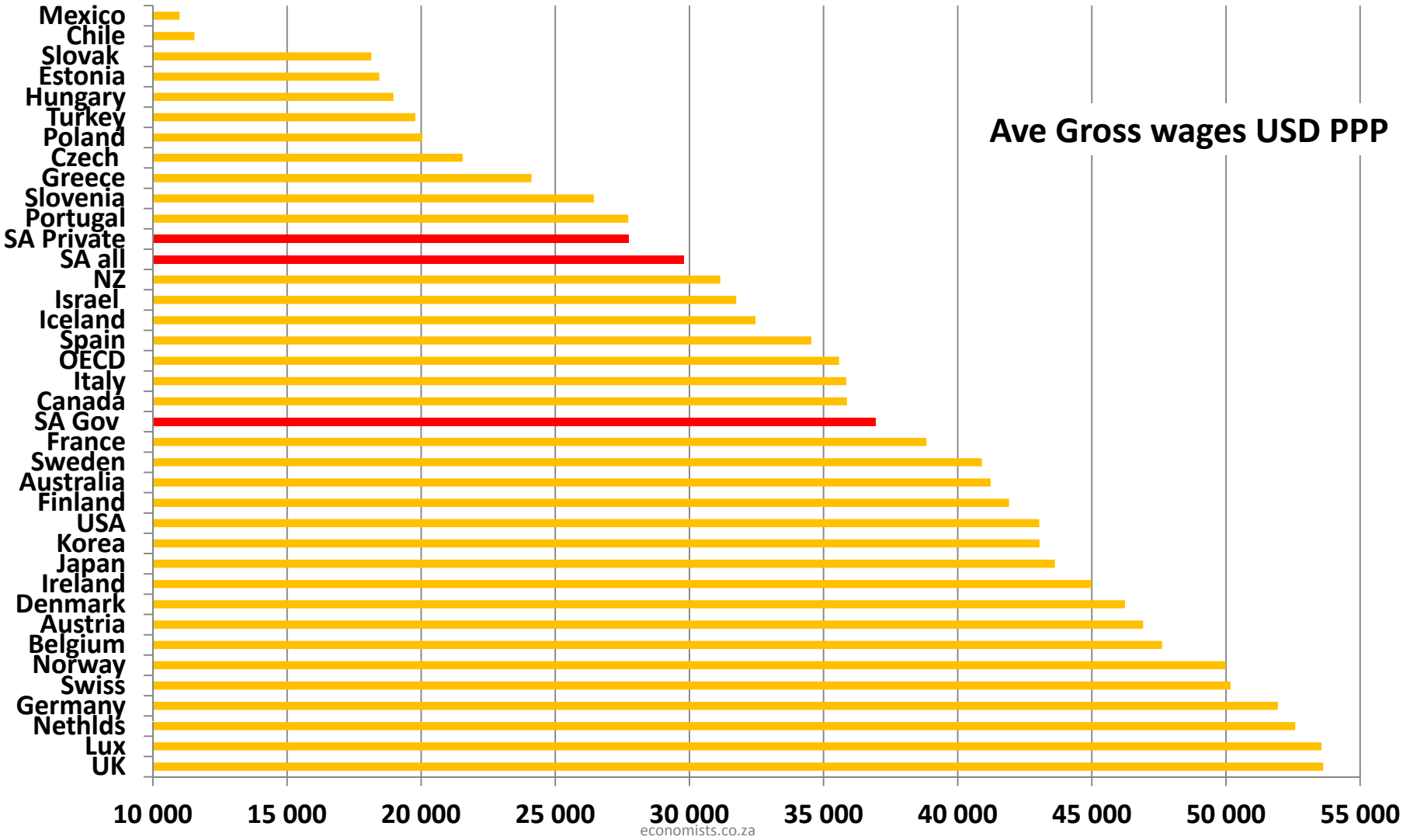
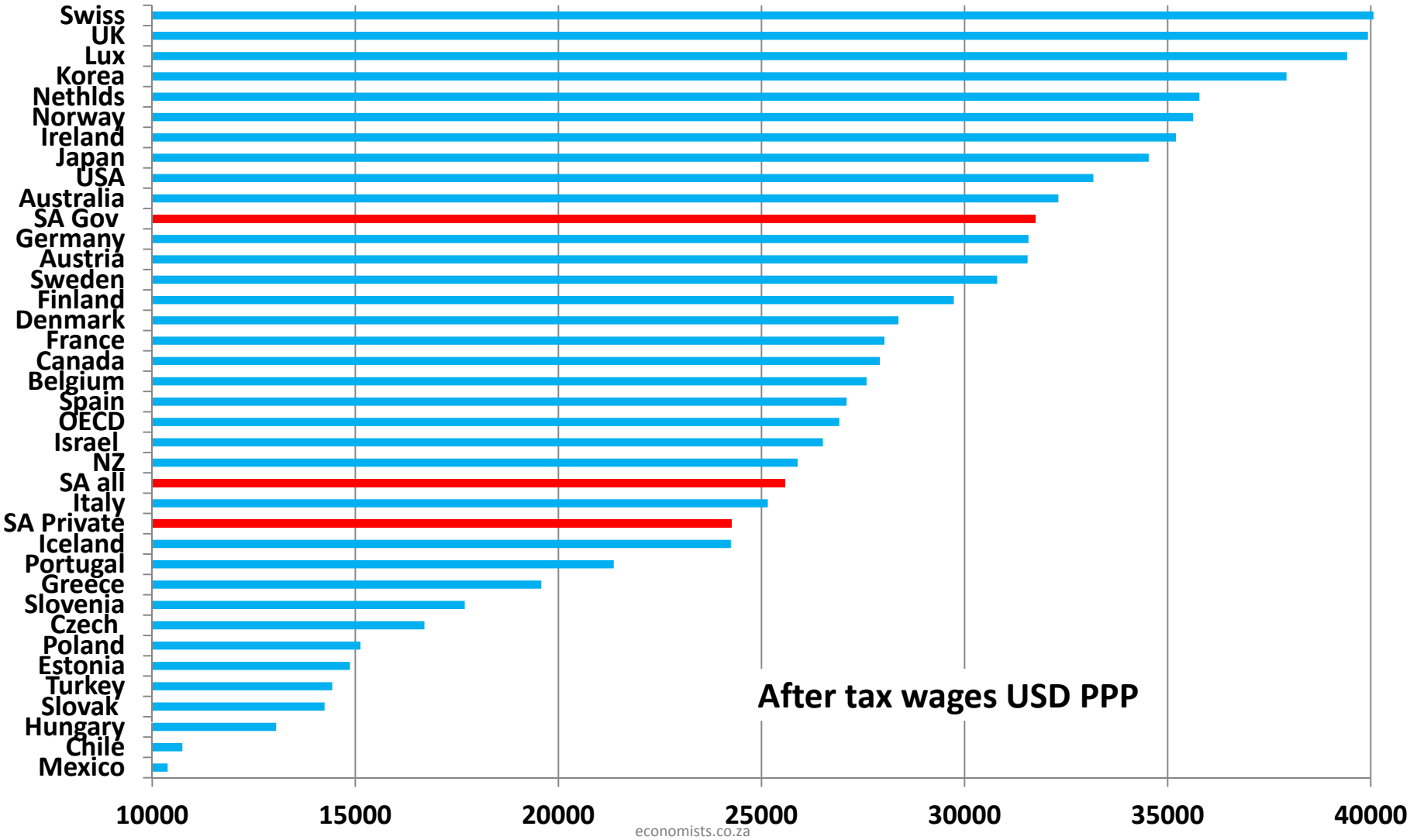
South African wages with a 1st world international view.

Generally, working South Africans have relatively good living standards.

Gross wages in PPP dollars
SA compared to the rich world - 2010.



Net Wages after all taxes in PPP USD - 2010



South African Formal sector salaries are quite good with a worldwide outlook.

- One can distrust the PPP rates used by the OECD or even the IMF; but one can use the big mac index with similar results; or the UBS three yearly study that uses bread, milk, rice, burgers, rents and public transport fees as part of its basket …
- … and Joburgers would still be in the world's richest 40 cities.
- Yes, SA formal sector salaries are by many standards in the top 20% of countries around the world (sometimes even in nominal terms.)

Average salaries attract a little less than average taxes of richer countries.

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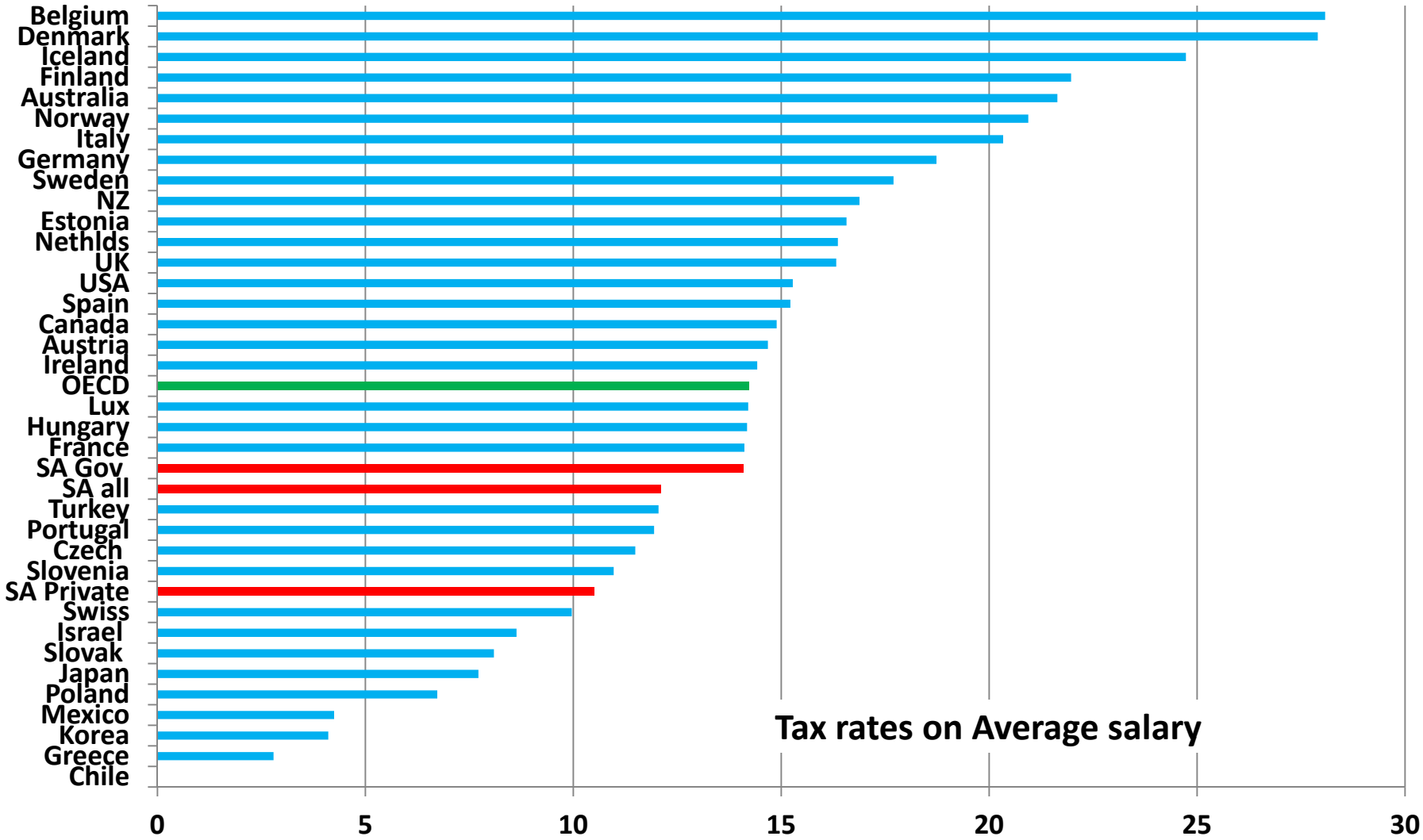
- Years ago the WEF annual competitiveness report showed that an average salary attracted no tax. (They included informal wages as well, which lower the salary notches somewhat.)
- But the average formal salary gets taxed on average by about 12%. The OECD average is 14.2%.
- So the average worker who gets about R13 200 per month at present does not carry a big formal tax burden.

Normal taxes on average salary 2010 PPP adjusted USD.



Taxes are not everything either.

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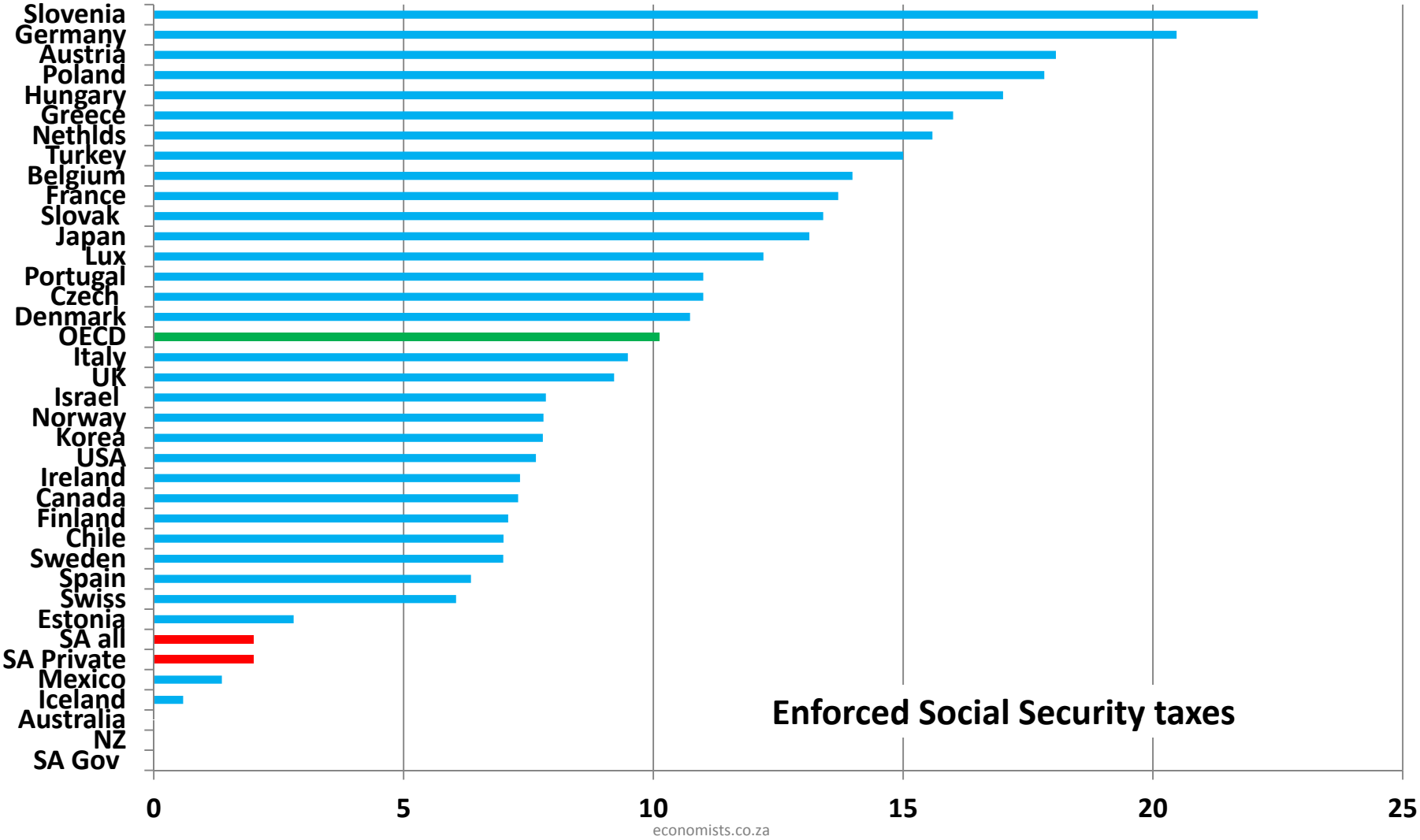
- While the average worker may not get taxed a lot he or she may still have to spend on a medical scheme, extra security and even add money to education.
  - These burdens are often true however for developing countries where the state often is itself still not in a position to offer say a reasonable education.
  - Richer countries also add a social security tax to cover pensions, unemployment benefits, medical cover, disability cover and often even spa treatment once in a while.

Enforced Social Security taxation rate



Social security taxation.

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- Here SA is on the lower side of things by far and only offers UIF.
- Most other countries include pension fund contributions, medical cover and unemployment.
  - It is said that the rich world government collect 4% in pension contributions as a % of GDP but pay out on average 7% of GDP. A deficit of 3% - which is now coming home to haunt a world riddled with debt.
- But comparisons are difficult and we save in our own pensions via private pension funds and insurance such as medical needs to be paid for good standard of care.
  - SA public hospitals are a gamble and even Cabinet ministers avoid them. (Perhaps civil servants should have to go to public hospitals and health care - could that improve things?)

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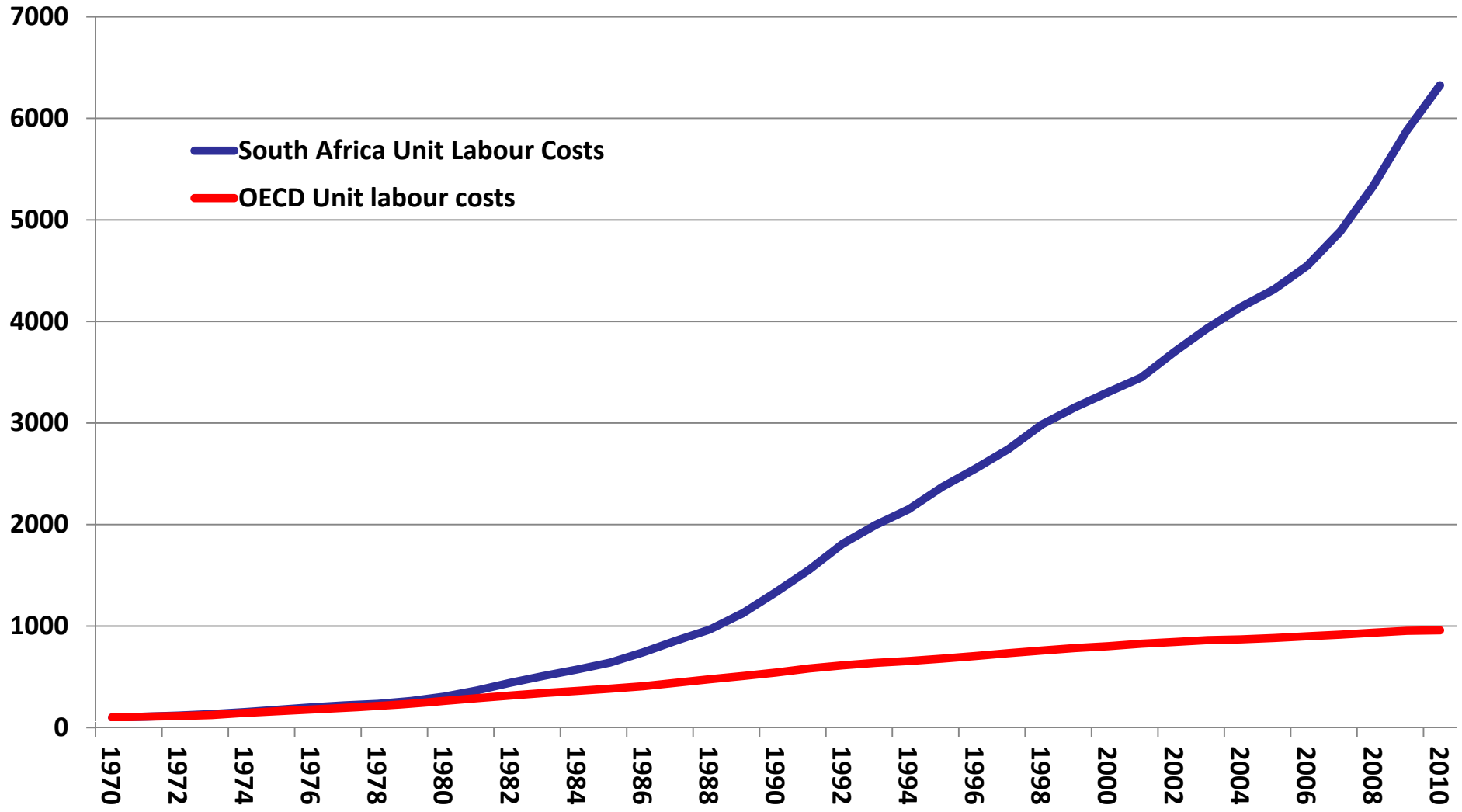
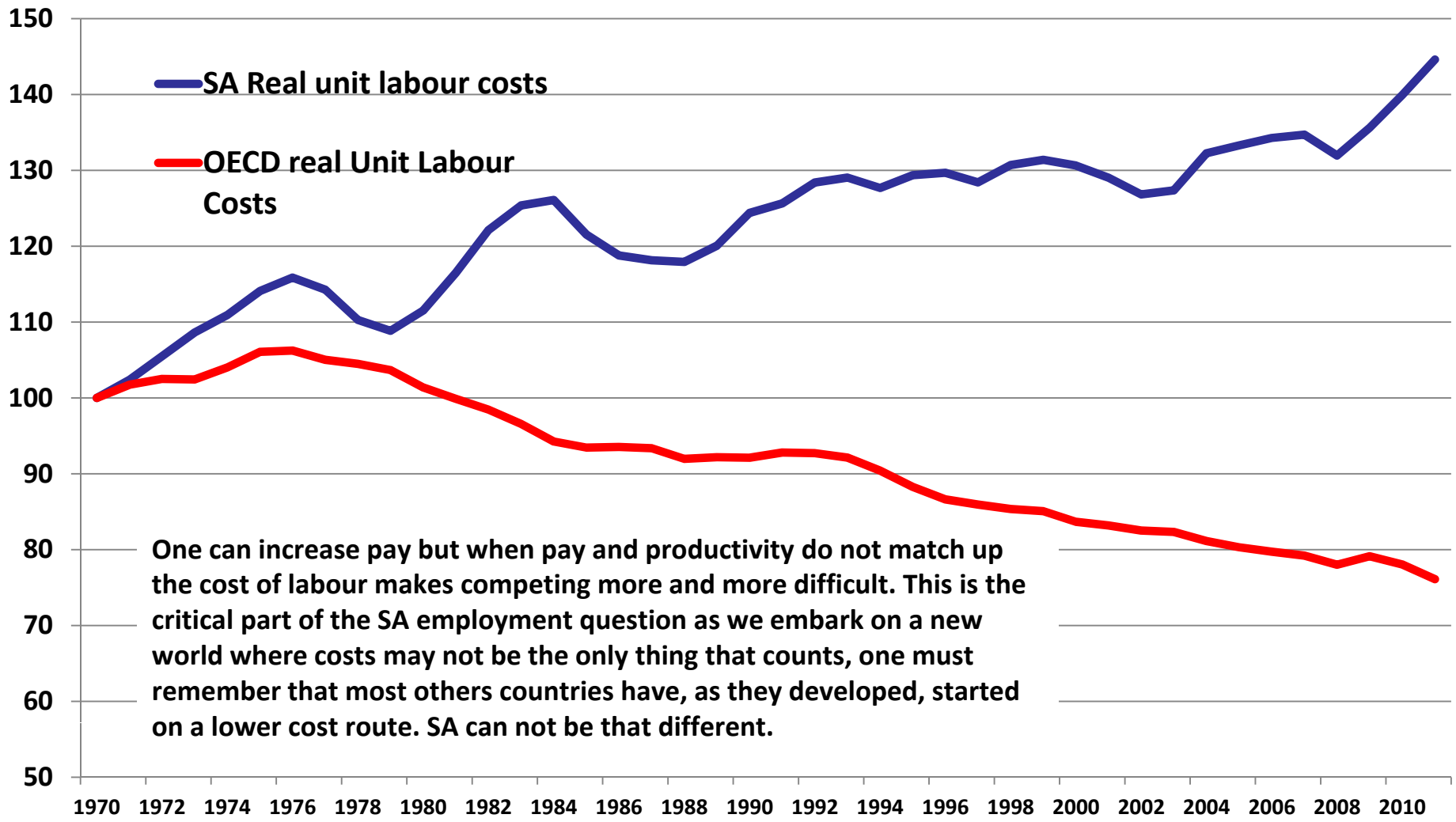
South African Unit labour costs

Out of sync and unaffordable.

Nominal unit Labour costs. SA rockets up up up and away.

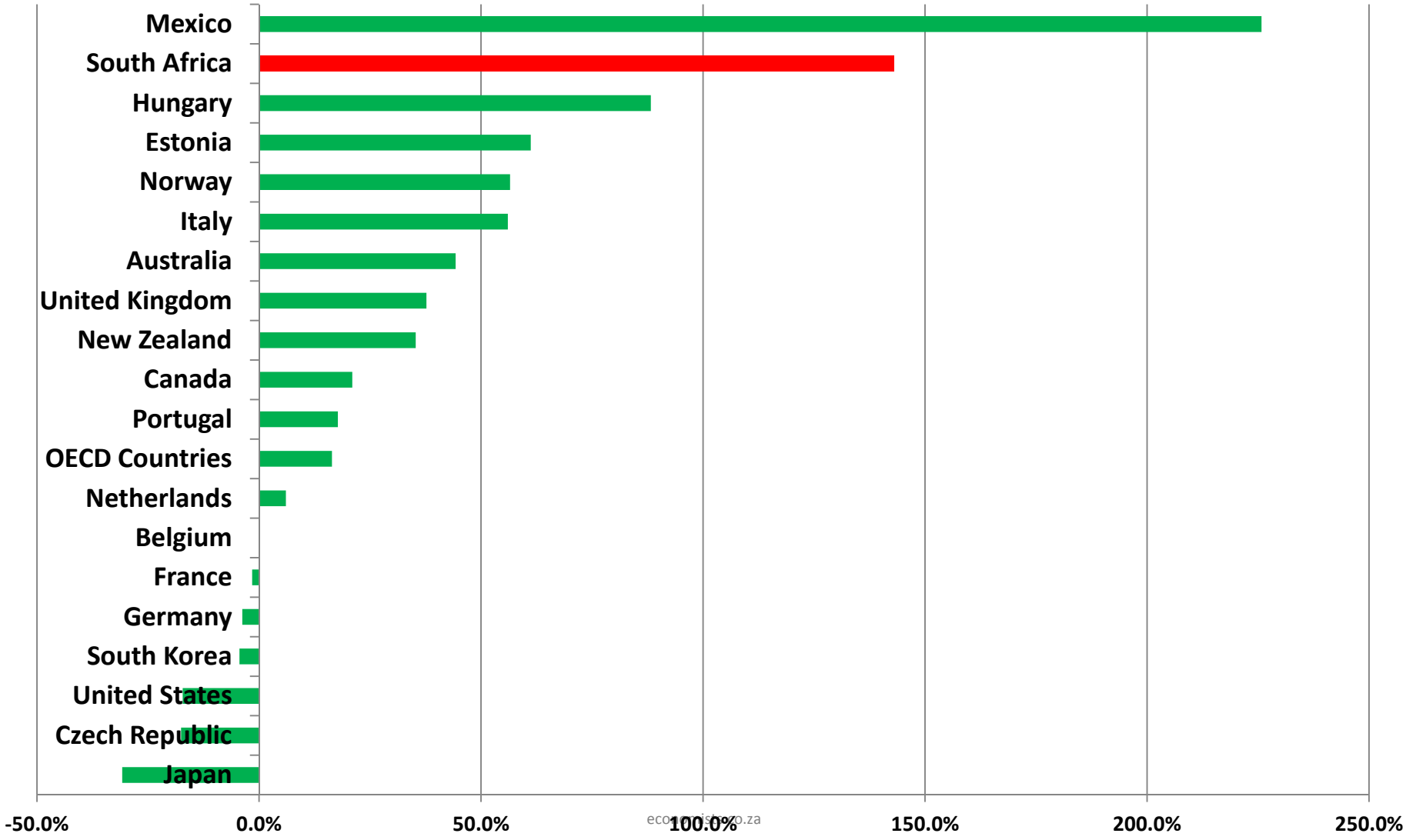


Real unit labour costs. SA has relatively increased twice as fast as OECD.

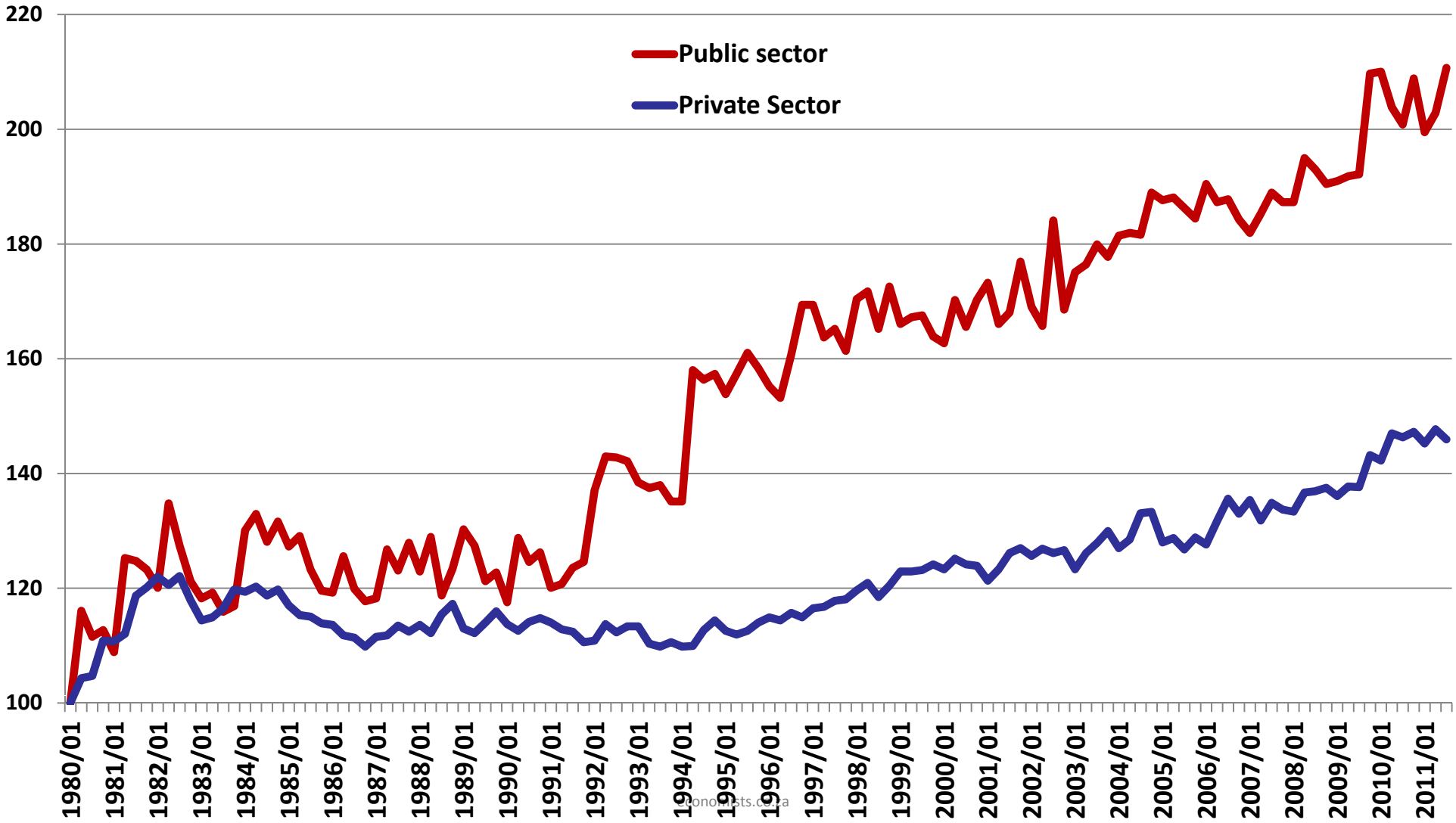


One can increase pay but when pay and productivity do not match up the cost of labour makes competing more and more difficult. This is the critical part of the SA employment question as we embark on a new world where costs may not be the only thing that counts, one must remember that most others countries have, as they developed, started on a lower cost route. SA can not be that different.

Manufacturing unit labour cost – change since 1995.



Public and private sector pay index 1980=100



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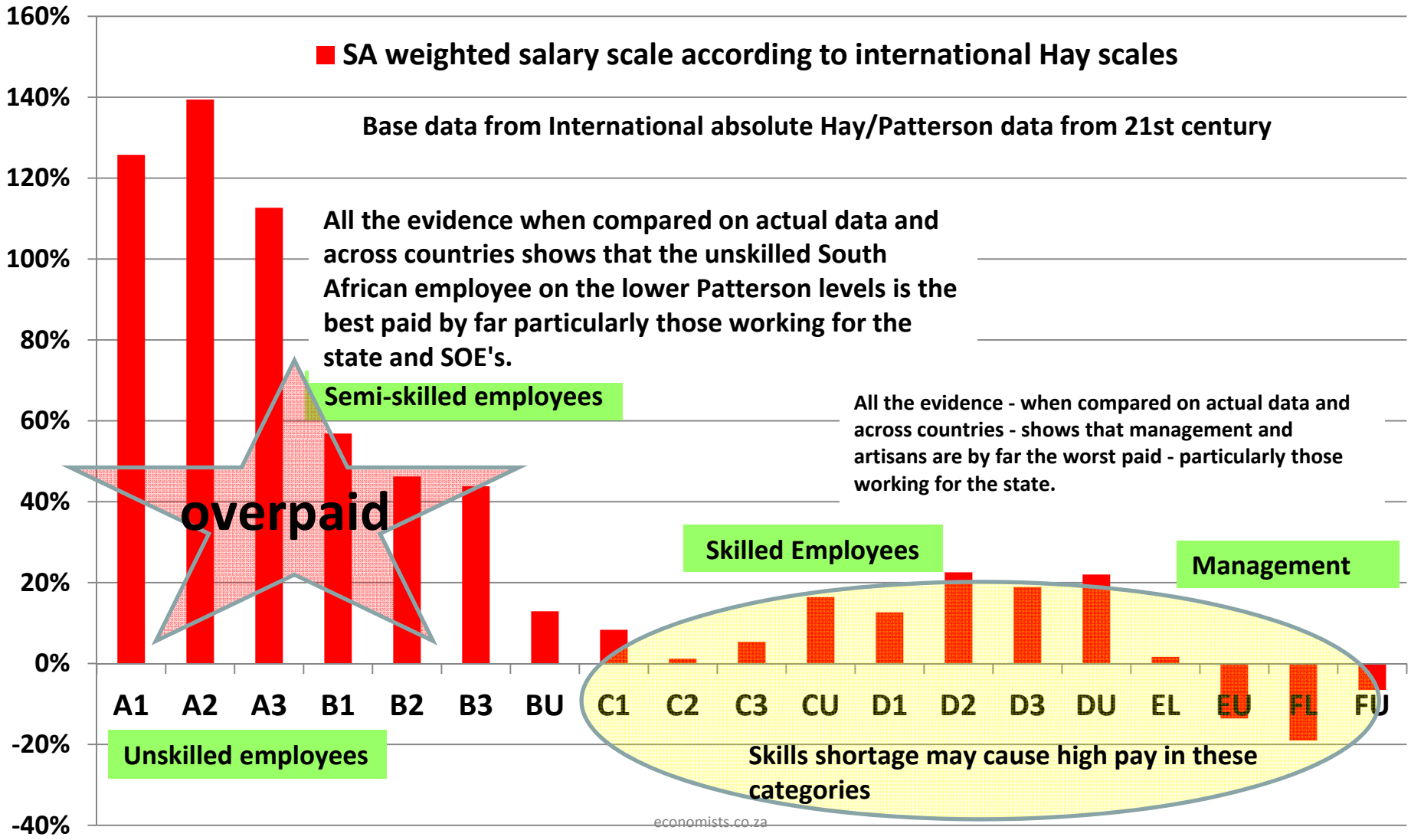
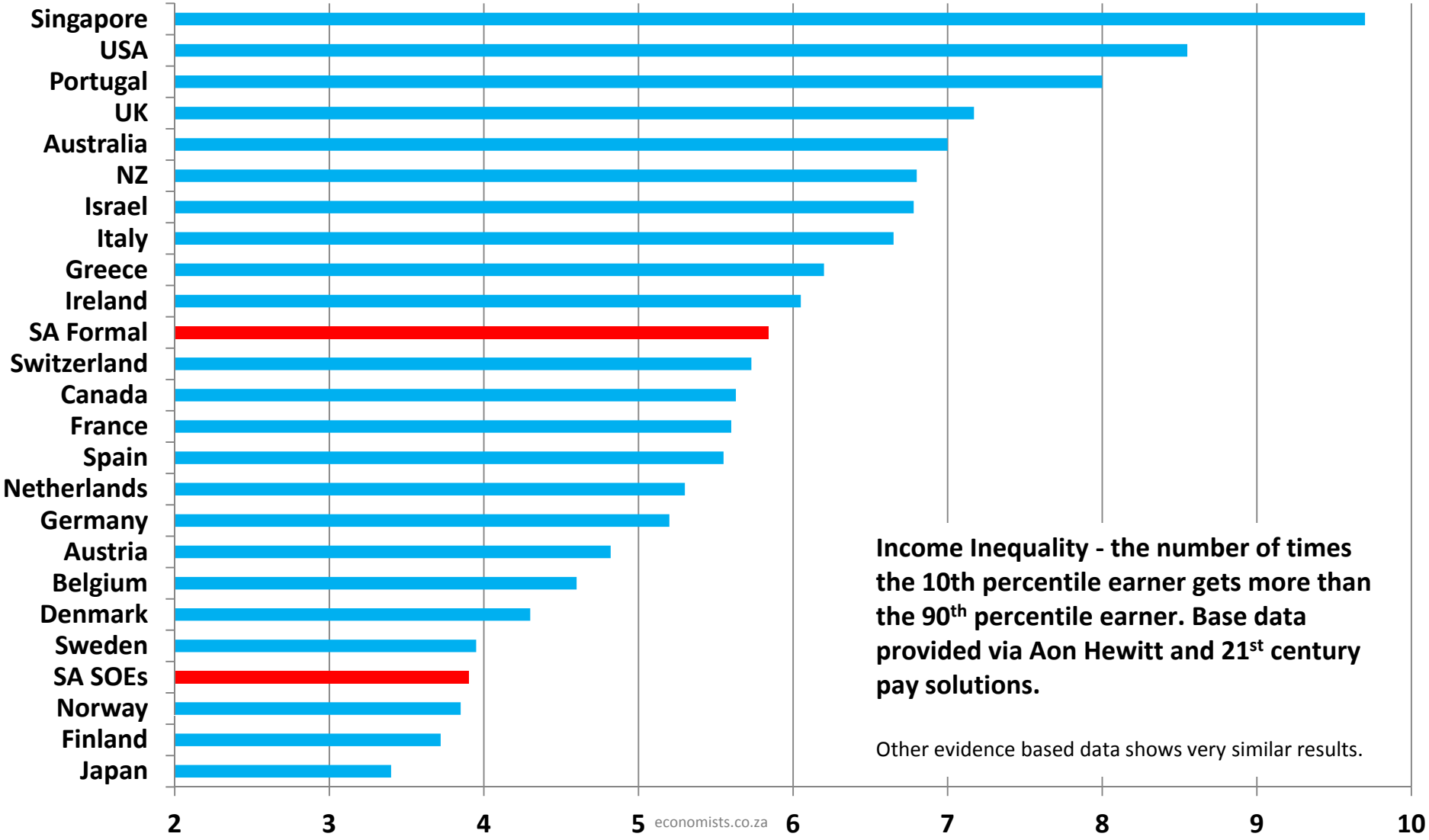
The wage Gap in South Africa

Everyone tells you about inequalities in South Africa. Is this really so behind the headline screams?

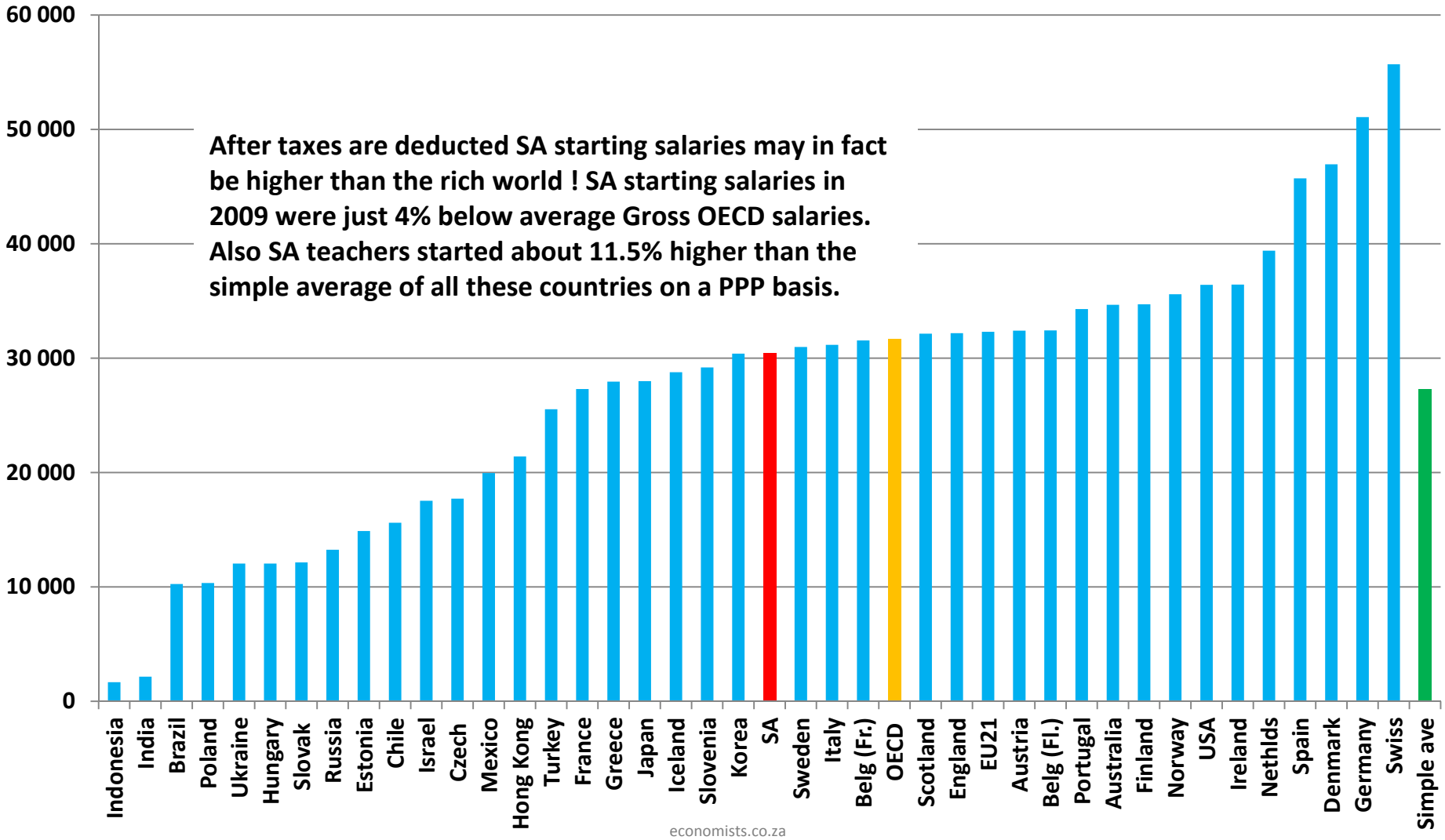
Who gets overpaid and underpaid. Not quite like the rhetoric that you hear



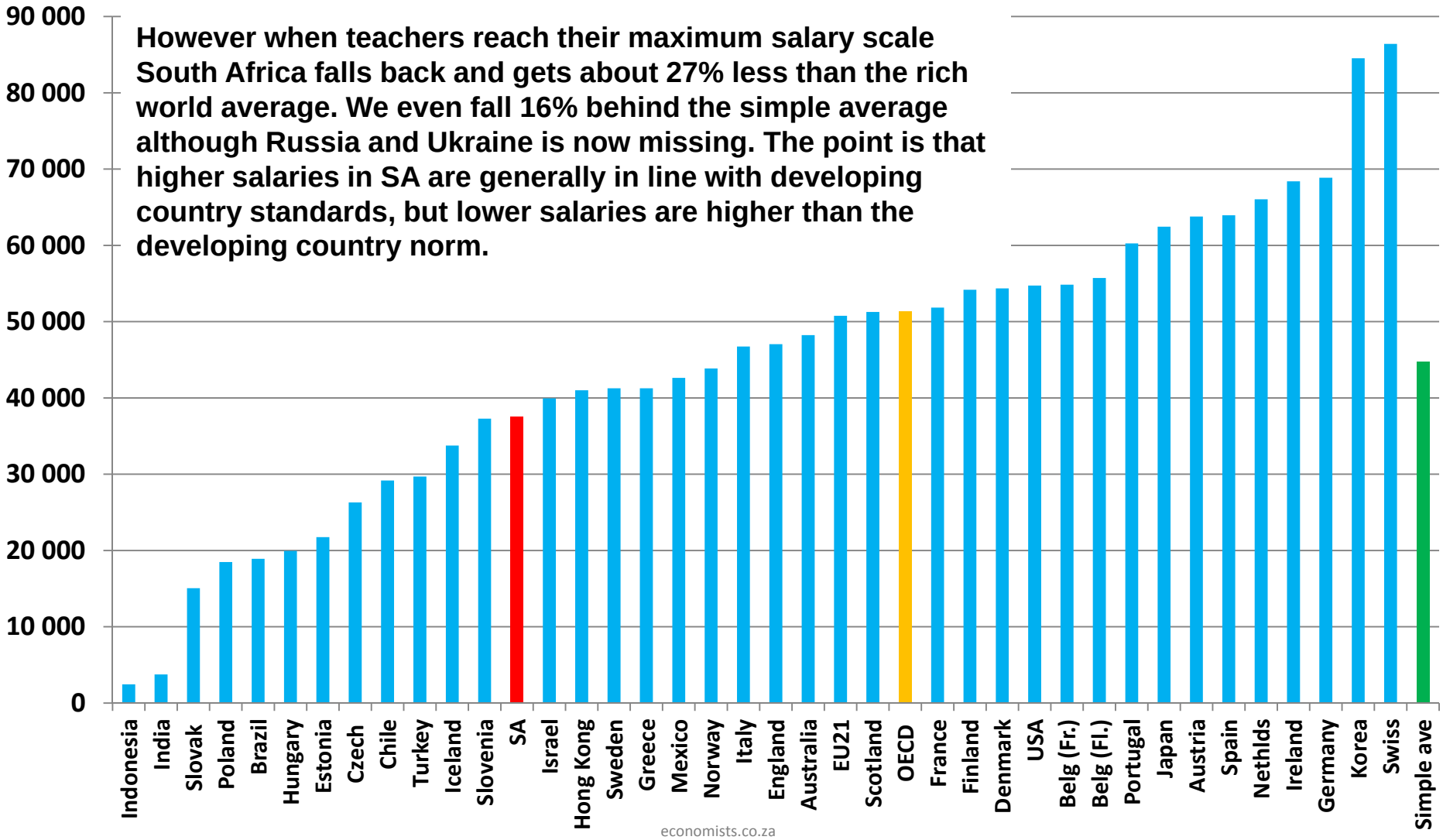
Working income inequality selected countries 2010/11



Starting salaries for teachers. PPP adjusted Annual USD.



Maximum normal teacher salary 2009 PPP adjusted USD.



Government salaries are really quite high

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- The lower level civil servants in South Africa are of the best paid unskilled and semi-skilled in the world today.
  - This makes employing people with little or no skills very expensive both in a relative world and South African sense, but also in an absolute sense using international standards such as the Patterson scale.
  - Yet the unskilled and semi-skilled in South Africa nearly have the highest unemployment numbers in the world .
  - Government and State owned enterprises do not really employ enough unskilled people - probably because they are too expensive.
  - Higher level employees are not paid over the top by government. Government senior staff are actually paid below both local and international standards generally, but starting salaries are out of sync even for university graduates.
  - Teaching salaries - even at university - seem rather high at lower levels. Senior levels may be lower than average.

Low wage gap between the middle and the low paid is part of our current landscape.

- The working wage gap numbers for South Africa are much closer to those of the more *developed* countries than most of us would have thought.
- Another way of looking at wage data is to see what the median employee gets paid in relation to the 10th percentile employee. Here the average wage gap in the SOE's is only 1.9 times. While the median earnings to what the lower 10th percentile person would get in the private sector is 2.4 times.
- This is a very low number and should be higher. Relatively the middle is under paid.
- Difference between middle and 90th percentile is just on 3 times which is also fairly normal and perhaps on the lower side of the world.

The real inequality in South Africa.

- The wage gap between someone who receives only a child grant (and is unemployed) and the average unskilled employee is 19 times - the biggest wage gap between any two categories. The average guaranteed monthly salary across all sectors for the Patterson A level employee is R4 569 per month, whereas someone receiving a Child grant receives R240 per month. Thus, the biggest wage gap by far is between those who are employed and those who are not.
- Someone receiving a pension or disability grant and the Patterson A level employee would have a 4.5 times wage gap - the second highest.

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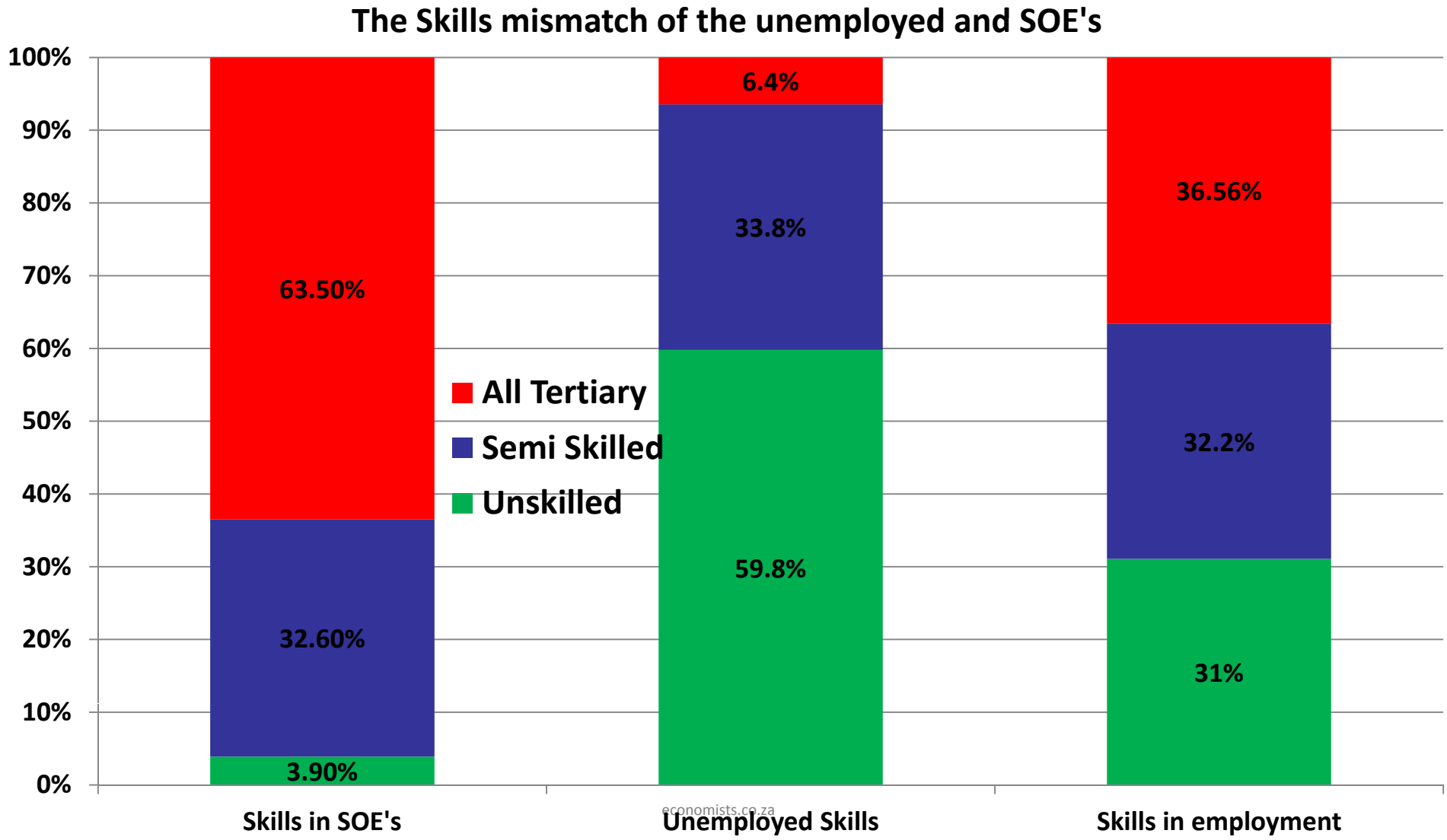
The unsurprising unaffordable outcome.

Skills we have and skills we employ and why State owned enterprises will not help.



What happens when the lowest salaries are out of sync with reality.

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- The economy can not afford to employ the unskilled. The unskilled form the biggest chunk of the adult population and the unemployed and they have very little hope of employment – at these prices.
  - Every programme i.e. industrial policy, nationalisation, state intervention in mining etc. will never help the unskilled as they are simply too expensive by local and even international standards.
  - The semi-skilled are also getting locked out of the labour market as less and less specialised training takes place and salaries here too, at least on starting levels, are also getting too expensive.
  - Even government can not afford to employ high levels of unskilled; nor can state owned enterprises. Their only hope is the private sector particularly small firms which can escape the high entry level salaries.

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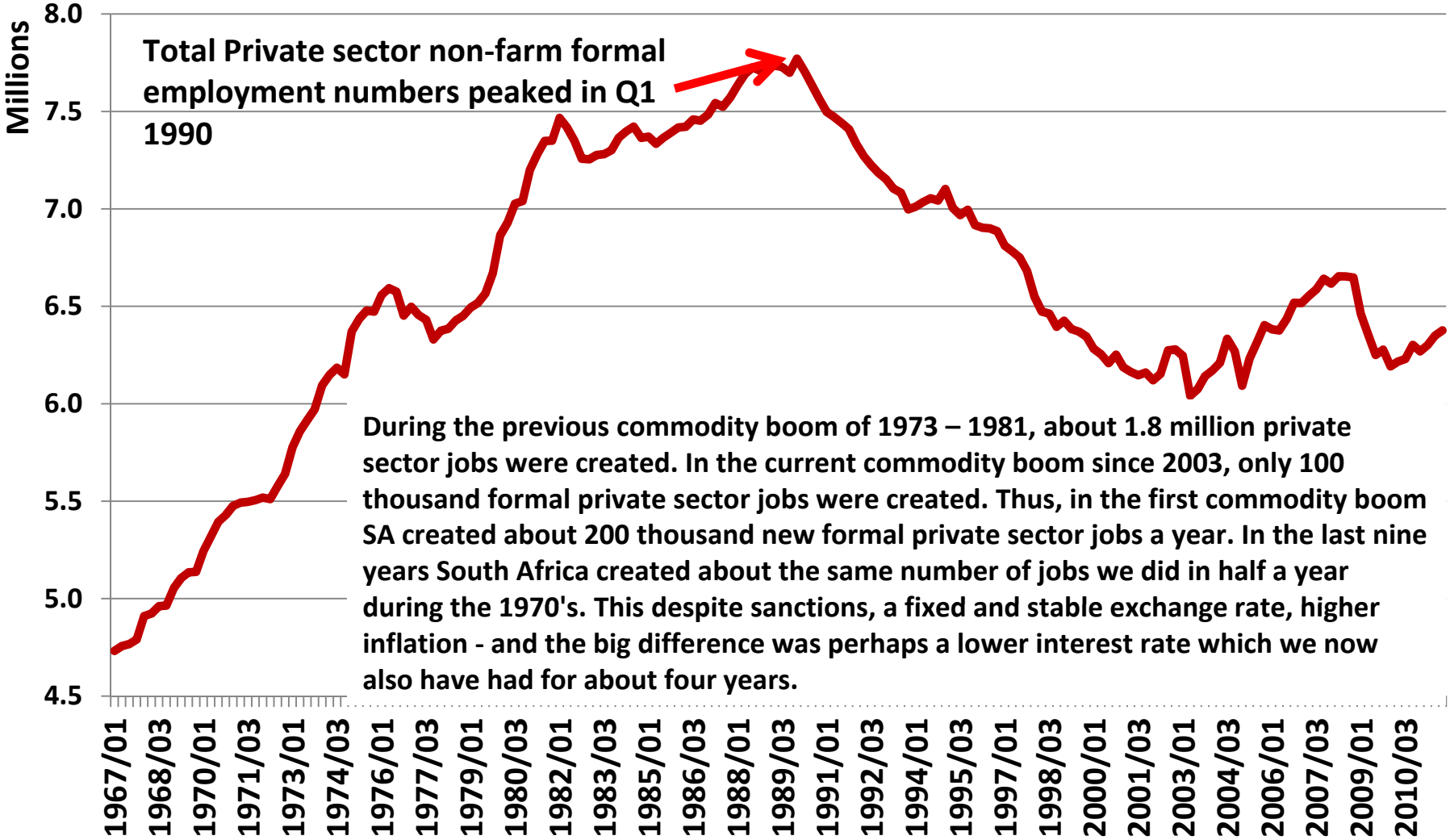
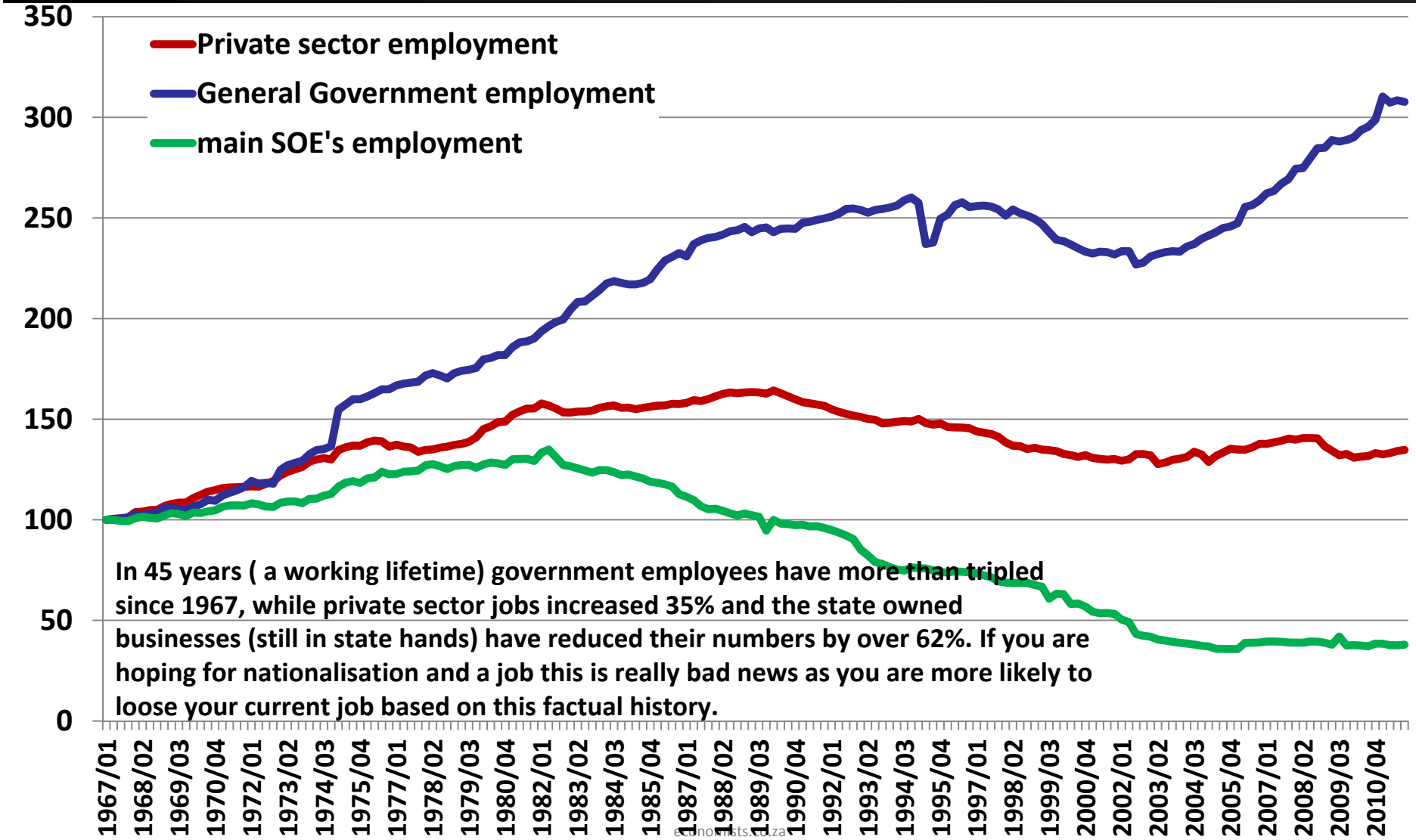
Proof of the unaffordability over a very long time.

Private non-farm pay rolls. Two lost decades and a really bad outcome.



Long-term formal employment indices by type of work place.

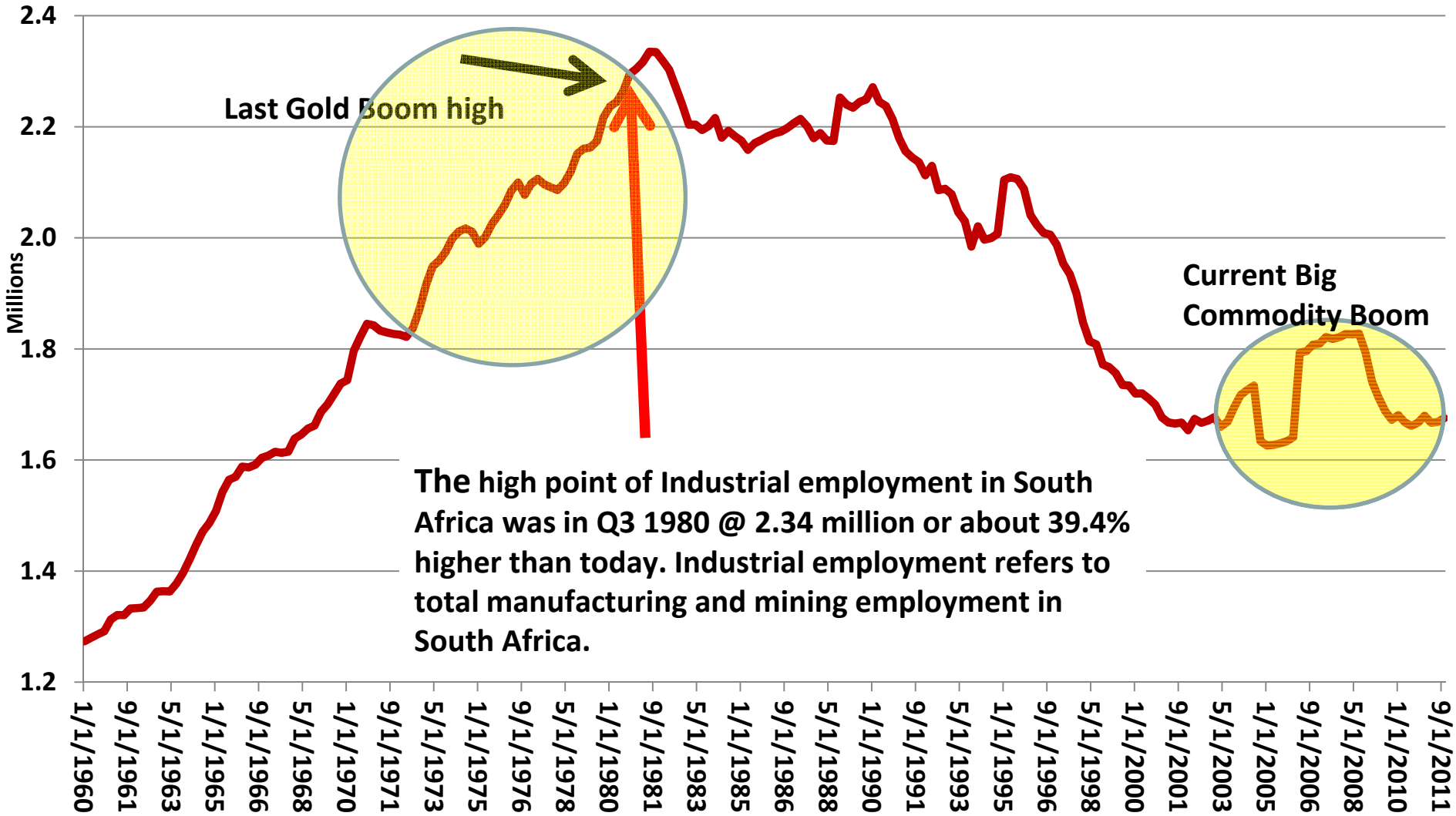


In 45 years (a working lifetime) government employees have more than tripled since 1967, while private sector jobs increased 35% and the state owned businesses (still in state hands) have reduced their numbers by over 62%. If you are hoping for nationalisation and a job this is really bad news as you are more likely to loose your current job based on this factual history.

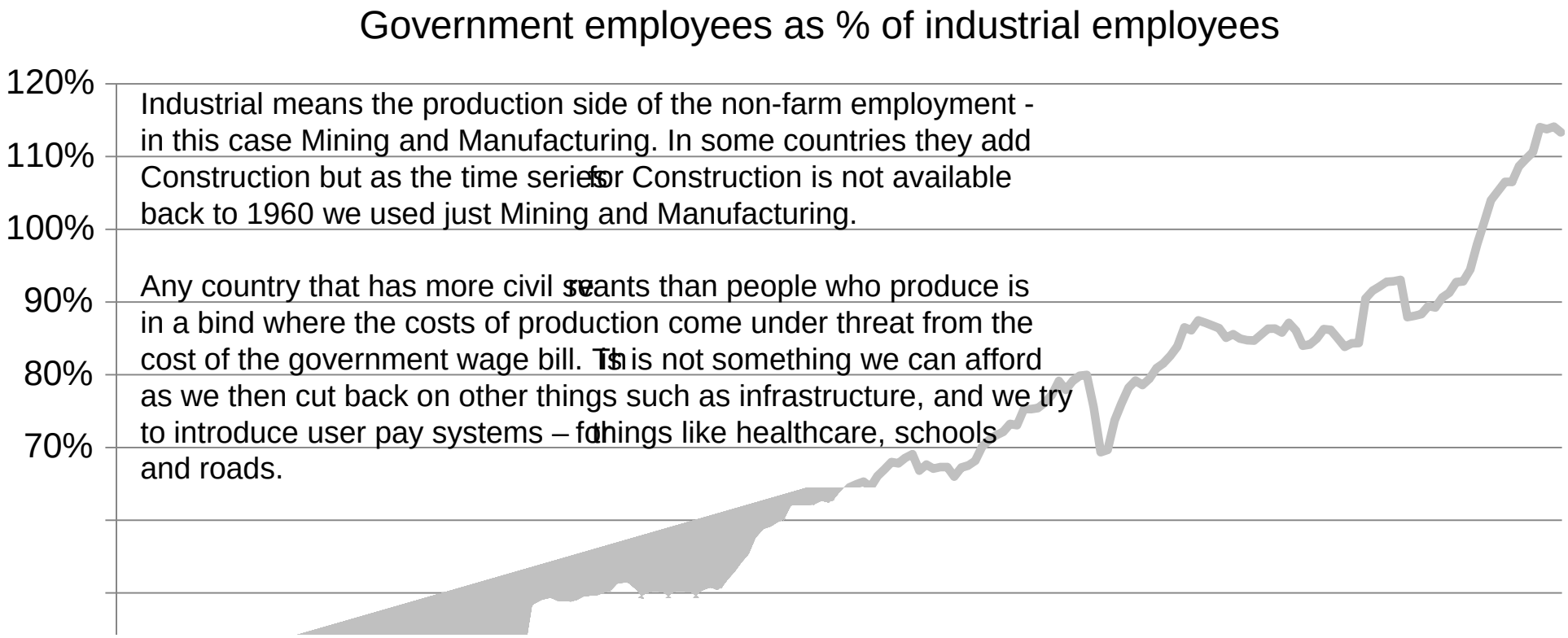
Some big facts you have never heard.

- State Owned Enterprises have destroyed even more jobs than the private sector but now earn about 43% more than the private sector.
  - While almost every SOE has been bailed out over the last two decades they have only about 28% of the employees they had in the early 1980's. They have NOT created jobs and have probably destroyed more than 90% of ALL their unskilled jobs.
  - Pro rata government and SOE's use more temporary workers and therefore probably more labour brokers than the private sector. Employing these people at SOE pay levels would bankrupt them totally.

SA industrial employment: A long lost boom.



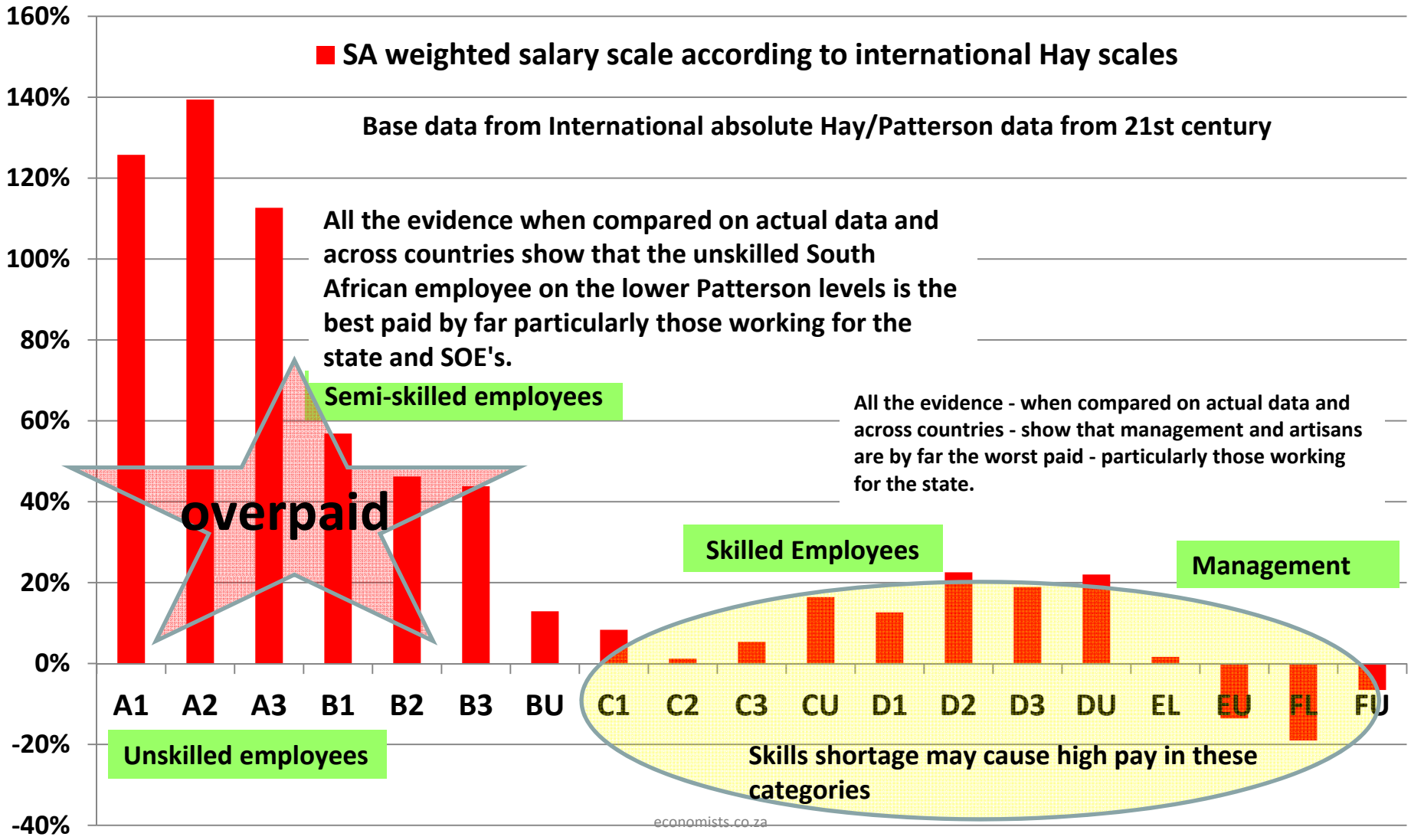
Government employees as % of Industrial employees: The wrong direction.



Industrial means the production side of the non-farm employment - in this case Mining and Manufacturing. In some countries they add Construction but as the time series for Construction is not available back to 1960 we used just Mining and Manufacturing.

Any country that has more civil servants than people who produce is in a bind where the costs of production come under threat from the cost of the government wage bill. This is not something we can afford as we then cut back on other things such as infrastructure, and we try to introduce user pay systems – for things like healthcare, schools and roads.

A recap of the real picture of the relative wage values for the worth and value they add.



Real pay and employment. Total SA formal employment market from BMR UNISA

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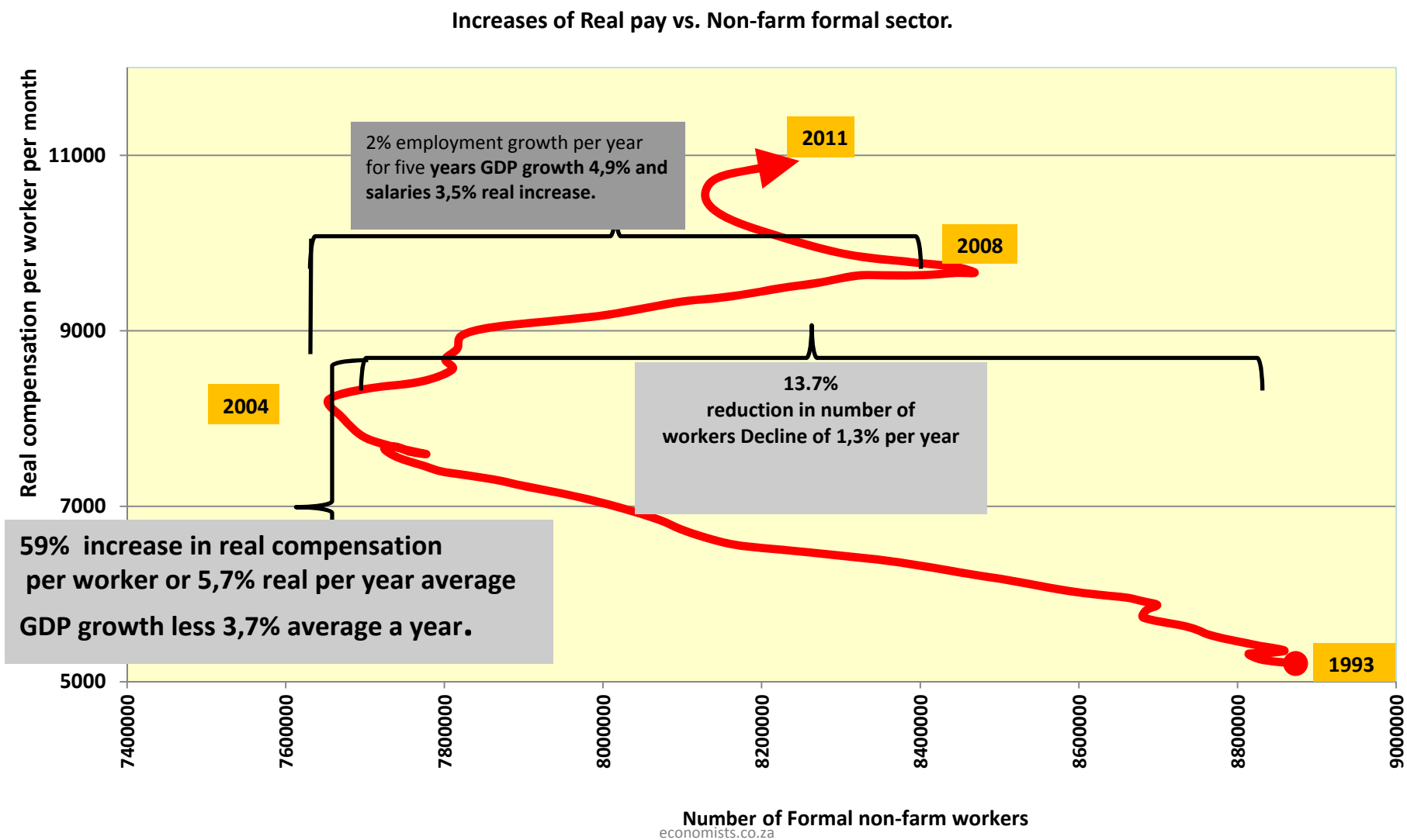

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A few more facts and thoughts.

- Doctors, accountants, lawyers and a few more high skilled are taxed in the way that they have to serve during training.
- Artisans are also generally under paid during training but that may be normal.
- The Wage gap has to increase so that more people want to work harder and that lower paid employees are not paid as highly in real terms so that employment of the real poor can start.

A little advice.

- Starting and entry level salaries must be lowered in real terms. (That may mean lower increases – below inflation for a decade).
  - Higher level employees and senior skilled employees could be allowed to have above inflation increases but would depend on skill levels and responsibility levels.
- Wage subsidy is a good idea. This for say the first two or three years.
- Implement a “training” salary that is say 30% below current bargaining council minimum salaries and leave that in place for say the first three years.
- Improve public transport so that lower paid workers can get to work cheaper as this is one of the bigger costs for them

A little more advice

- The Government and state owned enterprises will probably have to bite the bullet and lower their entry salaries – probably on half their levels so that the state does not "crowd in" talent that the private sector can use.
  - At present government pays about 34% more; mainly as a result of unskilled and semi skilled employees earning too much.
  - SOE's pay about 43% more than the private sector and can no longer afford to employ people without substantial price increases to consumers.
- We must realise that things have changed and the old slogans are no longer true. The Working class can now be called the comfortable class.
  - The higher level employees are actually the ones who carry the economy more & carry a heavy tax burden. For us to grow we need to give them more room and be more honest with the new comfortables so that the real poor can get jobs!

Sources:

- OECD; SARB; IMF; 21st century pay solutions and their international and local data (Ian McGorian).
  - Sample size just over 600 000 employees for Patterson scale data for SA.
- Hay group; ILO for some back ground not used in graphs directly.
- Statistics South Africa Quarterly employment Survey, PSC, BMR; and SARS tax data.
- Transnet, Eskom, SAPO, SABC and SAA annual reports as well as SARB remuneration data.

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Thank you

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