

Cannibals and zombies: How the public wage storm could make 2021 a fiscal horror show

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Two unions have already indicated their intention of going to the Constitutional Court to compel the government to honour the public wage agreement. While the government pleads limited resources because of the pandemic, unions-maintained renegeing would leave civil servants more vulnerable to Covid-19. While the situation looks dangerous and desperate for the fiscus and public servants alike, economists believe much can still be done to mollify both. Moviegoers, especially thriller and horror fans, know the feeling all too well of watching a scene with suspense as a scared and vulnerable protagonist navigates their way through a dark and dangerous path as a dangerous antagonist lies in wait to attack. Similarly, South Africa finds itself in a dark moment as a nation. It is in the thick of a second wave of the Covid-19 pandemic, nearly 300 days since the national lockdown was declared and more than 4 000 Covid-19-related deaths in the first 12 days of 2021 alone. However, its fiscus is besieged with the ever-growing demands of managing the response to the pandemic, softening the socio-economic blow of the virus and lockdown on South Africans, and keeping tempers cool with public servants demanding agreed wage increases. At the same time, these same public servants are under increasing financial pressure and must face a deadly virus in the middle of some of the most unstable economic conditions South Africa has had in decades. Everyone feels under attack on all corners. Whether its already massive compensation demands that could rock the fiscus as it manages a crisis or the economic fallout of an ongoing pandemic putting more and more livelihoods at risk, the suspenseful horror music is hitting its dizzying crescendo. By the end of the month, the Public Service Association (PSA) is expected to file papers in the Constitutional Court, effectively seeking a court to compel the government to pay the wage increases it committed to in 2018, including a CPI+1% increase to public wages. The SA Democratic Teachers Union (SADTU) indicated it intended to initiate its own case before the highest court in the land after the Labour Appeals Court granted the government relief from the three-year wage agreement which it said it could no longer afford. For the past two budget speeches and medium-term budget policy statements, Finance Minister Tito Mboweni stressed all stakeholders - public servants included - should make sacrifices to save South Africa from fiscal disaster, a call he made well before the Covid-19 pandemic, proposing a reduction in public wage spending of R160 billion over three years in his 2020 budget. President Cyril Ramaphosa's Economic Reconstruction and Recovery Plan also outlines a R100 billion presidential employment stimulus over the next three years to support thousands of young South Africans through the pandemic and soften the blow it has dealt to employment and the fiscus will likely need all the room it can get to facilitate this. While the government is keeping mum about the legal challenge from unions representing some of South Africa's more than two million public servants, unions challenging the government in court are showing no desire to yield an inch. Union to take public sector wage battle to the Constitutional Court A zombie fiscus Economist and director of the Centre for Economic Development and Transformation Duma Gqubule said at the heart of the problem was the economy was facing bigger uncertainty than ever because of the government's failure to deal with the virus. "That will impede the recovery. The only way out of the crisis is to bring the virus under control. Without that, this scenario will result in the government redoing its growth outlook and budget estimations. We have to get new money into the system." Gqubule said to expect that R310 billion in spending cuts being carried solely by public servants was "just not fair", adding public servants and the wage bill were not even the reason for the crisis that South Africa currently faced. "From 2005-06 to 2019-20, the rise in public sector wage contributed only 6% to the escalation of debt. We can't blame the public servants for the inability of the government to rescue the South African economy." - Duma Gqubule He suggested the government should become more aggressive about utilising the financial resources from some of its funds' surpluses to spend on

catalysing a South African economic recovery. For instance, Gqubule said, the government could utilise government bonds from the Public Investment Corporation and the SA Reserve Bank - which have made R500 billion and R41 billion in government bonds available, respectively - to finance state investment at no cost or under delayed favourable terms to the state. Cannibalising funds IQ Business economist Sifiso Skenjana said the government's case appeared to be based on its capacity to fulfill the 2018 wage agreement, but it was also clear that as much as 21 cents of every state rand went towards the servicing of debt. "Our debt borrowing programmes are accelerating and our tax revenue collection ability is a serious consideration. The guidance from Minister Tito Mboweni means this will have to be revised upwards. Absent any growth, the portion that government dedicates to wages increases." Skenjana added success by the PSA had the potential to cannibalise necessary funds needed to stabilise the economy as well as turn it around. "It will likely cannibalise other spending that government can do towards other programmes, whether responding to Covid, social spending or investment spending. It seems like the basis on which the arguments of the case are is the capacity to fulfill the agreement." He said the fact the biggest growth in labour had gone towards teachers, health workers and the police showed the idea the government was hiring the wrong people was incorrect. Skenjana added in time, "a proper mix" could be found between stabilising spending and raising wages. "A lot of the conversations around these issues are out of context. When you look at the earning levels, a lot of the wage clusters have only grown by 1.5 and 3.2% and that suggests that government has hired more people over the years but people's earnings are not rising above inflation." He said it might not be necessary to throw the agreement out altogether and the government could start working on back pay solutions as and when they gained capacity to honour the wage agreements with the unions.

Clash over public sector wages The beast of daily living In a statement, the PSA pointed to the rising costs of daily living expenses and Covid-19 pandemic weighing on public servants delivering critical services when it unpacked its decision to take the Labour Appeals Court decision to the Constitutional Court. "The PSA is set to file papers at the Constitutional Court on 29 January 2021. The union has, in the meantime, also demanded that public service salary negotiations for the 2021/22 financial year should commence immediately at the Public Service Coordinating Bargaining Council," it said. SADTU spokesperson Nomusa Cembali said the union was not planning to partner with anyone in its Constitutional Court bid, adding its lawyers had not confirmed the details, but the union had taken the decision to take the process forward. "At our last NEC meeting in December, we said a decision was taken that we would take the matter to the Constitutional Court, but we do not have a date on the precise details. We will wait for our lawyers to brief us," added Cembali. Cosatu, the labour federation of which SADTU is part, has been a consistent critic of the government's proposals to slash spending on public service compensation, more so since the advent of the pandemic. Silence of the lambs The Department of Public Service and Administration, which leads public wage negotiations on behalf of the government at the Public Service Coordinating Bargaining Council, has kept to itself around the latest developments. Department spokesperson Vukani Mbhele told Fin24 it did not have any comment on the legal challenge by the unions or the public service wage bill impasse, in general. Contacted for comment on Monday, National Treasury responded on Tuesday to Fin24, saying it had no comment on the legal actions or planned legal actions of other parties. "In line with the above response, the National Treasury has not received nor perused any court documentation on this matter. A decision on the way forward will be informed by the actual developments," it said through an email correspondence.

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