

**Subject for discussion : The high salaries and bonuses paid in the private sector and its effect on the salaries at State-Owned Enterprises and in the public sector**

**UCDP : Hon IS Mfundisi**

**Thursday, 8 November 2012**

Chairperson,

Para-statals and State owned enterprises now pay very close to private sector rates at executive level in respect of guaranteed pay and short term incentives. It's been argued that government and SOE's are under pressure to match private sector because unless they do, they risk brain drain to the private sector.

Executive pay, both in government and private sector remains relatively high in global standards yet we are a country with massive socio-economic challenges that need redress. What the 2010 household survey revealed is that 10 per cent of earners in South Africa took home salaries that were 101 times higher than the bottom 10 per cent. This exposes the ridiculousness in determination of salaries in a country compounded by economic inequalities, where the gap between the rich and poor continues to expand.

The disproportionality in pay, whether private or government weakens social cohesion and may lead to other problems, such as crime. South African executives continue to display double standards and get away with it. They advocate for executive pay packages matching the developed world while also insisting on

general labour being paid on par with developing countries. Top executives in South Africa earned 1 728 times the average worker in their respective companies, while this gap was only at 319 times in the US. Socio-economic concerns particularly aggravate the issue in South African context; as the gaping pay differentials impact the resultant income inequalities found across society. We've witnessed vocal calls recently calling for businesses to consider modesty in executive salaries, however, these calls received little or no support as government and parastatals must be seen to lead by example. The calls by key government officials for modesty in executive pay, are likely to be impractical considering severe skills shortages of executives, and professionally and technically skilled staff.

Of note is what the Minister of Public Enterprises said on this issue: "Remuneration generally of executives is quite high and doesn't contribute to bridging the inequality gaps between the highest paid and the lowest paid" Government is trying to lock the stable after the horse has bolted. It is this government that said people were paid slave wages when they ascended to power. It is this government that said people are entitled to unbridled remuneration.

Increases within the public sector continue to match or exceed private sector rates. Net wages after taxes in the South African government are higher than net wages in Germany, Sweden and Finland, on a dollar purchasing power parity basis. Government salaries account for more than 12.8% of GDP and, when the salaries paid by state-owned enterprises are added, it increases to more than 14.3% of GDP.

The cost of high wages in government cannot only be attributed to fear of losing skills to the private sector. It is evident that its is not only skilled civil servants that are paid way too much in comparison with the rest of the world. For instance,

lower level civil servants in SA, like cleaners, earn more than teachers in India or Brazil. South Africa's formal sector often overpays those with relatively few skills, while those with skills are often underpaid in relative terms, the 2012 South African Employment Report shows.

