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An investigation of wage levels and wage inequality in the South African public sector:

findings from the Labour Force Survey, September 2001

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#### 1 Introduction

The public service is the largest single employer in South Africa, employing almost 1,1 million people in 2001. With one in six formal sector workers employed by the State, this in itself makes this sector so large as to merit attention. Moreover, while the public service has much in common with other formal employers, it differs in its size, its skills profile and the state's special role in society. The government is required by the Constitution to lead by example and thus public sector employment should be scrutinized in terms of equity and efficiency objectives.

Since the transition to democratic rule, there have been substantial changes in public sector employment. The number of people employed by national and provincial government has declined<sup>2</sup>, pay scales have been simplified and the State has made great strides in improving representativity. At the same time, the number of managers has been increasing (Woolard and Thompson, 2002) and wage increases at all levels have out-performed inflation, resulting in better pay for most government employees.

This paper sets out to investigate relative wages and wage dispersion for formal sector workers in the private and public sectors. The paper explicitly measures the size of the public sector wage premium and offers some reasons for its existence.

There are three sources of differences in the public and private sector wage distributions, namely differences in the distributions of worker characteristics in the two sectors; differences in the returns to various worker characteristics in the two sectors; and differences in the distributions of unexplained wage residuals across sectors (Juhn, Murphy and Pierce, 1993). Each of these elements is considered.

In the first part of the study, regression analysis is used to compare public and private sector wages so as to control for factors such as age, education levels, location, race, and occupation.

In the second part of the paper, very simple inequality measures are employed to investigate whether the public sector exhibits less or more wage inequality than the private sector.

<sup>&</sup>lt;sup>2</sup> In 1995 there were 1 267 763 public sector employees. By 2001 this number had shrunk to 1 053 569 (Public Service payroll information (PERSAL)).

Throughout the paper, only full-time formal-sector employees are considered. The primary source of data is the raw data from September 2001 Labour Force Survey (LFS 4) conducted by Statistics South Africa. This is a particularly useful survey for the purposes of this paper because it explicitly distinguishes between public and private employment.

#### 2 The LFS data

The LFS is a newly introduced, twice-yearly rotating panel household survey, specifically designed to measure the dynamics of employment and unemployment in the country. For the purpose at hand, the great merit of the LFS lies in the detailed information provided about the type of employer which makes it possible to distinguish public sector employees. (In fact, it is possible to dissect this further into levels of government, but this is not done here.)

The LFS questionnaire asked respondents to state their "total salary" including overtime and bonuses and before the deduction of tax. Questions about income are always problematic, with the biggest problem being under-reporting. While under-reporting is sometimes deliberate, it is often simply the case that respondents do not have a clear understanding of the meaning of terms such as "gross" or do not know what their "total package". Table 1 shows the distribution of wages reported by those who said they were employed by central or provincial government and compares this to the distribution derived from the payroll (PERSAL) data provided by the Department of Public Service Administration. (For the purposes of this comparison, those employed by local government are excluded since they are not paid via PERSAL.) The annual PERSAL salaries were divided by 13 (not 12), since public servants receive a 13<sup>th</sup> cheque which respondents were likely to ignore.

Table 2.1 Monthly wages, by percentile for provincial and central government employees

Percentile	LFS 4	PERSAL
10 <sup>th</sup>	R1500	R2100
25 <sup>th</sup>	R2300	R2500
50 <sup>th</sup> (median)	R4000	R4100
75 <sup>th</sup>	R5250	R5400
90 <sup>th</sup>	R7000	R6800

Note: PERSAL figures are for 2000, not 2001

The two distributions are extremely similar, although there is some indication of under-reporting among low wage-earners in LFS4. In particular, the lowest salary notch for a full-time (permanently appointed) public servant in 2001 was about R26 000 p.a., yet 14% of government employees in LFS 4 reported earning less than this. This suggests that some respondents were reporting their take-home pay (after deductions such as tax, pension and even medical-aid) instead of gross earnings.

There is no way of correcting for this under-reporting. There is, however, no reason to believe that the level or pattern of under-reporting was different among public as opposed to private sector employees. Consequently, while recognizing the deficiencies of the data, this paper makes the assumption that a comparison between public and private sector employees remains valid, even if the *wage-levels* are slightly biased.

#### 3 Profile of the public sector

There are 30 departments at national level and more than 200 in the provinces. Some 80% of public servants work for SAPS, the SANDF, Correctional Services or the provincial health and education departments (Seidman-Makgetla, 2000:19). The average provincial education department has 43 000 employees; the average health department 25 000. SAPS and the SANDF have around 100 000 employees each. At

the other end of the spectrum, administrative and economic services departments are much smaller, with most having less than 500 employees.

Table 3.1shows the breakdown of major occupational groups in the public sector.

Table 3.1 Employment and average salary in major occupational groups in the public sector, 1999

Occupation	Number	% of public sector	Average salary (Rand p.a.)
Educator	369 000	34%	R63 000
Police, correctional services, defence	200 000	18%	R50 600
Administration	125 000	5%	R40 900
Elementary occupations	212 000	19%	R25 400
Nurses	75 000	7%	R50 600
Skilled production workers	59 000	5%	R34 600
Nursing assistants	29 000	3%	R34 600
Professionals & high-level professionals (other than health and legal professionals)	21 000	2%	R72 000
Medical doctors	13 000	1%	R78 300
Health professionals other than doctors and nurses	9 000	1%	R63 000
Legal personnel	5 000	<1%	R94 000
Senior management	4 000	<1%	R220 000
Total public service	1 101 000	100	R40 900

Source: Adapted from Seidman-Makgetla, 2000:20

Table 3.2 shows the change in average remuneration per worker in the private and public sectors for the period 1995-2000. Real wages have been increasing in both sectors, although not as rapidly in the public service as in the private sector. Table 3.2 shows that there was a substantial increase in public service salaries in 1995, but in subsequent years private sector increases outstripped those in the public sector.

This table needs to be interpreted with caution. Public sector employment fell dramatically over this period and many of the jobs that were shed were low-skill (and thus low-paid) ones (Bhorat, 2001:6 and Seidman-Makgetla, 2000:20). The loss of low income jobs will in itself push up average remuneration levels without there having necessarily been an increase in the individual salaries of those that remain.

Table 3.2 Percentage change in remuneration per worker, public and private sectors, 1995-2000

	Percer	Percentage change in remuneration per worker								
	At curre	ent prices	At consta	nt prices*						
Year	Public sector	Private sector	Public sector	Private sector						
1995	14.3	11.0	4.0	0.9						
1996	10.2	11.0	0.9	1.7						
1997	11.7	10.4	3.5	2.3						
1998	10.2	16.5	3.6	9.4						
1999	4.6	9.2	-1.3	3.0						
2000	9.6	9.1	2.7	2.2						
1995-2000	77.7	88.8	14.1	20.9						

Source: South African Reserve Bank Quarterly Bulletins, various years.

In order to show actual changes in wages for public servants who have retained their jobs and not changed pay scale, Table A1 in the Appendix shows the increase in pay levels by notch between 1996 and 1999. The nominal increases range from 48% at the very bottom end to 32% at the top-end. While these increases are small in real terms, the larger increases at the lower-end of the salary spectrum implies a narrowing of the wage-gap in the public service over this period.

<sup>\*</sup> Deflated using the non-agricultural GDP deflator

### 4 Wage differences in public versus private sector employment in South Africa

The mean public sector wage in LFS 4 was R4 214 per month. In comparison, LFS 4 finds that the average (formal) private sector wage was only R3 113 per month.

As a first exploratory step, Table 4.1 compares private and public sector wages in relation to a number of variables considered singly. For the purposes of this exercise, medians are reported so as to compare the wages of *average workers*, rather than *average wages*, which might be skewed by large outliers.

Beginning with education level, it is clear that the private sector heavily penalizes those with little education, while the public sector pays roughly the same for all those with less than Grade 12. On the other hand, someone with a degree, especially a postgraduate one, is more highly rewarded in the private sector. It is thus immediately apparent that there is less wage dispersion in the public sector: the average graduate (without a postgraduate qualification) in the private sector is earning 10 times that of the average worker with no education, while in the public sector this ratio is only 3.5.

Moving on to occupational class, it is evident that it is only professionals that *on average* do worse in the public sector. All other occupational classes seem to experience a small premium if they work for the state. Not surprisingly, this premium is especially large for those in (low-paid) elementary occupations where minimum wages play an important role in determining wage levels.

The last part of Table 4.1 shows what the average formal sector worker person of a given race and gender is earning in the public and private sectors. It is apparent that the average African or Coloured person in the public sector is earning more than the average person (of the same race and gender) in the private sector.

Table 4.1 Comparison of median monthly wages in public and private sectors

	Median month	nly gross wages
	Private Sector	Public Sector
Educational attainment		
No schooling	688	1700
Some primary schooling	1000	1800
Completed primary	1160	1800
Some secondary	1505	2200
Completed secondary	2800	3500
Diploma (without grade 12)	4000	4500
Diploma (with grade 12)	5250	4500
First degree	7000	5630
Postgraduate qualification	9500	6000
Occupational class		
Legislators, senior officials and managers	7000	8000
Professionals	8000	5630
Technicians	4000	4000
Clerks	2800	3200
Service workers, shop and market sales workers	1300	3000
Skilled agricultural and fishery workers	2580	1800
Craft & related trade workers (incl. mining)	1800	2500
Plant and machine operators and assemblers	1600	2150
Elementary occupations	753	1800
Race and gender	1400	3000
African male	900	3000
African female	700	
	1600	3066
Coloured male	1600	3600
Coloured female	1000	
In the mode	3700	4500
Indian male	2500	4500
Indian female		
XXII '44	6200	6000
White male	4000	5000
White female	1.000	

Source: author's calculations using LFS 4, Statistics South Africa

It must be noted that these univariate comparisons may be completely misleading. It is only once we place all these variables in a multivariate context and allow them to compete that we will be able to say whether, for example, a White female in the public sector is earning more than her private sector counterpart after controlling for education, experience, occupation, sector and location. This is done in the next section.

## 5 Multivariate comparisons of earnings in the public and private sectors

A wage equation (or earnings function) was used to estimate the premium associated with public sector employment. The wage equation employed relates the logarithm of

monthly earnings to a set of individual characteristics and an indicator variable ("public sector") for working in national, provincial or local government.

The following basic earnings function was employed:

$$ln (Earnings) = b_0 + b_1(Edu) + b_2(Exp) + b_3(Exp^2) + b_4(Race) + b_5(Gender) + b_6(Region) + b_7(occupation) + b_8(Public x Edu)$$

where:

- Edu represents educational attainment. Following Kingdon and Knight (2001:22), Edu was included as a set of categorical variables, rather than simply as years of schooling.
- Exp is proxied using the standard technique, which is to take age less years of schooling less six.<sup>3</sup>
- Race represents a set of dummy variables describing the four official South African racial groups.
- Gender is a dummy variable.
- Region is set of dummy variables that describe the nine different South African provinces and urban and rural locations.
- Occupation is a set of dummies for the (one digit) major occupation groupings.
- Public x Edu is a set of dummy variables for the type of employer (private/public) interacted with the level of education.

Education was allowed to affect wages through a set of seven categorical variables, with "no education" as the omitted category. The wage equation includes linear and quadratic powers of experience. (Following Poterba and Rueben (1994), cubic and quartic powers of experience were also tested but were not significant.) A set of control variables for nine broad occupational classifications were also included, with "elementary workers" as the omitted category.

<sup>&</sup>lt;sup>3</sup> This proxy for experience has been criticized on the grounds that individuals do not have continuous work histories outside of schooling. Such a critique is particularly relevant in a country with an unemployment rate as high as South Africa's, but the proxy is nevertheless used here in the absence of a better alternative.

Public versus private sector employment was interacted with education as it was hypothesized that the size of the public sector premium / penalty might vary with level of education.

The wage equation was estimated separately for various (race and gender) groups so as to tease out whether the premium differs across groups.

In addition, the wage equation was estimated separately for public and private sector employees, respectively. This serves two purposes. Firstly, it allows us to see whether the effects of (or returns on) different individual characteristics differ across the two sectors. Secondly, it allows us to predict average wages in each sector for hypothetical workers with fixed characteristics.

Table 5.1: OLS Regression of In (monthly gross wages) for formal sector employees

	All	Private	Public	African	White
Public & no schooling	0.442			0.408	
Public & some primary	0.270			0.310	
Public and comp. Primary	0.334			0.317	0.223
Public & some sec.	0.214			0.256	0.124
Public & matric	0.222			0.410	0.039
Public & diploma (no matric)	0.228			0.417	0.062
Public & diploma (post-matric)	0.135			0.211	-0.071
Public & first degree	-0.007			0.022	-0.239
Public and postgrad. Degree	-0.167			-0.070	-0.285
Female	-0.263	-0.284	-0.185	-0.243	-0.374
Coloured	0.187	0.206	0.184		
Asian	0.354	0.394	0.236		
White	0.616	0.698	0.403		
Experience	0.015	0.016	0.009	0.014	0.014
Experience <sup>2</sup>	0.000	0.000	0.000	0.000	0.000
Some primary	0.312	0.303	0.119	0.293	-0.112
Completed primary	0.429	0.422	0.245	0.376	0.408
Some secondary	0.647	0.623	0.404	0.570	0.534
Matric	0.945	0.898	0.729	0.822	0.743
Diploma (no matric)	1.067	0.984	0.934	0.954	0.786
Diploma (post-matric)	1.262	1.186	0.980	1.207	1.012
First degree	1.435	1.315	1.182	1.576	1.138
Postgrad degree	1.573	1.451	1.165	1.585	1.302
Union member	0.315	0.344	0.219	0.390	0.160
Managers	1.057	1.069	0.824	1.195	0.604
Professional	0.839	0.945	0.458	0.748	0.514
Technician	0.635	0.671	0.405	0.564	0.322
Clerks	0.490	0.516	0.308	0.431	0.172
Machinist	0.333	0.330	0.297	0.342	-0.179
Service worker	0.240	0.189	0.298	0.222	-0.111
Skilled agricultural worker	0.559	0.714	-0.069		0.443
Craftworkers	0.426	0.454	0.187	0.364	0.175
Eastern Cape	-0.258	-0.315	1		-0.071
Northern Cape	-0.208	-0.256	1		-0.079
Free State	-0.283	-0.348	-0.029	-0.340	
KZN	-0.105	-0.112	-0.060	-0.128	
North-West	-0.075	-0.095	-0.007	-0.135	-0.067
Mpumalanga	-0.099	-0.122	i	ı	-0.083
Limpopo	-0.219	-0.330	1	1	1
Rural	-0.243			3	
Constant	6.052				
Number of observations	16126				
Adjusted R <sup>2</sup>	0.59	0.61	0.46	0.53	0.30

Table 5.1 (cont.)

Table 5.1 (cont.)			African	African
	Male	Female	male	female
Public & no schooling	0.309	0.689	0.271	0.656
Public & some primary	0.213	0.449	0.255	0.457
Public and comp. Primary	0.275	0.456	0.283	0.378
Public & some sec.	0.180	0.262	0.222	0.293
Public & matric	0.202	0.243	0.394	0.432
Public & diploma (no matric)	0.054	0.467	0.109	0.785
Public & diploma (post-matric)	0.036	0.227	0.097	0.318
Public & first degree	-0.085	0.092	-0.049	0.068
Public and postgrad. Degree	-0.080	-0.236	0.081	-0.266
Coloured	0.180	0.202		
Asian	0.362	0.342		
White	0.688	0.502		
Experience	0.015	0.014	0.013	0.016
Experience <sup>2</sup>	0.000	0.000	0.000	0.000
Some primary	0.315	0.291	0.289	0.277
Completed primary	0.454	1	0.379	0.362
Some secondary	0.646	0.638	0.556	0.599
Matric	0.932	0.941	0.795	0.884
Diploma (no matric)	1.197		1.031	0.828
Diploma (post-matric)	1.261	ł	1.176	1.274
First degree	1.397	1.448	1.478	1.708
Postgrad degree	1.510	1.632	1.401	1.865
Union member	0.339	0.262	0.415	0.327
Managers	1.060	1.079	1.194	1.273
Professional	0.903	0.774	0.844	0.659
Technician	0.658	1	0.599	0.495
Clerks	0.473	0.499	0.452	0.388
Machinist	0.371	0.225	0.378	0.207
Service worker	0.312	0.141	0.281	0.133
Skilled agricultural worker	0.598	0.390	0.318	-0.047
Craftworkers	0.464	0.251	0.402	0.230
Eastern Cape	-0.237		1	-0.424
Northern Cape	-0.189	-0.225	-0.251	-0.398
Free State	-0.240	-0.350	-0.302	-0.405
KZN	-0.082	-0.144	-0.075	-0.200
North-West	-0.034	-0.163	-0.097	-0.204
Mpumalanga	-0.025	1		1
Limpopo	-0.19	1	1	1
Rural	-0.248	ł	1	1
Constant	5.993	l .		1
Number of observations	1026			7 3459
Adjusted R <sup>2</sup>	0.60			8 0.60

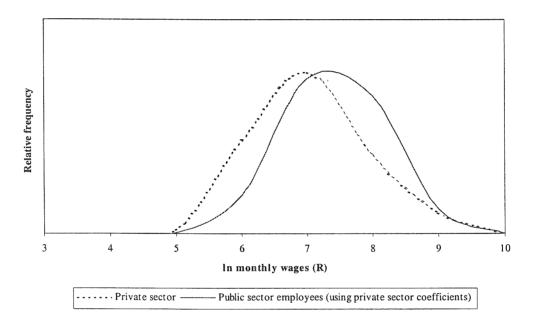
Source: author's calculations using LFS February 2000, Statistics South Africa

Omitted categories are: African, male, no education, elementary worker, agricultural sector, Gauteng Bold coefficients are significant at the 5% level.

A few general points will be made about the regressions, before turning to the primary issue of the public sector premium.

By using the coefficients from the "private sector" equation in Table 5.1, it is possible to predict the wage distribution of all employees as if they were employed in the private sector. In this way, it is possible to explore the differences in the distribution of worker attributes in the two sectors. Figure 5.1 shows that the predicted monthly wages in the public sector is right-shifted relative to the analogous private sector wage distribution, indicating that there are proportionately more workers with high human capital in the public than private sectors.

Figure 5.1 Predicted private sector earnings of public and private sector employees



#### Gender

Women earn about one-quarter (26%) less than their male counterparts (after controlling for other factors). This effect is somewhat smaller in the public sector (19%) than in the private sector (28%).

#### Race

Whites and Indians earn more than Africans (after controlling for other factors) in both the public and private sectors, but the difference is much larger in the private sector. Whites earn a premium over their African counterparts of 70% in the private sector and 40% in the public sector, while Asians earn a premium of 39% in the private sector and 24% in the public sector. Coloureds earn approximately 20% more than similar Africans in both sectors. The much smaller racial effects in the public sector relative to the private sector should be pleasing to government.

#### Education

The education variables bear some scrutiny, as the univariate cross-tabulations above indicated that education made less of a difference to wages in the public sector than in the private sector. The omitted education variable is no education and thus all the educational coefficients need to be seen in relation to this. The additional returns to primary and secondary education are smaller in the public sector than the private sector – that is, those with no education do not earn much less than those with low levels of education. This is probably related to the higher minimum wages in the public sector relative to the private sector.

Diplomas and degrees result in similar wages increases in both the private and public sectors.

#### Unionization

Trade union membership enhances earnings by about 32% overall. Union membership has a stronger effect on wages in the private sector than the public sector. It should be noted that the indicator variable for trade union membership may be imperfect: the February 2000 LFS finds that 68% of public servants belong to trade unions, while Seidman-Makgetla (2000: 20) asserts that "between 80% and 90%" of public servants are unionized.

#### Occupation

The differences in pay amongst occupational classes are clearly more muted in the public sector than the private sector. For example, after controlling for other factors, a professional in the private sector earns 95% more than an elementary worker, compared to a difference of 46% in the public sector.

#### Public sector wage premium

Of greatest interest to us is that the regressions show that, after controlling for education, age, location and occupation, public sector employees earn more than their private-sector counterparts (with the exception of graduates and diplomates). For example, the first equation in Table 5.1 ("All") indicates that a person with no schooling who is working in the public sector will earn 44% more than her counterpart in the private sector. By contrast, someone with a (first) degree will earn roughly the same in the public and private sectors and someone with a postgraduate qualification will earn 16% more in the private sector than the public sector. Clearly, the premium is much larger for those with low levels of schooling.

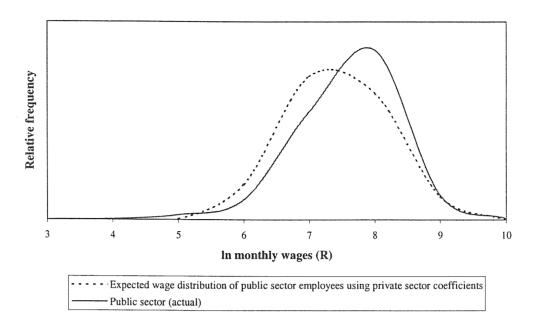
The regressions for "African" and "White" show that this public sector premium is substantial for Africans, but insignificant for White employees. With the notable exception of those with postgraduate qualifications, the average African public servant is earning 21% - 41% more than his/her equally experienced, equally qualified counterpart in the private sector. For Whites, the coefficients are all non-significant or negative, suggesting a small public sector wage "penalty" for Whites.

Table 5.1 indicates that the public sector wage premium is much larger for women (especially African women) than men. On average, women in the public sector earn 21% more than they would in the private sector, with the public sector premium for African women standing at 36%. (This "average premium" is the weighted average of the *public x educ* coefficients.)

Another way of depicting the existence of a public sector premium is to compare the actual public sector earnings distribution with the distribution of predicted earnings for the same group of people, but based on the private-sector regression. In other words, we are comparing actual earnings with what people would have earned had they been employed in the private sector. Figure 5.2 is simply a graphical device for showing what we already know: predicted earnings are left-shifted relative to actual earnings indicating the existence of a wage premium in the public sector. The public sector distribution is also "narrower" than would be expected if these same people were employed in the private sector—indicating that wage dispersion is lower in the public sector than the private sector.

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Figure 5.2 Actual and predicted (private-sector based) earnings of public servants



#### 6 Wage dispersion

Table 6.1 employs the Gini coefficient as a measure of wage dispersion and compares it for the private and public sectors.

Table 6.1: Gini coefficients, public and private formal sector wages, 2001

		LFS 4	
	Private	Public	All
Gini coefficient of wages	0.57	0.37	0.53

Source: author's calculations using LFS4, Statistics South Africa

The divergence in measured wage dispersion between the two sectors is considerable, with a Gini coefficient in the private sector of 0.57 compared with only 0.37 in the public sector in 2001.

Table 6.2 shows the distribution of wages in the private and public sectors. (Again, the caveats about the data raised in Section 2 should be borne in mind.) It is immediately evident that the lower wage dispersion in the public sector is the result of public sector wages having a much higher "floor" and a slightly lower "ceiling". The

ratio of wages at the 90<sup>th</sup> percentile to wages at the 10<sup>th</sup> percentile is 14 in the private sector, but only 5.6 in the public sector.

Table 6 Distribution of wages in the public and private sectors, 2001

	Private	Public	All
Wage at the 10 <sup>th</sup> percentile	500	1250	600
Wage at the 25 <sup>th</sup> percentile	900	2000	1200
Median wage	1850	3500	2000
Wage at the 75 <sup>th</sup> percentile	4000	5250	4500
Wage at the 90 <sup>th</sup> percentile	7000	7000	7000
Wage at the 95 <sup>th</sup> percentile	12000	9500	10000

Source: author's calculations using LFS 4, Statistics South Africa

#### Conclusion

The South African Government is a major employer in South Africa. In recent years it has strived to restructure the public service in the interests of equity and efficiency. This has seen the realignment of pay scales and a concerted effort to attract quality staff. While the size of the public service has been trimmed, the number of managers has increased and overall wages have been rising.

This paper has demonstrated that average wages in the public sector are quite a lot higher than in the private sector. But this is the result of more than one factor. Firstly, there is considerable human capital in the public service. Teachers alone account for more than 15% of all South Africans with a tertiary degree (Seidman-Makgeta, 2000: 20). Therefore, part of the higher salaries is accounted for simply by the fact that the State employs people who, because of their individual attributes, would ordinarily earn more than average.

Second, there exists a small "pure" wage premium to working in the public sector. On average, public servants earn 18% more than they would in the private sector. This is not a situation unique to South Africa. The State is intent on being a model employer and sets national norms and standards for the employment relationship. As such, working conditions in the public sector are often considerably better than in the private sector. Hand-in-hand with this goes the commitment to pay a living wage. As a result, the lowest paid government employees are earning considerably more than many of their private-sector counterparts.

This paper has also demonstrated that public sector wages are far less dispersed than private sector wages, largely as a result of much higher wages at the lower end of the salary scales.

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# Appendix

Table A1 Wage increases by notch

172 (183 (193 (193 (193 (193 (193 (193 (193 (19	sales i													
LEVEL	26/96		92//68		66/86				99/02	2			Percentage Increase 96-99	se 96-99
								Non-edu		F	Educators		Non-Edu E	Edu
		A					00/66	00/01	01/02	00/66	00/01	2		
1	17100-	19002	19002-	20097	20007-	22464	22464-	24036	25.236				47.6%	C114-C1173-V
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Source: PERSAL, Public Service Administration (special request)

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