



## A pay freeze is a silly idea

On the 18th of this month the presidency issued a release on the package adopted at the second meeting of the Presidential High Level Dialogue. This dialogue between stakeholders in the economy took place when our president realized that something may be wrong in the country. This became apparent when labour disputes resulted in the closing down of many mines, and when two of the major international rating agencies downrated South Africa. It became apparent when economic growth prospects were lowered by private and public institutions. It became apparent that something could be wrong when many people started saying so. And it became apparent that something is wrong when people died.

That something is wrong in the country has actually been apparent for some time. Textbook dramas, questionable appointments in the civil service and damning auditor general reports were all previous developments which could have been interpreted as something being wrong. But at least our president is acting now; in his view there is now sufficient wrong to warrant some action!

But alas, instead of addressing those things that are under his control and his responsibility, the presidency decided to give us yet another list of nice-sounding things; “speed up the fight against poverty, address inequality, recognise ... high levels of indebtedness” and many more. We have heard them all before...

This note, however, will focus on the following: “The parties make a call on CEOs and executive directors in the private sector and senior executives in the public sector to agree to a freeze on increases in salaries and bonuses over the next 12 months, as a strong signal of a commitment to build an equitable economy.”

There you have it. An equitable economy, where income is more equally distributed, is a goal worth aiming at. And senior managers are required to agree to a freeze in their salaries to signal their commitment to building an equitable economy”. Let’s unpack this proposal.

Firstly, the president and ministers and other public servants were awarded pay increases in excess of 5% in July, which will be backdated to April. Perhaps the president can lead by example and reduce the salaries, and very handsome other perks his senior officials receive, as a gesture of his and his administration’s commitment to this proposal.

Secondly, the president is, allegedly, spending nearly R250m of taxpayers’ money on the upgrade of his private residence! Asking taxpayers not to take a salary increase while at the same time spending obscene amounts of taxpayers’ money on his private residence is really pushing it...

Thirdly, civil servants are, on average, paid over a third more than private sector workers. Yet, in August they succeeded to squeeze an additional 7% pay increase out of the taxpayer despite the minister of finance budgeting for an increase of only 5%. Instead of telling us how much we should be paid, perhaps the president should bring the salaries of those who report to him in line with more realistic remuneration, which is also more in line with the civil services’ productivity.

Fourthly, and in real foot-shooting style, should we actually heed his call and not increase the salaries of senior executives, personal income tax (PIT) collections of Pravin Gordhan will be severely affected. The most important revenue source for the minister of finance is PIT and “CEOs and executive directors and senior executives” are by far the largest contributors to PIT! By freezing their salaries PIT revenue will be affected.

Fifthly, should we succeed in freezing the salaries of senior executives, companies’ expenditures will be reduced and their net profits will be higher. The minister will collect more company taxes (income and dividend taxes – albeit lower than PIT), but shareholders will eventually receive a larger dividend. Therefore, by freezing salary increases the president is actually supporting his nemesis, the “capitalists”!

And lastly, the freezing of salaries is the same as the fixing of the price of a product. And whenever the price of any product is “fixed,” either demand or supply will adjust to the new price. What is likely to happen when senior executives’ salaries are frozen is that the supply of skilled managers will be reduced. And if there is something we desperately need it is skilled executives.

Nevertheless, assuming we freeze the salaries of senior executives then the gap in salaries between the bosses and the workers may indeed be reduced. It is, however, very unlikely that it will lead to an improvement of income distribution. The difference between the salaries of bosses and workers in South Africa is indeed very large in certain instances. But the canyon between workers and the unemployed is even larger!

The real income difference is therefore between workers and the unemployed. If we are serious about dealing with inequality we have to allow the unemployed to compete with the employed. That means we need to make changes to minimum wages and hire and fire prescriptions – in other words, we need to change labour legislation. But for that we need a real leader...

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