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Aggregate and sectoral public-private remuneration patterns in South Africa

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This paper investigates the aggregate and sectoral public-private remuneration pattern in South Africa since the introduction of an inflation-targeting framework in 2000. The analysis is carried out with quarterly data for aggregate and 5 public and 6 private sector earnings per employee. Two research questions are addressed: First, is there a pattern of earnings development between the public and private sectors? This question is important, because the nature of the pattern can have different consequences for labour market performance. Second, is South Africa exposed to "Dutch disease", which refers to the "infection" of earnings outside the resource extraction sectors by the externally determined ups and downs of resource extraction profitability.

The rich international literature on public-private remuneration patterns finds that in most cases public sector remuneration follows developments in the private sector, although exceptions are found for some East European economies during early phases of transition from central planning to a market economy. "Dutch disease" is found to be a regular feature of economies with a major resource extraction industry.

Econometric analysis confirms that there is a stable, long-run relationship between average remuneration in the public and private sector. The adjustment to the deviations from this long-run relationship is strong and significant for public-sector remuneration, while private-sector earnings neither respond to the deviations from the long-run relationship nor lagged changes of public sector remuneration. In other words, average remuneration in the public sector is following the private sector in the long run. In the short run individual public-sector remuneration is also found to follow individual private-sector remuneration, but not the other way around. For individual private sector remuneration some influence from public sector earnings cannot be rejected, but it is in general weak. The answer for the first question is a pattern where remuneration in the public sector wages follows the private sector on average.

Concerning the second question we find that remuneration in the mining sector does not influence remuneration in any other private sector, therefore a traditional "Dutch-disease" hypothesis for South Africa is rejected.

If this pattern remains stable, efforts to slow down the speed of the wage-price spiral should not exclude the private sector. Targeting public sector earnings alone will only have a weak influence on private sector earnings.