

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER NO 2661 [NW3114E]**

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**Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:**

Whether he envisages that the faster pace at which public sector remuneration is permitted to increase above that of the private sector, will impact on (a) taxation and (b) economic growth; if not, what is the position in this regard; if so, what are the relevant details?

NW3114E

**REPLY:**

Over the current budget cycle there is no reason to suspect that public sector remuneration trends relative to those in the private sector will impact significantly on taxation or economic growth.

Nevertheless, an important principle of responsible budgeting is that taxes should adjust to reflect changes in the structural (or long-run) level of expenditure. While wages have been growing above inflation over the past five years, this does not necessitate higher structural spending and taxation. For example, higher wages could be accommodated within the budget by reducing other expenditures, or by limiting the number of new staff in the public sector. Neither of these is an ideal response to above-inflation wage growth. In the short term, large increases in the wage bill can boost consumption and output. However, over the longer term, divorcing wage bill growth from productivity improvements could have significant costs. For example, by crowding out other kinds of expenditure, wages can reduce the share available for capital projects, thereby reducing the potential for long-run

growth. Furthermore, by limiting the hiring of new staff in the public sector, the state will have fewer front-line staff serving the nation.

For these reasons, government aims to rebalance spending away from short-term consumption to long-term investment. An important first step will be to close the current deficit (i.e. the difference between consumption spending and revenue). In line with the fiscal guidelines published in the last budget, we believe that borrowing to fund consumption should only be used to support the economy in the short term. Borrowing to fund wages over the long-term, however, is unfair to future generations who will be burdened with these debts.