Public Service in Challenging Times:

The Economic and Social Value of Public Sector Work in Queensland

EMBARGOED UNTIL 12:01 AM FRIDAY 2 OCTOBER

By Dan Nahum

Economist
The Centre for Future Work at the Australia Institute

October 2020

About The Australia Institute

The Australia Institute is an independent public policy think tank based in Canberra. It is funded by donations from philanthropic trusts and individuals and commissioned research. We barrack for ideas, not political parties or candidates. Since its launch in 1994, the Institute has carried out highly influential research on a broad range of economic, social and environmental issues.

Our Philosophy

As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption coexist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

The Australia Institute's directors, staff and supporters represent a broad range of views and priorities. What unites us is a belief that through a combination of research and creativity we can promote new solutions and ways of thinking.

Our Purpose—'Research That Matters'

The Institute publishes research that contributes to a more just, sustainable and peaceful society. Our goal is to gather, interpret and communicate evidence in order to both diagnose the problems we face and propose new solutions to tackle them.

The Institute is wholly independent and not affiliated with any other organisation. Donations to its Research Fund are tax deductible for the donor. Anyone wishing to donate can do so via the website at https://www.tai.org.au or by calling the Institute on 02 6130 0530. Our secure and user-friendly website allows donors to make either one-off or regular monthly donations and we encourage everyone who can to donate in this way as it assists our research in the most significant manner.

Level 1, Endeavour House, 1 Franklin St
Canberra ACT 2601
Tel: (02) 6130 0530
Email: mail@tai.org.au
Website: www.tai.org.au

About the Centre for Future Work

The Centre for Future Work is a research centre, housed within The Australia Institute, to conduct and publish progressive economic research on work, employment and labour markets.

It serves as a unique centre of excellence on the economic issues facing working people: including the future of jobs, wages and income distribution, skills and training, sector and industry policies, globalisation, the role of government, public services and more. The Centre also develops timely and practical policy proposals to help make the world of work better for working people and their families.

www.futurework.org.au

About the Author

Dan Nahum is Economist at the Centre for Future Work, with a research focus on industrial transformation, labour markets in low-carbon economies, and inequality in Australia and globally. He holds a Master of Political Economy from the University of Sydney and a Bachelor of Science (Psychology) with Honours from Macquarie University.

The author wishes to thank without implication Dr Jim Stanford, Rosa Sottile, Kate Flanders and Alex Scott for helpful input.

The Australia Institute
Research that matters.
Centre for Future Work

Contents

Summary

In times of crisis, governments have a responsibility to their citizens to maintain and expand their role in the economy – for both economic and social reasons. This responsibility has never been clearer than during the current COVID-19 pandemic, and its associated economic downturn. In many ways this is the most challenging moment faced by Australians since the Second World War. And Australians in all states are counting on their governments to protect them from the pandemic, support them through the resulting recession, and play a leading role in rebuilding a stronger, healthy society in the aftermath of this unprecedented catastrophe.

Queensland public sector employees work in a wide range of different services and occupations. Their work is always essential to the economic and social wellbeing of the communities they serve. They include health workers, paramedics, teachers and state school workers, social workers and child safety officers, judges, engineers, fire fighters, police officers, prison officers, public housing staff, public transport workers – and many other vital roles and occupations. To rebuild after this pandemic – repairing both the health and economic damage that COVID-19 has done – a resilient, capable, dedicated and respected public sector workforce will be a critical asset.

In the context of the public health and economic challenges posed by COVID-19, therefore, attacking public sector employment and compensation, just at the time Queensland needs more public services (not less), would be a major policy mistake. Yet based on previous episodes of fiscal austerity in Queensland's history, proposals for restraint and cutbacks are likely to become louder in coming months. The state government has already deferred normal wage increases for state public sector workers, postponing an already-capped 2.5 per cent wage increase to 2022. Some local governments in Queensland have imposed even harsher wage and staff restraint. In the context of an upcoming state election, other political voices might be tempted to propose more painful forms of fiscal restraint: such as promising to eliminate the deficit, 'get tough' on spending, and ultimately pay off debt. But retrenchment of the public sector, at this time of unprecedented challenge, would be deeply damaging: both socially and economically. Queensland's economic pain will be less severe and protracted if the state mobilises resources to provide vital services and boost purchasing power. Public sector austerity would have the opposite effect.

The people employed to deliver public services in Queensland serve a vital economic and social function. They produce the essential services that will help Queenslanders get through the coming challenging times. They contribute directly to output and incomes, and their subsequent tax payments and consumer spending strengthen the financial situations of businesses and governments alike. Regional and remote Queensland depends particularly on the public sector workforce; the state public sector is a crucial source of decent, socially valuable jobs, performed by well-qualified people, earning (and spending) middle-class incomes in their regional communities.

In total, we estimate that some **480,000 positions are supported, directly and indirectly, thanks to the provision of state-funded public services in Queensland**. This includes some 331,000 direct jobs providing broader state-funded public services,[1] as well as over 150,000 more positions in the private sector that depend on the economic stimulus provided by public sector work. This includes people employed on the basis of the upstream supply chain purchases of public service agencies,

[1] Based on most recent ABS data available, for the 2017-18 financial year.

and people employed thanks to the downstream consumer spending of public sector workers and those working in the supply chain. In other words, **for every 10 direct jobs in the state-funded public service, another 4.5 jobs are supported in the private sector**.

It is no surprise that the Queensland government will face substantial fiscal deficits as a result of the pandemic and its economic fall-out. Based on the state government's *COVID-19 Fiscal and Economic Review* (Queensland Treasury, 2020), that deficit will exceed $8 billion in the current financial year, on top of a recorded deficit of almost $6 billion in 2019-20. State revenues have declined because of the recession, while spending on necessary services and supports (including for public health) have been ramped up. This deficit is both predictable and indeed healthy. Balancing the budget, regardless of the economic and social contest, is hardly a measure of 'good economic management'. To the contrary, trying to reduce or eliminate deficits during a time of economic and social crisis is irrational and self-destructive. Moreover, borrowing costs are at historically low levels, and hence the impact of these deficits on interest costs is marginal.

Unfortunately, the government may be pushed into needless and counterproductive austerity by the arbitrary strictures of Queensland's Charter of Fiscal Responsibility. This Charter implies that the state government should be moving towards balancing its budget at all times, no matter the economic or social conditions. And proposals by the opposition party would make the Charter even more counterproductive, by ultimately requiring even deeper reductions in state programs and services. For an economy in crisis, this Charter is simply not fit for purpose. Because of the pandemic and the associated recession, Queenslanders require more services and supports (including health and education, in particular), even though the recession has undermined state revenues. Meeting the concrete needs of Queenslanders is thus at odds with the fiscal straitjacket imposed by the Charter. That Charter should be suspended until the state's economy has fully recovered from COVID-19 and its effects, and then replaced with a more sensible and sustainable fiscal policy framework after that.

It should also be noted that any apparent 'savings' resulting from public sector austerity (such as cutbacks in staffing or wages for public servants) ricochet onto the Queensland government's own revenues through decreased tax revenues. By cutting employment and incomes for public sector workers (and the private sector industries which depend on public services for their own markets), misplaced austerity would undermine economic recovery and reduce GDP. And for every dollar of foregone GDP, state revenues ultimately fall by around 15 cents. For this reason, fiscal austerity during a downturn truly constitutes a self-inflicted wound: by sapping economic (and ultimately fiscal) recovery, austerity makes the underlying challenge facing government even worse.

Public sector workers are also consumers. Cutting incomes for public sector workers not only directly affects their own economic fortunes, but also negatively impacts the broader economy through spillover reductions in demand, spending, and production. To dramatise these broader economic consequences, this report describes simulations of two possible three-year austerity scenarios:

- A 'freeze' in public sector payrolls (considering both wages and staff levels).
- A 5% 'cut' in public sector payrolls (effected through some combination of wage and staff cuts).

In both cases the measure (freeze or cut) is imposed in an assumed first year of a three-year term of government; it is then followed in subsequent years (the second and third years of term) by a cap on growth of state public sector payrolls equivalent to the assumed rate of population growth of the state (so that nominal per capita state payrolls are held constant).

Over three years, the ‘freeze’ scenario reduces total GDP by a cumulative total of **over $9 billion**: including the loss of incomes for state public servants, and the resulting loss of income and output in the whole range of consumer goods and services industries which depend on the consumer spending of public sector workers. This decline in GDP translates into the loss of **20,000 person-years of employment** in the private sector industries which are hurt by the freeze. Over a similar three-year period, the ‘cut’ scenario would reduce cumulative GDP by **$15 billion**, and eliminate some **35,500 person-years of employment** in private-sector goods and services industries.

In this unprecedented moment, the maintenance of public services (and the continuation of the jobs for the people who provide those services) is surely a more urgent priority than cutting government spending in pursuit of some illusory fiscal target.

A more constructive and effective response to the pandemic and associated recession is to expand the economic and social footprint of government, including state governments. We will need more public services, more government income supports, and more decent public sector jobs as Australia strives to recover from this unprecedented crisis. To that end, the paper concludes with the following recommendations:

1. Queensland’s Charter of Fiscal Responsibility, the wording of which acts to limit emergency responses to economic crises, should be suspended until Queensland has fully recovered from the pandemic and associated recession, and then replaced with a more balanced and flexible fiscal policy framework.
2. The Queensland government should not contract out additional public sector services to private sector actors, and where possible previously contracted-out services should be in-sourced to public provision in the interests of better quality, accountability and cost.
3. There should be no forced redundancies of Queensland public sector workers; this is a uniquely bad time to remove public sector services and purchasing power from the economy. Where staff downsizing is indicated for operational reasons (not for deficit-reduction purposes), that should be achieved through voluntary severance incentives and redeployment to other roles.
4. The Queensland government should increase and accelerate expenditure on the state’s capital works program.
5. Women have been harder hit by the COVID-19 economic crisis. The Queensland government should directly invest in expanding output and employment in female-dominated sectors, such as health care, aged care, and education. It should also create stronger pathways (such as through targeted training programs) for women to enter industries that have been traditionally male-dominated.
6. Given the unprecedented economic hardship being experienced at all levels of the economy and decreased state tax takes, substantial special fiscal transfers from the Commonwealth to the states are necessary.

Introduction

The COVID-19 pandemic has resulted in an economic downturn of unprecedented speed and depth, in Australia and worldwide. Australia has learned from theory and experience how to avert unnecessary economic damage during times of recession. In such times, the public sector has a vital role in maintaining aggregate demand across the economy, as other actors such as households and businesses lose income and confidence, and defer their own spending.

During the Great Depression, the self-defeating logic of what we now call austerity played out with disastrous results. For a decade, employers and misguided economists claimed that if only wages became low enough, and if only governments balanced their budgets, then somehow employment and economic growth would recover. Wages did fall, inflation gave way to deflation, deficits persisted anyway (because of the side-effects of continuing depression), and the economy and society experienced a painful, miserable decade.

More recently, we learned this lesson again during the Global Financial Crisis. Countries that responded to the global recession with big government programs and expenditure to support aggregate demand and address unemployment recovered quickly and with a minimum of human suffering and wasted potential. Australia implemented one of the fastest and most powerful stimulus programs, and as a result was the only OECD country to escape a formal recession during that period.[2] In contrast, countries that responded to the crisis with fiscal restraint, and were more concerned with reducing deficits than repairing the economy, hobbled their own recoveries – and pointlessly immiserated many of their own citizens. Australia was smart enough not to pursue austerity a decade ago. Governments today at all levels should endeavour to learn from that success.

Despite the theoretical and historical evidence against austerity, some political figures will be tempted to advocate fiscal restraint during the current downturn, for a mixture of political and economic motivations. The Queensland state government has already imposed a wage deferral for public sector workers: freezing pay over the coming financial year, while offering to 'make it up' with an extra 2.5 per cent pay increase in 2022 (McCutcheon, 2020; Horn, 2020). This is in addition to Queensland's pre-existing 2.5 per cent cap on public sector wage growth.[3] More worrisome would be arguments for outright wage or staff cuts in the public sector, an emphasis on deficit reduction, or even proposals for quickly balancing the budget. These would imply major cuts in public service delivery, staffing levels, and public sector pay (Lynch, 2019), and would inevitably deepen the existing recession. Despite the lack of theoretical or empirical support for these policies, we are likely to hear more demands for austerity emanating from certain financial and political constituencies in the months ahead – especially as Queenslanders head to the polls in their October election.

2 Authoritative voices such as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund praised Australia's fiscal stimulus in the face of the Global Financial Crisis. See Fenna and 't Hart (2019).

3 See Henderson and Stanford (2020) for examples of the economic impacts of public sector wage caps throughout Australia.

The Queensland government’s response to the COVID-19 pandemic has been substantial, including total commitments of some $7 billion, or about 2% of gross state product (Queensland Treasury, 2020, p.5). That ranks as one of the strongest state government responses in Australia (Minshull, 2020; Wood, Emslie, and Blane, 2020). So the Queensland government has already demonstrated the *capacity* to inject significant funds into the state economy. Much of the initial support was concentrated on energy bills, payroll tax relief, and business loans. More recent announcements indicate a shift to supporting direct public services, including a $1.2 billion package to expand clinics, emergency departments, and aeromedical capacity. . Commitments to expanding direct service provision to support Queensland communities as they recover from the pandemic will need to play a larger role in the state government’s future reconstruction policies.

GDP (or in the case of a state, gross state product) is composed of several broad categories of expenditure: including consumer spending, private sector investment, government spending, and net exports[4]. With consumer spending and business investment deeply damaged by the pandemic, and exports curtailed by conditions in other countries, the only possible remaining source of economic resilience and stimulus is government spending. In the context of the major economic crisis associated with the COVID-19 pandemic, Queenslanders should reject any idea that the state budget faces a debt ‘crisis’. The government should increase its spending on public services and programs at this time, not reduce it. The resulting deficits experienced during economic downturns are both predictable and necessary. Moreover, these deficits are fully manageable, especially in the context of current record-low interest rates.

After all, by definition a government deficit represents an identically-sized surplus elsewhere in the economy, and vice-versa. If a state government tries to ‘repair’ its budget by pulling money out of the total wages of the public service – through pay cuts or job losses – this is spending power that no longer circulates through the private sector. In a recession, efforts to boost government saving (through smaller deficits or bigger surpluses) are worse than useless: they damage overall output, employment, and income. Even the NSW Department of Treasury recently recognised this reality, conceding that its own proposed freeze on public sector wages would actually deepen and lengthen that state’s recession (Visentin, 2020). Similarly, the Tasmanian Government indicated it will no longer apply its traditional ‘efficiency dividend’ (an annual cut to agency budgets across the board) to their public service, in an attempt to support employment levels and spending power through the recession. The same economic axioms apply in Queensland.

State governments do not have direct access to the same monetary and financial resources that the Commonwealth is now drawing upon to finance expanded government spending during the pandemic. Nevertheless, there is no reason to imagine that Queensland’s financial position is unsustainable. All three of the major credit agencies rate Queensland Treasury Corporation’s debt at investment grade (Queensland Treasury Corporation, 2020):

- AA+ (S&P Global)
- Aa1 (Moody’s)
- AA (Fitch)

The federal government’s cash rate (a short-term interest rate that influences all other rates across the economy) is at record lows, as the Reserve Bank of Australia (RBA) does all it can to help Australia out of the economic crisis. Indeed, this was already the case before COVID-19 as the

[4] In the case of Queensland’s state accounts, net exports include trade with other Australian states or territories, as well as other countries.

national economy was already experiencing a notable slowdown, with high labour underutilisation and stagnant wages growth – and correspondingly near-zero official interest rates.

Queensland's official unemployment rate soared to 9 per cent during the pandemic, up by over three per centage points since February (ABS, 2020a). Of course, there are many more people working zero hours and whose connection to their employers is maintained only by the Commonwealth's JobKeeper payment. Even more alarmingly, the underutilisation rate has jumped more than five per centage points (to almost 20 per cent). Withdrawing spending power from the economy through fiscal austerity, and adding to deflationary pressures, is hardly good economic management. Nor is it socially responsible.

Australia and the world are experiencing the sharpest and deepest economic contraction since the Great Depression. Expansionary fiscal policy is the only plausible way to mitigate and recover from such a contraction. Rather than diminishing public sector capability through the COVID-19 crisis, this period should provide an opportunity to expand the government's ongoing economic and social mission. It is no exaggeration to say the approach taken now will determine the next stage of Queensland's economic history. And it is impossible to realistically imagine an economic recovery without the government playing a leading, purposeful, and expanded role. Cutting government spending during a recession only makes the recession worse, and will damage regional communities that particularly depend on public sector jobs and incomes – a theme this paper will address in more detail.

Unfortunately, the Commonwealth government is already now starting to impose its own fiscal contraction, with announced cutbacks to income support programs (like JobKeeper and JobSeeker). This move will take money out of circulation in local economies – especially regional and remote economies with thinner job markets. Meanwhile, across Australia, 63,500 public sector jobs (at all levels of government) have already been lost since the start of COVID. Approximately 7,400 of those jobs are in Queensland (ABS, 2020c). We are thus already approaching a 'fiscal cliff': tens of billions of dollars of quarterly fiscal stimulus will be removed from the national economy in coming months (Ziffir, 2020). It is imperative that the Queensland government not mimic this contractionary stance. The livelihoods of Queenslanders, and the recovery of the Queensland economy, depend on it.

This report considers several dimensions of the economic and social contribution that is made to Queensland by its public sector workforce. The report first provides a review of public sector employment in Queensland, showing the qualitative and quantitative importance of the state public sector workforce. It shows that the size of the Queensland public sector is comparable to other Australian states and territories, and that expenditure on wages and salaries for state public sector workers has been stable as a proportion of gross state product. The report then examines the direct and indirect economic benefits of public sector employment, including the private sector jobs that are supported as a result of public service delivery: both 'upstream' in the myriad of goods and services industries which supply the public sector with needed inputs, and 'downstream' through the consumer goods and services industries which depend on the purchasing power of employed public servants. The report also describes the particular importance of public sector work in regional communities. We provide empirical detail showing that public sector jobs and incomes are critical to the economic survival of businesses in communities across regional and remote Queensland.

The paper then critically reviews traditional arguments for fiscal austerity, highlighting the dangers that austerity would pose to Queensland's economic recovery at this vulnerable moment. We review the negative implications of downsizing in public service employment levels and wage freezes – particularly at a time when the economy is already experiencing high unemployment and needs more employment and income, not less. We critically consider Queensland's Charter of Fiscal Responsibility, which would seem to compel government to undertake counterproductive austerity at the worst possible time – and shows why that framework must be altered to better enable the state government to fulfil its responsibilities to Queenslanders. The report then provides macroeconomic simulations of two hypothetical but representative scenarios of fiscal austerity: one that 'freezes' public sector payrolls, and one that significantly 'cuts' them. In either case, the damage to the state's economy, to consumer incomes, and to employment in private sector industries would be severe. The conclusion of the report highlights several policy recommendations arising from the analysis: economic reconstruction will require governments at all levels, including the state government, to play a leading role in stimulating investment, employment, and economic activity, and we provide six specific recommendations for how to strengthen that role. Clearly, in that effort the Queensland government's public sector workforce is an asset, not a liability.

The Size and Scope of Queensland's State Public Sector Workforce

A VITAL ASSET FOR SOCIAL AND ECONOMIC RECOVERY

Australians are grateful for public servants' courage and dedication during the COVID-19 crisis, and have been reminded of the many ways in which our lives literally depend on their skill and dedication. State-funded public service workers constitute the largest portion of the broader public sector workforce.

The Queensland government directly employs around 280,000 workers[5] in a wide range of public service functions (Queensland Government, 2020). This figure does not include public corporations, and some independent state-funded agencies. ABS statistics on broader public sector employment (including those other agencies) indicates a total state public sector workforce of roughly 341,000 in financial year 2018-19 (ABS, 2019a).

Over 90 per cent of the workers accounted for by the Queensland government's figures perform vital front-line service functions – and those in indirect or administrative roles play equally essential roles to ensure the reliable delivery of public services. Two-thirds of Queensland's state public servants are women. Only 20 per cent of the direct public service works in central Brisbane. Total wages and salaries paid to state public sector workers exceed $25 billion per year, and constitute a major economic injection into the state's economy.

In sum, Queensland public servants directly provide health and caring services, education, law and order, and infrastructure – all the essential services that Queenslanders want and need. These services make it possible to do business, stay healthy, transport goods safely and effectively, and increase the productivity of participants in the economy through, for example, education and skills training.

As Jericho (2020) puts it:

> '[M]ost public sector work is ongoing – it needs to be done regardless of the economy. Police, healthcare workers, teachers and yes, even 'bureaucrats', don't stop having work to do because unemployment rises.
>
> One reason they are the public sector is because they are stable. Teachers and nurses and police are needed week in, week out, regardless of business cycles… Do we really want fewer nurses and aged care workers right now?'

When there is unrealised productive capacity in the economy, and unrealised needs for essential services in society, governments should expand public sector services. In fact, right now is an unusually good time to undertake public sector investment. Apart from borrowing costs being

[5] On a full-time equivalent basis, this represents about 230,000 full-time positions.

historically low, a large pool of available (unemployed or underutilised) workers and skills is available.

In these respects, hiring and paying public sector workers is not so much a 'cost' as an investment: an investment in social stability, economic efficiency, and public well-being. Government hires public sector workers to provide the whole community (including business) with essential services, which at times of economic and social distress are more needed than ever. And in doing so, they make it more possible for the private sector to do the work that it is best placed to do. This includes the businesses which supply public sector organisations with inputs needed to perform their work (what we call 'upstream' linkages), and the businesses which supply the full range of consumer goods and services to public sector workers and their families in their role as consumers (which we call 'downstream' linkages).

Upstream, or supply chain, linkages are worthy of consideration in the context of public sector redundancies. A smaller public sector workforce will perform less work; undertake fewer projects; do less investment. This hurts business and economic recovery. Meanwhile, some types of public sector investment act as a springboard for private sector productivity improvements ('crowding in') and enhanced competitiveness amongst businesses. These include public goods such as better, faster road and rail links for both passengers and freight, higher-quality education, and better-staffed hospitals and clinics with improved patient outcomes. A smaller, less capable public sector undermines all of these outcomes.

And businesses also invest and expand because of downstream consumer spending. Indeed, consumer spending is the largest source of aggregate spending power in the Queensland economy, comprising more than half of total GDP (ABS, 2019b). Public sector belt-tightening pulls purchasing power directly out of the economy, and is a powerful contractionary influence when the economy needs the opposite. The economy is already in recession as a result of the COVID-19 crisis; as we will show below, adding discretionary fiscal austerity into the mix will only make the downturn worse.

The socioeconomic effects of public sector employment can be impressively large, as well. For example, the return on investment from early childhood education (ECE; largely funded by state governments) has been estimated at around $7 return for every $1 spent. This is because ECE provides the foundation for other learning, skills-building and ongoing socialisation (OECD, 2011). Children from disadvantaged backgrounds benefit most. If the return on early childhood education was realised in a commercial sense, it would be an incredibly good investment.

Similarly, high-quality and readily-available health services also generate large socioeconomic dividends. Apart from the obvious benefits of human wellbeing and minimisation of illness and suffering, good health care also helps ensure a healthy and productive workforce. The need for adequate resourcing of this part of our social infrastructure has been clearly demonstrated by the pandemic. A powerful and proactive public health response in fact permits a more rapid social and economic recovery from the virus, getting the population back to work more quickly and safely than would otherwise be possible. In contrast, the highly-tiered US health system, and the correspondingly disastrous impact of COVID-19 in that country, provides a frightening example of the consequences of underinvesting in public services. Even in Australia, documented poor health outcomes in private aged care homes also reaffirm the value of direct government provision of health and other caring services (Davey, 2020).

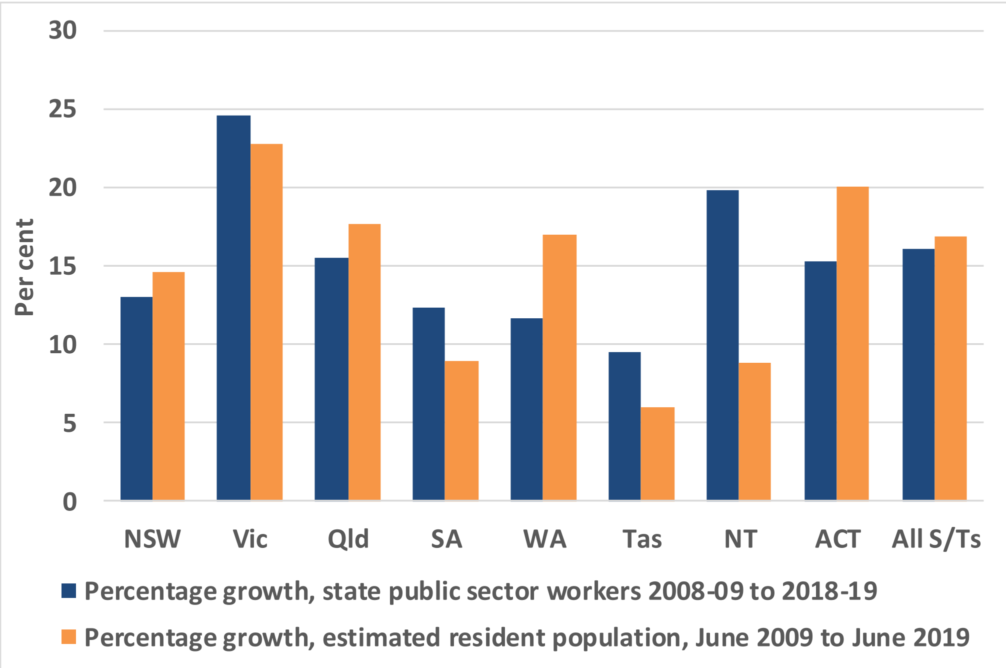
International and Australian evidence suggests that people desire proportionately more caring services as income levels rise, the population ages, and technology advances (expanding the possibilities for health care and other services). In this context, the continuing expansion of public sector activity is important. It is consistent with both social preferences and underutilised capacity in the economy.[6]

And as the Australian economy begins to take on its post-COVID shape, there is no question that the public sector will be required to play a major role in skills development for the industries of the future (Pennington, 2020a), to the benefit of the workers concerned, the businesses they work for, and the broader Queensland and Australian economy. In all of these areas – health, education, training, infrastructure – the work of public sector workers has never been more vital.

PROPORTIONATE AND APPROPRIATE DIMENSIONS

Comparisons with other Australian jurisdictions show that the size of Queensland's state public sector workforce is unexceptional.[7] Figure 1 shows that over the last ten years, the Queensland public sector has grown by an amount slightly less than the average of other states: by a cumulative total of 15.5 per cent, or around 1.5 per cent per year.

Figure 1. Growth in state public sector workers and population, 2008-09 to 2018-19



Note: Tasmania and ACT figures include local government employment, as statistics in those jurisdictions do not disaggregate state and local government employment. Source: Author's calculations from ABS Employment and Earnings, Public Sector, Australia, 2018-19, and ABS Australian Demographic Statistics, December 2019.

[6] In economic theory the tendency for public services provision to increase over time (relative to GDP) is termed 'Wagner's Law' (see Musgrave, 1969, for a classic interpretation). Public services like health care and education are considered 'superior goods,' meaning that demand for them rises at a faster rate than incomes. See Lamartina and Zaghini (2011) and Magazzino et al. (2015) for recent empirical evidence.

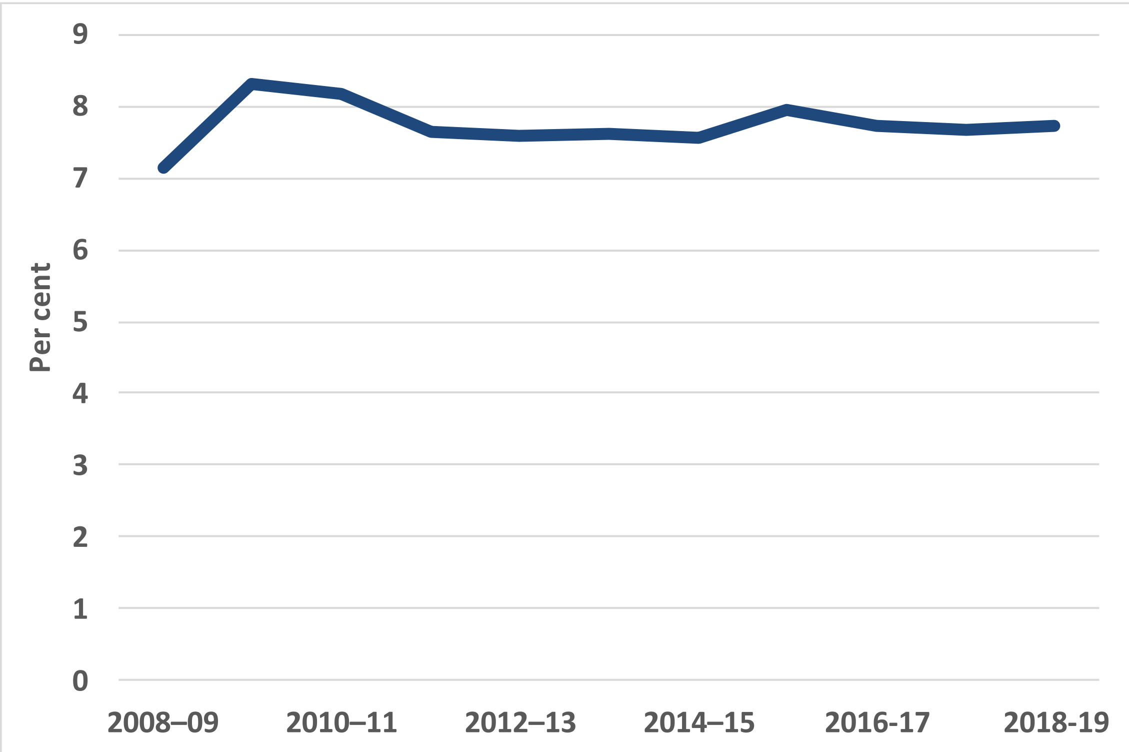
[7] To improve comparability over time and between jurisdictions, this section uses ABS data that includes employment in all broader state-funded public sector entities including government-owned corporations.

In fact, unlike some jurisdictions, public sector employment in Queensland has lagged behind the state's relatively rapid population growth (which grew 17.6 per cent over the same period). This implies that even before COVID-19, the state's public sector was already too small to meet the needs of a growing, ageing population.

Therefore, going forward (especially under conditions of economic crisis, unemployment and underutilisation), it would be beneficial for public services to be *expanding* relative to the population. That would reflect the government's capacity to mitigate and soak up increasing slack in the workforce, resulting from contraction in the private sector.

Economic evidence also confirms that total compensation to Queensland state public sector workers is also in line with other states. Expressed as a proportion of gross state product (GSP), over the last decade Queensland public service wages and salaries have fluctuated within a narrow, stable band: between 7 and 8 per cent of GSP (see Figure 2). Interestingly, the relative size of public sector payrolls in Queensland has remained stable regardless of the political persuasion of the state government.

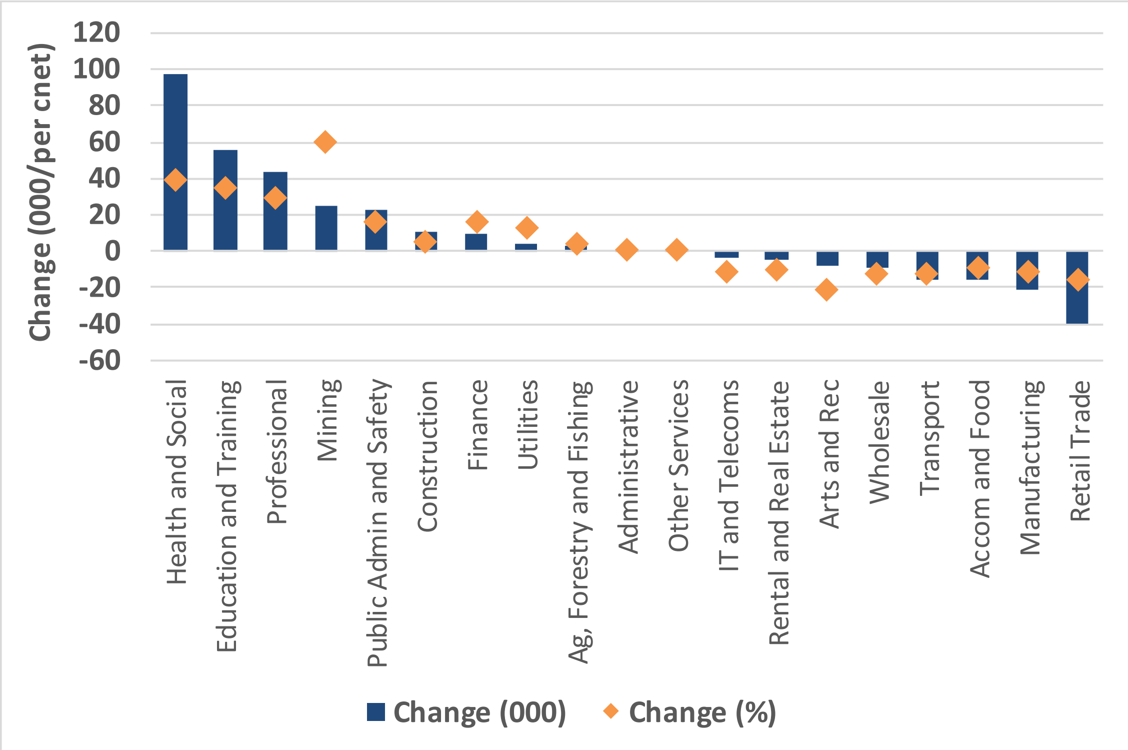
Figure 2. Queensland state public sector wages and salaries as share of GSP, 2008-09 to 2018-19



Source: Author's calculations from ABS Employment and Earnings, Public Sector, Australia, 2018-19, Table 1, and ABS Australian National Accounts: State Accounts, 2018-19, Table 1.

It is interesting to consider the important role played by public service delivery in the overall state labour market. Figure 3 shows that in absolute terms, the biggest growth in total employment occurred in health and social services, and education. Over the last decade, almost 100,000 jobs were added to the health care and social services sector, an increase of roughly 40 per cent. Almost 60,000 jobs were created in the education and training sector in the same period, representing a similar per centage increase.[8] These are service industries that make a tangible and appreciable difference to the quality of life in Queensland. Not all of the new jobs in health care and education were in the public sector, but most were. The expansion of public services has played an important role, therefore, in propelling Queensland's labour market and creating new opportunity. This role will become even more important in coming years, given the weakness in private sector job-creation during the recession.

Figure 3. Job creation by industry, Queensland, May 2010 to May 2020



Source: Author's calculations from ABS Labour Force, Australia, Detailed, Quarterly, May 2020 (cat.no. 6291.0.55.003), table 05.

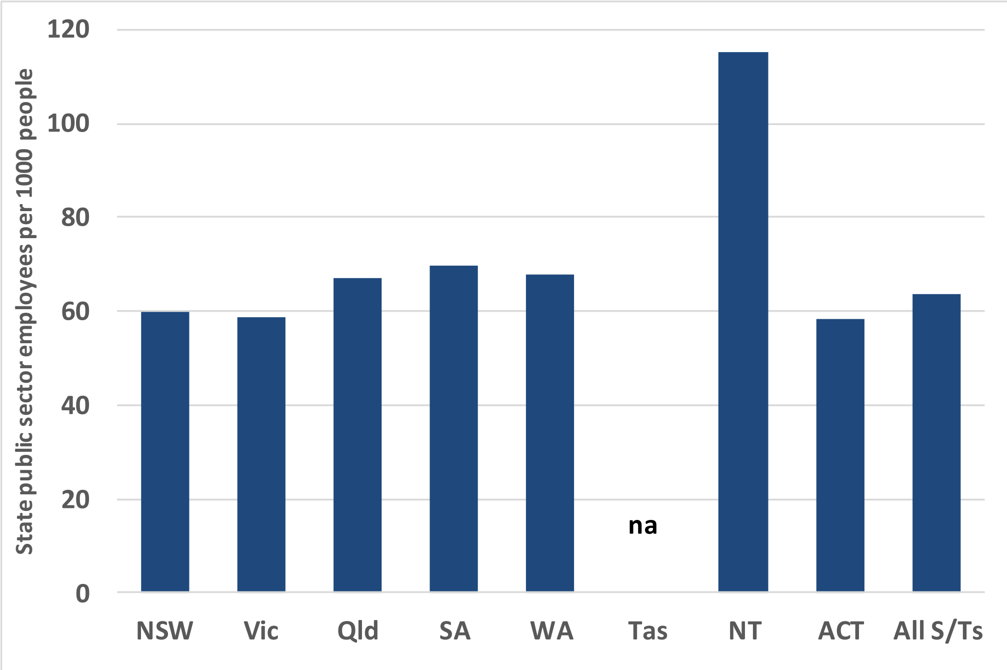
Figure 4 shows that the number of state public sector employees per 1000 residents is also not exceptional in Queensland. While it is slightly larger than in more urbanised, geographically concentrated jurisdictions (NSW, Victoria, and the ACT),[9] there is little difference with more comparable jurisdictions, such as South Australia and Western Australia. And Queensland's intensity of public sector work is far lower than the Northern Territory. Moreover, the typical public sector worker caseload has become marginally heavier in Queensland since 2008-09, when there were 14.7 residents per public sector worker. In 2018-19 there were 14.9 residents per public sector worker. Note that this measure of work intensity peaked during Premier Campbell Newman's tenure, at 16.1 residents per public sector worker in 2012-13.[10]

[8] While employment in the mining industry increased by a greater per centage over this period – roughly 60 per cent over 10 years – the relatively small number of jobs in mining means that in absolute terms only 20,000 jobs were added.

[9] With more concentrated populations, those jurisdictions can take advantage of efficiencies of scale in service delivery.

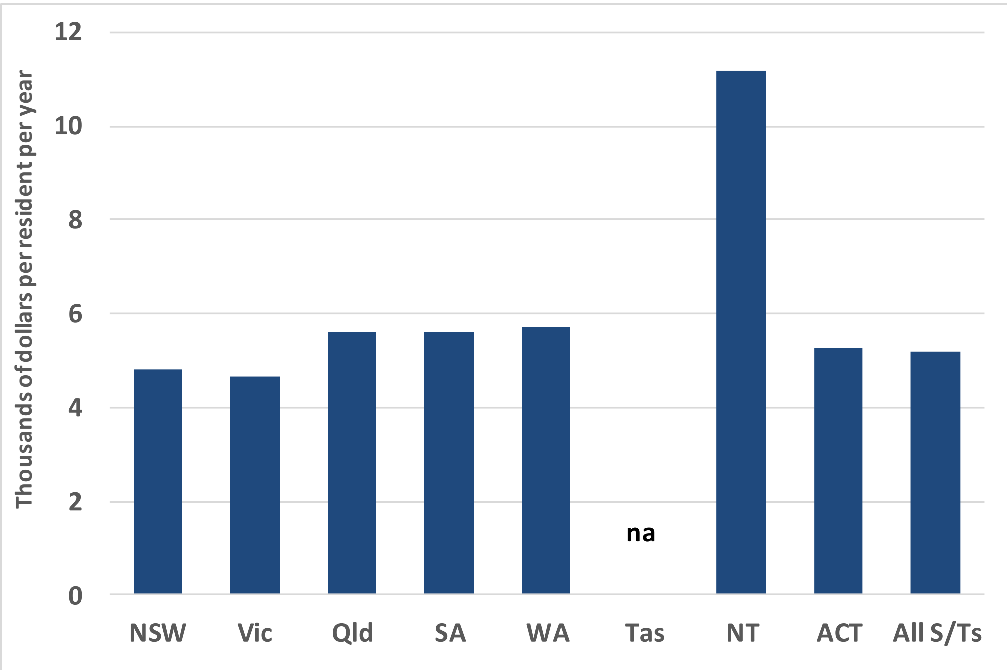
[10] Author's calculations from ABS, 2019a and ABS, 2020d.

Figure 4. Number of state public sector employees per 1000 residents, 2018-19



Note: ACT figures include local government employment, as statistics in for the ACT do not disaggregate territory and local government employment. Data unavailable for Tasmania. Source: Author's calculations from ABS Employment and Earnings, Public Sector, Australia, 2018-19, table 1, and ABS Australian Demographic Statistics, December 2019.

Figure 5. State public sector wages paid per resident, thousands of dollars, 2018-19



Note: ACT figures include local government employment, as statistics in for the ACT do not disaggregate state and local government employment. The absence of figures for Tasmania reflects data availability issues. Source: Author's calculations from ABS Employment and Earnings, Public Sector, Australia, 2018-19, table 1, and ABS Australian Demographic Statistics, December 2019.

Figure 5 shows that in 2018-19 on a per-resident basis, outlay on state public sector wages in Queensland is also unexceptional. Other than the Northern Territory, none of the jurisdictions are outliers. Of course, there are exceptional and very good reasons for proportionately higher levels of state service provision in the Northern Territory: namely, remoteness and Indigenous disadvantage. In that context, we should note that Queensland faces similar challenges: including a substantial Indigenous share of the population (estimated at 4.6 per cent in 2016, 37 per cent of which is located outside major cities). That represents a larger proportion of population than any other state.[11] Despite the additional needs associated with Queensland's relatively dispersed population, and the presence of disadvantaged communities in the state, neither the level of state public sector employment nor total public sector compensation are proportionately higher in Queensland than other states.

Over 67 per cent of the Queensland public sector workforce are women (Queensland Government, 2019). Women have been hit especially hard by the economic impacts of coronavirus, experiencing a disproportionate share of job losses due to their concentration in part-time and casual jobs (Pennington, 2020b). That makes it all the more important to preserve the public sector workforce and the compensation paid to it.

In sum, the empirical evidence regarding the functions and scope of the Queensland public sector does not support any call for austerity. Queensland is a geographically enormous state with a large and remote landmass and a diverse population, with many disadvantaged communities. Queensland needs a large, skilled, and well-resourced public sector to provide residents everywhere in the state with the full range of public services they need to achieve Queensland's full economic and social potential. There is no evidence that Queensland's state public sector has grown unduly large. To the contrary, the public sector workforce has not even kept up with population growth, and the total cost of compensation for those workers has barely kept up with economic growth. If anything, even before the pandemic, there was evidence to suggest the state's public sector workforce should become bigger, not smaller. Now, in the face of the economic and social emergency caused by COVID-19, the need for expanded public services is even more evident.

[11] Author's calculations from ABS, 2018.

The Economic Benefits of State Public Services

The broader employment and economic benefits resulting from the provision of public services extend into virtually every sector of the Queensland economy. In addition to the wages and salaries paid to state public sector workers, the provision of these services also entails spending billions of dollars per year on supplies and services produced by a wide range of other businesses and sectors. These purchases extend and multiply the economic impact of public services on the broader state and national economies. This section of the report describes the spillover benefits of public service delivery for private sector industries, considered in two broad categories of effect: 'upstream' linkages and 'downstream' linkages.

UPSTREAM LINKAGES AND SUPPLY CHAIN PURCHASES

In order to function and deliver their designated services, public sector agencies must purchase billions of dollars of supplies, services, and inputs from businesses in a wide range of industries. Those purchases therefore constitute an important market for businesses in the public sector supply chain. We call these impacts the 'upstream' spin-off benefits of public service production. They extend through the entre supply chain of goods and services industries which sell output to public service organisations. These upstream benefits are especially important in smaller regional communities, where public services are so important as local economic anchors (as discussed below).

We develop an estimate of the scale of these upstream supply chain linkages on the basis of Australian Bureau of Statistics (ABS) data regarding input-output linkages between various industries in Australia's economy. The ABS database breaks down input purchases for over 100 different industries, including several of the specific functions encompassed within the broader Queensland state public service. To capture the intensity of overall input purchases across the amalgam of these various service functions, we construct a representative composite production sector consisting of most of the non-defense public services provided by Queensland state-level employees. These include:

- Public administration and regulation
- Public order and safety
- Primary and secondary education
- Tertiary and vocational education
- Health care services
- Residential care and social assistance

We then scale this composite public sector to match the level of total activity undertaken within Queensland's state-funded public sector, on the basis of the relative size of total direct employee compensation.[12] With this approach, we are able to estimate the total input purchases made by these services in Queensland.

We estimate that in 2017-18 (the most recent year available), those input purchases amounted to over $12 billion worth of Australian-made goods and services.[13] Queensland's public service providers make significant purchases of goods and services from every major category of the economy: from agriculture and minerals through manufactured products, utilities, construction, and the full range of services industries. Table 1 summarises the estimated composition of these input purchases by the agencies and departments where Queensland's state public servants are employed.

Table 1
Upstream Jobs Supported by Queensland Public Services, 2017-18

	Input Purchases ($mil)	Supported Jobs
Agriculture	60.4	310
Mining	110.9	74
Manufacturing	956.1	2103
Utilities	751.9	613
Construction	920.4	2420
Wholesale/Retail	1155.4	2263
Hospitality	172.7	1677
Transport	809.1	2879
Information/Telecom	782.5	1596
Finance, Insurance, Real Estate	2332.4	7365
Professional and Technical Services	1927.8	9194
Business Services	1573.9	15,268
Other Services	563.6	4766
Total Input Purchases	**12,117.2**	**50,528**

Source: Author's calculations from ABS, *Australian National Accounts: Input-Output Tables, 2017-18*, *Australian Industry, 2018-19*, and *Employment and Earnings, Public Sector, Australia, 2018-19*, as explained in text. Includes Australian-made inputs only.

Those businesses in the public sector's supply chain in turn must employ their own workforces to produce those goods and services. On the basis of average job-output ratios in the various industries which supply the public sector, we can estimate the number of jobs in each sector which depend on supply chain purchases by state public service providers. We estimate that over **50,000** additional jobs in 2017-18 depended on the purchases of the myriad of inputs required in order to deliver public services to Queensland residents.

The biggest suppliers in dollar purchases to Queensland public services include the broad finance, insurance and real estate sector, professional and technical services, and business services. But there

[12] On this basis, we estimate that in 2017-18 state-funded services in Queensland account for just over 11% of the total national output of this composite public sector industry we created from the 6 sectors identified.

[13] The input-output data used to generate this estimate includes only domestically-produced inputs; imported intermediate products are reported separately in the ABS dataset.

is no major segment of the state's economy which does not receive some significant incremental business as a result of these supply chain purchases.

DOWNSTREAM LINKAGES AND CONSUMER SPENDING

Another category of economic benefit generated by the production activity of public services, and the employment of state public sector workers, depends on the incremental consumer expenditure generated by the workers employed in the course of producing public services. This includes both the direct employment within the state public services sector, as well as the over 50,000 jobs supported upstream in the supply chain described above. The payment of incremental wages and salaries to these people employed (directly and indirectly) as a result of public service delivery results in an added 'downstream' stimulus to thousands of businesses providing the full range of consumer goods and services: from restaurants and tourism, to retail and home-building, to transportation and personal services.

These spillover effects of public sector direct and indirect employment on downstream consumer spending are particularly important during periods of broader economic weakness. Today, in the midst of the COVID-19 pandemic and resulting recession, the consumer spending of those employed directly and indirectly in the provision of public services constitutes a vital stabilising anchor for the state and national economies.

The wages and salaries paid to workers who directly deliver state-funded public services in Queensland totalled some $27 billion in 2017-18.[14] And over $3 billion in additional wages and salaries are paid to the over 50,000 workers employed in the broader public sector supply chain (described in Table 1).[15] On average in Australia, consumers spend two-thirds of their incremental income on final consumption spending (after deducting taxes and personal savings).[16] And those expenditures in Australia, on average, encompass an import penetration ratio of about 20%: that is, one dollar of every five is spent on imported goods and services.[17] This implies that over 50 cents of each dollar in incremental income is spent on Australian-made goods and services.[18]

Therefore, the $30 billion in incremental employment income generated by Queensland public services and its supply chain translates into an additional $15 billion in incremental consumer spending on the whole range of Australian-made goods and services. On the basis of average employment ratios across all produced goods and services in the economy, this consumer spending supports an additional 100,000 jobs. These downstream linkages are summarised in Table 2.

[14] The state public sector employment and compensation data utilised in this section is from ABS (2019a) and includes workers in state-funded corporations and agencies who are not direct employees of the state government.

[15] We derive this estimate on the basis of the upstream employment described above and average weekly wages for all employees in 2017-18.

[16] Author's calculations from ABS (2020h), Table 20.

[17] Author's calculations from ABS (2020h), Table 3.

[18] More precisely, 79% (domestic expenditure share) of 67% (average expenditure propensity) equals 53% (average propensity to spend on domestic production).

Table 2 Downstream Impacts of Queensland Public Services, 2017-18	
Wage & Salary Income ($b)	
State Public Employees	$27.0
Workers in Input Industries	$3.2
Total	$30.2
Share Spent on Australian-Made Goods & Services	50%
Additional Consumer Spending	$15.1
Average Jobs Content (jobs per $m)	6.7
Supported Downstream Jobs	**101,438**
Source: Author's calculations from ABS, *Australian National Accounts: National Income, Expenditure and Product, Jun 2020*, *Australian National Accounts: Input-Output Tables, 2017-18*, *Australian Industry, 2018-19*, and *Employment and Earnings, Public Sector, Australia, 2018-19*, as *explained in text.*	

COMBINED EMPLOYMENT IMPACTS

Finally, Table 3 summarises the combined employment impacts arising from the provision of state-funded public services in Queensland, their upstream linkages (through the whole range of supply industries), and their downstream linkages (through the equally broad range of consumer goods and service industries). In total, we estimate that **some 480,000 positions are supported, directly and indirectly, thanks to the provision of state-funded public services in Queensland**. In addition to the 331,000 direct jobs in the broader state public sector in 2017-18,[19] there were over 150,000 more positions supported in private sector activities: on the basis of the upstream supply chain purchases of public service agencies, and the downstream consumer spending of public sector workers and those working in the supply chain.

Table 3 Combined Upstream and Downstream Linkages	
A. Direct Employment in State-Funded Public Services	331,000
B. Upstream Employment in Supply Chain	50,500
C. Downstream Employment in Consumer Industries	101,438
D. Total Employment (A + B + C)	482,938
Source: Author's calculations from ABS, *Australian National Accounts: National Income, Expenditure and Product, Jun 2020*, *Australian National Accounts: Input-Output Tables, 2017-18*, *Australian Industry, 2018-19*, and *Employment and Earnings, Public Sector, Australia, 2018-19*, as *explained in text.*	

[19] As noted above, the ABS dataset from which this information was sourced includes workers in state-funded services who are not direct employees of the state government.

This combination of upstream and downstream spillover effects thus considerably magnifies the total employment effects arising from public service provision. **For every 10 jobs in the direct state public service, there are another 4.5 jobs supported in private businesses** through the combination of upstream and downstream linkages described above. At this moment in Australia's economic history when employment and incomes across the economy have been so deeply damaged by an unprecedented health and economic crisis, these positive and stabilising economic impacts arising from the provision of high-quality, public services are more critical to the well-being of all Queenslanders than ever.

Some caveats should be kept in mind in this analysis of the spillover impacts of public sector employment. Firstly, we have considered only the first-order flow of demand through both the upstream supply chain and the downstream consumer spending relationships. But those first-order impacts will in turn generate similar upstream and downstream spending effects: such as the subsequent supply chain purchases by firms which are themselves suppliers to public sector organisations, and the downstream consumer spending of people in consumer industries who are employed as a result of the spending of public servants. For this reason, the spillover job effects noted above *underestimate* the full ultimate impact of the public sector activity and employment.

Secondly, the strength of the indirect employment spillovers depends on the aggregate condition of the broader economy. In times of vibrant growth and tight labour markets (in the extreme, under conditions of full employment), then the demand and employment stimulus arising from these upstream and downstream linkages would be less significant, since those businesses and workers would likely be able to find alternative sources of sales and employment even in the absence of government spending. In conditions of unemployment and underutilisation, however, then the ability of these businesses and workers to find alternative markets and employment opportunities is limited, and hence those upstream and downstream spillover effects will be especially strong. In the midst of the deepest recession Australia has experienced since the 1930s, this is clearly a time when those indirect multiplier effects are particularly important.

Finally, the upstream and downstream spending linkages described above are not limited to the state economy. Some of the purchased inputs and downstream consumer spending will be sourced from businesses located in other states, and hence not all of the resulting 150,000 indirect jobs will be located in Queensland. However, by the same token there are thousands of jobs in Queensland which similarly depend on the indirect economic stimulus provided by state public service provision in other states and territories; the overall trajectory of public sector activity will thus have a net impact on upstream and downstream activity in Queensland commensurate with the estimates above.

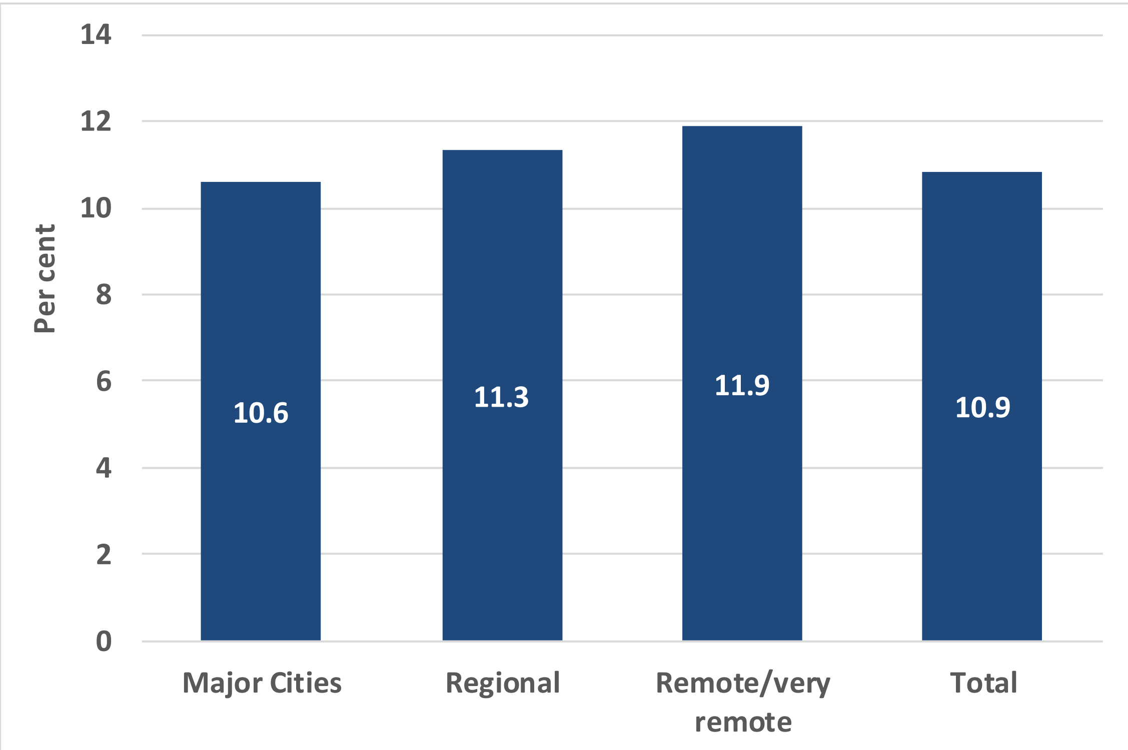
In conclusion, it is clear that the continued provision of state-funded public services in Queensland, provided by public sector workers who should be compensated fully and fairly, constitutes an enormously important source of strength for the state economy at a worrisome time in our history. In addition to those employed directly in providing state-level public services, there are over 150,000 other Queenslanders whose jobs depend directly on the economic stimulus provided by public service organisations and the people who work in them. Trying to artificially downsize or suppress that public sector provision, at the very moment when Queenslanders are especially dependent on them (for both health and economic reasons), would be a perverse and self-defeating response to this unprecedented crisis.

The Importance of Public Service Jobs in Regional and Remote Queensland

Almost two-thirds of the Queensland public sector (63.9 per cent) are based outside the Brisbane CBD and suburbs (Queensland Government, 2019). Many regional Queensland communities depend on major public facilities to serve as anchors for other jobs, and indeed, in some cases, for the very existence of those communities. And in remote Queensland, public sector services and employment often make those job markets and local economies viable where otherwise they would not be.

Additionally, public sector jobs often constitute some of the few attractive positions in regional and remote Queensland available for well-educated, mobile, younger workers. Any backsliding on public sector hiring and compensation, therefore, would have a doubly negative impact on regional and remote communities struggling to maintain their viability.

Figure 6. Queensland state public sector workers as a proportion of all workers, by remoteness category, 2016

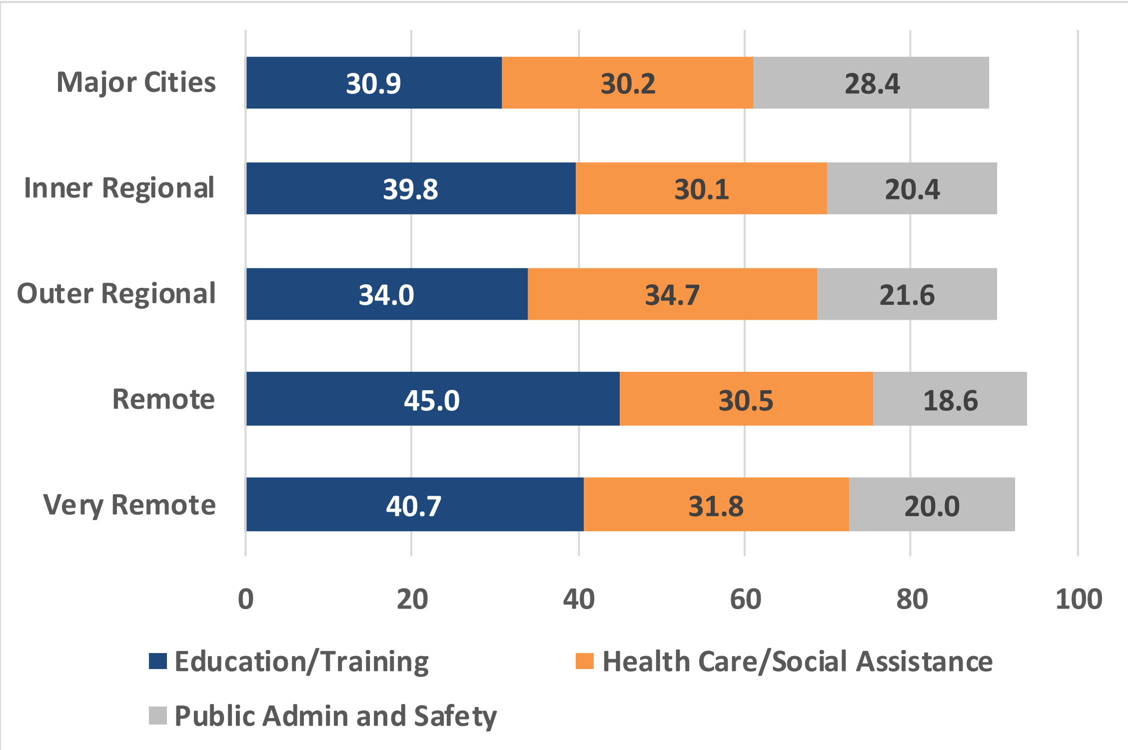


Source: Author's calculations from ABS Census 2016 TableBuilder.

Empirical evidence confirms that state public sector employment is particularly important in regional and remote Queensland. Figure 6 (based on census data) shows that in 2016, state public servants accounted for the largest proportion of employment in remote and very remote Queensland, compared to other geographies. In remote and very remote communities, public sector workers made up 11.9 per cent of employment, relative to 10.9 per cent across the state as a whole. This attests to the disproportionate importance of public servants in anchoring local economies and providing essential services in remote communities. Labour markets in remote Australia are vulnerable and underutilised at the best of times. In the context of COVID-19 it is more important than ever that governments affirm and support public services to fulfil their responsibilities to the communities that depend on them.

Figure 7 shows that across all levels of geography in Queensland, a very substantial share (90 per cent or more) of state public sector workers were employed in just three industries: education and training, health care and social assistance, and public administration and safety (including police and fire services). These are services that residents of regional Queensland rely on. Crucially, education and healthcare workers are especially prominent outside of metropolitan Queensland.

Figure 7. Proportion of Queensland state public sector workers, top three industries, by remoteness category, 2016



Source: Author's calculations from ABS Census 2016 TableBuilder.

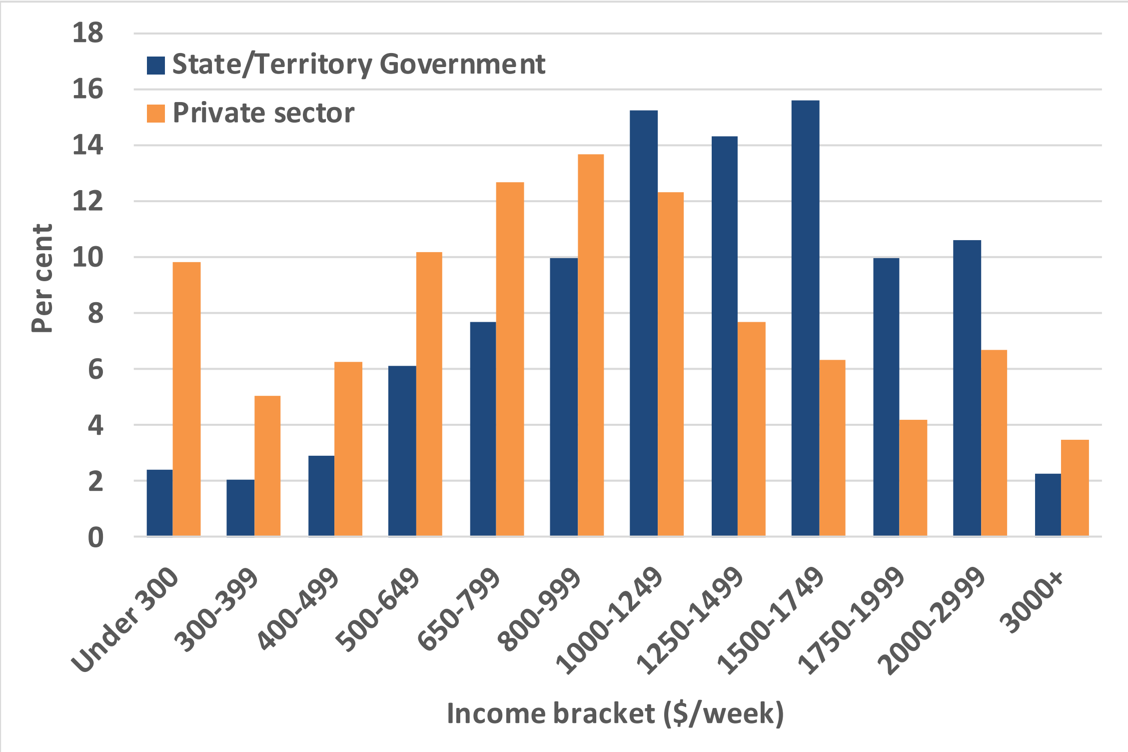
The public sector is an important source of not only jobs, but *high-quality* jobs, outside of metropolitan Queensland. Figure 8 shows the distribution of earnings for Queensland state public sector workers in regional and remote Queensland, compared to the distribution of earnings for private sector workers in the same communities. Several results stand out:

- State public sector workers have a significantly higher median income (referring to the mid-point of the earnings distribution). The public sector median income falls in the $1250-$1499 per week income category, whereas the private sector median is in the $800-$999 category.
- The distribution of earnings for private sector workers is far more polarised than in the public sector. The private sector has more workers earning very little, but also more earning very high incomes (above $3000 per week). In contrast, state public sector workers are clustered in a broad band of decent, middle income jobs.

- There are very few state public sector workers who earn less than $300 per week, compared with almost 10 per cent of the private sector workforce in this category.

These statistics tell an important story. The private sector workforce in regional Queensland is polarised between a large number of low-wage, low-quality jobs, and a small group of very high income earners. The number of decent middle-income jobs is relatively small. In contrast, the state public sector workforce reflects an earnings distribution dominated by high-quality middle-income jobs. These jobs are occupied by well-trained workers, for whom public service is one of the only options for them to find decent work in these regional communities.

Figure 8. Proportion of Queensland state public sector workers, by income category, non-metropolitan areas, 2016



Source: Author's calculations from ABS Census 2016 TableBuilder.

A large body of research now confirms the importance of socioeconomic equality and the broader economic resilience visible in more equal societies (see, for example, Australian Council of Social Services, 2018; Wilkinson and Pickett, 2009). Public sector employment – generally stable, decently-remunerated work – provides an important buttress against broader social and economic inequality (Henderson and Stanford, 2019). The public sector workforce is a source of economic resilience and purchasing power in regional and remote Queensland, and it would be a mistake to dismantle or undermine these qualities in the misguided and ultimately fruitless pursuit of a balanced budget.

Census data also confirm that public sector workers in regional communities are more highly qualified than their private sector counterparts. Table 4 shows that more than three-quarters of state public sector workers have a Certificate III or higher level of education, and over 45 per cent have a university qualification. In contrast, only 12 per cent of the private sector workforce in non-metropolitan Queensland have a university degree. (For comparison, 22 per cent of the private sector workforce in metropolitan Queensland have university qualifications, as does 52 per cent of the public sector workforce.)

These findings re-emphasise that public sector jobs, usually requiring post-school qualifications, attract qualified people to, and retain qualified people in, regional Queensland. This is good for aggregate incomes and economic resilience in these communities. And since there are less attractive private sector job markets in the regions than in metropolitan Queensland, any retrenchment of public sector hiring and employment can reasonably be expected to drive this well-qualified section of the labour force toward the cities.

Table 4
Highest Level of Educational Attainment, Non-Metropolitan Queensland
Per cent of Employment, 2016

	Graduate Dip./Grad Cert/	Bachelor	Advanced Dip./Dip.	Cert III & IV	Years 10 and above	Cert I & II	Years 9 and below	Total
State public sector	7.2	38.1	15.9	17.2	19.9	0.1	1.6	100
Private sector	1.4	11.0	9.6	31.3	41.6	0.1	5.1	100

Source: Author's calculations from ABS *Census 2016 TableBuilder.*

Finally, public sector employment in regional and remote Queensland also has an outsized effect on Indigenous Queenslanders, who are overrepresented in communities with thin private sector job markets and a lack of economic opportunity. In very remote Queensland, the 2016 Census recorded that over one-half of the population was Aboriginal and/or Torres Strait Islander. Public sector job opportunities are thus particularly important for Indigenous Queenslanders, as are the essential services delivered by the state public sector. As such, cutting state public services will inevitably have a disproportionate impact on these most disadvantaged Queenslanders, exacerbating the gap between Indigenous communities and the rest of the state.

The Perverse Macroeconomics of Austerity

THE PARADOX OF THRIFTY GOVERNMENTS

Even before the COVID-19 crisis, and the 2019-2020 bushfires, Australia's economy was weakening, and teetered on the brink of deflation (a situation in which economy-wide average prices start to decline). Nationally, we are now clearly in deflationary territory, experiencing the largest quarterly drop in national CPI on record in the June quarter (-1.9 per cent). The decline in consumer prices in Brisbane has been even faster (-2.2 per cent; ABS, 2020g). Interest rates on government borrowing are correspondingly low, as the RBA attempts to boost demand by cutting interest rates almost to zero.

It is always attractive for individual employers to pay their employees lower wages. However, at an economy-wide level, the effect of widespread wage-cutting is disastrous – depressing consumption expenditure and crushing businesses. As discussed in the previous section, this is because the consumer market for businesses depends on the circular flow of income. Therefore, sales and profits in the *business* sector shrink when wages are broadly reduced.

It is not just that the incomes of public servants support expenditure in the non-government sector. As the largest employer in the Queensland economy, the Queensland government's wage and staffing policies naturally influence private sector wage trends, as well. Private employers certainly mimic austere wage policies in the public sector, as a highly visible benchmark for the overall labour market. And when public sector workers are made redundant, governments can also expect a corresponding growth in benefits claims.

For all these reasons, trying to reduce the deficit (and increase government savings) by cutting government spending can become a self-defeating exercise. By weakening overall economic conditions and both undermining their own revenue base and putting upward pressure on the costs of social benefits and income supports, austerity can actually worsen government's own fiscal position. This is a public sector analogy to John Maynard Keynes's famous 'paradox of thrift', which showed how the efforts of private consumers to increase savings by cutting expenditure can also backfire – by causing a slowdown in the overall growth of output and incomes.

A better approach is to ride out the downturn, and do everything in the government's power to restore normal levels of aggregate demand, employment – and hence tax revenues. In the meantime, Queensland can accumulate what is the most affordable debt in Australian history to retain and expand the public services that are helping Queenslanders through the crisis.

PUBLIC SECTOR INCOMES AND GOVERNMENT REVENUES

There is another self-defeating effect arising from public sector austerity. At every stage of the flow of production and income through the economy, incomes and expenditure are taxed. When wages or employment are cut (whether in the private or the public sector), governments also experience a reduction in their own tax revenues. As a result, public sector austerity – whether through suppression of public sector wages, or reductions in public sector employment – produces an economic 'blowback' on government revenues.

Most obviously, public sector employment generates its own stream of tax revenues: income taxes on wages and salaries (often at relatively high marginal tax rates), payroll taxes, and GST on public sector workers' own purchases. Additionally, the incomes generated by the upstream supply chain purchases of public service agencies, and the consumption spending of public sector workers, in turn underpin more tax revenues.

Therefore, a government which tries to 'save money' by suppressing public sector wages or downsizing public programs, must take account of the impact of that austerity back onto its own revenues. The direct loss of tax revenue flowing back to government negates a non-negligible share of the supposed fiscal 'savings' supposedly resulting from the wage policy.

Overall, public sector austerity will have an inevitable and significant effect on state tax revenues (experienced both directly, and indirectly via transfers from the Commonwealth). After all, state governments in Australia collect over 15 cents of each dollar of GDP: consisting of 9 cents of own-source revenue and 6 cents in the form of fiscal transfers from the Commonwealth level of government (author's calculations from ABS, 2020h). In other words, for every dollar that state governments take out of circulation (thus suppressing overall output and income in the economy), they themselves lose 15 cents for each dollar of foregone output.[20] Or in converse terms, government spending, to a partial but important degree, 'pays for itself' through the positive feedback loop of public revenue raised from public expenditure (Henderson, 2018).

AUSTERITY AND WAGE STAGNATION

A significant drawback of any contraction in public sector payrolls is its impact in reinforcing wage stagnation across the economy – in the private sector as well as the public sector. Even prior to the COVID-19 crisis, the consequences of record-low wage growth in Australia were increasingly obvious. Even now-Prime Minister Scott Morrison (in his previous role as Treasurer) acknowledged[21] that slow wages growth was undermining consumer spending, economic growth, job creation, and fiscal repair. Similarly, in August 2019 – well before the present crisis – RBA Governor Dr Philip Lowe indicated that public sector wage caps were suppressing overall wage growth and undermining consumer spending (Karp, 2019). Dr Lowe indicated that a benchmark for normal, healthy wage increases would be around 3.5 per cent per year – reflecting the RBA's 2.5 per cent inflation target, plus another one per cent to reflect productivity improvements (see, for example, Lowe, 2018).

[20] The loss in revenues arising from a contraction in Queensland state government spending is also shared by other states (since the transfer payments to states from the Commonwealth are not tied to specific state-level GSP performance). In this sense it could be argued that Queensland is 'free-riding' on other states, by shifting some of the negative fiscal side-effects from its own policies to the rest of the country. But unfortunately several other states are also continuing to practice public sector wage restraint notwithstanding the COVID-19 crisis, and hence Queensland would be expected to experience a share of the broader fiscal blowback from this austerity throughout Australia.

[21] See Heath (2017).

Dr Lowe has emphasised that this 'normal' pace of wages growth is essential for macroeconomic and social stability.

Factors contributing to the national wages slowdown,[22] even predating COVID-19, include:

- High levels of underutilisation in the labour market, including underemployment (people working fewer hours than they desire) and disguised unemployment and non-participation. The chronic existence of excess labour supply has undermined workers' wage demands.
- The growth of precarious, insecure, and non-standard employment, including forms (such as labour hire, casual work, and 'gigs' with digital platforms) in which workers have very little bargaining power.
- The erosion of institutions that traditionally supported stronger wage increases, including the minimum wage (which has declined relative to prevailing wages in the overall labour market), the awards system, and collective bargaining.[23]
- The failure of price inflation to match the RBA's 2.5% inflation target. Since mid-2014, realised consumer price inflation has remained consistently below the RBA target. This contributes to a mutually reinforcing disinflation whereby prices and wages 'chase' each other downward.

Suppressing public sector compensation reinforces the stagnation of wages in the broader labour market, via three distinct channels of influence. First, since the government is the largest employer in the economy, reducing its own payrolls drags down average wage growth via a direct 'composition effect'. Second, there is a clear 'demonstration effect,' whereby private sector employers mimic austere public sector targets. Private businesses can more strictly 'hold the line' in their own wage setting, having seen public sector employers take extraordinary measures to suppress normal compensation practices and trends. Third, private sector wages are further undermined via a 'macroeconomic effect', whereby the loss of consumer spending resulting from public sector austerity undermines demand and profits in private consumer industries, thus reducing their own wage increases even further.[24]

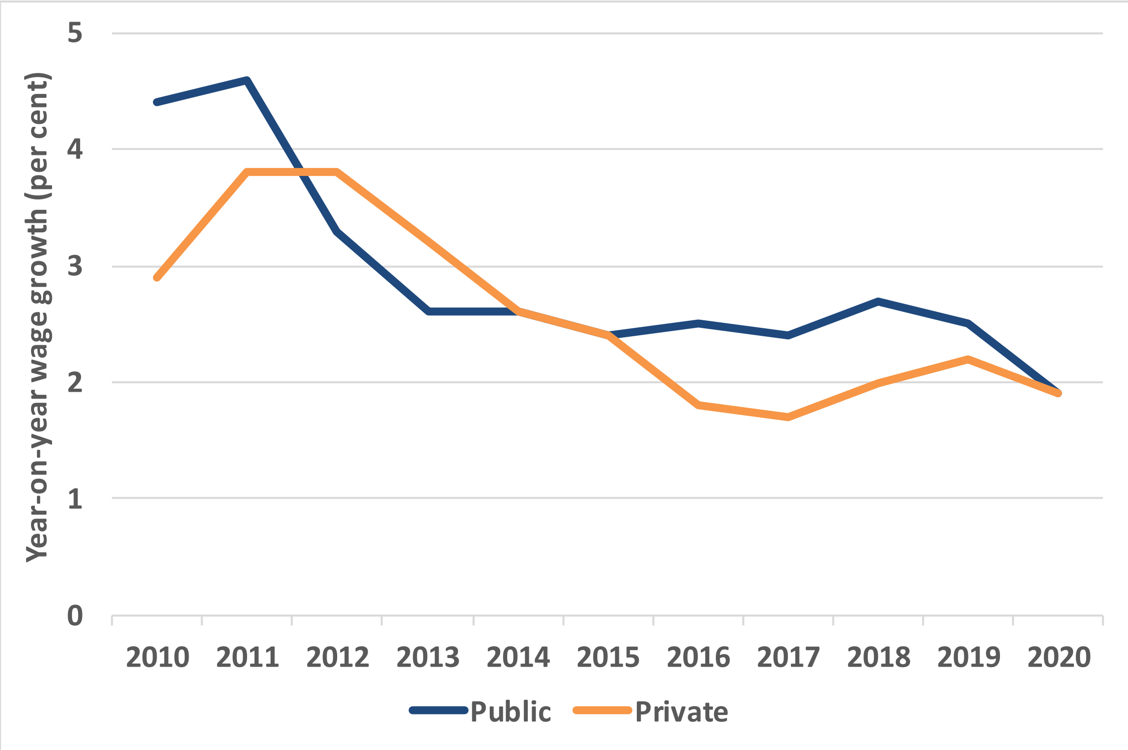
The mutually reinforcing relationship between wage stagnation in the public and private sectors is observable in Queensland. Over the last decade, when public sector wage growth decelerated, private sector wage growth has followed suit (see Figure 9). Successive governments' policies of public sector wage restraint from 2012 onwards have clearly been 'tailed' by the private sector. Wage growth in both sectors is now roughly half of what it was in 2011. To rekindle wage growth and purchasing power across the economy, the state government needs to restore normal wage determination processes (including free collective bargaining with its workforce) and support the expansion (not the contraction) of public service delivery. Far from 'sharing the economic pain', public sector wage restraint is in fact *producing additional pain* – reinforcing a permanent (not temporary) deceleration of wages across the whole labour market (private and public).

[22] See Henderson and Stanford, 2019, p. 22.

[23] Pennington (2018) describes the dramatic decline in collective bargaining coverage in the private sector of Australia's economy since 2013.

[24] Our simulations of two potential austerity scenarios below show the likely scale of this effect in Queensland.

Figure 9. Annual wage growth, Queensland, public and private sectors, 2010 to 2020



Source: ABS, Wage Price Index, June 2020, tables 3a and 4a.

Retrenchment of public sector positions would exacerbate the effects described just above. When there is a larger pool of unemployed workers, there is less competition among employers for staff; the labour market becomes even more of a 'buyer's market'. Employers can and will offer lower wages in the knowledge they can still attract competitive applicants. This reinforces wage stagnation and deflationary pressure; lower wages beget less spending power, causing higher unemployment and even weaker wages. In short, for all these reasons, it would be macroeconomic self-sabotage for a government to cut public sector payrolls in the middle of a recession.

QUEENSLAND'S 'CHARTER OF FISCAL RESPONSIBILITY'

The Queensland government's Charter of Fiscal Responsibility, tabled according to the *Financial Accountability Act 2009*, is effectively a balanced budget target. During times of economic crisis, it is a destructive and self-defeating framework for fiscal policy. This approach to managing budgets closes off adaptive, responsible, and democratic responses to economic downturns. If complied with, it effectively prohibits fiscal expansion to support the economy precisely when that expansion is most needed.

Blair (2018) describes balanced budget rules as a tool for 'making recessions into disasters'. He estimates that if a balanced budget law had been in place at the federal level in the US economy during the 2008-2009 Great Recession – the impacts of which look comparatively benign in comparison to the COVID-19 downturn – the US economy would have contracted by a terrifying 22 per cent, as opposed to the 4.2 per cent decline that was experienced in reality. The headline unemployment rate would have been twice as high: reaching 18 per cent rather than 9 per cent (Blair, 2018).

Australian state governments are less responsible than the Commonwealth government for the operation of normal 'automatic stabilisers': that is, fiscal measures that automatically dampen downturns through reduced tax revenues and countercyclical social benefits (such as unemployment benefits). But state governments nevertheless have access to important discretionary fiscal levers. However, in Queensland's case, the government is restricted from using those policy levers to the fullest by the Charter's self-imposed economic strictures.

In a recession, Queensland government revenues automatically fall, both through revenue-sharing arrangements with the Commonwealth (like GST) as well as through own-source state taxes (stamp duty and payroll tax). But the Charter of Fiscal Responsibility calls for ongoing reductions in debt levels relative to the size of the state economy. In the context of revenues that decline during a recession, this implies reductions in spending, which in turn worsen the recession, as aggregate purchasing power in all sectors of the economy is squeezed. After all, public sector spending is a substantial component of private sector income, especially if one considers the second-round, economy-wide effects of such spending. In turn, this further undermines government revenues again, resulting in a repeat of the whole contractionary cycle.

The state government expresses the Charter in six principles which currently guide the government's fiscal framework (Queensland Treasury, 2019). These principles are summarised below, along with an analysis of their effects:

> ***Principle 1:*** **The Government will target ongoing reductions in Queensland's relative debt burden, as measured by the General Government debt-to-revenue ratio.**
>
> This principle requires the government to target reductions in the amount of debt it is carrying relative to the size of the economy and hence the government's revenue base, regardless of the prevailing economic circumstances. In a stagnant or contracting economy (when GDP and state revenues are not growing, or worse yet actually falling), this makes it impossible to expand debt. This imposes an economic straitjacket that prevents government from borrowing to maintain spending power in the face of economic headwinds – like the current global recession. Even the terminology of this principle is misleading, defining debt inherently as a 'burden.' The true 'burden' is not debt, but rather the human impact of shortfalls in health care, education, public transport and other essential services for state residents.
>
> ***Principle 2:*** **The Government will target a net operating surplus that ensures any new capital investment is funded primarily through recurrent revenues rather than borrowing.**
>
> Principle 2 goes even further than the first principle, in instructing government to target ongoing surpluses in its operating budget. This principle requires the government to use current revenues, rather than borrowing, to pay for most new capital investment – even investments that last for generations into the future. This undermines the capacity of government to make needed investments in infrastructure and public services that would improve the effectiveness of the Queensland economy, including private sector productivity. Other sectors of the economy (including private businesses and households) are not expected to pay for long-lived, productivity-enhancing investments (such as capital equipment, new homes, and others) out of current revenue. Responsible borrowing is recognised as rational and productive. There is no reason why long-lived capital assets should be funded out of current revenues.

Principle 3: **The General Government capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging.**

Principle 3 seems to cut against the grain of the preceding principles, arguing for a stable rate of capital spending (and corresponding job creation and productivity gains), regardless of the state of the overall economy. In contrast, the preceding principles imply, in effect, that the government should slow down investment when the statewide economy slows down. In this regard, the principles are inconsistent. Principle 3 could be improved by allowing for countercyclical capital spending: speeding up the flow of projects during times of economic downturn, to offset job losses and deflationary effects elsewhere in the economy.

Principle 4: **Maintain competitive taxation by ensuring that General Government sector own-source revenue remains at or below 8.5% of nominal gross state product, on average, over the forward estimates.**

Principle 4 amplifies the effect of the other fiscal 'straightjackets' imposed in Principles 1 and 2, by limiting the ability of the Queensland government to raise revenue through taxation. The Charter already restricts government borrowing (whether for funding current programs or capital projects). This principle now prevents the government from funding those priorities by raising taxes. Even absent this principle, governments will generally be cautious about raising taxes in a recession, due to the negative immediate effects on aggregate demand and spending. But under non-recessionary circumstances, this principle narrows the scope of government expenditure permitted, if a government is also complying with Principles 1 and 2.

Principle 5: **Target full funding of long-term liabilities such as superannuation and WorkCover Queensland (WorkCover) in accordance with actuarial advice.**

This principle could have further unintended and contractionary consequences for government's fiscal stance during a recession. During an economic downturn, both equity markets and interest rates tend to decline. This undermines financial balances for pre-funded programs (like WorkCover and defined benefit superannuation programs): lower equity valuations reduce the value of assets, while lower interest rates inflate the value of future liabilities. Requiring full funding of these programs during a recession would thus require the redirection of substantial government revenues into these accounts, rather than spending scarce funds on current programs or capital projects that create actual jobs and income.

Principle 6: **Maintain a sustainable public service by ensuring overall growth in full-time equivalent employees, on average over the forward estimates, does not exceed population growth.**

Principle 6 is another way of saying that, funding levels notwithstanding, the delivery of public services cannot be increased (relative to population), even to meet increasing demand from communities. In the context of an ageing population (with resulting impacts for health care services), this principle unduly restricts government's ability to meet community needs. It also prevents government from expanding its economic footprint to fill the void left by retrenched private sector activity (as we are seeing in the present recession). This principle is motivated by an ideological hatred of 'big government'. But in the context of a pandemic, Queenslanders want government: to protect their health, and support them in through the worst economic downturn in 90 years.

Taken together, the principles of the Charter impose an artificial and arbitrary constraint on government fulfilling its legitimate economic and social duties. It is a pointless codification of austerity. This is unfortunate and counterproductive at any time, hobbling the government's ability to respond to bumps in the economic road. But the perverse effects of the Charter will be felt especially acutely in bad times, when government services are required to a greater extent, private sector employment and investment are depressed, and state government tax revenues are restricted. COVID-19 has enormously squeezed the private sector (and therefore the Queensland government's revenue base), as well as increased the demand for public sector services. The Charter's principles, if taken seriously, would push the government to implementing dangerous and needless austerity, exacerbating the health and economic challenges the state is already facing.

The opposition LNP has proposed a set of fiscal principles that would have even harsher impacts on government programs and spending during the COVID-19 recession (see Mander, 2020). Its alternative set of fiscal principles clearly does not reflect economic reality in the context of the pandemic and its economic consequences; they are internally inconsistent, and would (if seriously implemented) require catastrophic spending cuts and public service retrenchment.

The LNP's first principle pledges to make Queensland the lowest-tax jurisdiction in Australia, promising no new taxes and a 10-year royalty freeze. In the long-run, this pledge would set off a race-to-the-bottom with other states: in which tax cuts elsewhere would compel even more tax cuts in Queensland. But even in the short-run, in a context of deeply depressed aggregate demand, lower taxes will not stimulate private sector investment or more consumer spending. In fact, if businesses are to survive, let alone invest, government needs to expand its role – including as a consumer, directly and indirectly, of the products and services provided by the private sector.

Given that government revenues have contracted due to the COVID-19 economic shock, expanding government programs in this manner would necessarily imply more government borrowing. But the LNP's second principle commits to keeping general government expenditure below revenues 'across the economic cycle.' Combined with the first principle, this implies that Queensland must also have the lowest government spending, as a proportion of its overall economy, of any jurisdiction in Australia. (The LNP does not spell out this implication, for obvious political reasons: at a moment when public services are more essential to our well-being and even survival than ever, Queenslanders are not likely to be inspired by a promise to ensure that state public services are the least well-funded in the country!)

The LNP's third principle reiterates a strict limit on government spending, by targeting a stable and then falling public debt. This principle seems to measure the debt in nominal terms (not relative to GDP or revenues), and makes no reference to the timeframe over which stable and then falling debt is to be achieved. Arithmetically, this implies that the state government must balance its budget, and then begin to generate fiscal surpluses. Given that Queensland is set to incur an $8 billion deficit in 2020-21 (Queensland Treasury, 2020), and that taxes must fall (not increase) according to the LNP's first principle, this would directly require enormous cuts in public spending and service delivery. Note that reducing annual spending by $8 billion to achieve this outcome represents a 12.5% decline in aggregate state government spending – far deeper than any previous episode of fiscal restraint in Queensland's history. It is difficult to see how a government could return the Budget to surplus over the course of even several years, without dramatic and devastating cuts in public service delivery and public sector employment. We will consider the fiscal and economic consequences of dramatic austerity such as is implied by these principles in the next section.

Finally, the LNP's principles, when taken together, are clearly self-contradictory. The LNP's fourth principle calls for improved standards in public service delivery, and commits to no forced redundancies of public sector workers. But these laudable goals are incompatible with the scale of fiscal restraint directly implied by the first three principles. Another contradiction is revealed with the LNP's fifth principle, which commits to an expansion of 'job-creating infrastructure'. How is this to be achieved coincident with reductions in government spending and debt? Pledges to improve public services and expand infrastructure cannot be taken seriously in the context of a simultaneous determination to cut taxes, suppress spending, and generate fiscal surpluses.

Instead of making largely symbolic gestures to one-size-fits-all fiscal principles embodied in either of these sets of fiscal principles, a much better approach would be for the Queensland government (regardless of its political colour) to approach the trade-offs inherent in fiscal policy in a pragmatic and nuanced way. In light of the present economic and social crisis, fiscal policy must not be governed by a pre-determined bias toward smaller government, debt reduction, and spending restraint. Instead, fiscal trade-offs should be calibrated in response to prevailing economic and social circumstances – and COVID-19 certainly constitutes an unusual and extreme set of circumstances. Government spending plays a vital role in stabilising the economy and delivering vital services and supports to the population. And government debt should be understood as a tool to help manage the economy, rather than being 'bad' in its own right. The public interest is far more encompassing and important than the budget balance – especially in a time of economic and social crisis. For all these reasons, we recommend below that the Charter be suspended entirely until the state economy is well into a sustained recovery from the COVID-19 pandemic and recession – and that it then be replaced with a more balanced and flexible statement of the goals and tools of sensible fiscal policy.

THE CONSEQUENCES OF AUSTERITY: TWO SIMULATIONS

Despite strong theoretical and historical arguments against imposing public sector austerity during a recession, it is possible that proposals to cut back service delivery, employment, and wages in Queensland's public sector will be forthcoming in coming months. In the context of a state election campaign, some voices may aim to capitalise on simplistic fears about deficits, and position themselves as determined to 'get spending under control.' As we have indicated, responding to the present economic crisis by reducing public services, staffing levels, or wages would have a perverse and self-defeating impact on a state economy already struggling to climb back from this historic downturn. Those effects would be especially harsh in regional communities which disproportionately depend on public services and public sector jobs.

To better understand the potential contractionary impacts of public sector austerity, this section of the report simulates the effects of two damaging, but plausible, policy pathways: a freeze in aggregate public sector payrolls, and an outright cut in those payrolls. In each case, the change could be effected through the loss of staff, a freeze in pay, or any combination of the two.

The starting point for our simulations is based on the most recent published ABS figures for state-level public sector compensation, for the financial year 2018-19 (ABS, 2019a). We then update that starting point with one year of growth reflecting both the rate of Queensland's population growth

(1.5 per cent), and a 'normal' (capped) average wage increase (2.5 per cent). This provides an estimate of aggregate compensation for 2019-20, which is set as Year 0 of our scenarios.[25]

We then construct a business-as-usual **Baseline scenario** over the following three years, in which:

- The Queensland state public sector will experience an across-the-board 2.5 per cent annual pay increase, in keeping with the wage-capped rate of pay increases that Queensland public servants have received in recent years.
- Public sector employment growth continues at the same rate as average annual population growth in Queensland over the last five years (1.5 per cent; ABS, 2020d) – in other words, the relative 'caseload' of a public sector worker neither decreases nor increases.

We then compare that baseline scenario with two possible examples of public sector austerity. The first, a **Freeze scenario**, would freeze total public sector payrolls in the first year (at the same level as Year 0). That freeze could reflect a freeze in hiring and a freeze in average wages; or it could be the composite outcome of some combination of wage and employment changes that 'balances' to zero change in total payrolls. In subsequent years, aggregate payrolls are assumed to grow at the same rate as the state's population (i.e. 1.5% per year), as a result either of very modest wage increases, very modest hiring, or some combination of the two. Table 5 reports the direct impact this freeze scenario on aggregate payrolls. Payrolls are $1.2 billion lower in the first year (relative to the Baseline scenario), and $2.8 billion lower by the third year. Over the three years of the scenario (held to represent a term of government), the freeze reduces public sector payouts by a cumulative total of over **$6 billion**.

We have also estimated the effects relative to the baseline of a more austere **Cut scenario**. In this case, in Year 1 a five per cent cut is imposed on overall state public sector payrolls. As for the Freeze scenario, in the next two years public sector payrolls are then allowed to commence growing again at the same rate as state population growth (maintaining a constant level of nominal per capita state payrolls). The direct impacts of this harsher austerity scenario are larger. Public sector wage payouts are reduced by $2.7 billion in the first year, with the cut growing to $4.4 billion in the third year. Over the three-year term, public sector payrolls are reduced by a cumulative total of **$10.5 billion**. [26]

Under both the Freeze and the Cut scenarios, yearly economic impacts worsen over time, relative to the Baseline scenario, as the compounding effect of the austerity grows. However, neither of these scenarios comes close to reducing annual payrolls by enough (even in the third year) to eliminate the state's existing $8 billion deficit and thus stabilise the state's debt (as LNP fiscal principles would

[25] This approach likely understates total employment and compensation in 2019-20; the Queensland public service has been growing slightly faster than population growth in recent years, and hence the estimates of the impact of the two austerity scenarios described below are conservative.

[26] It is interesting to compare these two scenarios to the actual experience registered during the most recent period of fiscal austerity in Queensland's history, implemented under the Newman government (most notably with its 2012-13 state budget). That budget planned to reduce direct government employment by more than 5%, through a pledged 10,000 redundancies (Queensland Government, 2012, p. 84). The budget was to maintain modest wage growth, as well as make substantial redundancy payments, and hence total state payroll costs would be effectively frozen. In practice, the Newman government approximately froze aggregate payroll costs in 2011-12 (a 0.1 per cent increase); payroll costs began to increase again in 2012-13, by 0.7% (as measured by the broad public sector compensation data reported by ABS, 2019a). The Newman experience is thus similar to the Freeze scenario simulated above. Even this episode resulted in marked reductions in public service delivery that proved to be unpopular with Queensland voters.

require; Mander 2020). In other words, stabilising and eventually repaying debt would imply far larger and more damaging cuts in public sector staffing and wages even than those we modelled in our Cut scenario.[27] And it is worth remembering that, despite its own major cuts to the public sector, the Newman government never succeeded in eliminating the state deficit, either (Queensland Treasury, 2012; 2013; 2014; 2015).

As discussed above, public sector austerity also imposes a contractionary influence on broader economic activity – not just on public sector workers. The consumer spending of public sector workers is reduced, which in turn undermines business incomes, profits, and investment, as the private sector reduces its level of activity to reflect the loss of demand. And in turn this generates yet more contractionary impacts in other firms which supply those businesses with inputs, services, capital equipment, and other purchases.

Consider that, on average, Australian consumers spend over 50 per cent of their gross personal income on consumption of Australian-made goods and services.[28] In that case, consumer spending in Queensland would be reduced by a cumulative total of over $3 billion in the Freeze scenario, and over $5 billion in the Cut scenario. At a time when consumer confidence and expenditure has already been hammered by health-related shutdowns, redundancies, and income losses, this is the last thing that hard-pressed Queensland businesses need.

The loss of billions of dollars in consumer demand will inevitably translate into downsizing, closures, and redundancies across the whole range of consumer goods and services industries. The order of magnitude of the resulting job losses can be estimated on the basis of the overall ratio of output to employment visible in the broader economy.[29] This implies a loss of over **20,000 person-years** of downstream, private sector employment under the Freeze scenario. The more austere Cut scenario would represent a cumulative loss of **35,500 person-years** of private sector employment over the three years.

The total impact of austerity on aggregate nominal GDP equals the reduction in direct state payrolls combined with the downstream impacts on consumer spending.[30] GDP would decline by over **$9 billion** over three years under the Freeze Scenario. This loss of output would increase to almost **$16 billion** over three years under the Cut Scenario. These GDP estimates are consistent with the findings of other macroeconomic studies which indicate strong multiplier effects from changes in government program spending, particularly under conditions of unemployment.[31]

[27] Possibly two to three times as severe as our Cut scenario.

[28] See discussion and data sources above.

[29] This is the same parameter used to estimate the downstream job-creation benefits from the consumer spending of public sector workers described above.

[30] Another potential category of effects of austerity would be on upstream purchases of inputs from the supply chain which supports public service delivery. As discussed above, we estimate that over 50,000 private sector workers are employed as a result of the supply chain purchases of Queensland's state-funded public service agencies. The impact of austerity measures on those upstream purchases depends on how the austerity is implemented. If public sector payroll suppression is implemented through wage freezes or cuts, then upstream impacts may be negligible. If payrolls are suppressed through reductions in actual service delivery, then upstream input purchases would be negatively affected, and the overall impact on private sector employment and GDP would be even larger than indicated here.

[31] Weber (2012) uses 1.5 as a benchmark estimate of multiplier effects from public spending; similar multiplier estimates are discussed in Spoehr (2006), Cook and Mitchell (2009), and Australian Treasury (2009-10). Other

Since some of the lost expenditure results in a contraction of output for goods and services purchased from other states, these figures refer to the loss of national GDP, not just the GSP of Queensland. But Queensland's economic and fiscal outlook is not independent from the economic conditions experienced elsewhere in Australia – not least because of the importance of fiscal transfers from the Commonwealth government (which depend crucially on national GDP growth, and in particular consumer spending via GST). In short: workers across Queensland do better when public sector workers do better.

research (such as Quiggin, 2013; IMF, 2012: 41-43) also confirms that under conditions of labour underutilisation, increased government spending (including on wages and salaries to public sector workers) contributes to economic growth by more than the dollar amount which the government spends.

Table 5 Simulations of Austerity Scenarios, Queensland							
	Year 0 $b	**Year 1** $b	**Year 2** $b	**Year 3** $b	**Wage loss: 3 year total** $b	**Lost Consumer Spending ($b)** $b	**Lost Private Sector Employment** Person-years
Baseline scenario	29.684	30.882	32.129	33.426			
Freeze scenario	29.684	29.684	30.129	30.581			
Difference from Baseline		-1.199	-2.000	-2.845	**-6.044**	**-3.022**	**-20,304**
Cut scenario	29.684	28.199	28.622	29.052			
Difference from Baseline		-2.683	-3.507	-4.374	**-10.564**	**-5.282**	**-35,488**

Source: Author's calculations from ABS, *Employment and Earnings, Public Sector, Australia*, *2018-19,* and ABS, *Australian National Accounts: Input-Output Tables, 2017-18*, as described in text.
Baseline scenario increases aggregate payroll by sum of normal wage increases (2.5% p.a.) and population growth (1.5% p.a.). Freeze scenario freezes total payroll for one year, then increases at rate of population growth. Cut scenario reduces total payroll by 5%, then increases at rate of population growth.

Conclusion and Recommendations

Queensland public servants are employed in a wide range of socially important industries. Their work is essential to the economic and social wellbeing of the communities they serve. They include health workers, paramedics, teachers and state school workers, social workers and child safety officers, judges, engineers, fire fighters, police officers, prison officers, public housing staff, and public transport workers.

In times of economic and health crisis, government's top responsibility is to protect the well-being of its citizens: including their health, their security, and their economic well-being. That responsibility clearly overwhelms any adherence to particular fiscal targets. And in the context of the unprecedented health and economic challenges posed by COVID-19, no prospective government should countenance stepping back from that responsibility. Indeed, Queensland's economic pain will be less severe and protracted to the extent that the government can expand its actions to protect public health, support incomes, and stimulate new employment and production.

Queensland's public sector supports many other jobs in the broader economy, including in the private sector. We estimate that some **480,000 positions are supported, directly and indirectly, thanks to the provision of state-funded public services in Queensland**. In addition to the 331,000 direct jobs in broader state public sector activity in 2017-18, there were over 150,000 more positions supported thanks to the upstream and downstream effects of those activities. **For every 10 direct jobs in the state-funded public service, another 4.5 are supported in the private sector**.

Moreover, to rebuild after COVID-19 – addressing both the health and economic dimensions of this crisis – a resilient, expanded, and motivated public sector workforce will be an asset, not a liability. There is so much work to be done in this recovery: in health, housing, education, child care, safety, the environment, and many other areas. Without expanded public sector services and investment there is no hope of creating the more resilient and inclusive economy that the next stage of Queensland's economic history calls for. What the initial response to the COVID-19 crisis has unquestionably demonstrated is that the mobilisation of massive government financial and operational resources, previously considered impossible by many commentators, is in fact possible. Governments everywhere can mobilise resources to better meet the needs of the public – if they choose to.

And without strong household consumption – which the government can directly affect through public sector payrolls – businesses have no incentive to invest, expand, and employ new workers. There is simply no prospect of a 'business-led' recovery in the context of the deep shock to private sector resources and confidence, made worse by contractionary government fiscal policy. This is not a new lesson; we learned it almost a century ago, in the Great Depression, and then again in the Global Financial Crisis.

Queenslanders should take honest stock of what policy issues are the most important priorities for their state government to purse. At this historic moment, the provision of comprehensive, high-quality services and the maintenance of secure employment are definitely higher on the list than cutting the government’s wages bill. As this paper has shown, the maintenance and expansion of public sector employment and wages is an important lever the Queensland government has at its disposal to achieve those goals.

To respond as effectively as possible to the health and economic emergency facing Queenslanders, the state government needs to expand its delivery of essential services, infrastructure, and income supports. To that end, and in light of our analysis of the negative economic and social effects of fiscal austerity, we make the following policy recommendations:

1. Queensland’s Charter of Fiscal Responsibility, the wording of which acts to limit emergency responses to economic crises, should be suspended until Queensland has fully recovered from the pandemic and associated recession, and then replaced with a more balanced and flexible fiscal policy framework.
2. The Queensland government should not contract out additional public sector services to private sector actors, and where possible previously contracted-out services should be in-sourced to public provision in the interests of better quality, accountability and cost.
3. There should be no forced redundancies of Queensland public sector workers; this is a uniquely bad time to remove public sector services and purchasing power from the economy. Where staff downsizing is indicated for operational reasons (not for deficit-reduction purposes), that should be achieved through voluntary severance incentives and redeployment.
4. The Queensland government should increase and accelerate expenditure on the state’s capital works program.
5. Women have been harder hit by the COVID-19 economic crisis. The Queensland government should directly invest in expanding output and employment in female-dominated sectors, such as health care, aged care, and education. It should also create stronger pathways (such as through targeted training programs) for women to enter industries that have been traditionally male-dominated.
6. Given the unprecedented economic hardship being experienced at all levels of the economy and decreased state tax takes, substantial special fiscal transfers from the Commonwealth to the states are necessary.

Queensland has enormous resources and potential to rebuild after the COVID-19 disaster. Its residents have demonstrated remarkable resilience and solidarity in effectively limiting spread of the virus, supporting each other through the resulting restrictions and lockdowns, and beginning to carefully re-open businesses and community activities. The state’s highly-qualified and dedicated public sector workforce has been critical to that success. Allowing Queensland’s public servants to continue to do their jobs, and fulfil the top responsibility of government to protect and support its citizens, will strengthen that recovery in the years ahead.

References

Australian Bureau of Statistics (ABS; 2020a), *Labour Force, Australia, May 2020*, table 23, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0May%202020?OpenDocument.

ABS (2020b), *Labour Force, Australia, Detailed - Electronic Delivery, Jun 2020*, table 9, https://www.abs.gov.au/ausstats/abs@.nsf/mf/6291.0.55.001.

ABS (2020c), *Labour Force, Australia, Detailed, Quarterly, May 2020*, table 26a, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6291.0.55.003May%202020?OpenDocument.

ABS (2020d) *Australian Demographic Statistics, December 2019*, table 4, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Dec%202019?OpenDocument.

ABS (2020e) *Australian Industry, 2018-19*, https://www.abs.gov.au/ausstats/abs@.nsf/mf/8155.0.

ABS (2020f) *Australian National Accounts: Input-Output Tables, 2017-18*, https://www.abs.gov.au/ausstats/abs@.nsf/mf/5209.0.55.001.

ABS (2020g) *Consumer Price Index, Australia, June 2020*, https://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6401.0Main%20Features1June%202020?opendocument&tabname=Summary&prodno=6401.0&issue=June%202020&num=&view=.

ABS (2020h) *Australian National Accounts: National Income, Expenditure and Product, June 2020*, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202020?OpenDocument.

ABS (2020i) *Wage Price Index, Australia, Jun 2020*, table 3a and 4a, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6345.0Jun%202020?OpenDocument.

ABS (2019a) *Employment and Earnings, Public Sector, Australia*, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6248.0.55.0022018-19?OpenDocument.

ABS (2019b) *Australian National Accounts: State Accounts, 2018-19*, table 4, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5220.02018-19?OpenDocument.

ABS (2018) Estimates of Aboriginal and Torres Strait Islander Australians, June 2016, table 3, https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3238.0.55.001June%202016?OpenDocument.

ABS (2016) *TableBuilder*, https://tablebuilder.abs.gov.au/webapi/jsf/login.xhtml.

Australian Council on Social Service (2018) *Inequality in Australia 2018*, published in association with the University of New South Wales, https://www.acoss.org.au/wp-content/uploads/2018/07/Inequality-in-Australia-2018.pdf.

Australian Treasury (2009-10), *Budget Paper No.1*, Statement 4, p. 4-6, Table A, http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst4-03.htm.

Blair, H. (2018, 10 April) 'A balanced budget amendment would be extraordinarily dangerous for the economy', Economic Policy Institute, https://www.epi.org/blog/a-balanced-budget-amendment-would-be-extraordinarily-dangerous-for-the-economy/.

Cook, B., and W. Mitchell (2009) 'The Economic and Social Impact of Staff Reductions in the South Australian Public Sector', Centre of Full Employment and Equity, June, 42pp.

Davey, Melissa (2020). 'Privately operated aged care homes behind devastating Covid-19 infection rate in Victorian health workers,' The Guardian, 26 August, https://www.theguardian.com/australia-news/2020/aug/27/nurses-union-says-lack-of-surge-workforce-plans-behind-devastating-covid-19-infection-rate.

Fenna, A. and 't Hart, P. (2019) 'The 53-billion-dollar question: Was Australia's 2009–2010 fiscal stimulus a good thing?' In Luetjens, J., Mintrom, M., and 't Hart, P. (eds.) *Successful Public Policy*, Australia and New Zealand School of Government, https://press-files.anu.edu.au/downloads/press/n5314/html/ch04.xhtml?referer=&page=11#.

Heath, M. (2017, 5 March) 'Morrison Remains 'Concerned' at Weak Wages, Australian Budget,' Bloomberg Politics, https://www.bloomberg.com/news/ articles/2017-03-05/morrison-remains-concerned-at-weak-wages-australian-budget.

Henderson, T. (2018, May) *The Economic Importance of Public Services in Regional Communities in NSW*, Centre for Future Work, https://www.futurework.org.au/the_importance_of_public_sector_work_in_regional_nsw.

Henderson, T. and Stanford, J. (2020, May) *The Same Mistake Twice: The Self-Defeating Consequences of Public Sector Pay Freezes*, Centre for Future Work, https://www.futurework.org.au/pay_freezes_recession_to_depression.

Henderson, T. and Stanford, J. (2019, October) *Messing With Success: Victoria's Puzzling Turn to Austerity*, Centre for Future Work, https://www.futurework.org.au/needless_wage_cap_will_undermine_victoria_s_success.

Henderson, T. and Stanford, J. (2017, September) *False Economies: The Unintended Consequences of Public Sector Wage Restraint*, Centre for Future Work, https://www.futurework.org.au/the_unintended_consequences_of_public_sector_wage_restraint.

Horn, A. (2020, 16 June) 'Public servant 'pay freeze' won't save Queensland Government any money', ABC News, https://www.abc.net.au/news/2020-06-16/qld-public-service-wage-freeze-wont-save-government-money/12361520.

IMF (2012). *World Economic Outlook, October*, Washington DC: International Monetary Fund.

Jericho, G. (2020, 15 September) 'Wishing for the public sector to shrink is wishing for less economic activity when it's most needed', The Guardian, https://www.theguardian.com/business/grogonomics/2020/sep/15/wishing-for-the-public-sector-to-shrink-is-wishing-for-less-economic-activity-when-its-most-needed.

Karp, P. (2019, 9 August) 'RBA governor endorses lifting public sector wage caps to stimulate economy', The Guardian, https://www.theguardian.com/business/2019/aug/09/rba-governor-endorses-lifting-public-sector-wage-caps-to-stimulate-economy.

Lamartina, S., and A. Zaghini (2011). 'Increasing Public Expenditure: Wagner's Law in OECD Countries,' German Economic Review 12(2), pp. 149-164.

Lowe, P. (2018). Evidence to House of Representatives Standing Committee on Economics, Parliament of Australia, 16 February, pp. 14–15, https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Fcommrep%2Faf4a01ce-cf3b-4e4e-a214-3522214a8e01%2F0001%22;src1=sm1.

Lynch, L. (2019, 12 June). 'LNP won't rule out axing public servants to balance budget', The Brisbane Times, https://www.brisbanetimes.com.au/national/queensland/lnp-won-t-rule-out-axing-public-servants-to-balance-budget-20190612-p51wxl.html.

Magazzino, C., L. Giolli, and M. Mele (2015). 'Wagner's Law and Peacock and Wiseman's Displacement Effect in European Union Countries: A Panel Data Study,' International Journal of Economics and Financial Issues 5(3), pp. 812-819.

Mander, T. (2020, 24 July) 'Statement from LNP Shadow Treasurer Tim Mander', https://debfrecklington.com.au/media/state-news/2020/07/24/statement-from-lnp-shadow-treasurer-tim-mander.

McCutcheon, P. (2020, 17 June). 'What is the point of the Queensland Premier's long-awaited wage freeze?' ABC News, https://www.abc.net.au/news/2020-06-17/wage-freeze-deferral-queensland-public-servants-whats-the-point/12360646.

Minshull, L. (2020, May) *Great Southern Hand: State emergency economic responses to COVID-19, The Australia Institute*, https://www.tai.org.au/content/great-southern-hand-state-emergency-economic-responses-covid-19.

Murray, C. and Henderson, T. (2018, May) *The Consequences of Fiscal Austerity in Western Australia*, The Centre for Future Work, https://www.futurework.org.au/wa_austerity.

Organisation for Economic Cooperation and Development (OECD) (2011) 'Investing in high-quality early childhood education and care (ECEC)' https://www.oecd.org/education/school/48980282.pdf.

Pennington, A. (2020a, August) *An Investment in Productivity and Inclusion: The Economic and Social Benefits of the TAFE System*, Centre for Future Work, https://www.futurework.org.au/rebuilding_tafe_critical_to_economic_recovery.

Pennington, A. (2020b, 25 June) 'How the government is turning back the clock for women', The New Daily, https://thenewdaily.com.au/finance/finance-news/2020/06/25/government-coronavirus-women/.

Pennington, A. (2018, December) *On the Brink: The Erosion of Enterprise Agreement Coverage in Australia's Private Sector*, Centre for Future Work, https://www.futurework.org.au/on_the_brink_the_crisis_in_private_sector_collective_bargaining.

Productivity Commission (2017) *Indigenous Expenditure Report 2017*, table P.1, https://www.pc.gov.au/research/ongoing/indigenous-expenditure-report/2017.

Queensland Government (2020, March) *Biannual Workforce Profile* https://www.forgov.qld.gov.au/file/60386/download?token=uJkNUBUm.

Queensland Government (2019, June) 'Queensland public service workforce statistics quick facts' https://www.forgov.qld.gov.au/queensland-public-service-workforce-statistics-quick-facts#june-2019.

Queensland Government (2012) *State Budget 2012-13: Budget Paper No. 2: Budget Strategy and Outlook*, https://s3.treasury.qld.gov.au/files/bp2-2012-13.pdf.

Queensland Treasury (2020) *COVID-19 Fiscal and Economic Review*, https://s3.treasury.qld.gov.au/files/COVID-19-Fiscal-and-Economic-Review.pdf.

Queensland Treasury (2019) 'Fiscal strategy', https://www.treasury.qld.gov.au/budget-and-financial-management/government-fiscal-strategy/.

Queensland Treasury (2015) *State Budget 2015-16: Budget Strategy and Outlook*, https://s3.treasury.qld.gov.au/files/state-budget-2015-16-bp2.pdf.

Queensland Treasury (2014) *State Budget 2014-15: Budget Strategy and Outlook*, https://s3.treasury.qld.gov.au/files/bp2-2014-15.pdf.

Queensland Treasury (2013) *State Budget 2013-14: Budget Strategy and Outlook*, https://s3.treasury.qld.gov.au/files/bp2-2013-14.pdf.

Queensland Treasury (2012) *State Budget 2012-13: Budget Strategy and Outlook*, https://s3.treasury.qld.gov.au/files/bp2-2012-13.pdf.

Queensland Treasury Corporation (2020) 'Credit ratings', https://www.qtc.com.au/institutional-investors/credit-ratings/.

Quiggin, John (2013, 4 January) 'The Big Issues in Macroeconomics: The Fiscal Multiplier', http://johnquiggin.com/2013/01/04/the-big-issues-in-macroeconomics-the-fiscal-multiplier/.

Spoehr J. (2006) 'Assessing the Likely Impact of the Proposed Public Sector Employment, Reductions in South Australia', Australian Institute for Social Research, University of Adelaide.

Visentin, L. (2020, 12 July) 'Treasury advice says public sector wages freeze will 'deepen recession'', The Sydney Morning Herald, https://www.smh.com.au/politics/nsw/treasury-advice-says-public-sector-wages-freeze-will-deepen-recession-20200710-p55awl.html.

Weber, E. (2012). 'Australian Fiscal Policy in the Aftermath of the Global Financial Crisis', Discussion Paper #12.11, School of Business, University of Western Australia, http://www.business.uwa.edu.au/__data/assets/pdf_file/0012/ 2157987/12-11-Australian-Fiscal-Policy-in-the-Aftermath-of-the-Global-Financial-Crisis.pdf.

Wilkinson, R. and Pickett, K. (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane.

Wood, Danielle, Owain Emslie, and Nathan Blane (2020, 2 April) ‘COVID-19: What the states and territories are spending, Grattan Institute, https://blog.grattan.edu.au/2020/04/covid-19-what-the-states-and-territories-are-spending/.

Ziffir, D. (2020, 12 June) ‘Australia is 100 Days from an economic cliff’, ABC News, https://www.abc.net.au/news/2020-06-12/australia-100-days-out-from-economic-cliff-coronavirus-supports/12345710.