

The Economic Importance of Public Services in Regional Communities in NSW

By Troy Henderson
The Centre for Future Work at the Australia Institute

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Summary

Public sector austerity has become a “policy fad” in Australia, at all levels of government. Its hallmarks are unnecessary public sector wage caps, outsourcing, downsizing, privatisation and the imposition of so-called “efficiency dividends” which allegedly drive productivity growth but in reality cut spending and reduce the quality of public services. These policies of austerity are not justified by economic theory, especially not in conditions of chronic macroeconomic weakness, unemployment, and underemployment (such as characterise most areas of Regional NSW). They may be politically convenient for political leaders positioning themselves as “tough on deficits,” but in reality they impose a wide range of harmful economic and social consequences. At best they represent lazy thinking in policy; at worst they constitute deliberate attempts to erode the public sector and the critical services it provides.

This report investigates this “policy fad” with a particular focus on the impacts of austerity in Regional NSW. Part 1 provides a description of trends in public sector employment in NSW, with a special focus on Regional NSW. It emphasises the disproportionate importance of public sector employment to regional communities. Public sector jobs are a crucial source of decent jobs, healthy incomes, consumer spending, and spin-off demands for private businesses which depend on the existence of public service providers in regional communities.

Part 2 of the report discusses some of the threats to this positive economic role of public services in regional communities across NSW. It provides quantitative estimates of the broader economic contribution of the public sector to regional communities in NSW, including both direct and indirect effects. For example, every public service position in a regional community also supports additional economic activity and employment in that community: providing the initial economic stability and purchasing power required to validate private sector activity both “upstream” (in supply chain activities that feed into public sector production) and “downstream” (in consumer goods and services industries that depend on the initial secure, higher-quality jobs that are created through public services).

This part also reviews, in turn, the negative consequences of outsourcing, downsizing, privatisation and so-called “efficiency dividends” – all of which have been key mechanisms for implementing public sector austerity. We consider several specific examples of these policy measures in Regional NSW, and their negative economic and social consequences: including the outsourcing of disability services, job and service cuts in the National Parks and Wildlife Service, the privatisation of prisons, and the

impact of so-called “efficiency dividends” on access to the arts and cultural services in Regional NSW.

The key findings of our report can be summarised as follows:

1. Regional NSW faces particular employment, infrastructure and demographic challenges, that public services and public sector employment must play a key role in addressing.
2. In particular, labour markets in Regional NSW are chronically underutilised: unemployment and underemployment are higher, and job-creation has been much slower. Over 80 percent of new jobs in NSW in the last five years have been created in the Greater Sydney area, exacerbating the labour market inequality that already existed between the city and the regions.
3. NSW’s fiscal position is the strongest in the country; there is no legitimate financial reason, let alone social justification, for the state government to be imposing additional austerity, especially in regional communities.
4. NSW’s public sector is already the second smallest relative to total employment of any state in Australia, at just 14.2 percent. Overall state public employment has been flat since 2013, despite NSW’s growing population and the growing demand for public services. By any standard, state public sector employment should increase significantly to meet its economic and social responsibilities.
5. 35 percent of total public sector employment is located in Regional NSW (roughly equivalent to its share of the state’s population). But many regional communities have been hard-hit by downsizing of the public sector workforce. For example, of the 20 local government areas (LGAs) that have experienced the biggest proportional declines in public sector jobs over the last five years, 18 are in Regional NSW (including all of the 10 hardest-hit communities).
6. Total public sector employment (including national, state, and local services) has declined from 17.10% of regional employment in 2011 to 16.50% in 2016. Retaining the same share would have meant over 6,000 more public sector jobs in NSW’s regional communities (3,900 of those in state government-funded services).
7. That loss of potential employment resulted in foregone wages and salaries worth over \$500 million per year in regional communities (over \$325 million from the 3,900 foregone state-funded jobs) in 2016 alone. In addition, consumer spending was \$330 million lower; total GDP was over \$750 million lower; and the state's own revenues were lower (by \$115 million) due to lower economic activity than would have been the case with a continuing proportional role for public sector employment.
8. Assuming a straight-line pattern in the relative public sector employment share (and assuming that trend continued in 2017 and 2018), then Regional NSW has

lost cumulative totals of \$2.9 billion in direct wages and salaries; \$1.9 billion in foregone consumer spending; \$4.3 billion in foregone GDP; and almost \$650 million in reduced state revenue.

9. Outsourcing is supposedly motivated by a drive to attain services at a cheaper cost, but the strategy often backfires. In many cases outsourced services are more expensive than providing services in-house; the strategy is also used to reduce pay and conditions, and private providers are not subject to the same accountability as public sector agencies.
10. Important public sector facilities (such as hospitals, schools, higher education institutions, prisons, and others) can act as “anchor” industries in regional communities, stimulating additional indirect economic activity (both “upstream” and “downstream”). But when these facilities are privatised (as with the privatisation of prisons), those indirect benefits are reduced. For example, private facilities lack transparency regarding staffing ratios, generally have lower rates of pay than public facilities, and do not make the same commitment to local purchasing of inputs and supplies as public facilities can.
11. So-called “efficiency dividends” are a crude and unimaginative budget measure, motivated more by political than fiscal considerations. A case study of arts and cultural services in Regional NSW reveals the damaging impact of this knee-jerk budget strategy on the extent and quality of services delivered.
12. To address the pressing labour market challenges being experienced in many regional communities across NSW, and provide more opportunity for retaining younger workers and hence the viability of regional communities, the state government’s commitment to public service provision and employment in Regional NSW should be expanded, not eroded.

Part I: The Importance of the Public Sector in Regional NSW

1.1 THE CASE AGAINST PUBLIC SECTOR AUSTERITY IN NSW

Australian governments, state and federal, have been captured by a “small government” ideology that sees the public sector and public services as a burden, rather than as a source of growth, opportunity, and prosperity. This small government obsession manifests itself in a variety of ways, and through a range of policy strategies: from privatisation and outsourcing, to arbitrary public sector wage caps and arbitrary but aspirational limits on aggregate public expenditure.¹

These policies have a number of damaging and perverse consequences, from the higher cost of outsourced or privatised services², to the denigration of public sector workers. Short-sighted austerity policies have even undermined governments’ stated fiscal objectives.³ One significant long-term effect of this small-government mantra has been a decline in total public sector employment for Australia: from 30 percent of all employees in 1987, to 22 percent in 1997, and just 15 percent in 2016.⁴

Inadequate support for public services undermines economic performance and social health. But it is also bad economics. There are of course fiscal costs to expanding public services (including the wages of the public sector workers providing the services). But in the longer term public sector employment is partly “self-financing” because of the reduction in social security payments, the extra tax revenues generated, and the direct and indirect “multiplier effects” that result from the increase in production of, and demand for, goods and services.⁵ These multiplier effects are especially important in times, and in places, where the overall economy (and the labour market in particular) are underperforming – marked by high unemployment and underemployment, low or declining labour force participation, and other symptoms of a chronic lack of purchasing power. That’s when public spending plays a critical role in supporting good, stable jobs, anchoring private sector activity, and lifting

¹ Commonwealth of Australia, 2014.

² McAuley and Lyons, 2015.

³ Henderson and Stanford, 2017.

⁴ ABS, 1998, ABS, 2017.

⁵ Stilwell, 2000.

purchasing power. Conditions of chronic underutilisation are readily visible in many regional communities in NSW, and hence public sector employment plays a particularly important strategic role in those communities.

This underscores that public sector activity has a “crowding in” impact on private sector activity (rather than the “crowding out” effects emphasised by many conservative thinkers, according to which every dollar of public sector activity must be offset by a reduction in private sector activity⁶). To the contrary, public sector spending (on both current services, and long-run investments in facilities and infrastructure) boosts job creation in the short-term, and enhances the economy’s productive capacity in the longer-term.

Strong population growth in NSW means the case for increased investment in public services and public infrastructure is even more compelling. The fetish for reducing public sector debt and deficits is irrational. As Langmore and Quiggin (1994) put it, “infrastructure investment is one of the most cost-effective forms of economic stimulus,” demonstrating “a substantial multiplier effect” due to relatively low leakage to imports (as most of the inputs to public services are of labour or materials which are produced in Australia).⁷ In addition, Australians consistently report a willingness to pay additional taxes to fund essential services such as health and education.⁸ Finally, in an era of wage stagnation,⁹ a commitment to maintaining and expanding high-quality public sector jobs, services and infrastructure is all the more critical to NSW’s future economic prosperity and social well-being.

REGIONAL COMMUNITIES MATTER

Public sector investment and public services are particularly important in regional and rural communities in NSW. Infrastructure investment – economic, social and cultural – is critical for creating an attractive environment for current and prospective residents, and public sector jobs are often disproportionately important given their relative stability and above-average levels of pay (reflecting the high skill levels of the public sector workforce). Schools, hospitals, universities, TAFE colleges, public sector research centres, correctional facilities and social support services can all play the role of “anchor” industries in communities where other decent job opportunities may be

⁶ Stilwell, 2000, pp. 188-189. The “crowding out” thesis presupposes that all resources will be fully employed in any event thanks to the automatic functioning of market forces; this starting assumption is clearly almost always wrong, glaringly so in regional communities that experience ongoing high levels of underutilisation and even depression.

⁷ Langmore and Quiggin, 1994, p. 135.

⁸ Dawson and Smith, 2018.

⁹ Stanford, 2018.

scarce. An anchor industry is one which helps to support an entire community or regional community: by providing an initial supply of quality jobs, by supplying critical society-building human capital and by generating inflows of revenue from outside of the immediate region (through sales of goods or services to other markets, and/or inward fiscal transfers to pay for public sector activity) that in turn allow the community to purchase necessary goods and services from those other regions.

These anchor industries, and the direct and indirect employment and economic benefits flowing from them, are particularly important in the context of the chronic underutilisation of labour markets in Regional NSW. Table 1 summarises some indicators of higher unemployment and lower labour force participation across Regional NSW, in contrast to the Greater Sydney area.

Table 1		
Regional Unemployment Differences, 2017		
	Greater Sydney	Rest of NSW
Unemployment Rate	4.6%	5.3%
Participation Rate	66.3%	59.0%
Unemployment Rate at Sydney Participation Rate ¹	4.6%	15.7%
Hardest-Hit Communities (Unemployment Rate)		
Coffs Harbour and Grafton	8.6%	
Murray	8.1%	
Southern Highlands and Shoalhaven	7.1%	
New England and Northwest	6.2%	
Source: Author's calculations from ABS Catalogue 6291.0.55.001, Table 16; 2017 averages. 1. Adjusted unemployment rate comparing actual employment to labour force if Greater Sydney participation rate was applied.		

The average 2017 unemployment rate in Regional NSW communities was 5.3 percent, compared to 4.6 percent in Greater Sydney. But this problem is masked by the depressed levels of labour force participation in regional labour markets. Just 59 percent of the working age population in regional communities, on average, participated in the labour market in 2017 (a full percentage point lower than in 2008 when the Global Financial Crisis hit). In contrast, Greater Sydney demonstrates a 66.3 percent participation rate. Without that depressed level of labour force participation (which is clearly a result of the lack of job opportunities in regional communities),

recorded unemployment rates in Regional NSW would be much higher. In fact, if participation rates in Regional NSW matched those of Greater Sydney (with no change in employment), the regional unemployment rate would exceed 15 percent – three times the official level.

These figures dramatically illustrate the employment crisis experienced in many regional communities across NSW. And the problem is worse for young people. Youth unemployment in Regional NSW is around 12 percent, two points higher than Greater Sydney for the same cohort.¹⁰ It is little wonder that so many young workers feel compelled to leave their home communities and migrate to large cities (where they confront many challenges, including inflated housing costs).

Table 1 also indicates that the unemployment crisis is even worse in several particular regional labour markets in NSW. Coffs Harbour/Grafton, Murray, New England and Northwest NSW, and the Southern Highlands and Shoalhaven are some of the hardest-hit regional communities.

The picture for Regional NSW is certainly not uniformly negative. Average incomes tend to be lower in the regions than in Sydney (especially its inner suburbs), but inequality is generally less extreme within Regional NSW – attesting to the relatively inclusive nature of economic structures there, and the strong levels of “social capital” which help to ensure that the income and wealth generated there tends to be shared relatively widely.

While Sydney actually has a higher poverty rate than Regional NSW due to the very high cost of housing, being poor in regional and remote NSW nevertheless brings with it a particular set of challenges: “including generally lower incomes, reduced access to services such as health, education and transport, declining employment opportunities and the tyranny of distance and isolation.”¹¹

Regional NSW also faces demographic challenges: with slower population growth than Greater Sydney and an older average age of residents. In 2016-2017, for example, the population of Greater Sydney grew by 2 percent, while the Rest of NSW grew by 0.7 percent.¹² The ten fastest growing (SA2) regions in NSW were all located in Greater Sydney.¹³ This reflects a longer-term relative decline in rural and regional population compared to metropolitan population growth – which makes it all the more important that the state government’s own fiscal, employment, and service delivery strategies all make their optimal contributions to the health and stability of regional communities.

¹⁰ Parliament of NSW, 2018.

¹¹ NCOSS, 2014, p. 3.

¹² ABS, 2018.

¹³ ABS statistical regions with average population of at least 10,000 people.

Meeting these challenges, of higher unemployment, lower incomes, poor infrastructure and demographic decline, requires two overarching responses:

- 1) Ending current policies that reduce economic activities and opportunities in Regional NSW, and
- 2) Implementing specific regional development plans.

The NSW public sector has a key role to play in both policy responses.

ENDING PUBLIC SECTOR WAGE REPRESSION AND PUBLIC SECTOR JOB CUTS

We have already mentioned the standard measures implemented by federal and state/territory governments that have eroded the public sector in recent years. Specific examples of downsizing, privatisation, the imposition of arbitrary “efficiency dividends” and outsourcing will be discussed and critiqued in more detail in Part 2 of this report. However, the signature policy of public sector wage repression in Australia’s most populous state is the NSW Public Sector Wages Policy, first imposed in 2011. The two key provisions of the policy are:

3.1.3. Public sector employees may be awarded increases in remuneration or other conditions of employment that do not increase costs by more than 2.5 per cent per annum.

3.1.4. Increases in remuneration or other conditions of employment that increase employee related costs by more than 2.5 per cent per annum can be awarded, but only if sufficient employee related cost savings have been achieved to fully offset the increased employee related costs.¹⁴

Public sector wages caps have proved a convenient – but lazy – policy response to over-stated fiscal challenges around the country, and the NSW experience has been one of the most perverse. The policy was first implemented by the new Liberal state government in 2011, supposedly to address conditions of “fiscal crisis” resulting from the Global Financial Crisis and the resulting slowdown in economic activity. But the policy has been rolled over year after year, even now that the original justification for it – the supposed “fiscal crisis” that was hardly an emergency in the first place – has disappeared.

This artificial and arbitrary suppression of public sector wages simply contributes to the historically weak wages growth experienced across the Australian and NSW labour markets. For example, Figure 1 illustrates the path of wages growth in the entire NSW economy (not just the public sector). It is clear that the imposition of the 2.5 percent wage cap coincided with a marked slowdown in the pace of wage increases in *all* jobs

¹⁴ NSW Treasury, 2014, 2.

in the state – even in the private sector. There are many reasons why private sector employers tend to “follow the lead” of the state government (which is, after all, Australia’s largest single employer) in restraining wage growth. The state wage cap sends a potent and highly visible signal to all employers about what wage increases are considered somehow “legitimate.” Many private sector employers do business with state-funded agencies, and hence will claim that they must restrain their own wages in order to remain “competitive” with government. Finally, the artificial suppression of public sector wages undermines consumer purchasing power across the state, weakening business conditions for many private sector firms, and further dampening their own wage offers.

Figure 1. NSW Public Sector Wage Cap and Overall NSW Wage Growth



Source: Author’s calculations from ABS Catalogue 6345.0 - Wage Price Index.

Now even the NSW Treasury is conceding (in the 2017-2018 Budget) that “wages growth has remained soft in recent years,” and that the slow pace of wages growth has undermined both economic growth and the state’s own fiscal position.¹⁵ The state government should examine its own role in creating this unintended and self-damaging outcome, and restore normal and free enterprise bargaining practices to the public sector. This argument is especially compelling in light of the dramatic improvement in state fiscal conditions. NSW recorded a budget surplus of \$5.7 billion in 2016-2017, and is projecting another surplus of \$3.3 billion for 2017-2018 (and more

¹⁵ NSW Treasury, 2017, 3:9.

surpluses stretching out to the end of the budget estimates in 2020-2021). NSW also boasts an accumulated net surplus position of \$9.3 billion as of June 2017.¹⁶

Despite this condition of fiscal abundance, the state government persists in restricting the expansion of public services and public-sector employment. Indeed, the 2017-18 NSW Budget projected continuing erosion of the relative economic footprint of state government program spending: “Expenditure as a share of GSP is expected to fall from 12.9 per cent in 2017-18 to 12.0 per cent in 2020-21. Over the period from 2010-11 to 2020-21, expenditure as a proportion of GSP is projected to decline by an average of 0.7 per cent per annum.”¹⁷

The public sector wage cap was always a counter-productive measure; and it has been just one aspect of an overall position of continued austerity that has needlessly hampered the provision of public services and the role of public sector employment. NSW’s current fiscal abundance removes any shred of justification for its continuation. Restoring normal public sector expenditure and employment trends would help to diversify and stabilise NSW’s economy, protect against the impacts of future downturns in private sector activity (such as could arise, for example, from a downturn in the housing market), and play a particularly important role in enhancing economic and employment opportunities in regional communities.

1.2 MAPPING TOTAL PUBLIC SECTOR EMPLOYMENT IN NSW

The stereotype that the state’s public sector is “bloated,” invoked to justify the ongoing absolute and relative contraction of public sector employment, could not be further from the truth. Total public sector employment in NSW as a percentage of total employment is the second lowest in Australia: at 14.2 percent (see Figure 2).

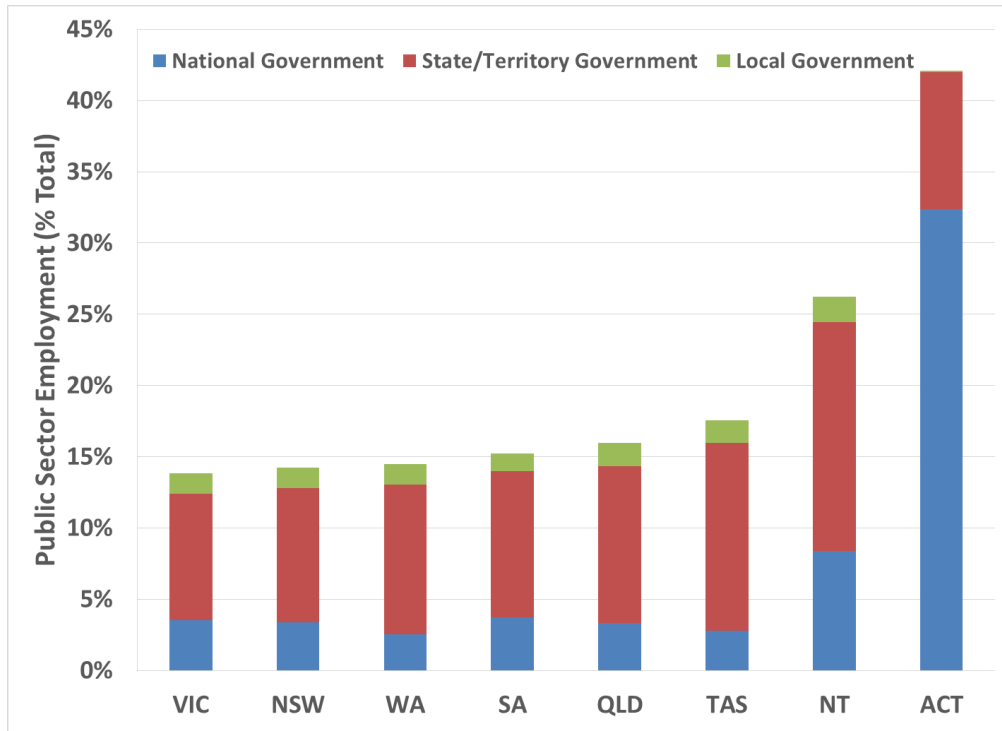
Considering state government employment only (including state-financed services such as education and health care), ABS data indicate only a modest increase (on a headcount basis) from 423,000 to 469,000¹⁸ in the ten years ending in 2017: a long-run increase of just 1 percent per year, slower than the growth in NSW’s population and the expansion of the overall labour market. In fact, on a headcount basis, state sector public employment was actually slightly lower in 2016-17 than in 2013-14 (see Figure 3).

¹⁶ NSW Treasury, 2017, Overview, pp. 1-3.

¹⁷ NSW Treasury, 2017, Expenditure, p. 6.1.

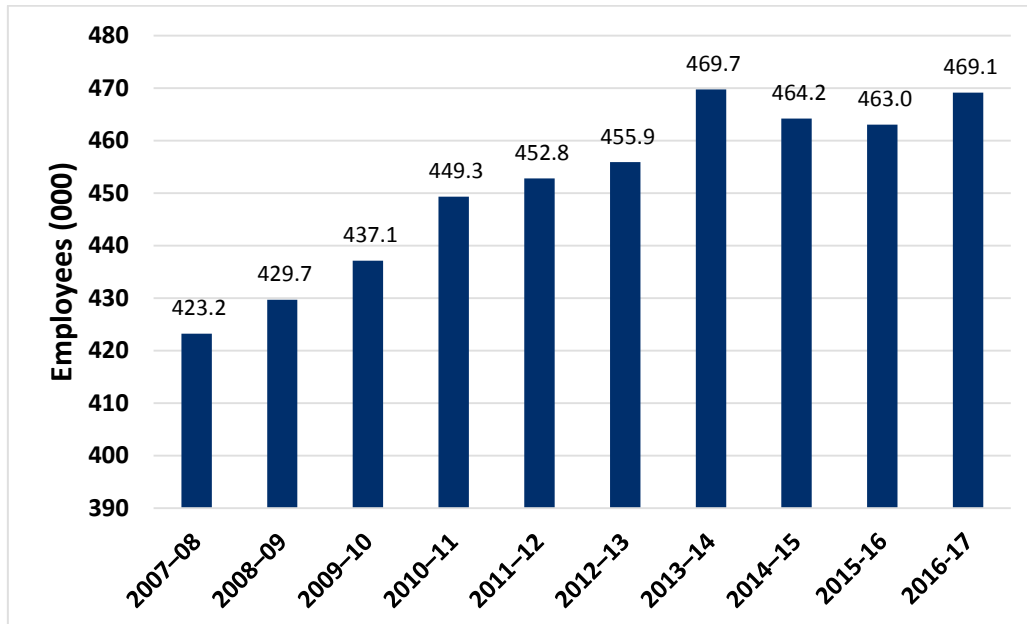
¹⁸ State public sector employment data may include universities established under a State Act, but that are funded by the Commonwealth. This explains part of the discrepancies between ABS survey and census data, and data reported by the NSW Public Service Commission.

Figure 2. Public Sector Employment as Share of Total Employment



Source: Author's calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Figure 3: State Government Public Sector Employment in NSW, 2007-2017

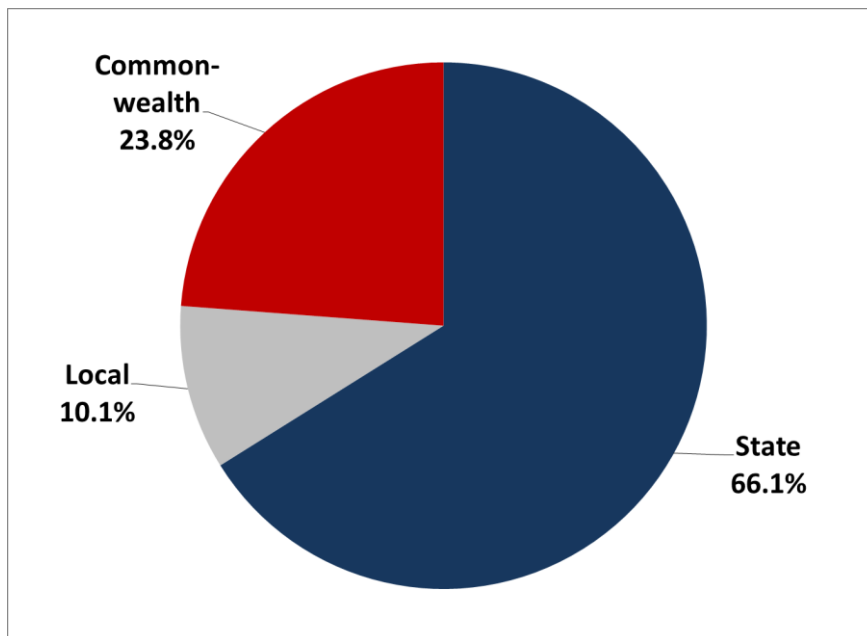


Source: Author's calculations from ABS Catalogue 6248055002DO001, Employment and Earnings, Public Sector, Australia, 2016-17, Table 1.

Data from the NSW Public Service Commission confirm the stagnation in state public sector employment. On a census headcount basis state public sector employment increased from 372,033 in 2007 to 393,316 in 2017: just over 5 percent in 10 years. On a Full-Time Equivalent (FTE) basis, the growth was even more modest: from 312,201 to 325,900 (an increase of just 4 percent) over the same period.¹⁹ The workforce has not kept up with the state’s population and its growing needs for public services – and has declined in absolute terms since 2013. The Commission itself even emphasised the significant erosion in the relative size of the state public sector workforce, stating: “At 10.2%, the proportion of NSW employed persons who worked for the NSW public sector is at its lowest level since the commencement of the Workforce Profile in 1999, and is a full percentage point lower than it was a decade prior.”²⁰

The state government continues to account for the majority of public sector employment in NSW (see Figure 4): about two-thirds of all public sector jobs in the state are accounted for by state government-funded services. Yet while state public sector employment has stagnated on a FTE basis since 2011, the population of NSW increased by about 7.2 percent (to almost 7.9 million) in the same period.²¹ This implies an intensification of the workload for each state public sector employee.

Figure 4. Public Sector Employment in NSW by Government Level, 2016



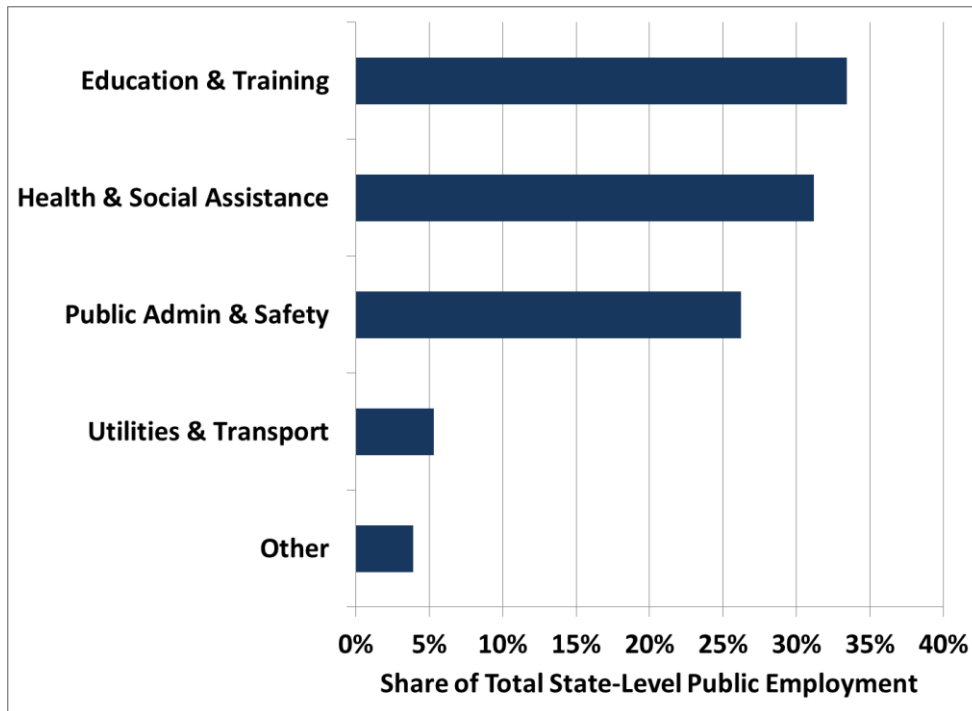
Source: Author’s calculations from ABS, 2016 Census.

¹⁹ Public Service Commission, 2017, Chapter 2.

²⁰ Public Service Commission, 2017, Chapter 2.

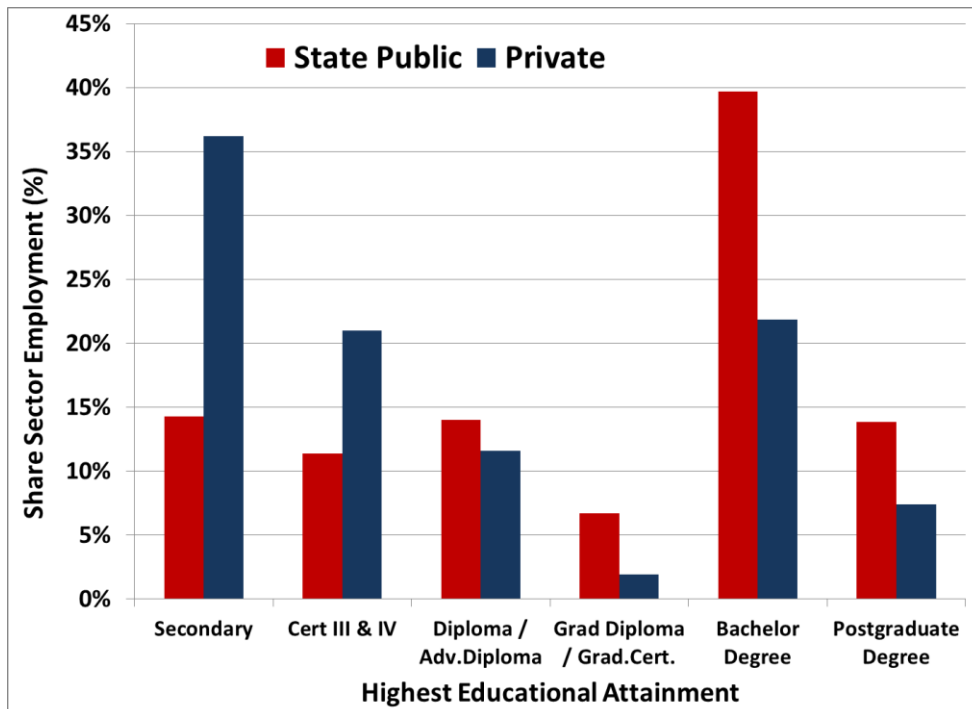
²¹ ABS, 2018.

Figure 5. State Public Sector Employees by Industry Grouping



Source: Author’s calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Figure 6. Educational Qualifications of State Public Sector Workers



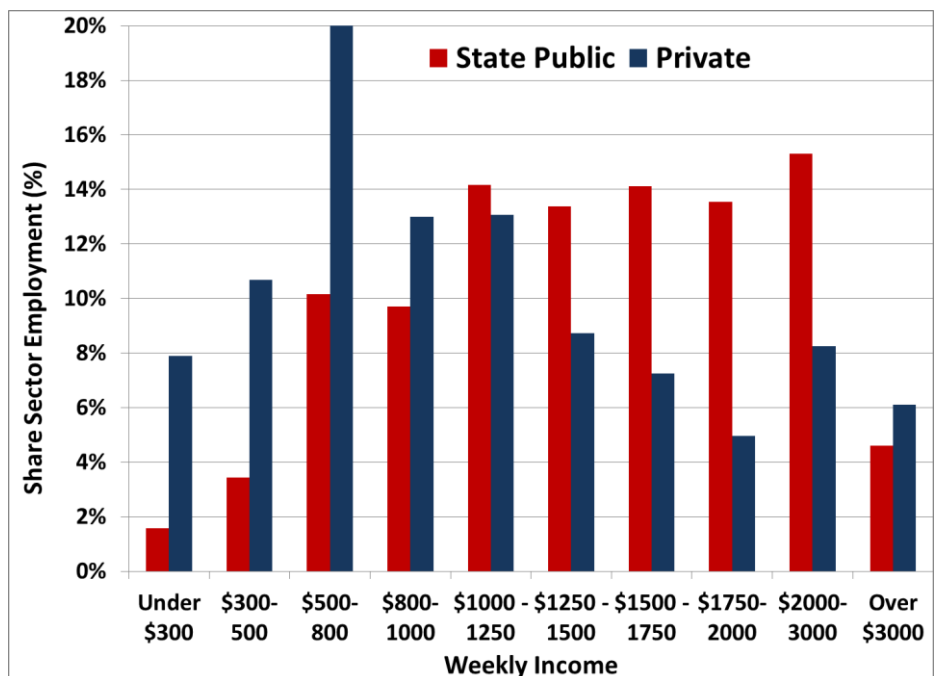
Source: Author’s calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

The State government accounts for the largest share of public sector employment precisely because it provides such a wide range of essential services to the residents of Australia’s most populous state. As illustrated in Figure 5, the bulk of state public sector workers (over 90 percent) are employed in three large categories of work: education and training (including primary, secondary, and tertiary institutions), health and social services, and public administration and safety. A smaller proportion of state-level public sector workers are engaged in various utilities (including water, energy, and waste collection functions). Less than 5 percent of all state public sector workers are employed across a wide range of other functions.

Because of the skill requirements associated with high-quality human service delivery, the state public sector workforce is highly skilled. In fact, state public sector workers possess a significantly higher level of advanced education (including diplomas, advanced and graduate diplomas, bachelors’ degrees, and postgraduate qualifications) than is the case in the private sector (see Figure 6). This skill premium attests to the high-quality and essential services performed by these workers.

Reflecting this superior base of skills and qualifications, as well as a more regulated labour market environment, state public sector jobs are also characterised by higher average earnings than in the private sector, but also by a notably greater degree of income equality.

Figure 7. Employment by Income Category



Source: Author’s calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Figure 7 illustrates the composition of state public sector and overall private sector employment by weekly income category. Average incomes are higher in the state

public sector – not surprisingly, given the higher level of skills and qualifications possessed by the workforce. But a second benefit of public sector employment is a greater degree of income equality. Private sector jobs demonstrate a much higher incidence of both low-paying jobs (under \$1000 per week) and very high-paying jobs (over \$3000 per week). In contrast, a large majority of state public sector positions (over 70 percent) are concentrated in the middle-income band (between \$1000 and \$3000 per week). In contrast, just 42 percent of private sector jobs in NSW fit into the same middle band.

All this evidence confirms that public sector jobs are relatively “good” jobs: more stable, relatively secure, with more chance of earning a decent income, and much less income inequality. These positive characteristics of public sector employment are all the more important in regional communities, where the low quality and wide inequality associated with private sector employment is even worse. In sum, public sector jobs enrich and stabilise the communities where they exist, raising overall skill and income levels, and supporting demand for other goods and services (and the workers who produce them) throughout the economy.

1.3 THE PARTICULAR IMPORTANCE OF STATE PUBLIC SECTOR EMPLOYMENT IN REGIONAL NSW

The overall share of NSW’s public sector employment (across all three levels of government) in Regional NSW is broadly in line with it’s the regional share of the state’s population: around 35 percent. Table 2 reports public sector employment in NSW by level of government, disaggregated by Greater Sydney and Regional NSW.

Not surprisingly, Table 2 demonstrates the relative importance of local government employment in regional communities. In fact, there are more local government employees outside of Sydney than in Greater Sydney (reflecting the proportionately greater number of jurisdictions and area covered, with smaller average populations, which must be served).

In contrast, Commonwealth government workers are underrepresented in Regional NSW, with just 30 percent of national-level public sector employees in the state located outside of Greater Sydney. State-level public sector workers are distributed roughly in proportion with population: 65 percent in greater Sydney, and 35 percent in regional communities.

We also observe some differences in the composition of state level public sector work in regional communities versus Greater Sydney. For example, the proportion of total state public sector employment concentrated in education and health care is significantly higher in regional NSW, than in the capital city. A total of 38 percent of

state public sector employees in regional NSW work in education (versus 33 percent across the state as a whole), with another 33 percent in health care (versus 31 percent across the state as a whole). This affirms the critical role played by state public sector workers providing these essential services to regional communities.

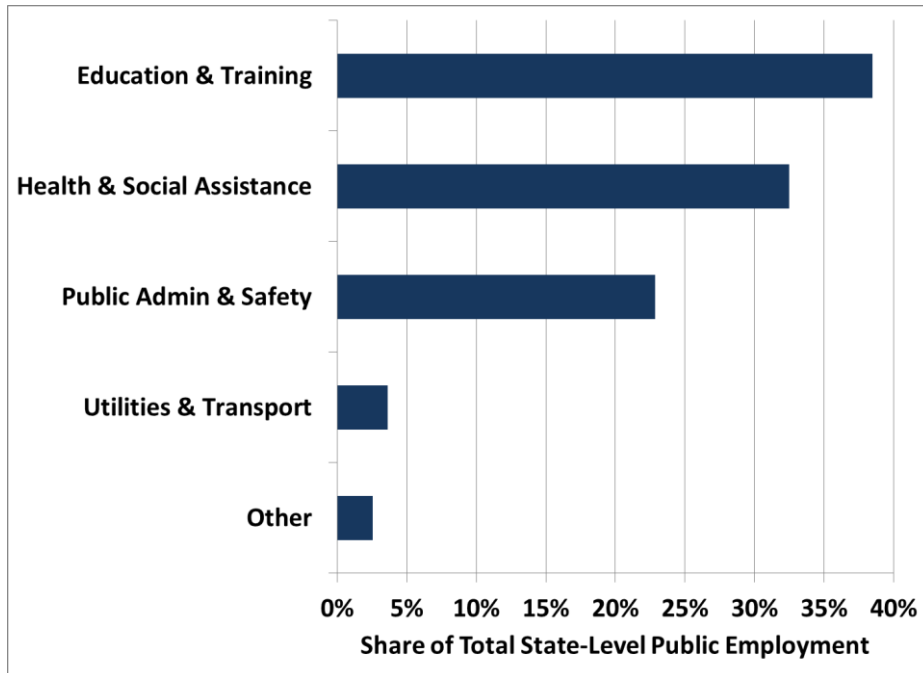
	Commonwealth Government	State Government	Local Government	Total
Greater Sydney	77711	202065	22543	302321
Rest of NSW	33283	106016	24616	163914
Total	110992	308078	47157	466235
Regional Share	30.0%	34.4%	52.2%	35.2%

Source: Author's calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Notably, the superior education and training qualifications of the public sector workforce, documented above for the NSW state workforce as a whole, is even more striking in the case of regional communities. Figure 9 illustrates the contrast between the qualifications of state public sector workers in Regional NSW, compared to their private sector counterparts.

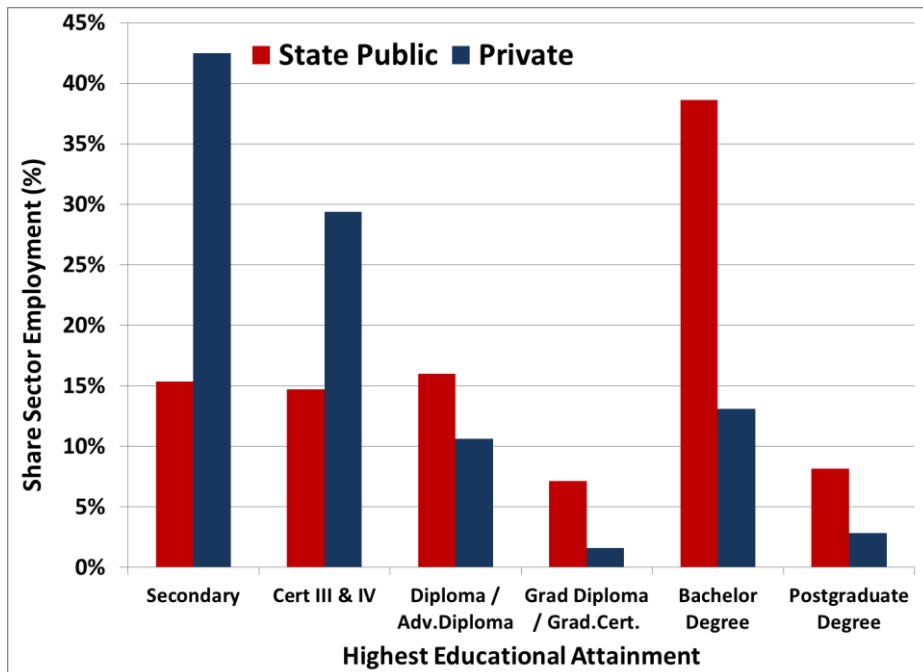
A full 70 percent of state-level public sector workers in regional communities possess a diploma or higher level of education – and close to half have a completed bachelor's degree or higher. In contrast, just 28 percent of private sector workers in regional communities have a diploma or higher, and only 16 percent have a bachelor's degree or postgraduate training. This is a dramatic indication of the crucial strategic role played by public sector jobs in attracting and retaining highly-qualified workers in regional communities – not to mention a powerful verification of the high quality of public sector workers and the services they provide.

Figure 8. State Public Sector Employees in Regional NSW by Industry Grouping



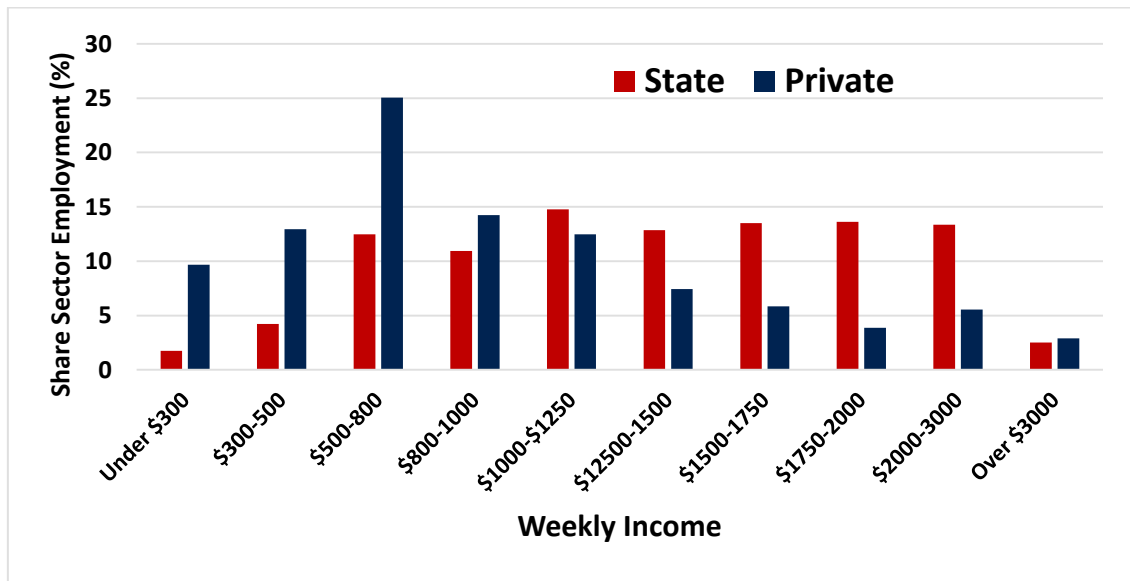
Source: Author's calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Figure 9. Educational Qualifications of State Public Sector Workers in Regional NSW



Source: Author's calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Figure 10. Employment by Income Category in Regional NSW



Source: Author's calculations from ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

Again, private sector jobs demonstrate a much higher incidence of low-paying jobs (under \$1000 per week), but the number very high-paying jobs (over \$3000 per week) are similar. Over 60 percent of private sector workers in in Regional NSW earn under \$1000 per week, compared to just 30 percent of public sector workers. The vast majority of public sector workers are in the middle-income bands between \$1000 and \$3000 per week (see Figure 10).

Part 2: Threats to Public Services in Regional Communities

2.1 THE ECONOMIC IMPACTS OF AUSTERITY IN REGIONAL NSW

Public sector jobs, and the essential human services which they facilitate, generate enormous economic and social benefits through a variety of channels. These channels include:

- Public sector employment constitutes an important direct source of employment and income opportunity for many tens of thousands of residents in Regional NSW communities. As documented above, those jobs tend to be more stable, demand higher qualifications, and offer higher (and more equal) compensation than is the case in the private sector. The superior quality of public sector jobs is particularly evident in regional communities, where private sector positions offer inferior incomes and stability compared to many jobs (public and private) in major urban centres.
- The high-quality human services delivered by public sector workers make a direct contribution to the quality of life, well-being, and consumption possibilities of all Australians. Indeed, the aggregate value of public services consumed each year by Australians (worth around \$330 billion in 2017) adds about one-third to the consumption purchased by households through their private incomes (just over \$1 trillion the same year).²² Moreover, public service consumption is distributed more equally than private consumption, thus adding proportionately more to the total standard of living of lower-income households – including those living in regional communities (where average incomes are lower than in major cities).
- Public services, as well as public physical infrastructure, add significantly to the efficiency of other economic activity, by facilitating improved productivity, transportation, and efficiency in the broader economy. This benefit, too, is especially important in regional communities, for which public infrastructure is vital for linking to other communities and a wider economic market.
- Public spending generates important spillover stimulus for purchases of private goods and services. These benefits are experienced through two broad channels.

²² From ABS Catalogue 5202.0.

“Upstream” spillovers consist of the purchases of supplies, raw materials, utilities, services, and other inputs by public sector institutions and programs; these public operations have their own “supply chain,” through which public sector procurement translates into new work and business opportunities. “Downstream” spillovers, meanwhile, are driven by the purchases of consumer goods and services of all types that occur when public sector workers spend their own salaries, thus supporting a whole range of sectors from retail trade to home building to hospitality. Both channels of spillover are obvious in regional communities.

- By stimulating broader economic activity, both directly and indirectly, government spending even helps to strengthen the revenue basis of government itself. Taxes, of course, are paid directly by public sector workers themselves (through income taxes, GST on their own purchases, and more). More important is the revenue collected by governments at all levels from the spillover economic activity that depends on the aggregate purchasing power generated by public sector expenditure. In Australia, governments at all levels collect a total of one-third of GDP in revenue. 15 cents of each dollar in GDP is ultimately received by state governments – 9 cents from own-source levies, and 6 cents through fiscal transfers from the Commonwealth.²³ Government spending, to a partial but important degree, partly “pays for itself” through the positive revenue feedback of public expenditure.

In sum, public expenditure of all kinds (including compensation of public servants) generates a wide range of positive spillover effects – also called multiplier effects – for the rest of the economy: boosting private sector confidence, investment, employment and economic growth. These spillover effects are particularly important in times and in places experiencing broader economic weakness. Conversely, the negative spillover effects of austerity can have especially severe negative effects when economic conditions are weak (as is the case throughout much of Regional NSW).²⁴

Economic models indicate that government expenditure multipliers under conditions of unemployment are typically in the order of 1.5: that is, changes in government purchases affect final GDP by a factor of \$1.50 for every additional dollar in expenditure.²⁵ Multiplier effects will be stronger for purchases (like labour-intensive public services) which generate greater flows of direct income for domestic residents, as compared to more capital- or import-intensive purchases (for which more of the

²³ Authors’ calculations from ABS, 2017, *ABS Cat. 5206.0 - Australian National Accounts, Table 19. State and Local General Government Income Account, Current prices Sep 2016*, Canberra: Australian Bureau of Statistics. See also Henderson and Stanford, 2017.

²⁴ Zuesse, 2013.

²⁵ See Weber, 2012, who uses 1.5 as his benchmark of standard multiplier effects. Other similar multiplier estimates are discussed in Spoehr, 2006, Cook and Mitchell, 2009, and Australian Treasury, 2009-10.

expenditure's effect is dissipated away from the state economy). Multipliers are smaller within specific regional communities (since many of the upstream and downstream purchases must be imported from other parts of the state or country); but even those "leakages" from the immediate regional community still generate benefits for overall state and national economic and fiscal conditions.

The relative erosion of public sector employment has imposed significant economic and social consequences on Regional NSW. State public sector employment has declined from 11.06% of all regional employment in 2011 to 10.67% in 2016. Retaining the same share would have meant almost 3,900 more jobs. In a longer-run perspective (going back to the much higher relative public sector employment levels of the 1980s and 1990s), the damage has been much worse.

Total public sector employment (including national, state, and local services) has also declined: from 17.10% of regional employment in 2011 to 16.50% in 2016. Retaining the same share would have meant over 6,000 more public sector jobs in NSW's Regional communities.²⁶ In addition, Table 3 shows that of the 20 Local Government Areas (LGAs) with the highest percentage public sector job losses between 2011 and 2016, 18 were located in Regional NSW. Only The Hills Shire and Cumberland LGAs²⁷ are located in Greater Sydney. All of the top 10 LGAs when it came to job losses – all experiencing declines of more than 10 percent – are all located in non-metropolitan areas. Thus it is clear that regional communities have been hit especially hard by the relative and absolute decline of the public sector workforce.

As mentioned above, the relative erosion of public sector employment since 2011 has corresponded to 6000 good jobs foregone (almost two-thirds of which were lost from state-funded services) in Regional NSW in 2016. That reduction of potential employment resulted in foregone wages and salaries worth over \$500 million per year in regional communities; over \$325 million of that total corresponds to the 3900 foregone state-funded jobs alone.

The unduly slow growth of public sector employment has had significant macroeconomic consequences in Regional NSW. Based on the fact on the fact that on average Australian consumers spend over 65 percent of their gross personal income on personal consumption of goods and services,²⁸ consumer spending was \$330 million lower in 2016 because of the relative decline in public sector employment. Applying a multiplier factor of 1.5 to the foregone wages and salaries, total GDP was over \$750

²⁶ Authors' calculations from Census 2011 and Census 2016.

²⁷ Highlighted in red in Table 3.

²⁸ Authors' calculations from ABS. (2017). *ABS Cat. 5206.0 - Australian National Accounts: National Income, Expenditure and Product, Sep 2016, Table 20*, Canberra: Australian Bureau of Statistics.

Table 3
Top 20 Local Government Areas with Biggest Percentage Public Sector Job Losses 2011-2016

LGA (Greater Sydney in Red, Regional in Black)	Total Public Sector Employment 2011 (head count)	Total Public Sector Employment 2016 (head count)	Change (head count)	Change (percentage)
Muswellbrook	1368	967	-401	-29.31%
Central Darling	202	148	-54	-26.73%
Hay	261	200	-61	-23.37%
Brewarrina	209	164	-45	-21.53%
Glen Innes Severn	640	522	-118	-18.44%
Bland	341	292	-49	-14.37%
Narrandera	387	339	-48	-12.40%
Carrathool	167	147	-20	-11.98%
Bourke	357	318	-39	-10.92%
Weddin	199	178	-21	-10.55%
The Hills Shire	3371	3040	-331	-9.82%
Moree Plains	881	797	-84	-9.53%
Coonamble	305	276	-29	-9.51%
Cumberland	7533	6827	-706	-9.37%
Cobar	284	258	-26	-9.15%
Yass Valley	484	442	-42	-8.68%
Edward River	564	520	-44	-7.80%
Warren	164	152	-12	-7.32%
Hilltops	796	741	-55	-6.91%
Wentworth	406	381	-25	-6.16%

Source: Author's calculations from ABS, Census 2011, ABS, Census 2016.

million lower in the same year. Finally, based on the fact that states collect around 15 cents for each dollar of GDP, the state's own revenues were lower (by \$115 million) due to lower economic activity than would have been the case with a continuing proportional role for public sector employment.

Those figures refer to the loss of wage and salary income, consumer spending, GDP, and tax revenue in 2016 alone – compared to what would have been experienced had public sector employment levels kept up with the growth in the overall labour market. However, those costs are much worse when we consider their persistence and accumulation over time. For example, from the 2011 census year (the starting point of our analysis) to the present, the loss of employment, income and economic activity resulting from the erosion of relative public sector employment cumulates to larger and more damaging totals (summarised in Table 4). Assuming a straight-line pattern in the relative public sector employment share (one that we assume has continued in 2017 and 2018), then Regional NSW lost cumulative totals of \$2.9 billion in direct wages & salaries; \$1.9 billion in foregone consumer spending; \$4.3 billion in foregone GDP; and almost \$650 million in reduced state revenue.

Table 4
Cumulating Economic Losses from Erosion
of Public Sector Employment

	2012	2013	2014	2015	2016	2017	2018	7-Year total
Jobs	1200	2400	3600	4800	6000	7200	8400	
Income (\$m)	102	204	306	408	510	612	714	2856
Consumer Spending (\$m)	66	133	199	265	332	398	464	1856
GDP (\$m)	153	306	459	612	765	918	1071	4284
State Revenues (\$m)	23	46	69	92	115	138	161	643
Source: Author's calculations as described in text.								

2.2 OUTSOURCING

Outsourcing is a key plank in the fad of public sector austerity. It entails contracting out services and functions that were previously performed within the public sector to private operators. These services and functions may include anything from IT, project management and evaluation, to core services, such as trades education, job seeker assistance and disability services.

On the one hand, privately-provided outsourced services have been critiqued for their inflated cost. For example, at the Commonwealth level, one review found that: “The 18 major Commonwealth departments reduced their wages bill by \$109 million last financial year, according to Fairfax Media analysis of their recently released annual reports. But consultant and contractor costs increased by a whopping \$205 million – almost double the money saved.”²⁹

On the other hand, outsourcing can be a mechanism by which governments shift workers in key sectors onto employment arrangements that offer inferior pay and conditions to the public sector. For example, the NSW government has made the decision to outsource the provision of disability services to the non-government sector purportedly on the grounds that it “has the flexibility and responsiveness to meet the needs of the most vulnerable people in our communities, including those with complex support needs” and offers “people with disability and their families more choice and control...by supporting a vibrant and competitive disability services marketplace in NSW.”³⁰ However, critics have raised concerns that contracting outsourcing giants such as Serco to administer key aspects of the National Disability Insurance Scheme (NDIS) is ill-advised given the company’s lack of experience in the sector.³¹

Disability support work is dominated by part-time (43 percent) and casual (41 percent) positions, with only 12 percent of workers in full-time roles. The strong recent jobs growth in the sector has been dominated by the expansion of casual work. Women comprised 70 percent of the workforce and average work hours are around 22 hours per week for disability support workers, and 25 for allied health professionals. Around 47 percent of workers were employed as “a casual or on contract, compared to 10 per cent in aged care residential, and 14 per cent in aged community care.”³²

In this context of insecure work in a highly feminised, and growing industry, ensuring more secure work and better pay and conditions is clearly a high priority – and

²⁹ Gartrell and Hunter, 2015.

³⁰ <http://ndis.nsw.gov.au/about-ndis-nsw/transfer-of-nsw-disability-services/>

³¹ Knaus, 2018.

³² National Disability Services, 2017, pp. 4-5.

Table 5

**NGO – Social and Community Services Employee
vs Public Sector – Disability Support Worker Rates of Pay**

NGO - Social and Community Services employee

		Current Pay	Equal Pay Order	2020 rate
Level 2	Year 1	\$ 35,778	\$ 6,325	\$ 42,103
	Year 2	\$ 36,905	\$ 6,773	\$ 43,678
	Year 3	\$ 38,026	\$ 7,267	\$ 45,293
	Year 4	\$ 39,042	\$ 7,850	\$ 46,892
Level 3	Year 1	\$ 39,042	\$ 7,850	\$ 46,892
	Year 2	\$ 40,169	\$ 8,867	\$ 49,036
	Year 3	\$ 41,024	\$ 9,055	\$ 50,079

Public Sector - Disability Support Worker

Year	2015	2016	2017	2018	2019	2020
Year 1	\$ 49,799	\$ 51,044	\$ 52,320	\$ 53,628	\$ 54,969	\$ 56,343
Year 2	\$ 50,675	\$ 51,942	\$ 53,240	\$ 54,571	\$ 55,936	\$ 57,334
Year 3	\$ 52,002	\$ 53,302	\$ 54,635	\$ 56,000	\$ 57,400	\$ 58,835
Year 4	\$ 53,014	\$ 54,339	\$ 55,698	\$ 57,090	\$ 58,518	\$ 59,980
Year 5	\$ 54,015	\$ 55,365	\$ 56,750	\$ 58,168	\$ 59,622	\$ 61,113
Year 6	\$ 55,502	\$ 56,890	\$ 58,312	\$ 59,770	\$ 61,264	\$ 62,795
Year 7	\$ 56,466	\$ 57,878	\$ 59,325	\$ 60,808	\$ 62,328	\$ 63,886
Year 8	\$ 57,460	\$ 58,897	\$ 60,369	\$ 61,878	\$ 63,425	\$ 65,011
Year 9	\$ 59,383	\$ 60,868	\$ 62,389	\$ 63,949	\$ 65,548	\$ 67,186
Year 10	\$ 61,314	\$ 62,847	\$ 64,418	\$ 66,028	\$ 67,679	\$ 69,371

Source: Fair Work Commission.

outsourcing an even greater concern. In addition, we have already described the significance of employment in healthcare and social assistance in Regional NSW.

Table 5 compares public sector and NGO rates of remuneration for disability workers. We compared the role description for a FaCS Disability Support Worker (DSW) to the role for Social and Community Services employee Level 2 to Level 3, from classifications in Schedule B of the Social, Community, Home Care and Disability Service Industry Award 2010. The range of pay for DSW in the Public Sector is \$49,799 to \$61,314 in 2015; in comparison an equivalent NGO DSW is currently \$35,778 to \$41,858. The Equal Pay case order means by 2020 the range will be increased to between \$42,103 and \$51,671.

Today the current entry level positions for DSW in the community sector (level 2, year 1) is \$14,021 less than the DSW in the public sector (Year 1). In fact the DSW public sector rate in 2015 is still \$7,696 more than the entry level position in the NGO in 2020 after the equal pay award is paid. Assuming public sector wages increase by 2.5% per year from 2015 to 2020, the starting wages in 2020 for a disability work would be \$56,343 per year. In the NGO, in contrast, the starting position for Disability Support worker is \$42,103, which is \$14,420 less.

Whether public agencies or non-governmental organisations and charities are better able to meet the diverse needs of people with disability, as the new NDIS system is rolled out, is a complex issue that cannot be resolved in this paper. What is clear, however, is that the state government aims to achieve substantial labour cost savings from the shift in service delivery from public agencies to non-governmental organisations. This reduction in the quality and compensation of disability services work does a disservice to the affected workers, to the regional communities which depend on those jobs, and on the quality of service received by people with disability.

2.3 DOWNSIZING

Downsizing is simply a euphemism for job cuts, and often goes hand-in-hand with outsourcing (see above), privatisation and so-called “efficiency dividends” (see below). Downsizing of the public sector has particularly negative consequences in Regional NSW. Amidst relatively depressed labour market conditions, the relatively secure and high quality jobs in the public sector are essential to the well-being of regional communities. Also, the “anchor industry” function of public sector industries and institutions supports substantial spillover activity across the private sector.

The NSW National Parks and Wildlife Service (NPWS) is one state government employer, with an obvious importance to regional communities, that is being

Box. 1 NSW National Parks and Wildlife Service In Focus

The NSW Government has continued its attack on National Parks, with extensive cuts to budgets and staff since its election. There has been a reduction in professional jobs, with NPWS losing its last ecologist in the current restructure. Rangers have already been cut by a third over the previous five years. The current restructure sees specialist roles such as pest management officers, ecologists and project/research officers slashed. These roles are critical to preserve and maintain parks. NPWS staff plan and carry out critical pest management work, so budget and staff cuts have seen farmers of neighbouring properties complain about increases in feral animals, with extensive livestock and harvest loss to pests such wild dogs, wild pigs, foxes, cats and goats.

A number of Area Managers, critical in fire management, are due to be cut at the end of March. Despite having their positions axed, these staff were kept on to manage the 2017/18 fire season. If they are considered critical enough for 2017/18, what is going to happen in 2018/19?

NPWS will state it is employing additional people, but these are low-skilled junior field officer roles with no ability to manage complex ecosystems, pest management, or fire management. The additional staff employed (73) are the lowest paid workers in the public sector, earning \$37,000 a year.

Due to the current restructure, Pest Management Officers (PMO) and Fire Management Officers (FMO) have been slashed across the state. The new structure has just eight PMOs.

Hundreds of Senior Rangers, Area Managers, Project/Research Officers, Ecologists and Administration Officer positions have been sacked, or reclassified into lower paid generalist positions. Overall 778 roles have been altered, downgraded, moved or axed. These cuts to specialist roles mean fewer conservation programs, reduced maintenance of facilities and fire hazard reduction, less focus on dealing with pests and weeds, and the increasing problem of wild dogs and deer.

Administrative support has been downgraded all across the state, resulting in loss of crucial regional jobs and in many cases, massive wage reductions. With wage growth at all-time lows, the impact of this restructure will be felt hardest in the regions.

These cuts are being made because of the massive reduction in funding from the Berejiklian Government, with \$121 million slashed from the NSW NPSW budget.

Source: PSA/CPSU.

subjected to ongoing downsizing. NSW covers an area substantially larger than France, has 225 national parks, and a dazzling variety of precious natural environments to protect and manage.

Due to downsizing, however, the NPWS has lost of total of at least 265 positions. These positions include: 8 Clerk General Scale, 28 Clerk 3/4's, 4 Clerk 5/6's, 4 Departmental Professional Office Grade 4's, 16 Departmental Professional Officer Grade 3's, 3 Departmental Professional Officer Grade 2's, 49 Area Mangers, 14

Assistant Area Managers, 17 Interpretive Assistants, 62 Project Officers, 28 Senior Rangers, and 32 Technical Officers.³³ These cuts have been experienced in a wide range of regions including Central West, North Coast and South Coast, and in divisions ranging from Conservation, Cultural Values and Planning, Strategy and Coordination and Visitor Experience. These cuts have serious implications for conservation and management as outlined in Box 1

2.4 PRIVATISATION

Over the last 40 years privatisation has been a key driver of the long-run reduction in total public sector employment, as a series of major state-owned enterprises (SOEs) have been sold off. The intellectual and economic justification of privatisation has been debunked,³⁴ and the sell-off of public assets is now generally unpopular with Australian voters.³⁵ But the privatisation addiction remains attractive to State and Federal politicians looking for quick injections of cash; they are also popular among the well-heeled group consultants and advisers who benefit richly from managing these sell-offs. From toll roads and metro lines, to electricity infrastructure and land registries, privatisation remains a popular option for the NSW state government. For example, the privatisation of Ausgrid and Endeavour Energy (electricity sector) and Pillar (superannuation sector) resulted in a combined reduction of 6,565 state public sector jobs on a Full-Time Equivalent (FTE) basis.³⁶

Prison privatisation is an example of the flawed logic of the whole strategy, on numerous grounds. Firstly, commercial contracts between private prison operators and the State government remove transparency in relation to key issues such as staffing ratios and staffing levels. Two of NSW's 27 prisons (Parklea and Junee) are privately-operated, with the possibility of a third in Grafton in northern NSW. In 2014 the privatised facilities housed close to 16 percent of all inmates. The authors of a detailed recent report into private prisons in Australia concluded that:

“Overall, private prisons in New South Wales suffer from a lack of public accountability. Publicly available information on both Junee and Parklea is extremely limited. Information supplied by oversight bodies accounts for fewer than 50 pages of text over the last decade. Coupled with this,

³³ PSA/CPSU, 2018.

³⁴ Quiggin, 2010, Ch. 5.

³⁵ Essential Media, 2015.

³⁶ Public Service Commission, 2017, p. 9.

commercial-inconfidence legislation makes private prisons less accountable than publicly run prisons in the state.”³⁷

Second, privately-employed prison officers receive lower rates of pay than their public sector counterparts (see Table 6). Even at relatively junior levels of employment, pay in private prisons is up to \$5000 per year lower. And the lack of transparency regarding staff/inmate ratios compounds the effect of any pay differential by potentially increasing Correctional Officers’ workload in private facilities.

Table 6. Public vs Private Rates of Pay for Correctional Officers in NSW

Award	Pay type	Year	Correctional officer level 1	Correctional officer level 2
Crown Employees (Correctional Officers, Department of Justice - Corrective Services NSW) Award 2017	Annual Salary	2017	62,305.00	63,469.00
Crown Employees (Correctional Officers, Corrective Services NSW) Award 2007 for Kempsey, Dillwynia and Wellington Correctional Centres	Annual Salary	2017	62,305.00	67,031.00
Parklea Correctional Centre Correctional Officers Enterprise Agreement 2015	Annual Salary	2017	59,246.45	62,367.03
June Correctional Centre Correctional Officers Enterprise Agreement 2015	Annual Salary	2017	58,516.00	61,598.00

Source: Fair Work Australia.

Third, publicly-operated prisons – where there is no profit motive – ensure that a higher proportion of total expenses can be directed to local goods and services. Private prisons will tend to purchase inputs based on lowest-possible cost alone, with no consideration of local economic development effects. This is particularly important in the case of regionally-located prisons that can serve as anchor employers in particular,

³⁷ Andrew, Baker, Roberts, 2016, pp. 20, 24.

often depressed communities. The logic of profit-maximisation also reduces the spillover effects of job-creation, since private operators will minimise both staffing levels and compensation. Consider the plan for a private prison in Grafton (to be built and operated by a consortium involving Serco, John Laing, John Holland and Macquarie Capital), slated to be Australia’s largest (with 600 jobs).³⁸ Ideally, these jobs should be high-quality, public sector jobs; staffing ratios should be transparent, and work in the interest of correctional officers and prison inmates. Grafton has one of the highest unemployment rates in NSW (over 10 percent in 2016 Census) and a median income far lower than the national average, – making it an ideal location for expanded public sector employment. Instead, this facility will be governed according to the interests of its owners in minimising cost and maximising profit, and hence much of the potential benefit to the community will be squandered.

2.5 “EFFICIENCY DIVIDENDS”

So-called “efficiency dividends” are a blunt mechanism for reducing and/or constraining public expenditure that has little to do with any genuine concept of efficiency. They were first introduced at the Federal level by the Hawke government in 1987-88,³⁹ and have since spread to governments at the State level. In the 2016-2017 NSW Budget, Treasurer Perrottet announced that the NSW “efficiency dividend” would be increased from 1.5 percent to 2 percent per year from 2018-2019 for three years, with NSW Treasury predicting close to \$550 million in savings over 3 years.⁴⁰ It is also well-known that productivity – the ostensible justification for “efficiency dividends” – is notoriously difficult to measure in public services, including culture and the arts. In practice, this is simply a disguised annual cutback in the real level of support provided to provide essential public services.

The so-called efficiency dividend is an unimaginative policy measure that, in its blanket application, has “a disproportionate impact on small agencies due to their budgetary and functional constraints.”⁴¹ This problem has been raised in relation to the impact of cumulative budget cuts on the capacity of cultural and artistic institutions to reach residents of regional and rural Australia. Museums Australia argues that:

Cultural organisations like galleries, museums and libraries, are distinctively different from large government departments – they are small, seven days per week operations servicing the public, with high

³⁸ Cornish, R, 2017.

³⁹ Horne, N, 2012.

⁴⁰ NSW Treasury, 2017, 6-4

⁴¹ Horne (2012), p.11.

*fixed costs, and resource reductions have a significant impact. Salaries and wages make up the majority of their operating costs. The compounding cuts at both Commonwealth and state level have resulted in the loss of numerous experienced staff along with services and activities. Skills disappear, long term strategic planning is harder and organisational sustainability is threatened. Ironically, up-front expenditure on reform or innovative efficiencies, that may take a while to reap the benefits, is difficult to secure.*⁴²

Similar arguments were made in a number of submissions to the recent NSW Legislative Council Inquiry into *Museums and Galleries in NSW*.⁴³ The First Report of the Legislative Council Committee made a number of recommendations aimed at boosting funding – and enhancing access – to cultural and artistic institutions in Regional NSW. The Committee members concluded that, “While we do not discount that the imposition of an efficiency dividend may lead to positive outcomes in some instances...the committee accepts that overall it is difficult to maintain and enhance cultural institutions in the face of already limited funding being affected by efficiency dividends. We therefore recommend that the NSW Government remove its imposition of an efficiency dividend for art and cultural institutions.”⁴⁴

While the NSW Government has taken some measures that may be seen to counteract the impact of the so-called “efficiency dividends”, such as the Regional Cultural Fund,⁴⁵ these have been criticised for a lack of concrete detail.⁴⁶ In addition, the current budget’s imposition of a higher efficiency dividend is certain to further undermine the capacity of cultural and artistic institutions to ensure access to *all* communities across NSW going forward.

There are several ways to measure the impact of so-called “efficiency dividends” on the culture and arts, from annual budget appropriations, to visitor numbers, and the number of touring exhibitions that major cultural institutions take to Regional NSW. Employment is another indicator that helps to quantify the impact of this ongoing squeeze on the arts and cultural sector. Figure 11 shows that employment in the Arts and Recreation, Heritage Activities and Creative and Performing Arts increased by 4.9 percent between 2011 and 2016, while State government employment in these same

⁴² Marden, 2016.

⁴³ Legislative Council, 2017, pp. 8-10.

⁴⁴ Legislative Council, 2017, p. 10.

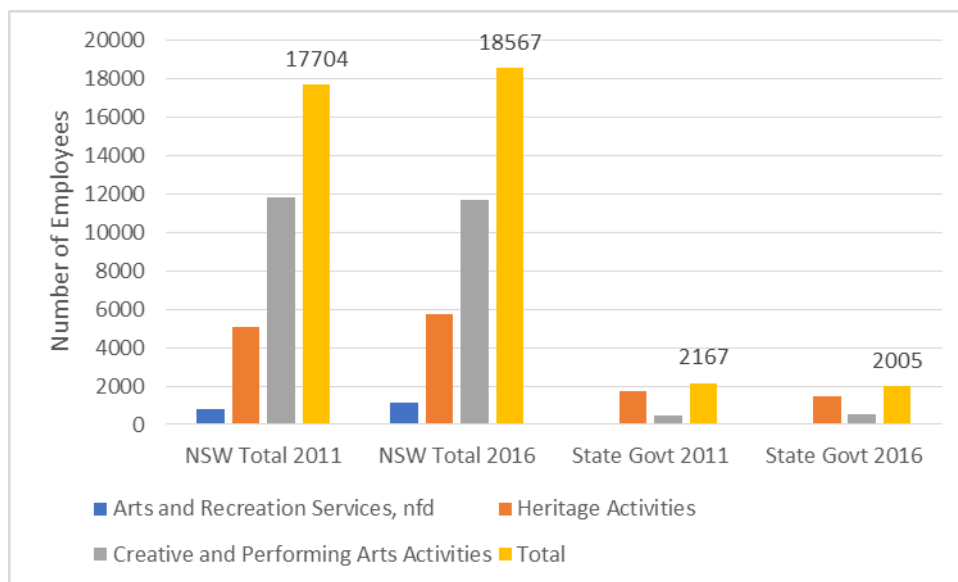
⁴⁵ The 2017-2018 Budget includes a Regional Cultural Fund worth \$100 million over four years, NSW Treasury, 6-3.

⁴⁶ White, 2017.

sub-sectors actually recorded an absolute decline (from 2,167 to 2,005). During the same period the NSW population grew by 7.2 percent. Overall arts and cultural employment, therefore, is not keeping up with NSW’s growing population – and state government employment in this area is shrinking.

The same pattern is true in Regional NSW. There was an increase in total employment from 3,624 to 4,227 in these arts and cultural industries in Regional NSW between 2011 and 2016, but a 12 percent decline (from 457 to 401) in State government jobs in this sector. Overall, Regional NSW only accounted for 23 percent of total employment in these industry sub-categories in 2016, and only 20 percent of State government employment.⁴⁷ The knee-jerk imposition of annual budget cuts in the arts and culture sector, therefore, is taking a bad situation – Regional NSW’s relatively unsupported arts and culture sectors – and making it worse.

Figure 11. Employment in Arts and Culture in NSW, 2011-2016



Source: Author’s calculations from ABS, 2016 Census, ABS, 2011 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

⁴⁷ Census 2011, 2012, and Census 2016, 2017.

Conclusions

Public sector austerity is a policy fad which is based more on political positioning than on sound economics. Yet austerity continues to be implemented despite the clear economic and social harm it has been shown to cause. Austerity policies include arbitrary wage caps, outsourcing, downsizing, privatisation and so-called “efficiency dividends.” This report began by articulating the general case against public sector austerity, before highlighting the disproportionately negative consequences of these measures in Regional NSW. We presented evidence regarding the depressed labour market and weak job creation in many Regional Communities. In that context, the relative stability, decent wages, and greater equality that characterises public sector employment is all the more important.

Part 1 concluded that Regional NSW faces particular employment, infrastructure, demographic, and other challenges, that public services and public sector employment must play a key role in addressing. We highlighted the fact that over 80 percent of new jobs in NSW in the last five years have been created in the Greater Sydney area, exacerbating the labour market inequality that already existed between the city and the regions. We pointed out that NSW’s fiscal position is the strongest in the country; there is no legitimate financial reason, let alone social justification, for the state government to impose additional austerity, especially in regional communities. Then is particularly true considering that NSW’s public sector is already the second smallest relative to total employment of any state in Australia, at just 14.2 percent.

Part 2 of the report highlighted the economic damage that the absolute and relative decline of public sector employment has caused to regional communities. It found that 18 of the 20 LGAs experiencing the highest percentage public sector job losses between 2011 and 2016 in the state are all located in Regional NSW. We also documented the decline in total public sector employment (including national, state, and local services) from 17.10% of regional employment in 2011 to 16.50% in 2016. Retaining the same relative footprint for public sector work would have meant over 6,000 more public sector jobs in NSW’s regional communities in 2016 (3,900 of which would have been in state-funded services). That loss of potential employment corresponds to foregone wages and salaries worth over \$500 million per year in regional communities in 2016 alone. In addition, consumer spending was \$330 million lower; total GDP was over \$750 million lower; and the state's own revenues were lower (by \$115 million) due to lower economic activity than would have been the case with a continuing proportional role for public sector employment. We estimated that,

from 2011 through 2018, Regional NSW lost cumulative totals of \$2.9 billion in direct wages & salaries; \$1.9 billion in foregone consumer spending; \$4.3 billion in foregone GDP; and almost \$650 million in reduced state revenue. Finally, the report reviewed several examples of ways in which outsourcing (disability services), downsizing (National Parks and Wildlife Service), privatisation (prisons) and so-called “efficiency dividends” (imposed on arts and culture services) negatively impact regional communities.

To address the pressing labour market challenges being experienced in many regional communities across NSW, and provide more opportunity for retaining younger workers and hence maintaining the viability of regional communities, the state government’s commitment to public service provision and employment in Regional NSW should be expanded, not cut back. A stronger public sector is an essential investment in State’s future economic and social health.

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