

Cut, Cut, Cut

How public sector job cuts impact the rest of Canberra's economy

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Summary

Most politicians claim that creating jobs is top of the agenda – but public sector jobs are a different matter. The Coalition has promised to cut at least 12,000 jobs in the public sector if it wins government, hoping to portray these jobs as superfluous and implying that getting rid of them will make everyone better off. The Labor government has itself cut public sector jobs and recently announced further cuts. But the Coalition's plans are much bigger and are just a 'starting point'. Moreover, the Coalition's cuts will be on top of Labor's.

Shadow Treasurer Joe Hockey says 12,000 jobs will be cut in the public service. That would be almost equal to the number of Canberra retail workers, constituting about one in 17 jobs in the capital. If the cuts are spread around the country, this 'best case scenario' would cut 5,405 jobs out of Canberra's economy. ACT Liberal Senator Gary Humphries has endorsed this figure, although Coalition leadership has not followed him. Though this is around half the number Hockey is proposing, it is still a large number – more than half of all labourers in the ACT, and about one in 40 jobs in Canberra.

Even in the 'best case' scenario for the ACT the Coalition would cut more jobs out of the economy than during the mid-1990s, as a proportion of the workforce. If "the public service here in Canberra has to be reduced by 12,000", as Joe Hockey says, these cuts would be three times the size of those in the mid-1990s. Combined with Labor's cuts the impact would be even bigger, but this paper considers the extra impact from the Coalition's cuts.

Cutting public service jobs will have a negative impact on jobs beyond the public service and on local businesses. The paper considers two sorts of impacts. Cutting thousands of pay packets from the local economy will reduce spending, which will impact especially on retail and hospitality. Cutting APS jobs will also reduce demand for services needed to run the APS, including IT and office-related services.

Cutting 12,000 jobs would reduce household spending by \$694 million. That is bigger than the predicted growth in Canberra's economy this year. Cuts on this scale are very likely to cause a local recession. Even the best-case scenario for Canberra would wipe out most growth in Canberra's economy and, combined with existing cuts, could cause a recession.

Cutting 12,000 APS jobs would cut spending by \$79 million on groceries, \$33 million on household furnishings and appliances, \$35 million in cafes and restaurants, \$6 million on hardware and \$7 million on repairs from tradespeople. That means 1,100 jobs lost in local shops and 337 jobs lost in hospitality like cafes and takeaway. Reduced demand from the APS could see 506 fewer jobs in professional services, 376 fewer jobs in IT 225 fewer jobs in office services and 137 fewer jobs in property services. Table 1 below summarises results.

Table 1: Job losses in Canberra from APS job cuts

	12,000 APS jobs cut in Canberra	Best case for Canberra
Direct job losses in APS	12000	5405
Jobs lost from reduced spending	2408	1084
Jobs lost from reduced inputs to APS	3099	1395
Total jobs lost in Canberra	17507	7884
Proportion of all jobs lost in Canberra	1 in 12	1 in 27

The economic records from the mid-1990s show Canberra's economy is sensitive to deep cuts to the APS. Economic growth fell far behind the national average between 1995 and 1998. Unemployment spiked and thousands moved away to find work – 135 extra people went bankrupt. House prices fell from 1993 and took six years to recover, by which time they were 30 per cent behind national prices. Construction fell 30 per cent over five years.

Property prices have already dropped over seven per cent in the last year and are likely to fall further, leaving prices far behind the rest of the country. New construction has also fallen recently. If the 30 per cent drop from last time were replicated, more than 2,500 labouring jobs would be at risk on top of other job losses, adding further knock-on effects.

Acknowledgments

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Introduction

Blanket cuts to public funding and jobs can erode the capacity of the public sector to deliver the same level of services. This leads to inefficiencies in government operations and increases the burden on vulnerable parts of our society. Large cuts to public sector funding and jobs can also have a negative impact on the local economies where public servants live and work.

Both parties' policies involve public sector job cuts, although the Coalition's cuts are much bigger. Moreover, the Coalition is imposing job losses on top of Labor's recent cuts. This paper considers the extra impact of the Coalition's job cuts. Both parties say they will resort to 'natural attrition' when cutting jobs – letting people leave without rehiring. But regardless of how jobs are cut, there is still a negative impact.

Canberra and its surrounding areas are especially sensitive to big public sector cuts. Although not all public servants live and work in Canberra, it is home to core government departments and around 39 per cent of the Australian Public Service (APS). Big cuts to the APS in the mid-1990s had negative impacts on Canberra's local economy; pushing up unemployment, impacting local small businesses and undermining property prices. Cuts in the future are likely to have similar negative impacts.

This paper looks at the economic impacts of the Coalition's proposed public sector job cuts. The analysis focuses on impacts on Canberra's economy. It takes a conservative approach to analysing the impacts.

We try to make sense of the Coalition's policy from the few details we can derive from the often inconsistent claims of the Coalition. The best case scenario for Canberra is then considered on the conservative assumption that all 12,000 are spread around the country – in which case, 5,405 jobs would be cut in Canberra. This is subsequently compared to the cuts in the mid-1990s, which drove a major downturn in Canberra's economy. Even on the best case scenario, the proposed cuts are bigger than the cuts in the mid-1990s. If all cuts were to happen in Canberra, as Shadow Treasurer Joe Hockey says, it would be up to four times worse.

The focus then turns to how cutting APS jobs will cut spending and jobs in the rest of Canberra's economy. The paper estimates a further 5,507 jobs may be lost outside of the APS. The resultant fall in spending will undermine growth in Canberra and may cause a recession. The final sections look at historical evidence to see how this economic downturn may impact property prices and construction. In the mid-1990s property prices collapsed, putting Canberra house prices behind other capital cities by 30 per cent over six years. Construction also slumped 30 per cent. It may be worse this time around, with property prices already falling, a possible over supply in housing, and bigger cuts likely in the context of high debt. A big downturn is likely if new works don't start. Thousands of jobs are at risk. If the 30 per cent slump is replicated, this would risk over 2,500 labouring jobs.

The Coalition's unclear promise to cut jobs

Since before the 2010 election, the Coalition has been promising to cut public sector jobs. But there remains little detail on what this will involve. The official promise is to cut 12,000 jobs. Joe Hockey previously said this would occur through redundancies.¹ Now Hockey and other Coalition spokespeople say it will occur through 'natural attrition' – letting people leave the public service without filling vacancies.² But much remains unclear.

How big will the cuts be?

12,000 is a lot of jobs – an estimated seven per cent of the current public service. If any other major national employer were to cut seven per cent of its workforce in two years it would be a matter of grave national concern. But the Coalition says this is a minimum. Joe Hockey has said that "the public service here in Canberra has to be reduced by 12,000 over the first two years as a starting point".³ Opposition Leader Tony Abbott has repeated the threat, saying, "We'll reduce [public servant jobs] by at least 12,000."⁴ If 12,000 jobs is just a starting point, the cuts may be much bigger.

The Coalition has a track record of promising natural attrition and then sacking many more than it promised. Leading into the 1996 election the Howard opposition promised 2,500 jobs cut with "no forced redundancies".⁵ On winning government it cut 30,000 jobs, with 10,000 redundancies in one year alone.⁶ Howard later denied this was a broken promise, saying there is a difference between cutting "running costs" through natural attrition and "broader changes in staff numbers".⁷ In other words, these mass redundancies were *in addition* to the 2,500 jobs cut by natural attrition.

Another cause for concern is Coalition claims there are 20,000 more public servants in Canberra than under Howard.⁸ On this basis ACT Labor Senator Kate Lundy has argued that the Coalition plans to cut this number of APS jobs in Canberra.⁹ Although Lundy's conclusion does not necessarily follow, ongoing focus on the 20,000 number continues to raise concerns.

What's more, the Coalition's historical claim of a 20,000-strong increase is not supported by the data – public servant numbers have not grown as quickly as this. The claim can only be calculated from Budget figures on a national level by including military personnel, but the Coalition has not said it intends to cut the military. Staffing at all Commonwealth agencies around the country increased by only 12,357 full-time civilian employees between 2006-07 and 2012-13, and a third of this increase occurred in the last year of the Howard government.¹⁰

The Howard government was also responsible for the fastest growth in the last three decades, as shown in Figure 1. Although Keating and Howard made big cuts to the APS in the mid-1990s, these were followed by an increase in APS numbers under Howard, at a rate

¹ Sloan and Minion (2011), *12,000 public servants to go in Opposition job cuts*

² Towell and Mannheim (2013), *Coalition doubles public service job growth*

³ Towell (2013) *Hockey says 12,000 cull just a start*

⁴ Keane (2013) *Tony Abbott's Budget Reply Speech 16 May 2013*

⁵ Robb (1996) *Liberal and National Parties' Public Administration Policy*, p4

⁶ Public Service & Merit Protection Commission (1998), *APS Statistical Bulletin 1997-98*, p8

⁷ The Prime Minister's Office (2004) *The PM's Rebuttal*

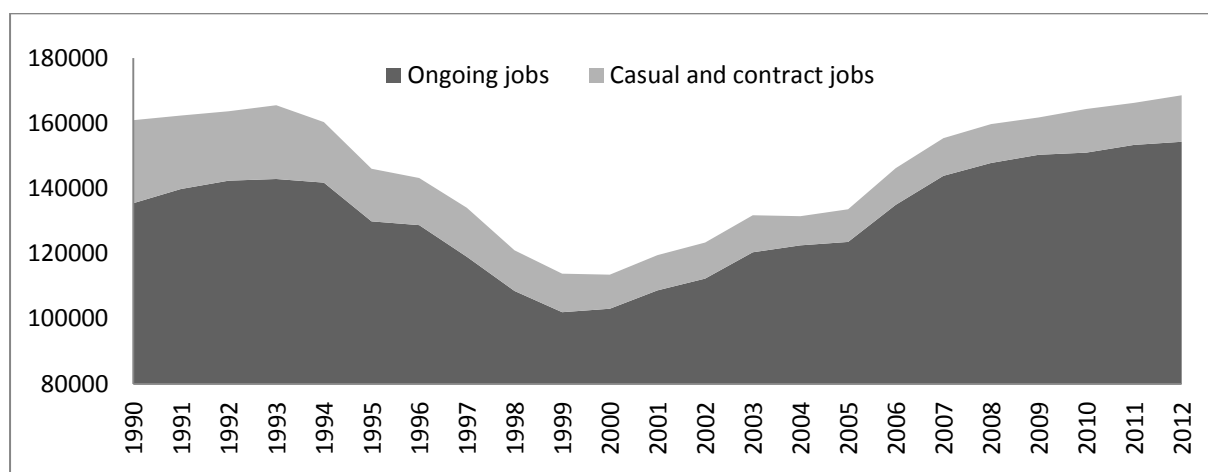
⁸ Towell and Mannheim (2013)

⁹ Lundy (2013), *Public service cuts are certain under an Abbott/Hockey government*

¹⁰ Commonwealth of Australia (2007), *Budget Paper No. 1 – Budget Strategy and Outlook 2007-08*; Commonwealth of Australia (2013), *Budget Paper No. 1 – Budget Strategy and Outlook 2013-14*;

much faster than occurred under the ALP government that followed. The total APS employment is currently around the same level it was at over two decades ago.¹¹

Figure 1: APS employment numbers



In fact, the Commonwealth Public Service has *shrunk* since Howard's last term, relative to the Australian population. In the six years to 2012-13 the Australian population grew by more than four million people, around 22 per cent.¹² But civilian Commonwealth employment grew by less than seven per cent over that period.

Labor's new cuts

Despite the APS shrinking in relative terms, the Labor government has recently announced its own new public service cuts, on top of funding and job cuts in recent years. The Labor government announced 800 senior management jobs to help fund the early move to a floating carbon price. It then announced a further increase to the 'efficiency dividend' – \$1.8 billion, cut from all agency funding – that may lead to 5,000 jobs cut, according to the Commonwealth Public Sector Union (CPSU).¹³ The recent Budget update shows a reduction in wages that means a total of 4,000 jobs cut, using Budget figures for average APS wages.¹⁴

Labor's cuts will also have an impact, but they are much smaller than the Coalition's. Labor now says it will find savings other than job cuts, making the estimates of Labor's job cuts in effect maximum figures.¹⁵ Even if Labor does cut a total of 4,800 jobs, this maximum figure is still under half the Coalition's minimum.

To focus on the natural attrition 'starting point' of 12,000 jobs would be to underestimate the impact of the Coalition's cuts. This paper, however, takes the promise at face value and considers the impacts of 12,000 jobs cut through natural attrition. The impact of Labor's maximum cuts is considered by comparison to the Coalition's minimum job cuts.

Moreover, the Coalition's cuts appear to be on top of Labor's. Asked directly, Abbott did not rule out the possibility the Coalition's cuts will be on top of cuts from Labor.¹⁶ In addition, the

¹¹ APSC, Australian Public Service Employment Database (APSED)

¹² ABS (2012b), *Australian Demographic Statistics*

¹³ CPSU (2013) *Union slams ALP plan to cut 5000 public sector jobs: media release*

¹⁴ Mannheim (2013a), *Labor planning to ditch 4000 jobs*

¹⁵ AAP (2013), *Labor, CPSU make up over job cuts*

¹⁶ Abbott (2013), *Interview with Sabra Lane, AM programme, ABC Radio, transcript*

Coalition's recent policy costings document lists the 12,000 jobs cut as a further measure, on top of the Budget update.¹⁷ This paper considers the extra impact of the Coalition's cuts.

What does 'natural attrition' mean for where the cuts will happen?

The only detail the Coalition has given is that the cuts will happen through natural attrition. That is here assumed to mean that it will let 12,000 employees leave the APS – that is, employees covered by the *Public Service Act 1999* – and doesn't fill the vacancies through promotions.¹⁸ But the Coalition has also said it may cut from non-APS agencies, including the Australian Broadcasting Corporation (ABC).¹⁹

The promise to make these cuts without firing extra people means they will happen across the board. Spread evenly, the Coalition would cut 1,768 jobs cut from Defence, 1,724 jobs cut from the Australian Tax Office, 415 jobs cut from Customs and Border Protection and 2,518 jobs cut from Human Services, which is responsible for Medicare and Centrelink.²⁰ Protecting some agencies means more jobs will have to go elsewhere. But plans to phase out whole agencies or units cannot happen in this way. In 2011-12 around seven per cent of all staff left the APS and similar patterns of separation have been seen over the last five years. So cutting more than 13.5 per cent of staff in any unit or agency over two years will almost certainly involve redundancies. Coalition suggestions of big cuts to Commonwealth involvement in health, education and environmental policy mean there will be redundancies. This paper does not consider the impacts of extra redundancies.

It's also not clear what classifications the Coalition will target. Much of the rhetoric around the need for public sector job cuts focuses on the faster growth in management levels. But in fact, employees leaving the APS in the last five years were, on average, at lower classifications than the rest of the APS.²¹ This means that natural attrition is likely to contribute to a more 'top heavy' public service.

Finally, it is unclear where the cuts will occur in Australia. Hockey often talks about cutting jobs 'in Canberra'. If 12,000 jobs were cut in Canberra, the region would feel the full impact. Yet Canberra Liberals say the cuts will be spread around the country, with Canberra only getting a portion. Outgoing ACT Liberal Senator Gary Humphries has endorsed this approach,²² but Coalition leadership has not, to our knowledge, concurred with Senator Humphries, and continues to say the cuts will occur 'in Canberra' – so this paper considers both scenarios.

The best case scenario for Canberra

Even if the Coalition's job cuts are spread around the country, thousands of jobs will be cut out of the local economy. That is the 'best case' scenario for Canberra. Later in this paper we will examine what this will mean for the economy in Canberra and surrounding areas.

Given cuts through natural attrition, patterns of people leaving the APS are assumed to continue. Over the last five years, the rates of people leaving the APS for different reasons –

¹⁷ Coalition (2013) <http://images.theage.com.au/file/2013/08/28/4698551/Coalition_costings.pdf>

¹⁸ For this reason, the current paper focuses on data about staff leaving the APS, rather than data about new engagements.

¹⁹ Q & A (2013), transcript

²⁰ APSC (2012), *Statistical Bulletin 2011-12* "Table 2: All staff: agency by employment status, sex and employment category, 30 June 2012",

²¹ APSC (2012), *Statistical Bulletin 2011-12*, "Table 3: All staff: agency by employment category and base classification, 30 June 2012", "Table 45: Separations by base classification and sex, 1997-98 to 2011-12"

²² 730 ACT (2013) *How will Seselja sell job losses?*

for example, resignation, redundancy – have remained largely constant. Most leave by resigning.²³

Table 2 shows the separations from the APS in 2011-12 for each state, using data from the APS Commission.²⁴ Each state's proportion of separations was multiplied by 12,000 to allocate job cuts.

Table 2: Job cuts based on APS separations from each State

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	Total
Ongoing separations 2011-12	1554	1316	1139	453	682	172	284	4589	10189
% of separations	15%	13%	11%	4%	7%	2%	3%	45%	
Job losses	1830	1550	1341	534	803	203	334	5405	12000

Applying this method, the Coalition promises to cut 5,405 jobs out of Canberra's economy.²⁵ This is still a substantial number – around one in forty jobs in Canberra. It would be similar to sacking all drivers and machine operators in Canberra, or cutting more than half of all labouring jobs in Canberra. It would have large flow-on impacts on the local economy. By way of comparison, 12,000 jobs is almost the same number as all those who currently work in retail in Canberra.²⁶

Because Table 3.1 does not show where in each state the public servants live, 2011 Census data was used to allocate job losses to Commonwealth electorates within each state.²⁷ Including the surrounding electorates of Eden-Monaro and Hume, this broader 'capital region' would lose 5,692 jobs. The full results are found in the Appendix.

The same calculation can be used to consider job cuts under the ALP. For the ALP's maximum job cuts, it is assumed that 800 senior management positions will be cut in Canberra, where most senior management is based. A further 4,000 job cuts are assumed to be cut around the country. No ALP politician, to our knowledge, has claimed all cuts will occur in the ACT. Using the previous projection – 45 per cent of cuts by natural attrition occurring in the ACT – 1,800 further jobs will be cut in the ACT. On this basis, Labor's worst case scenario would mean 2,600 jobs cut in the ACT.

What actually happened following the mid-1990s cuts to the APS?

The APS has always been the major employer in Canberra. This makes the rest of Canberra's economy sensitive to APS cuts. Cuts in the mid-1990s impacted on jobs outside of the APS, small businesses and property prices. Looking at the history of this period gives us a basis for comparing the likely impacts of the current promises to cut jobs.

The economic records show a major downturn in Canberra in the mid-1990s. Economic growth fell far behind the national average between 1995 and 1998. Unemployment spiked and thousands moved away to find work – 135 extra people went bankrupt. House prices fell

²³ More information is provided in the Appendix.

²⁴ APSC, *Australian Public Service Employment Database (ASPED)*, internet interface.

²⁵ 730 ACT (2013)

²⁶ Note also that the total number of separations in the ACT in 2011-12 was less than half the job cut target. If all jobs were cut in Canberra, as Hockey says, it would take three years through natural attrition.

²⁷ For each electorate, the total number of people employed in the industry of 'Central Government Administration' was converted into a proportion of Central Government Administration for the whole state, and then multiplied by the total job cuts for the state.

from 1993 and took six years to recover, by which time they were 30 per cent behind national prices. Construction fell 30 per cent over five years.

This startling economic history is summarised in the Appendix. House prices and construction are considered in more detail later in the paper.

To compare the history with the current promises to cut jobs, we have to know how many jobs were actually cut from Canberra in that period. Table 3 presents this data, compared to the rest of country.²⁸

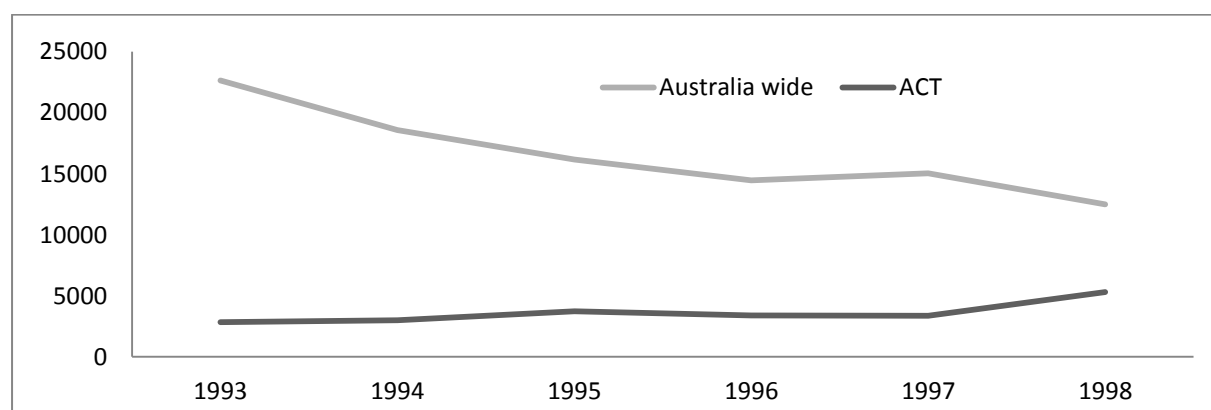
Table 3: Gross APS staff level changes in Australia and in ACT

	Australia			ACT			
	ongoing	non-ongoing	total	ongoing	non-ongoing	total	ACT's share
1993-96	-14153	-8183	-22336	-5449	561	-4888	22%
1996-98	-20207	-1982	-22189	-4828	1901	-2927	13%

Table 2 shows Canberra did not get its share of the cuts. In 1993 and 1996 the ACT was home to 32 per cent of the APS, so if the job cuts were spread evenly around the country the ACT would have received 32 per cent of the cuts. But the figures show that this was not the case. Including casual and contract workers, the ACT only received 22 per cent of the cuts between 1993 and 1996, and only 13 per cent of the cuts in 1996–98. In fact, in 1999, ongoing staff in the ACT increased by over 1,500.

One reason for this was the increase in contract workers in the ACT. Contractors were hired in the ACT even while casual and contract jobs were cut nationwide, shown in Figure 4.1.

Figure 2: APS Casual and Contract staff



On top of this, the figures do not account for job transfers under 'coverage changes' – for example through creation of an independent authority or when jobs were transferred to states. Most of the APS staff changes before 1996 were really job transfers.²⁹ In the ACT, there were actually no jobs cut before 1996. The ACT became a self-governing territory in 1988. From 1 July 1994, 7,238 staff were transferred from the APS to the ACT government. That number is larger than the total APS staff change in the ACT from 1993 to 1996.

²⁸ APSC, APSED, data requested.

²⁹ Transfers accounted for most of the drop in APS job numbers before 1996; less than 10,000 jobs were actually cut nationwide. But after 1996, there were more than 27,000 real job cuts nationwide. Details are included in the Appendix.

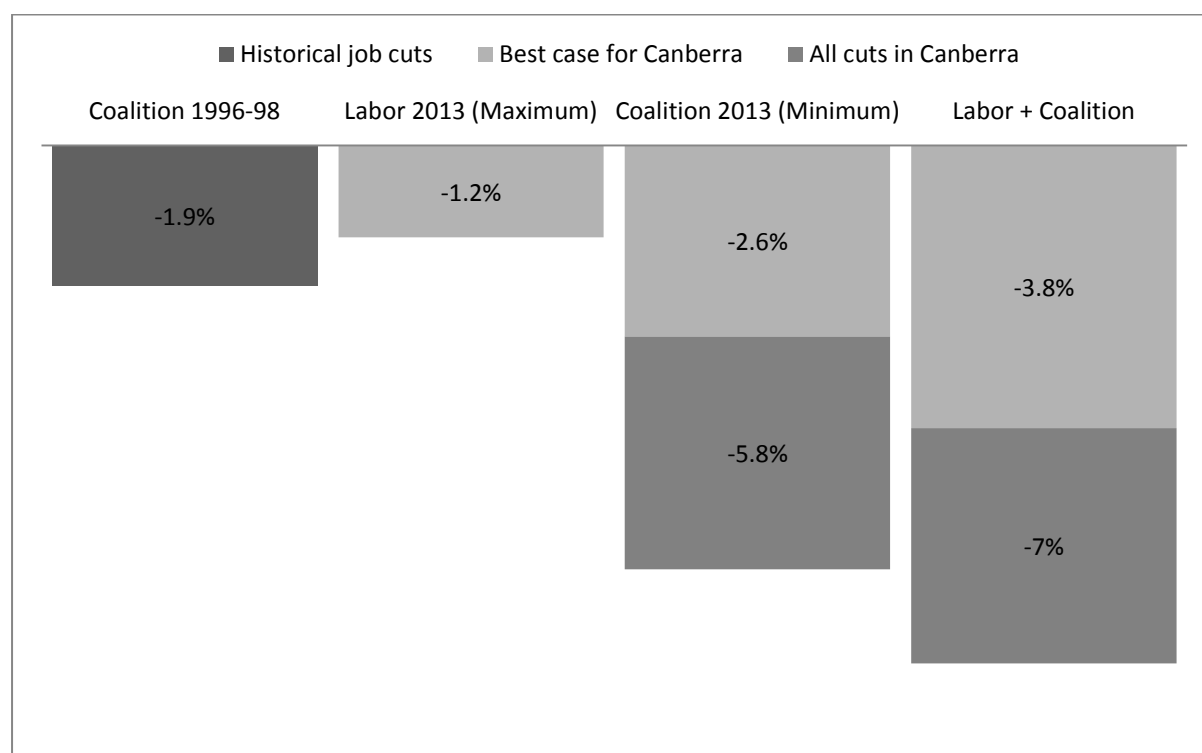
Nonetheless, under Keating between 1993 and 1996 there was large scale restructuring and cost cutting in the APS and that extended to the ACT.³⁰ This disruption and uncertainty, on top of expectations of bigger cuts to come under Howard, contributed to the economic downturn. The job cuts under Howard deepened the impacts. The lesson from history is that the ACT economy is very sensitive to cuts to the APS.

Comparing mid-1990s APS cuts with the Coalition's new job cuts

The present situation seems similar to the situation in 1996. Ongoing cost cutting in recent years will be followed by large staff cuts. Even though the ACT got less than its share of the job cuts in the mid-1990s, it was very sensitive to those cuts and was still badly impacted. It would therefore be reasonable to assume that negative impacts can be expected following future job cuts. But the question remains: how bad will these impacts be?

The analysis of the mid-1990s cuts allows us to estimate the impact of the Coalition's proposed job cuts. This is done by considering the size of the cuts relative to the total number of jobs in Canberra.³¹ Figure 3 shows these results.

Figure 3: APS job cuts as % of all ACT Jobs



Even in the 'best case' scenario for the ACT, the Coalition would cut more jobs out of the economy than during the mid-1990s. Labor's maximum job cuts over 2013-14 would be substantial, but still smaller than the job cuts in the mid-1990s. If "the public service here in Canberra has to be reduced by 12,000", as Joe Hockey says, this would be three times the size of the mid-1990s cuts. If the Coalition keeps Labor's cuts and then cuts 12,000 further jobs, this would present a situation almost four times as bad as the mid-1990s cuts.

³⁰ CPSU (1995), *Annual Report, ACT Branch*

³¹ Historical cuts are considered relative to the number employed at the beginning of their term. Possible cuts in 2013 are considered relative to the present number employed in the ACT. The full table of results is included in the Appendix.

On this basis, the impact of the public sector job cuts on Canberra's economy is likely to be at least as deep as during the mid-1990s, and possibly much worse.

Impacts on jobs and local businesses

Cutting public servant jobs will have a negative impact on jobs outside of the public service and on local businesses. This paper considers two impacts:

- Cutting APS jobs will reduce demand for goods and services needed to run the public service, like IT, property services, legal services and catering.
- Cutting 12,000 APS jobs will also remove 12,000 pay packets from the local economy. That reduces spending on goods from local shops, in cafes and restaurants, on tradespeople and all of the other things people spend money on.

This section projects the impact on jobs and small business of cutting 12,000 APS jobs out of the local economy. It produces conservative figures that do not take into account further flow-on effects and loss of confidence. It estimates a further reduction of 5,507 jobs outside of the public service and a reduction in household spending of up to \$694 million. The results are summarised in Table 4.³²

Table 4: Job losses in Canberra from APS job cuts

	12,000 APS jobs cut in Canberra	Best case for Canberra
Direct job losses in APS	12000	5405
Jobs lost from reduced spending	2408	1084
Jobs lost from reduced inputs to APS	3099	1395
Total jobs lost in Canberra	17507	7884
Proportion of all jobs lost in Canberra	1 in 12	1 in 27

Impacts from reduced demand for running the APS

Cutting jobs reduces demand for inputs needed to run the public service, such as IT and office services. The impact of this reduced demand was estimated from the *Australian National Accounts - Input-Output Tables* published on September 2012.³³

On this basis, 12,000 fewer jobs in public administration implies 3,099 fewer full-time jobs in sectors outside of government.

Table 5 outlines indirect job losses from reduced inputs to public administration, ranking the top 20 sectors by implied job losses. As the table shows, the biggest impacts on the private

³² The best case scenario is calculated as 45 per cent of the impact if all 12,000 jobs go in Canberra, in accordance with estimates of natural attrition, calculated above.

³³ ABS (2012a), *Australian National Accounts - Input-Output Tables*

Data provided in the *Tables* allowed calculation of demand from 'public administration' for inputs from sectors outside of government, expressed per full-time employee in public administration. Multiplied by 12,000, this gave the implied reduction in demand from cutting 12,000 public servant jobs. Then the 'labour intensity' of supply for each sector was calculated, and multiplied by the reduction in demand. That estimated jobs lost in each sector. According to this method, one public administration job is associated with 0.26 jobs in private sectors that supply inputs to public administration.

sector will be in professional, IT and office-related services – however, many different sectors will be impacted.

Table 5: Job losses from reduced APS demand

Sector	Jobs
Professional, Scientific and Technical Services	506
Computer Systems Design and Related Services	376
Construction Services	336
Building Cleaning, Pest Control, Administrative, Other Support Services	225
Non-Residential Property Operators and Real Estate Services	137
Postal and Courier Pick-up and Delivery Service	128
Food and Beverage Services	125
Auxiliary Finance and Insurance Services	120
Telecommunication Services	115
Printing (including the reproduction of recorded media)	110
Road Transport	88
Public Order and Safety	76
Transport Support services and storage	69
Education and Training	64
Library and Other Information Services	53
Wholesale Trade	51
Finance	48
Automotive Repair and Maintenance	42
Accommodation	38
Publishing (except Internet and Music Publishing)	37
TOTAL	3099

Reductions in many of these sectors are likely to be local to where public servants work, for example, construction, building, property, food and beverage services. Other services may be delivered more remotely. That said, centres of public sector employment also tend to become centres of auxiliary services, as in Canberra. If all the cuts occur in Canberra, it is reasonable to assume most of these impacts will be felt in the Canberra economy.

Impacts from reduced household spending

Cutting public servant jobs will also have an immediate impact on local businesses, removing thousands of pay packets from the local economy. Impacts will be felt across all categories of household spending.

One way of imagining this impact is considering the jobs cut out of the economy – 12,000 jobs cut in Canberra would be 5.8 per cent of all jobs in Canberra. On average, shops and services would lose one in twenty of their current customers, reducing turnover and profit for small businesses. That may lead to scaling back staff or hours, and some businesses may have to close altogether. In fact, the reduction will be even greater than 5.8 per cent of all household spending in Canberra, because those employed in the APS are likely to spend more than others.

This section projects the reduction in spending from 12,000 fewer APS jobs in Canberra, and the associated loss of jobs outside the public service. It finds the ACT could lose up to \$694 million in household spending, implying at least 2,408 further jobs lost outside of the public service, especially in retail and hospitality. After outlining these calculations, this section considers some reasons why the impacts may in fact be worse than estimated.

Cuts to public servant pay

Cuts to APS pay in each state were determined as follows. Proportions of employees in each state at each classification were multiplied by the job cuts for each state, projected above. This was then multiplied by the median earnings at each classification projected for 2013-14.³⁴ But as already mentioned, those leaving the APS in recent years have been on lower classifications than the rest of the APS and would be earning less. In fact they earned 89 per cent of the APS average.³⁵ The cut to earnings for each State was therefore scaled down accordingly.

If all 12,000 jobs are cut in the ACT, that would cut ACT earnings by \$1,261.5 million. The best case scenario cuts \$568.2 million in earnings in the ACT.³⁶

Cuts to spending

Households don't spend all of their income. Some is taxed and some is saved. The *Household Expenditure Survey 09-10*³⁷ (HES) was used to calculate the reduction in spending from cutting 12,000 APS pay packets.³⁸ Table 6 shows the cuts to household spending calculated on this basis for both job cut scenarios. For each state, the reduction of spending can be allocated to electorates according to the number of jobs cut there.

Table 6: Total spending reduction

	Spending reduction (\$ million)
All job cuts in ACT	693.8
Jobs cut around the country	
Australian Capital Territory	312.5
New South Wales	85
Victoria	74.9
Queensland	62
South Australia	25.8
Western Australia	36.7
Tasmania	9.1
Northern Territory	15.2
Total	620.1

The *HES* also provides detailed information on how households spend their money on particular goods and services. The basic categories are shown in Figure 4.

³⁴ Details are provided in the Appendix.

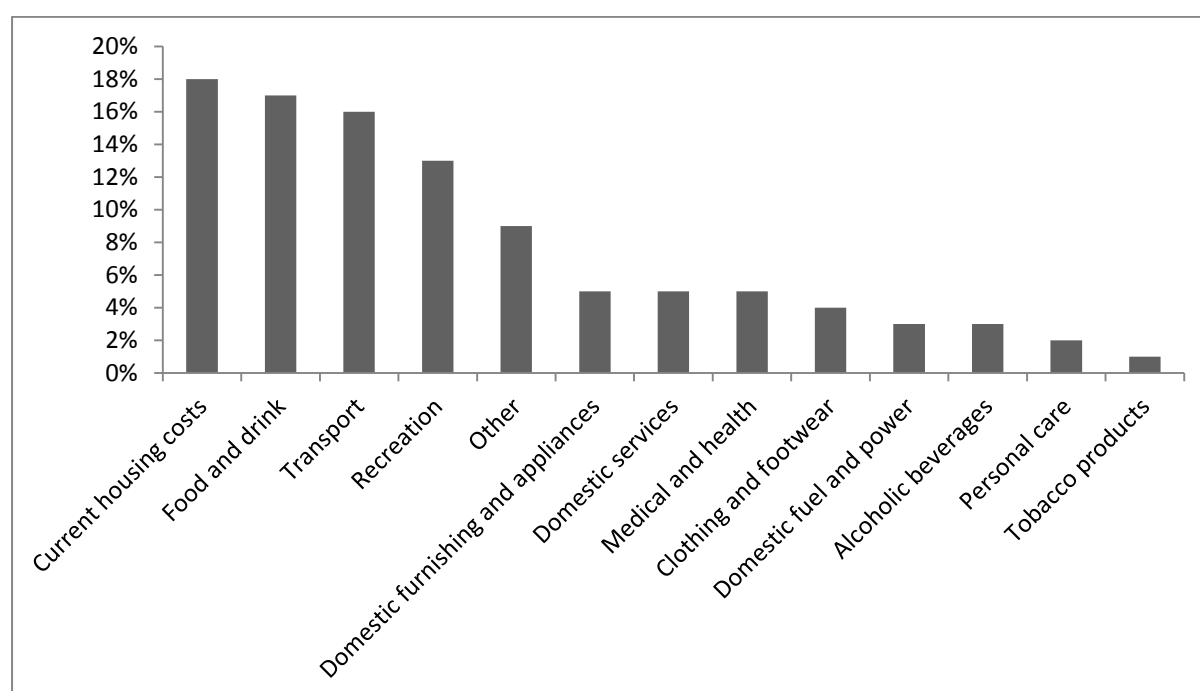
³⁵ Using APSC data over the past five years, the proportion of staff leaving the APS from each classification was multiplied by 12,000, to project the numbers of jobs cut at each classification. This was used to calculate the projected average earnings (in 2013-14 terms) of those leaving the APS over the past five years. That was compared to the projected average earnings of the APS in total.

³⁶ Details are included in the Appendix.

³⁷ ABS (2011b), *Household Expenditure Survey 09-10*

³⁸ HES shows how much households with different incomes spend each week. The average household in the top quintile of household income earned \$3,942 each week and spent \$2,160 each week, or 55 per cent of its income. As the average APS job cut would have a wage higher than the average individual income, this paper assumes rate of spending from the top quintile. This was historically low. The HES shows average household spending in 09-10 was at its lowest in the recorded period, likely due to the impact of the GFC on confidence.

Figure 4: How the average household spends their money



This information is used to estimate the reduction in spending on particular goods and services. Table 7 shows selected categories of spending and estimates the cuts to spending from removing public sector jobs from Canberra's economy.

Table 7: Reduced spending in Canberra, selected categories

	All 12,000 jobs cut in Canberra (\$ millions)
Groceries	\$79.27
Cafes and restaurants	\$35.34
Take-away alcohol	\$11.40
Alcohol at licensed premises	\$6.75
Tradespeople	\$7.05
Hardware materials	\$5.88
Clothing and footwear	\$24.91
Household furnishings and appliances	\$32.92
Childcare services	\$4.94
Motor vehicle purchase	\$26.47
Petrol and lubricants for motor vehicles	\$28.63
Sports, electronics and other recreational equipment	\$30.59
Toiletries, cosmetics and personal care	\$13.50
Donations to charity	\$6.87

Cutting 12,000 jobs in Canberra could mean \$79 million less spent on groceries, \$33 million less spent on household furnishings and appliances, \$35 million less spent in cafes and restaurants, \$6 million less spent on hardware and \$7 million less spent on repairs from tradespeople. For most of this reduction in spending, the impact will be local. Although some goods are increasingly bought online, it is still a minority. Most retail spending occurs in local shops.

Job losses from reduced spending

The calculations of cuts to household spending allow estimates of job losses from reduced spending.

The *National Accounts Input-Output Tables* allow calculation of labour intensity of output from each industry. The average labour intensity for the whole Australian economy is 3.47 full time equivalent jobs per \$1 million of output. On that basis, a reduction in spending of \$694 million is equivalent to 2,408 jobs.

But many households spend money on goods and services from industries with much higher labour intensity than the national average. For example, Retail Trade has a labour intensity of over 12 jobs per \$million, Food and Beverage Services around eight jobs per \$million, and Construction around six jobs per \$1million. On this basis, Table 8 estimates the impact on jobs in hospitality and trades.

Table 8: Job losses in hospitality and trades

	Job losses, all APS cuts in Canberra
Cafes and restaurants	283
Alcohol at licensed premises	54
Tradespeople	42

For goods purchased through a retailer, the labour intensity of output applies to the retail margin (the proportion of retail income out of which retailers pay wages and other operating costs). The retail margin, calculated from the *Input Output Tables*,³⁹ was 35 per cent. Table 9 shows the reduction in retail margins and implied job losses estimated on this basis.

Table 9: Retail job losses from reduced spending

Retail sectors	Reduced retail margins (\$m), all APS cuts in Canberra	Retail job losses, all APS cuts in Canberra
Groceries	\$27.74	344
Off-premises alcohol	\$3.99	49
Hardware materials	\$2.06	26
Clothing and footwear	\$8.72	108

³⁹ ABS (2012a), *National Accounts - Input-Output Tables*

Table 24 shows the total retail margin associated with household retail spending. Table 2 shows the total supply of goods for household use through retail (without the margin). Adding these together gives total retail income. Dividing that total by the retail margin gives the retail margin as a proportion of retail spending.

Household furnishings and equipment	\$11.52	143
Motor vehicle purchase	\$9.26	115
Petrol and lubricants for motor vehicles	\$10.02	124
Sports and recreational equipment	\$10.71	133
Toiletries, cosmetics and personal care	\$4.73	59
Total		1,100

In these retail categories, reduced spending could mean 1,100 jobs lost in local shops, including up to 344 in groceries retail, 108 in clothing and 143 in household furnishing and equipment.

Small business

Reducing spending in Canberra will have a big impact on small businesses. Canberra has a large number of small businesses per capita. Cuts to retail spending or spending on services will hit small business turnover, therefore reducing profits and making it hard for some to stay open. This is what happened in the mid-1990s, as seen in the increase in bankruptcies.

Flow-on effects and confidence

These estimates of reduced spending and job losses are conservative for a number of reasons. The approach taken here does not include flow-on effects. If wages are cut, there will be flow-on reductions in spending in the local economy. By leaving out these effects, the current method gives a conservative projection of the impact on Canberra's economy.

Neither does this paper consider the effect APS job cuts are likely to have on consumer confidence. Even the people who keep their income are likely to spend less in local shops and on local services if they are unsure they will maintain their current income. This would make a downturn worse, further undermining confidence. Consumers also reduce their spending when their investments start losing value – this is known as the 'wealth effect'. Household wealth in Australia is mostly held in the family home. If property prices start falling, people are likely to spend less.

Will the cuts cause a recession?

It is clear the cuts will cause significant economic impacts on the Canberra economy. But will they be big enough to cause a recession?

The ACT Budget 2013-14 states that:

The most important risk to the ACT economic outlook lies with the fiscal tightening of the Commonwealth Government. The Territory's economic outlook also remains dependent on spending and hiring decisions following the outcome of the upcoming Federal election.⁴⁰

The Budget predicts growth of 1.75 per cent in 2013-14, or growth of \$567 million.⁴¹ If all 12,000 jobs are cut in Canberra, the reduction in spending of \$694 million would be bigger

⁴⁰ ACT Government (2013) *Budget Overview 2013-14*, p19

⁴¹ Gross State Product in 2011-12 was \$31.5 billion according to the ABS. The ACT Budget estimates Gross State Product grew by 2.75 per cent in 2012-13, putting it at \$32.4 billion. The ACT Budget 2013-14 projects 1.75% growth in Gross State Product in 2013-14.

ABS (2012c), *Australian National Accounts: State Accounts, 2011-12*; ACT Government (2013) p2

than the predicted growth this year. Cuts on this scale are very likely to cause a recession in the ACT.

While not all of the reduced spending will occur in Canberra, most spending is local. Moreover, the \$694 million cut to spending does not include knock-on effects in the local economy, impacts on confidence or impacts on the property market; nor does it include reduced demand for inputs to public administration. The current scenarios also do not consider the impact from increased redundancies if health, education and environment agencies are cut. Many of these staff are located in Canberra. Finally, the impacts considered here are extra impacts on top of Labor's recent cuts and so underestimate the combined impact.

On the 'best case' scenario, the cuts to spending of \$312.5 million are over half the forecast growth in the Canberra economy. A recession is still possible under this scenario. On top of Labor's cuts, the fall in household spending could stop all growth when combined with impacts on confidence, knock-on effects and reduced demand for inputs.

House prices

Shadow Treasurer Joe Hockey has joked about the "golden rule for real estate in Canberra – you buy Liberal and you sell Labor".⁴² He expects his job cuts to undermine property prices, as they did in the mid-1990s.

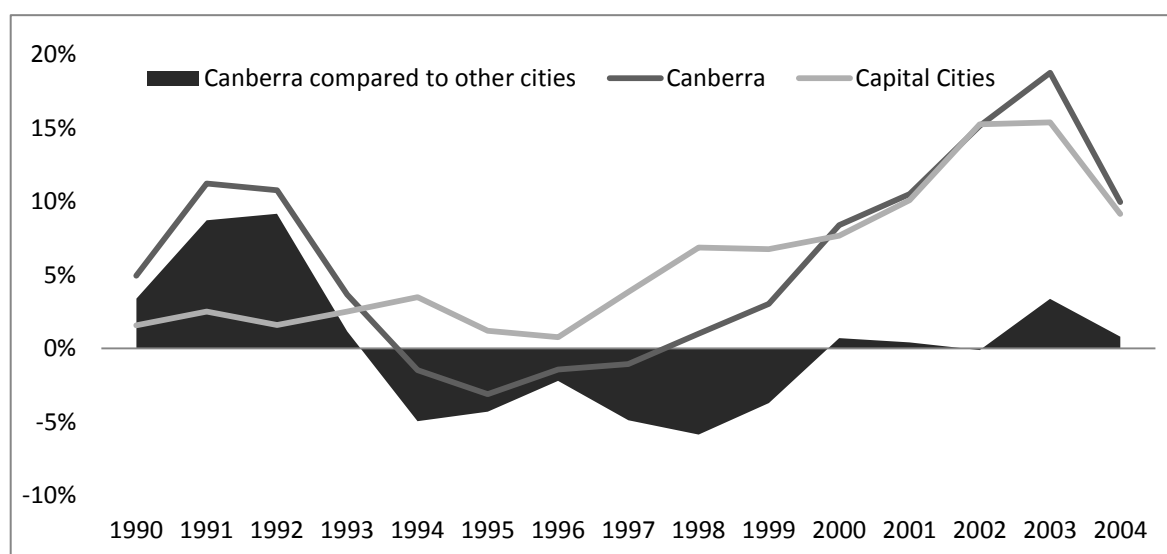
During the mid-1990s cuts to the APS, property prices fell in the ACT while they grew nationwide. According to the ABS house price index⁴³, Canberra house prices grew strongly between 1990 and 1993. After the cuts to the APS started, they fell by seven per cent between June 1993 and 1997, and only recovered to previous levels six years later, in late 1999. By this time, capital city house prices had increased by 30 per cent. That means Canberra house prices grew 30 per cent less than in other capital cities during the mid-1990s APS cuts.

Figure 5 shows the difference between the yearly percentage point changes in Canberra and in Australian capital cities, with the shaded area showing the difference each year. Canberra house prices grew faster than prices around the rest of the country between 1990 and 1993. Canberra houses lost value compared to other cities from 1993 to 2000, and only reached national growth rates in 2000.

⁴² Peake (2013) *'You buy Liberal and you sell Labor': Hockey's property advice*

⁴³ ABS (2012f), *House Price Indexes: Eight Capital Cities*

Figure 5: Yearly changes in house prices, Canberra vs other Capital Cities



According to research group Rismark International, the impacts were bigger and more sudden than suggested by the ABS. Rismark reports that between March 1996 – when Howard was elected – and August 1997, Canberra house prices fell 8.3 per cent. By comparison, prices increased 18 per cent in Sydney and 13 per cent in Melbourne during the same period.⁴⁴

Current conditions in Canberra Housing market

Conditions in the current property market suggest a similar downturn is likely in coming years. Property research group SQM predicts that a “sizable correction of over 10 per cent is possible over the next two years” in the Canberra market.⁴⁵ Falls of 10 per cent may coincide with growth nationally.

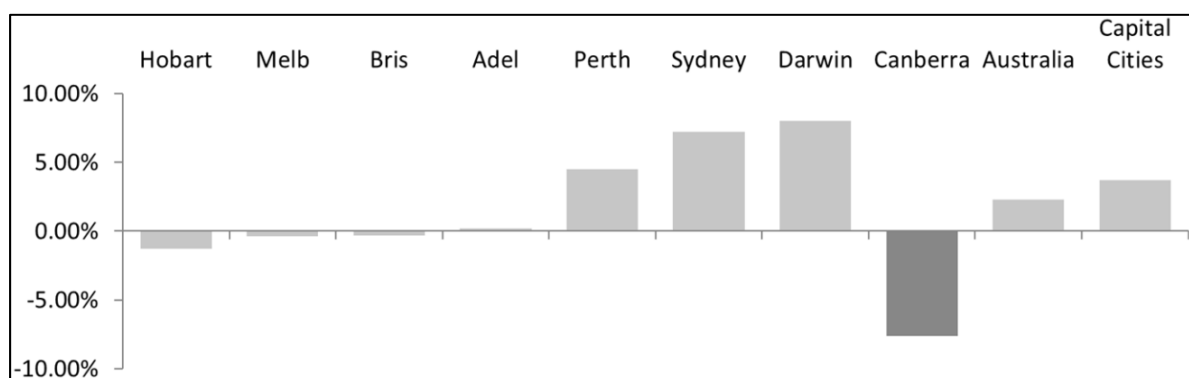
SQM data also shows that the Canberra property market is already experiencing a significant downturn.⁴⁶ As in the mid-1990s, recent APS cuts and expectations of much bigger cuts to come are driving property prices down. According to SQM data for the week ending 6 August 2013, shown in Figure 6, the asking price for a Canberra house was down markedly while house prices were up in most other parts of the country. Unit prices see the same trend.⁴⁷

⁴⁴ Saminather (2013), *Rudd Home Sale Thwarted as Canberra Market Slows Pre-Vote*

⁴⁵ Saminather (2013)

⁴⁶ SQM Research (2013a), *SQM Housing Market Indexes*

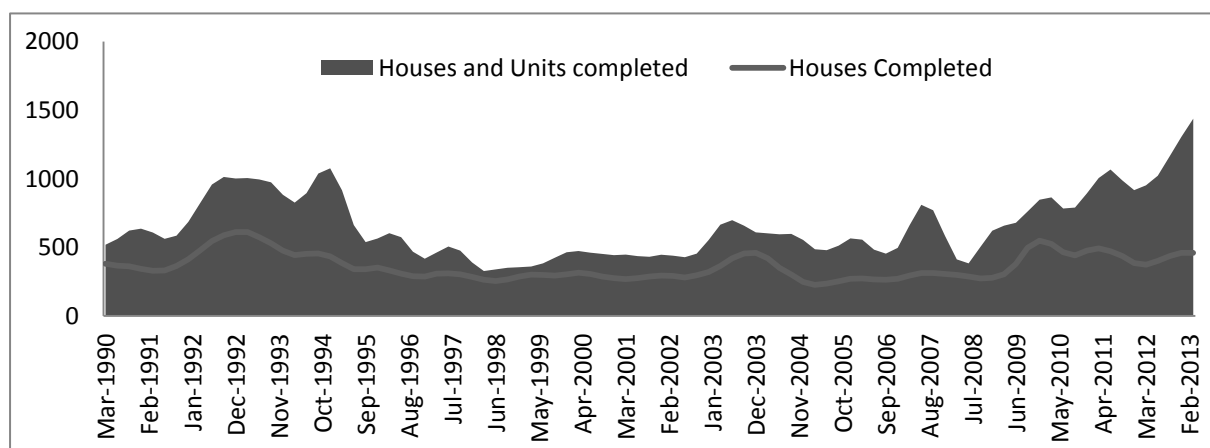
⁴⁷ Trends for Canberra prices have been even more pronounced among three bedroom houses, which have experienced a 9.9 per cent drop in price over the last three years. Two bedroom units recorded an increase in price of 2.7 per cent. This suggests an underlying downsizing trend.
SQM Research (2013b), *Weekly Vendor Sentiment - City: Canberra*

Figure 6: Yearly Change in House Asking Prices, 6 August 2012-2013

Nationwide prices have risen since November 2011, due to a series of interest rate cuts, but this has not been visible in the Canberra market. Now there is doubt about the strength of continuing growth in property prices around the country. A weaker property market nationally may increase the impact of APS cuts on local property.

Another concern is the large increase in household debt since the mid-1990s, in particular the family home. Debt relative to assets has doubled since 1990⁴⁸ and debt relative to disposable income has increased even more.⁴⁹ Increased household debt makes people more susceptible to downturns in the local economy, which may have knock-on effects on property prices, as shown dramatically in the US housing crash.

The impact from falling demand is exacerbated by the recent boom in supply in Canberra, especially in new units. This replicates a pattern from the mid-1990s, seen in Figure 7.⁵⁰

Figure 7: Dwelling Completions

Some have argued that the previous impacts from APS job cuts on property prices are unlikely to be replicated under the Coalition's proposed cuts – the mid-1990s cuts involved redundancies but the proposed cuts this time will involve natural attrition. But a reduction in jobs reduces demand for housing relative to business as usual, regardless of how it happens.

⁴⁸ ABS (2009) *Australian Social Trends*, Household Debt,

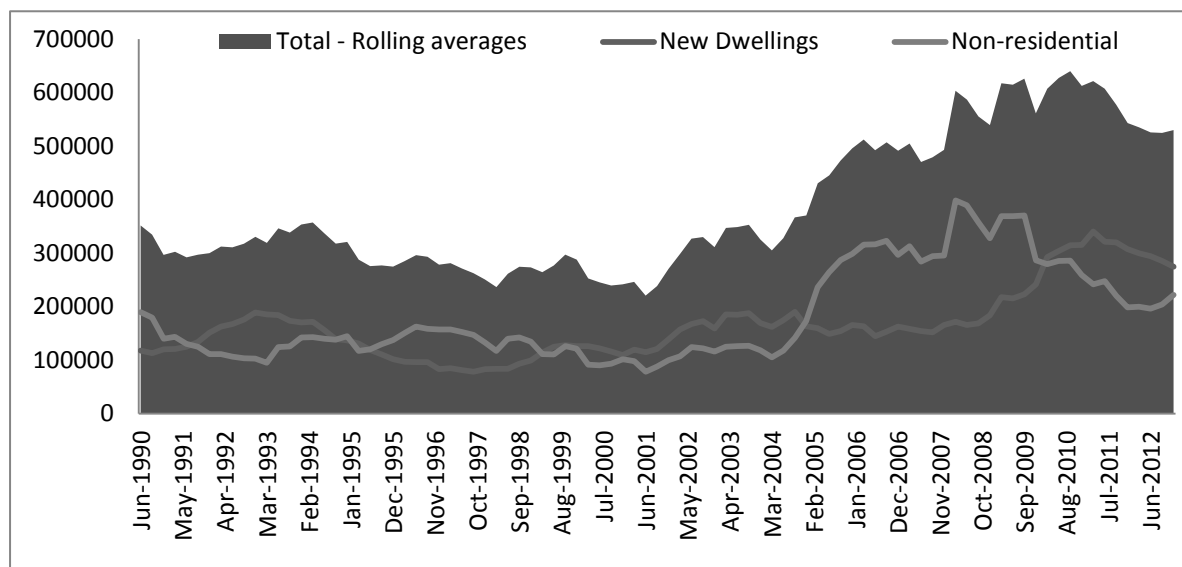
⁴⁹ RBA (2010) *Aspects of Australia's Finances*

⁵⁰ ABS (2013d) *Building Activity, Australia, Mar 2013*

Impacts on Construction

A collapse in the housing market, and in demand for office space due to a smaller APS workforce, will lead to a downturn in demand for construction. This also occurred during the mid-1990s. In recent years there has already been a notable reduction in new works in the ACT, as shown in Figure 8.⁵¹

Figure 8. Value of new construction work in ACT



From the peak in late 1993 to the lowest point at the beginning of 1998, the value of new works dropped by nearly 30 per cent. In the current market, the overall drop has been around 15 per cent in the last three years. New works on non-residential buildings have dropped since 2009, and works on dwellings have dropped since 2011, especially because of a drop in construction of new units. In a downturn and without further government stimulus, new construction may slump further. An increase in private works is unlikely if demand for housing falls.

Once current works finish, there is likely to be a big drop in demand for construction. This would hit jobs in construction and contribute to flow-on effects for service industries. A 30 per cent reduction in the value of new works, as occurred last time, would correlate to roughly a 30 per cent reduction in demand. That means three in ten construction workers may lose their jobs. According to the Census, there were 9,268 labourers in the ACT in 2011.⁵² That was the peak of new works starting. If demand continues to collapse by 30 per cent from this peak, as it did in the mid-1990s, up to 2,780 labourers would face unemployment as existing work finishes.

⁵¹ ABS (2013e) *Building Activity, Australia*,

⁵² ABS (2013c), *2011 Census QuickStats – Australian Capital Territory*

Conclusion

Politicians usually talk about sound economic management and job creation. It is difficult to believe that politicians would be willing to cut so many jobs that they risk a recession in a major regional jurisdiction. Yet that is what we are seeing in the lead up to this election, with the Coalition promising to cut thousands of public sector jobs in Canberra. Even the smaller cuts under Labor are likely to have an impact. But the Coalition's cuts are so large they could cause a recession in the ACT. The best case scenario would have a bigger impact on Canberra's economy than the mid-1990s cuts to the APS. There will be big impacts across demand for services, spending and jobs in shops and restaurants, as well as flow-on effects on property prices and construction.

Appendix – Job losses per electorate

Table 10: Job losses per electorate

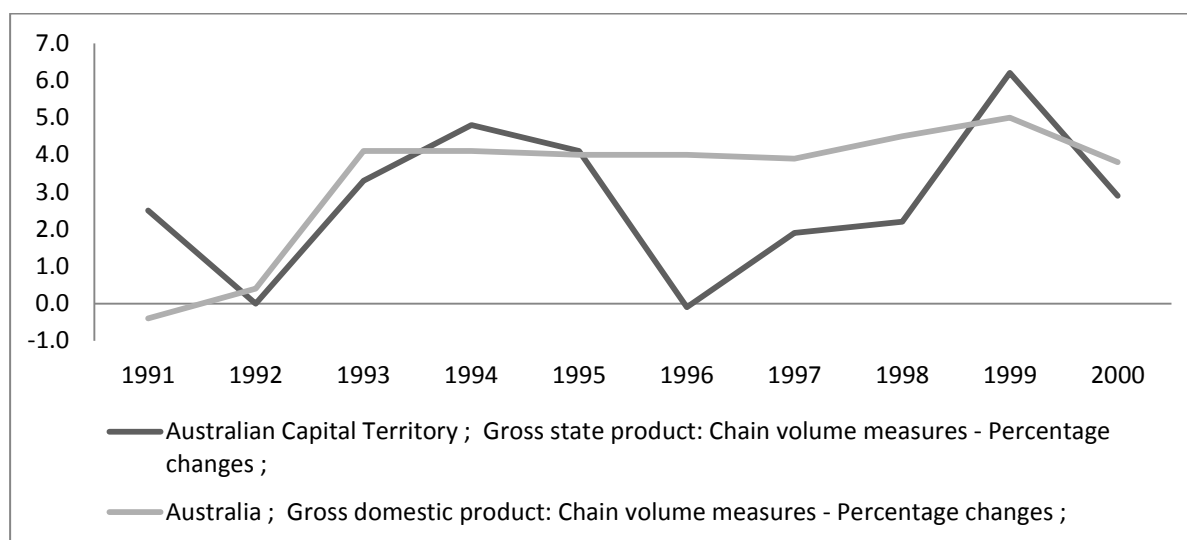
Electorate	Jobs cut				
		Sturt, SA	65	Kingston, SA	48
		Leichhardt, Qld	64		
Canberra, ACT	2709	Batman, Vic	63	Curtin, WA	48
Fraser, ACT	2702	Boothby, SA	63	Indi, Vic	48
Solomon, NT	200	Moore, WA	62	Maribyrnong, Vic	47
Eden-Monaro, NSW	200	Petrie, Qld	59	Chifley, NSW	47
Lingiari, NT	132	Grayndler, NSW	59	Isaacs, Vic	46
Herbert, Qld	98	Gellibrand, Vic	58	Newcastle, NSW	45
Perth, WA	94	Port Adelaide, SA	56	Brand, WA	45
Lilley, Qld	89	Corio, Vic	56	Mcewen, Vic	44
Griffith, Qld	85	Gippsland, Vic	55	Bowman, Qld	44
Hume, NSW	81	Rankin, Qld	55	Deakin, Vic	43
Melbourne, Vic	81	Cunningham, NSW	55	Forrest, WA	43
Brisbane, Qld	79	Melbourne Ports, Vic	54	Banks, NSW	43
Denison, Tas	76	Fremantle, WA	54	Chisholm, Vic	42
Adelaide, SA	76	Makin, SA	53	Cowper, NSW	41
Swan, WA	71	Hasluck, WA	53	Bendigo, Vic	41
Dickson, Qld	71	Lalor, Vic	53	Calwell, Vic	41
Franklin, Tas	70	Greenway, NSW	51	Pearce, WA	41
Wills, Vic	70	Jagajaga, Vic	51	Higgins, Vic	41
Lindsay, NSW	70	Oxley, Qld	51	McMahon, NSW	40
Hindmarsh, SA	69	Gorton, Vic	50	Durack, WA	40
Ryan, Qld	68	Farrer, NSW	50	Scullin, Vic	40
Bonner, Qld	68	Sydney, NSW	50	Werriwa, NSW	40
Cowan, WA	68	Parramatta, NSW	49	Corangamite, Vic	40
Moreton, Qld	66	Holt, Vic	49	Barton, NSW	39
Tangney, WA	65			Mayo, SA	39
Stirling, WA	65				

Kooyong, Vic	39	Fadden, Qld	31	Bass, Tas	19
Ballarat, Vic	39	Watson, NSW	30	Fairfax, Qld	19
Hotham, Vic	39	Wakefield, SA	30	Flinders, Vic	17
Hughes, NSW	38	Dobell, NSW	29	Parkes, NSW	16
Groom, Qld	38	Fowler, NSW	29	Braddon, Tas	16
Canning, WA	38	Casey, Vic	29	Page, NSW	16
Macquarie, NSW	37	Lyne, NSW	28	Riverina, NSW	16
Mcperson, Qld	37	Mcmillan, Vic	28	Mallee, Vic	15
Reid, NSW	37	Bradfield, NSW	27	Maranoa, Qld	15
Longman, Qld	37	Macarthur, NSW	27	New England, NSW	15
Bennelong, NSW	36	Dunkley, Vic	27	Mackellar, NSW	15
Cook, NSW	36	Warringah, NSW	27	Murray, Vic	14
Forde, Qld	35	Moncrieff, Qld	26	Barker, SA	13
Bruce, Vic	35	Berowra, NSW	25	Hunter, NSW	12
Menzies, Vic	35	Robertson, NSW	25	Flynn, Qld	11
Kingsford Smith, NSW	35	Richmond, NSW	25		
Mitchell, NSW	34	Wright, Qld	24		
Goldstein, Vic	34	Kennedy, Qld	24		
La Trobe, Vic	34	Wide Bay, Qld	22		
Wentworth, NSW	34	Wannon, Vic	22		
Throsby, NSW	34	Grey, SA	22		
		Gilmore, NSW	22		
North Sydney, NSW	33	Lyons, Tas	21		
Blair, Qld	33	Fisher, Qld	21		
Aston, Vic	32	Hinkler, Qld	21		
Charlton, NSW	32	Calare, NSW	21		
Shortland, NSW	32	O'Connor, WA	20		
Blaxland, NSW	32	Capricornia, Qld	19		
Dawson, Qld	31	Paterson, NSW	19		

Appendix - Canberra's economy in the mid-1990s

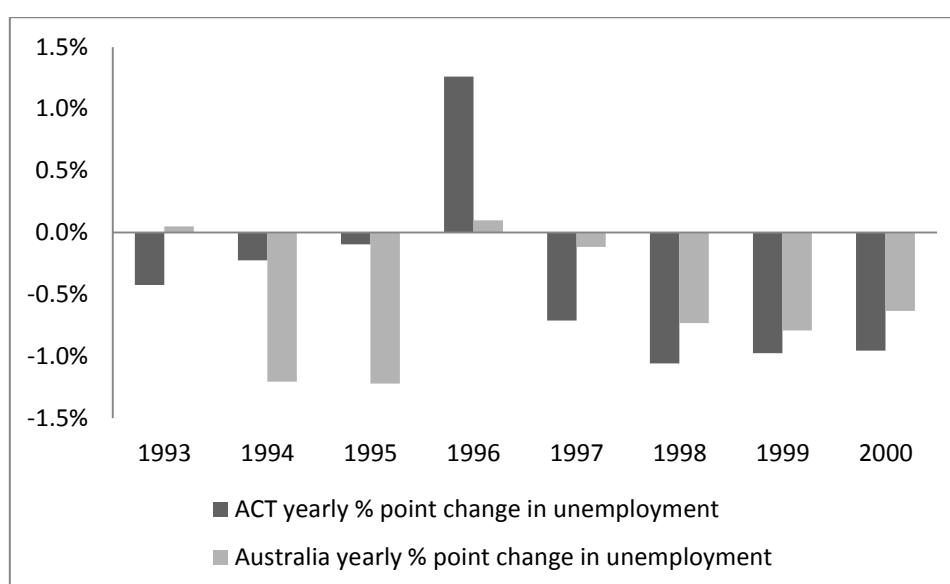
The impact of the APS cuts on the ACT economy is clearly visible in the records of gross state product (GSP), shown in Figure 9.⁵³ A recession in Canberra was followed by two years of slow growth behind the national trend. This is a predictable consequence of cutting public sector spending and jobs out of the local economy, reducing demand for local services and spending at local shops.

Figure 9: Percentage point changes ACT GSP and Australian GDP



The mid-1990s cuts to the APS also increased unemployment in the ACT, compared to trends Australia-wide.⁵⁴ During the national recession between 1990 and 1993, unemployment grew Australia-wide, as it did in Canberra. Then unemployment fell between 1993 and 1995 nation-wide. But in Canberra it levelled out and then spiked one per cent compared to the national trend. This is seen in Figure 10.

Figure 10: Percentage point changes in unemployment, ACT and Australia

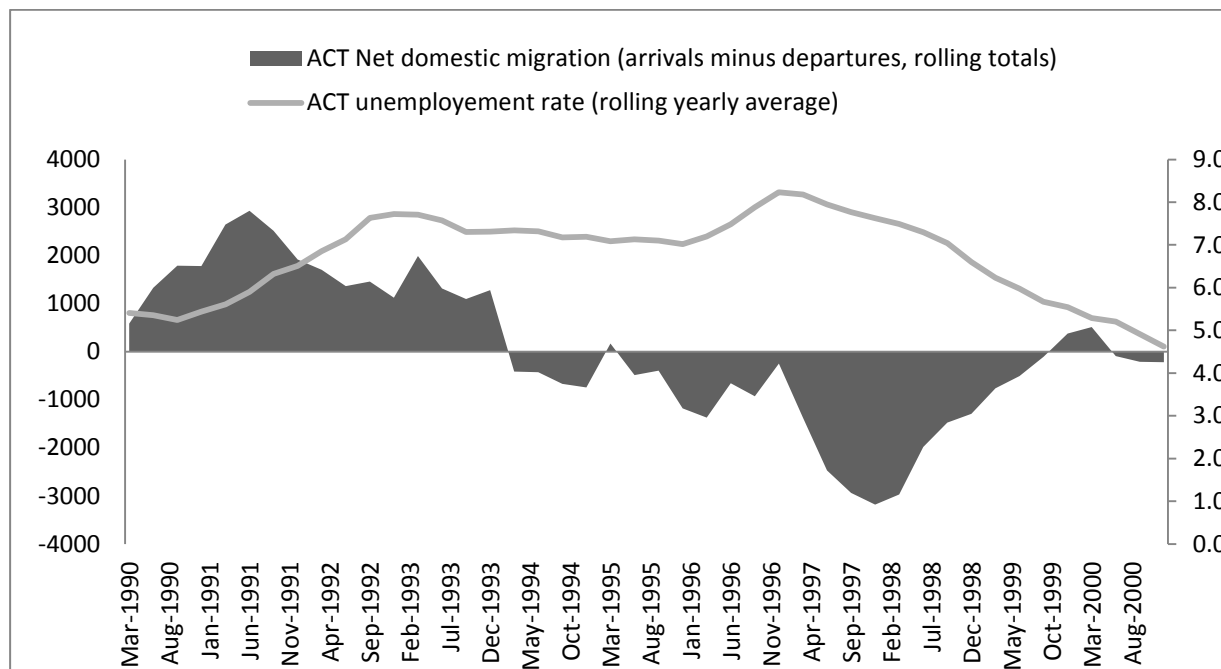


⁵³ ABS (2012c), *Australian National Accounts: State Accounts, 2011-12*

⁵⁴ ABS (2013a) *Labour Force, Australia*

Unemployment fell after 1996, but this does not simply reflect improving economic conditions. One reason it fell was the increase in people leaving the ACT. As shown in Figure 11, there is a strong correlation the spike in unemployment and net migration out of the ACT. It seems thousands of people left Canberra to seek work elsewhere.⁵⁵

Figure 11: Net domestic migration to ACT vs ACT unemployment



The impacts were not just confined to public servants, but were felt throughout the economy. Reduced employment in the APS led to less spending in the private sector, hitting shops, hospitality, service providers and construction.

Data on personal insolvencies give one picture of the impact on local small business.⁵⁶ Between 1993 and 1998, personal insolvencies grew 73 per cent Australia-wide, but in the ACT they grew 116 per cent. That is an extra increase in the ACT of 43 percentage points. Applied to 1993 insolvencies, it means 135 extra people went bankrupt in the ACT over that period.

⁵⁵ ABS (2013a) *Labour Force, Australia*; ABS (2012a) *Australian Demographic Statistics*

⁵⁶ AFSA (2013) *The time series for the bankruptcy and personal insolvency statistics*

Appendix – APS staff level changes by State

This data was provided on request by the APSC APSED. The data reflect gross APS staff level changes and do not account for changes in coverage of the APS.

Table 11: Ongoing APS Staff Levels by State

	ACT	NSW	NT	OS	QLD	SA	TAS	VIC	WA	Total
1990	41687	30123	1758	840	13868	10023	2948	26185	8033	135465
1991	43583	30458	1783	965	14286	10181	3025	27146	8393	139820
1992	45001	30924	1867	1072	14757	10215	3002	26879	8659	142376
1993	46400	30794	1873	1046	15281	9855	2867	26143	8628	142887
1994	47068	30103	1865	1106	15288	9558	2854	25983	7950	141775
1995	40436	29418	1900	1119	14122	8735	2785	23762	7611	129888
1996	40951	28682	1936	1145	14048	8531	2767	23247	7427	128734
1997	37633	26655	1760	1075	13007	7888	2561	21654	6785	119018
1998	36123	23717	1564	903	11761	7047	2333	18767	6312	108527
1999	37793	20802	1497	726	10369	5958	2009	17016	5840	102010
2000	35541	21395	1581	926	11268	6175	2165	17938	6087	103076
2001	36045	22888	1676	928	12556	6671	2488	18897	6564	108713
2002	37985	23388	1800	978	12952	6854	2546	19232	6581	112316
2003	40248	24425	1926	940	14533	7408	2776	20759	7386	120401
2004	41730	24490	1912	932	14963	7457	2871	20746	7430	122531
2005	43108	24486	1788	940	15045	7569	2902	20468	7272	123578
2006	47226	26875	1915	1033	16335	8203	3213	22222	7942	134964
2007	51499	28265	2089	1133	16945	8682	3392	23672	8190	143867
2008	54155	28410	2482	1229	16928	8970	3524	24163	7949	147810
2009	56132	28617	2405	1332	16983	9073	3706	24387	7685	150320
2010	57829	28086	2471	1466	16704	9018	3587	24415	7407	150983
2011	59716	28120	2318	1467	16742	9284	3562	24850	7289	153348
2012	62989	27431	2249	1342	16262	9061	3437	24504	7032	154307

Table 12. non-ongoing APS Staff levels in ACT

	Non ongoing APS staff in ACT
1993	2827
1996	3388
1998	5289

Appendix – APS job transfers during the mid-1990s

Figure 12 shows real job cuts during the mid-1990s, adjusting for coverage change. Table 12 shows staff transfers between 1993 and 1998.⁵⁷ The records show that most of the cuts under Keating were through coverage change and so were not real cuts, while most of the cuts under Howard were real job cuts.

Figure 12: Real Job cuts in the mid-1990s

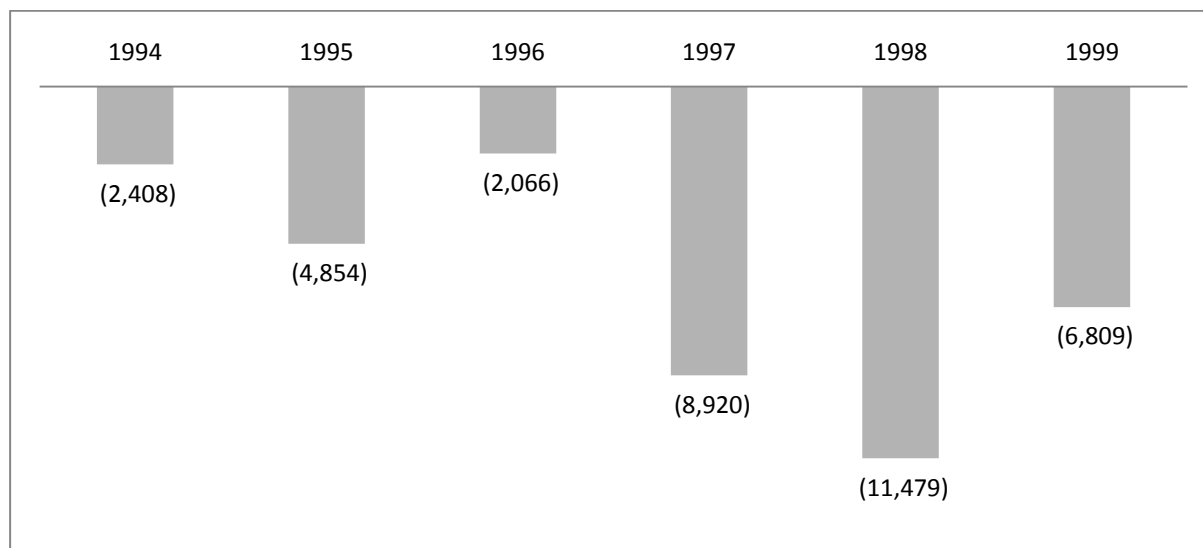


Table 13: APS job transfers 1993-99

Year	Staff	Agency
1993–94	-2484	RGH Concord (DVA) to the NSW State Government
	-8	RALAC (DVA) to State/Territorial Governments
	-281	RGH Hollywood (DVA) to private sector
1994–95	-548	SBS from Public Service Act 1922 to SBS Act 1991
	-7238	ACT Government from Public Service Act 1922 to ACT Government Service
	-1080	RGH Heidelberg (DVA) to the Victorian State Government
	-593	RGH Daw Park (DVA) to the South Australian State Government
1995–96	-774	RGH Greenslopes (DVA) to private sector
	-23	Australian Institute of Police Management
	-408	Australian Maritime Safety Authority
	+77	Army Topographical Support Establishment – Bendigo
	+37	Australian Institute of Family Studies
	+315	Australian Quarantine and Inspection Service
1993-96 - Total	13008	
1996–97	-221	Health Services Australia
1997–98	-630	Australian Hearing Service
	-718	Employment National
	-221	Health Services Australia

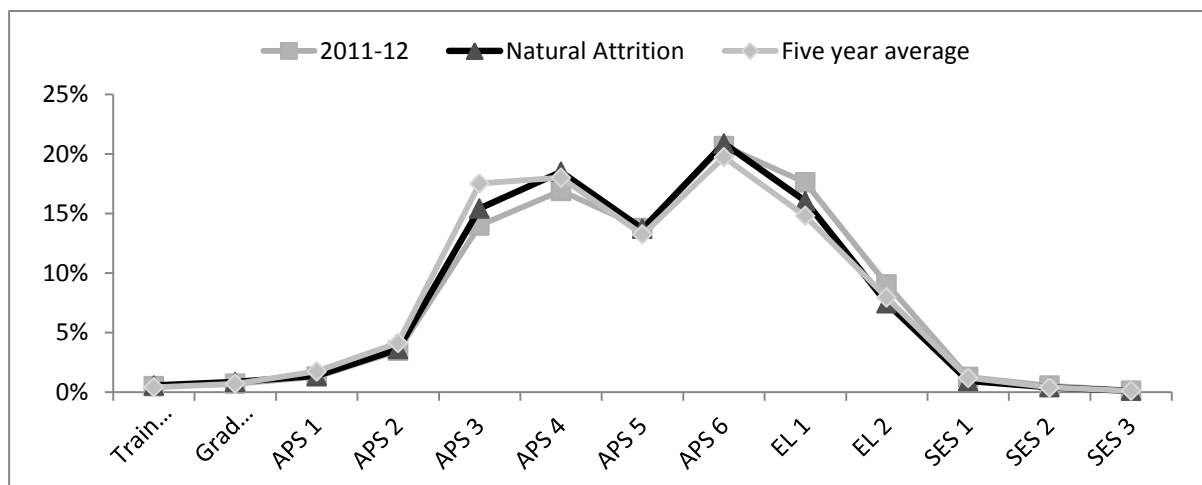
⁵⁷ APSC, APSED; Public Service & Merit Protection Commission (1999) *Australian Public Service Statistical Bulletin 1998-99* p72

1998-99	-375	Insurance and Superannuation Commission
	+6	Northern Australia Quarantine Strategy
	+10	Nuclear Safety Bureau
1996-99 - Total	1944	

Appendix - Job cuts through natural attrition

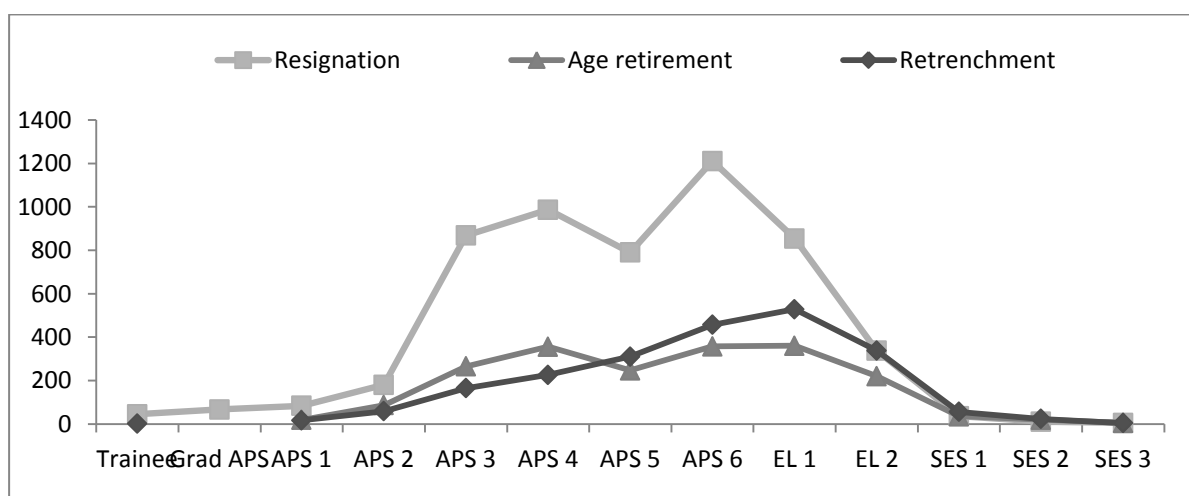
The APSC provides data on separations at each classification over time. Proportions of all separations at each classification can be calculated as an average over the last five years (2008 to 2012 inclusive). APSC also provides separation type broken down by type of separation at each classification in 2011-12.⁵⁸ This allows analysis of separations at each classification as a proportion of all separations. Figure 13 shows separations at different APS classifications for 2011-12 and the average over five years. It also shows the spread of natural attrition in 2011-12, including retirement, resignation, invalidity and death.

Figure 13. Separations at classifications, five year average and natural attrition



All three are very similar. This implies that the spread of separations across classifications was fairly constant over the last five years and that it was mostly determined by natural attrition. As shown in Figure 14, in 2011-12 resignation accounted for most separations. Retrenchment and retirement are roughly the same in numbers. Resignation accounts for more than both. Resignation and retirement, the main elements of natural attrition, occur at lower classifications.

Figure 14. Types of separation at different classifications, 2011-12



⁵⁸ APSC (2012), *Statistical Bulletin 2011-12*

Historical APSC records show resignation typically accounts for the majority of APS separation, which changes only in times of large cuts. Figure 15 from the *Australian Public Service Statistical Bulletin 1998-99* shows that, during the mid-90s, retrenchments increased while retirement and resignation decreased as a proportion of all cuts.⁵⁹ Even if natural attrition stayed constant it would have decreased as a proportion of separation, as total separations increased dramatically in this period.

Figure 15, from the Australian Public Service Statistical Bulletin 1998-99

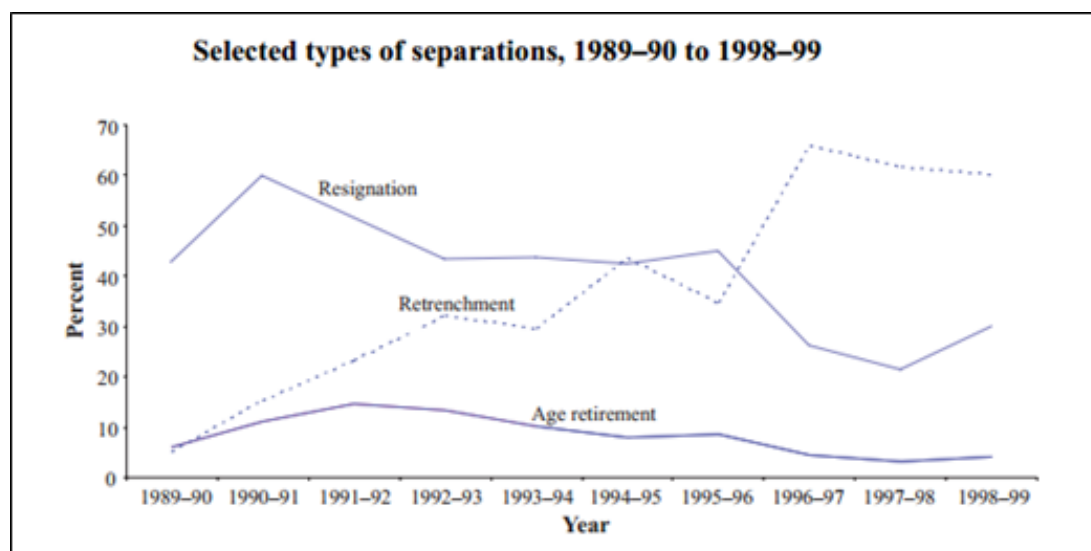
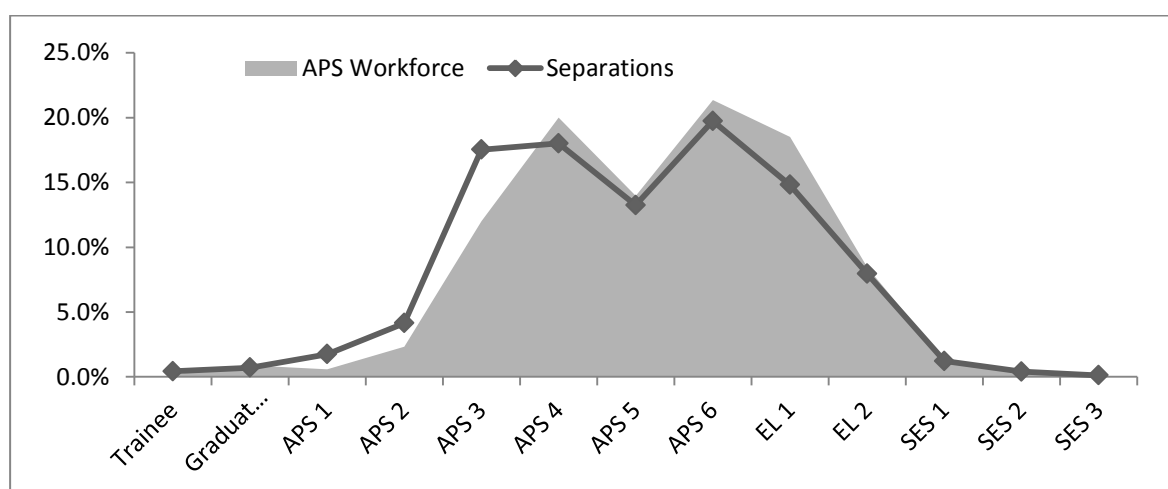


Figure 16 shows the proportions of all separations over the last five years at each classification, compared to the proportions for each classification. Surprisingly, the spread of classifications leaving the APS is currently biased lower on the scale of classifications than the APS workforce. This suggests a policy of natural attrition will in fact contribute to an increasingly management-heavy public service. This seems to contradict the rhetoric of both major parties, which focuses on the growth among management and executive classifications.

Figure 16, Proportion of APS separations and workforce at classifications, 2011-12



⁵⁹ Public Service & Merit Protection Commission (1999) *Australian Public Service Statistical Bulletin 1998-99* p9

Appendix - Cuts to earnings from natural attrition

Job losses at each classification are projected by multiplying the proportion of jobs lost at each classification (as an average of jobs lost over the past five years) by 12,000 jobs cut. Multiplying by the current median salary for each employment classification provides the reduction in wages.

Public servants receive a base salary as well as other forms of compensation, which the APSC together calls the 'reward'. The median reward in 2013-14 was projected by taking the median total reward for each classification from 2011,⁶⁰ multiplying by the base salary increase rate for each classification for 2012,⁶¹ and then multiplying a further three per cent for all classifications for 2013. Three per cent is higher than the increase in 2012. The projected 2013 median reward is then adjusted according to the proportion of part-time staff. The APS was 14 per cent part time in June 2012.⁶² Therefore projected earnings reduced at each level were adjusted for this part-time workforce by reducing the full projection by seven per cent.

Applying this method at the national level, the result is a projected total earnings reduction of \$1.12 billion in 2013-14. (Note the policy is to allow natural attrition over two years, so the savings would be less in the first year but greater in the second year.) Table 14 shows these calculations.

Table 14: National Separations, Projected Wages and Total Wages Reductions

	% of all separations	Jobs cut	Median earnings (projected 2013-14)	Earnings cut (PT adjusted - \$millions)
<i>Trainee</i>	0.40%	50	\$54,026	\$2.50
<i>Graduate APS</i>	0.70%	83	\$69,788	\$5.40
<i>APS 1</i>	2.00%	239	\$54,026	\$12
<i>APS 2</i>	4.30%	511	\$65,187	\$31
<i>APS 3</i>	18.30%	2194	\$73,859	\$151
<i>APS 4</i>	17.90%	2145	\$81,597	\$163
<i>APS 5</i>	13.00%	1562	\$90,156	\$131
<i>APS 6</i>	19.70%	2358	\$104,753	\$229.80
<i>EL 1</i>	14.40%	1733	\$129,419	\$208.60
<i>EL 2</i>	7.70%	927	\$163,100	\$140.60
<i>SES 1</i>	1.20%	139	\$243,307	\$31.40
<i>SES 2</i>	0.40%	46	\$309,113	\$13.30
<i>SES 3</i>	0.10%	14	\$382,831	\$5
Total		12000		\$1,123.80

The reduction in wages was then determined on a state basis. The APSC provides data on employment numbers by classifications in each state, but it does not give data on separations at classifications in each state. So the following method was used. The cut to

⁶⁰ APSC (2012), *State of the Service 2011-12*, "09 Workforce bargaining and classification";

⁶¹ Mannheim (2013b), *PS pay growth outstrips nation*

⁶² APSC (2012), *State of the Service 2011-12*

earnings was calculated for each state on the assumption that cuts applied across the workforce in each state. However, as noted above, those leaving the APS were on average at lower classifications than the rest of the APS. The allocation of state-level job cuts across state workforces would therefore be scaled down by the ratio of the average earnings of those leaving under natural attrition to the average earnings of APS employees. The average earnings of staff leaving in the past five years was 89 per cent of the average earnings of the APS. Table 15 shows these wages reductions calculated on this basis.

Table 15: Cuts to earnings for each state

	Earnings reduction (\$millions)
Australian Capital Territory	\$568.20
New South Wales	\$154.50
Victoria	\$135.40
Queensland	\$112.70
South Australia	\$47
Western Australia	\$66.70
Tasmania	\$16.50
Northern Territory	\$27.70
Total	\$1,128.80

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