

# *The Consequences of Fiscal Austerity in Western Australia*

By Dr. Cameron Murray and Troy Henderson  
Centre for Future Work at the Australia Institute

May 2018

## About The Australia Institute

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

## Our Philosophy

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

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

## Our Purpose – 'Research That Matters'

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

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

Level 1, Endeavour House, 1 Franklin St  
Canberra, ACT 2601  
Tel: (02) 61300530  
Email: [mail@tai.org.au](mailto:mail@tai.org.au)  
Website: [www.tai.org.au](http://www.tai.org.au)

## About the Centre for Future Work

The Centre for Future Work is a research centre, housed within the Australia Institute, to conduct and publish progressive economic research on work, employment, and labour markets. It serves as a unique centre of excellence on the economic issues facing working people: including the future of jobs, wages and income distribution, skills and training, sector and industry policies, globalisation, the role of government, public services, and more. The Centre also develops timely and practical policy proposals to help make the world of work better for working people and their families.

[www.futurework.org.au](http://www.futurework.org.au)

## About the Author

Dr Cameron Murray is an economist with the Australia Institute specialising in macroeconomics, fiscal policy, property markets, resource and environmental economics, and corruption. His research on grey corruption in Australia was published in *Game of Mates: How Favours Bleed the Nation*.

Troy Henderson is an economist with the Centre for Future Work at the Australia Institute, with a particular interest in the past, present and future of work in Australia.

---

This report was prepared for the Community & Public Sector Union / Civil Service Association of WA.

The **Australia**  
**Institute** | Centre for  
Research that matters. **FutureWork**

# Table of Contents

Summary.....	4
Section I: Austerity Tales versus Economic Reality .....	8
1.1 “Repairing Wrecked Finances” and Other Deficit Scares .....	8
1.2 Debt is Actually a Useful Economic Tool .....	10
1.3 WA’s Debt in Context .....	12
1.4 Western Australia’s Economic and Fiscal Situation .....	14
1.5 Wide Open Policy Options.....	19
1.5.1 Effective policies.....	20
1.5.2 Policy errors.....	21
Section II: The Economic and Social Value of Public Service Provision in Western Australia.....	24
2.1 Recent Policies on Public Sector Wages in Western Australia .....	25
2.2 Public Sector Employment Trends in Western Australia .....	26
2.3. Public Sector Wages Boost Consumer Spending, GDP and Government Revenues .....	29
2.4 The Case Against Public Sector Job Cuts, Outsourcing and Privatisation: Three Examples.....	34
Conclusions.....	40
Bibliography.....	43

# Summary

This report critically responds to the call for fiscal austerity and public sector downsizing, being made in response to the emergence of fiscal deficits in Western Australia (WA). Those deficits arose in the wake of the slowdown in mining activity and corresponding deceleration of employment and economic growth. Many observers immediately conclude that the only response to a deficit must be some combination of cutting program spending, reducing public sector employment, freezing or reducing public sector wages, and selling public assets.

In reality, there should be no alarm about the WA state deficit. To the contrary, that deficit merely confirms that state fiscal policy is in fact doing what it is supposed to: namely, provide essential public services that make a key contribution to quality of life and the health of communities, and provide a solid base for private-sector economic activity (including helping to stabilise private-sector activity through its inevitable ups and downs). Knee-jerk spending cuts or asset sales in response to deficits that are caused by cyclical developments in the private-sector economy would only make matters worse in the short-run – and they would significantly undermine the public sector’s capacity to provide sustainable public services in the long-run.

This paper explains the important economic functions played by the *automatic stabilisers* that are built into the tax-and-spending system of the state economy. It discusses the normal and even desirable functions of public debt, and catalogues the ongoing economic and social value of good quality public sector employment. All of these factors provide needed context for debates over the direction of fiscal policy in WA in the wake of the mining downturn and subsequent recession.

The key findings and recommendations of the report include:

1. A budget surplus can be a very effective way to *slow* economic growth, especially during a recession. The assumption that government should achieve a surplus as quickly as possible is fundamentally wrong.
2. Deficits are acceptable – and positive – during periods of weak economic growth. Attempts to forcibly repair budget deficits during recessions will make the economic situation worse.

3. Western Australia's recent budget deficit is the result – not the cause – of deteriorating economic conditions. The budget deficit has helped to stabilise overall economic conditions in WA in an economically efficient manner.
4. WA's deficit and debt service charges are not large relative to the productive capacity of the state economy, nor to the overall revenue base of the state government. Indeed, WA's interest payments are smaller as a share of total state government revenue than is the case for many large corporations and millions of households.
5. The automatic stabiliser function of the budget should be amplified through additional discretionary counter-cyclical policy measures, such as increased government spending and investment during economic slumps.
6. Privatisation of state assets is an accounting trick that does not actually improve the deficit (instead, it trades one asset for another on the government's balance sheet), and will weaken the government's fiscal position if the privatised asset generated revenue at a higher margin than the government pays interest on its debt.
7. Public sector employment in WA has stagnated since the onset of the recession in 2013. In fact, Western Australia has the third lowest level of total public sector employment (14.5 percent) as a share of total employment of any state. The assumption that the state's public sector is bloated is factually wrong.
8. Between 2013 and 2017, state public sector employment was essentially stable (at around 110,600 full-time equivalent workers). But during this period, WA's resident population continued to increase (adding around 100,000 new residents). Therefore, WA's public sector workforce has not kept up with the population it must serve.
9. During the 2014 to 2017 recession, labour incomes in the private sector declined, shrinking at an average annual rate of 2.4 percent per year. In contrast, total wages and salaries paid in the public sector continued to grow at a modest but positive rate (of 3.9 percent per year). This continued, normal growth in public sector income helped to moderate the negative economic effects of the recession in the private sector.
10. Like other forms of government spending, public sector payrolls acted as an automatic stabiliser during the recession – despite deliberate (and ill-advised)

government efforts to suppress public expenditure. If public compensation had declined at the same rate as private compensation between 2014 and 2017, consumer spending, state output, and even the state government's own revenues would have been lower than they were.

The report is organised as follows. Section I considers and rejects the knee-jerk arguments that public deficits and debts are “bad,” that WA has entered some kind of fiscal “crisis,” and that spending cuts, public sector retrenchment, or asset sales, are the only answer. These arguments reflect a fundamental misunderstanding of the macroeconomic effects of fiscal policy. The fact that a deficit emerged in the state after the downturn is a healthy sign. The way to eliminate that deficit is to resolve the underlying macroeconomic weakness that created it. Spending cuts and asset sales will have the opposite impact. This section provides a detailed analysis of Western Australia's fiscal and economic position in historical context, and relative to other states. It also identifies several discretionary policy measures that could amplify the positive effects of the budget's automatic stabilisers during an economic downturn.

Section II of the report reviews the economic importance of public sector employment and wages in more detail. First it critically reviews the two main wages policies that have governed public sector remuneration since the onset of the state's economic downturn. Both policies are predictable and counterproductive expressions of the false logic of austerity. The section then reviews trends in the public sector workforce in WA, highlighting the modest size of this critically important part of the state's economy. We compare the growth of private and public sector compensation during the pre-recession (2002-2014) and recessionary (2014-2017) periods, focusing on the continuing contribution of public sector compensation to overall consumption, economic growth and government revenue – even during the recession. To illustrate this point further, we contrast the actual contribution of the growth of public sector remuneration during the recession to a hypothetical counterfactual scenario in which public sector pay is assumed to decline at the same rate as private sector remuneration. This analysis confirms that continued public sector employment and normal wage gains have helped the state's economy recover from the recession. Finally, the section reviews in detail three specific recent (and needless) examples of public sector job cuts, outsourcing and privatisation, highlighting their negative consequences for WA communities.

WA residents should reject the idea that the state government faces a deficit “crisis.” The deficits experienced during the recession are both predictable and manageable. The focus of fiscal policy (and other economic policy) by the state and national governments should be, first and foremost, developing measures to stimulate job-

creation and restore more robust spending power in the state – supplemented, as needed, by alternative measures to supplement revenue (in order to support the continued public expenditure that is essential to macroeconomic recovery). That is how the state’s deficit and debt can best be managed in a sustainable and efficient manner.

After a few tough years following the downturn in the mining sector, there are several positive signs that WA’s economy is recovering. Total employment grew by 2.2 percent in the twelve months ending in March,<sup>1</sup> labour force participation has increased, housing prices in Perth have stopped falling and started growing again,<sup>2</sup> real household expenditures grew by over 2 percent last year,<sup>3</sup> prices for the state’s resource exports have increased, and consumer confidence has rebounded to its strongest level since the recession began four years ago.<sup>4</sup> These trends will automatically and powerfully drive improvement in the state government’s bottom line; indeed, the state budget balance is already considerably outperforming budget targets, with the deficit currently tracking at just half projected levels.<sup>5</sup> This automatic recovery in the budget balance as the economy recovers (just like its earlier slide into deficit as the recession hit) merely proves that state fiscal policy is performing as it should. Spending cuts, public sector wage repression, and privatisation of public assets are not necessary to reduce the deficit, which is poised to shrink rapidly on its own. Needless austerity at this stage of the recovery would only weaken macroeconomic recovery and delay job-creation, consumer spending, and true fiscal recovery.

---

<sup>1</sup> ABS Catalogue 6202.0, Table 8, March 2018.

<sup>2</sup> ABS Catalogue 6416.0, Table 1, December 2017.

<sup>3</sup> ABS Catalogue 5206.0, Table 309, December 2017.

<sup>4</sup> Chamber of Commerce and Industry of WA, “Consumer Confidence,” December 2017, <https://www.cciwa.com/advocacy/economics/consumer-confidence>.

<sup>5</sup> Graeme Powell, “WA Budget Deficit Halves as Spending Cuts, Iron Ore Price Rise Begin Process of Recovery,” ABC News, March 1 2018, <http://www.abc.net.au/news/2018-03-01/wa-budget-deficit-halves-as-spending-cute-iron-ore-rise-kick-in/9496810>.

# Section I: Austerity Tales versus Economic Reality

## 1.1 “REPAIRING WRECKED FINANCES” AND OTHER DEFICIT SCARES

---

The way state government budgets are discussed by politicians would come as a surprise to most economists and accountants. At the most fundamental level, the financial situation that arises from government budget choices (spending and taxing) is merely a ledger of debits and credits – which always sum to zero. That is true by definition.

But when the revenue side of this ledger comes from a combination of tax and bond issuance (eg. accumulating more debt), rather than from taxes alone, the situation is often turned into a political fiasco. Plain old accounting ledgers are spun into a story about being something to “tackle”, whereby everyone will need to “share the burden”. This fear campaign is an *austerity story* used to justify harsh reductions in government spending, while concealing the political reasons for them. On the other hand, when the revenue side instead consists of taxes and bond buy-backs (ie. paying off past debt), this is framed as a *success story*. In reality, neither story is true. Indeed, even traditionally conservative institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) now recognise that the economic costs of inappropriately reducing public sector deficits and debts can outweigh the benefits.<sup>6</sup>

Figure 1, reprinted from the latest state budget, illustrates the *austerity story* currently being told in Western Australian fiscal policy discussions. “The budget is broken. It needs to be repaired.” It can be a seductive story, but it makes no sense from a macroeconomic perspective.

---

<sup>6</sup> Ostry, J.D., Loungani, P., and D. Furceri. (2016). “Neoliberalism: Oversold?,” *Finance and Development*, June 2016, Vol. 53, No. 2. <http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm>; and OECD, “Elusive Global Growth Outlook Requires Urgent Policy Response,” *Interim Global Economic Outlook*, February 2016, <http://www.oecd.org/eco/outlook/interim-economic-outlook-february-2016.htm>.



Figure 1: How the 2017-18 WA Budget Communicates the 'Budget Repair' Story



Source: WA Budget Documents, 2017.

The easiest way to see why this story is nonsense is to flip it around to consider the case of a budget surplus. Running perpetual budget surpluses would not be desirable. After all, a budget surplus means the public sector is taxing money from the private sector that it is not reinjecting back into the economy. This situation constitutes a massive income sink for the economy, because if the taxes raised to achieve the surplus were left in private hands, the money would have been spent, creating incomes for other businesses. In short, a budget surplus can be a very effective way to slow economic growth. Yet, when state budgets are in surplus during economic boom times, taxes are often reduced, which only serves to make the boom and subsequent bust even bigger.

Strangely enough, the message that getting the budget to surplus requires the private sector to “share the burden” is exactly correct, because the income loss from additional net taxation is indeed a real economic burden on the private sector.

Basic economics has a more appropriate view of budget deficits and surpluses. **Because government budget surpluses are a burden on the private sector they are only acceptable during periods of strong economic growth** in order to stabilise and reduce private sector economic activity.<sup>7</sup>

<sup>7</sup> In fact, governments can run deficits every year through a business cycle, including smaller ones during periods of strong expansion, yet still experience stability in accumulated debt as a share of GDP. Surpluses may not ever be desirable except for purposes of moderating economic growth that is considered “too strong.”

By the same logic, deficits should be pursued during periods of low growth to stimulate the private sector economy. Since issuance of public debt turns the savings (non-spending) of the private sector into spending of the public sector, it effectively increases aggregate demand in the economy. Subsequent interest payments also constitute private sector incomes. In a macroeconomic sense they are not a “cost”, but merely a transfer payment made in order to utilise a macroeconomically efficient revenue-raising tool.

Furthermore, there are economic mechanisms at play in the tax system that usually provide this desirable result automatically. These economic mechanisms are called *automatic stabilisers*. They are a highly desirable feature of modern economies with large public sectors and broad welfare programs. When a politician turns a budget deficit into scare campaign, even when the economy is growing slowly (or contracting), they are misusing economics for political gain. In addition, the actions they take to “repair” the situation will quite possibly make the overall economic situation far worse.

**Box 1: Government budgets are automatic stabilisers**

Automatic stabilisers are a key feature of macroeconomic dynamics. They occur when tax revenues rise at, or above, the rate of overall economic growth during upswings while falling at a faster rate during downturns.

A disproportionate increase in net taxation comes from the combined effect of 1) the existence of progressive taxes in the tax system, whereby a rising marginal rate of tax is paid on various income sources, or a tax falls on turnover (like duties) which decreases during downturns, and 2) declines in government welfare-related spending as private incomes rise and people reduce demand for publicly funded services or their reliance on welfare-related public-sector payments.

These effects arise at all levels of government to some degree, with the latter effect perhaps greater at the State level where health, housing, and other services are disproportionately relied on by lower income households.

## 1.2 DEBT IS ACTUALLY A USEFUL ECONOMIC TOOL

---

Imagine you wanted to save for your retirement or build up your wealth in general. In your portfolio you might want some safe assets paying a small nominal return to diversify the risk of your overall portfolio. One of these assets is a government bond issued by an Australian state, currently paying between 2.5 percent and 3 percent per year. That sounds like a good deal, so you voluntarily purchase some when they come available. Happily, this financial instrument helps to build your financial portfolio over the coming decades, and while the return is low, it is safe and stable.

Most Australians, and indeed, savers from around the world, are doing exactly this: they are buying bonds issued by the Western Australian Treasury Corporation (WATC) and other state agencies voluntarily. For local savers this often happens through superannuation accounts, while for foreign savers these purchases are made through a variety of intermediaries.

Not only is there a demand for bonds from savers, but Australian and international banks are *required* to hold safe assets in their capital portfolio, of which state government bonds are a popular choice. The Reserve Bank of Australia (RBA) has even gone so far as to state there is *shortage* of government debt in Australia for this purpose:

Banks subject to the LCR under the Basel III liquidity standard are required to hold sufficient high quality liquid assets (HQLA) to meet outflows during a 30-day period of stress. Given the relatively low levels of government debt in Australia there is a shortage of HQLA securities, which are Australian Government Securities (AGS) and semi-government securities (semis).<sup>8</sup>

Thus, the financial system as a whole — including retail and institutional savers, as well as banks — benefits from the existence of a large pool of state government bonds.<sup>9</sup>

These bonds are the debts of States. Their existence, while financially beneficial to the broader economy, is the purported reason that politicians feel driven to “repair” the budget. The total amount of debt for WA local and state governments in the form of safe bonds in financial markets is \$48.8 billion.<sup>10</sup> **“Repairing” the budget by re-creating a surplus means buying back these bonds from private savers who voluntarily want to hold them.**

As long as there is national and global demand for safe assets through the banking system and from savers, the debt balance of WA, or any other State or Federal government, does not ever need to be reduced.

---

<sup>8</sup> RBA. (2016). *Annual report 2016 — Operations in Financial Markets*.

<https://www.rba.gov.au/publications/annual-reports/rba/2016/operations-in-financial-markets.html>

<sup>9</sup> While the data is not freely available, the Jan 2018 issue of Australia Government Treasury Bonds was purchased as follows: 34.9 percent banks (for capital balance sheets), 26.1 percent banks (for trading to savers), 16.6 percent to fund managers, 14.5 percent to hedge funds, and 7.7 percent to central banks. Domestic buyers accounted for 68 percent of value, while the main foreign purchasers were in Asia (11.6 percent), North America (8.0 percent), Europe (5.8 percent) and the UK (5.9 percent).

<https://cdn.tspace.gov.au/uploads/sites/31/2018/01/Syndication-Nov-2029-Breakdown-TB.pdf>

WATC notes that their major purchasers of new bonds are similarly distributed.

<https://www.watc.wa.gov.au/wp-content/uploads/2017/12/WATC-Annual-Report-2017.pdf>

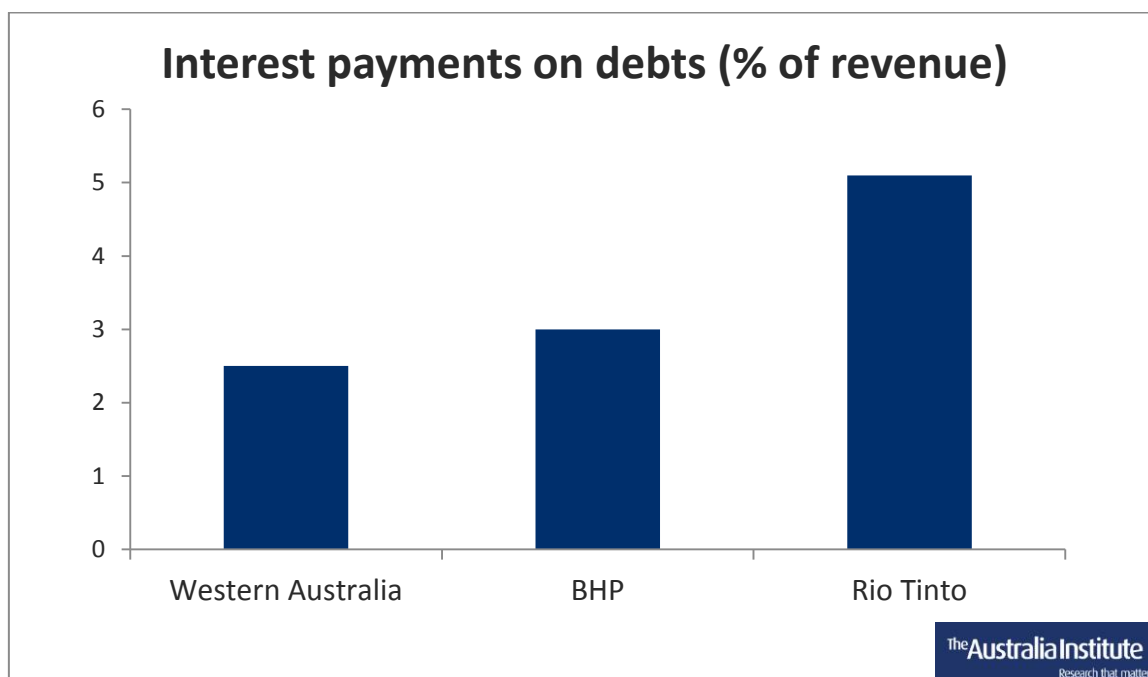
<sup>10</sup> WATC. (2018). *Investor Update — January 2018*. <https://www.watc.wa.gov.au/wp-content/uploads/2018/02/WATC-Investor-Update-January-2018.pdf>.

This is true also of private sector actors, either individuals or large companies. Most households have some amount of outstanding debt, and those with higher assets often have greater debts. And most corporations have debt as a core component of their funding. It would be foolish for most large corporates not to take advantage of low interest rates on debt as a key funding source; it is equally foolish for governments.

### 1.3 WA'S DEBT IN CONTEXT

To understand the scale of current public debts in WA, the state's fiscal balances need to be put in context of both the size of the total economy and its public sector. The state economy produces around a quarter of a trillion dollars of economic value-added each year. The Australian economy as a whole produces around \$1.8 trillion. **The outstanding debt of the Western Australian government at June 2016 was \$32 billion, and came at a total interest cost of just \$0.6 billion – or around 0.2 percent of the state economy. The \$664 million of interest payments in 2015-16 amounted to only 2.5 percent of total state revenues (of \$26.5 billion).**

Figure 2: Debt Service Charges, Public and Private



Source: WATC Benchmark Bond Program, Rio Tinto Annual Report 2017, and BHP Annual Report 2017.

This funding arrangement can be compared to large private corporations. For example, BHP has a similar amount of outstanding debt, about \$30 billion, underpinned by a

much smaller base of value-added; and its interest payments as a share of revenue hovered around 3 percent in the three years to 2017.<sup>11</sup> Why this higher figure is not turned into an austerity story for BHP, but is for WA, must be due to politics rather than economics. Rio Tinto's debt service charges are even higher relative to its income (see Figure 2), but again there are no cries of "crisis," and no demands for spending cuts or selling off assets.

Economic theory is clear on this issue. Despite the *austerity stories* often used by politicians (and endorsed by some, but not all, economists), the world's central banks agree that debt is a useful and economically efficient funding mechanism.<sup>12</sup> Government debt is not an emergency – especially not for large stable institutions like Australian States which benefit from the implicit support of the Reserve Bank of Australia (RBA), a currency-issuing national institution. After all, managing the money supply is one of the most powerful financial tools available to create economic stability and growth.<sup>13</sup>

**Box 2: Debt is a voluntary tax on the wealthy**

The amazing thing about government finances is that raising money through bond issuance provides a revenue stream for governments that is voluntarily provided by private sector savers for a small nominal annual fee, currently around 3 percent per year. Typically, the profile of buyers of this debt is skewed towards the wealthiest individuals, like all financial assets. The net effect is that debt financing of government spending is essentially a voluntary tax on the savings of the rich which they provide for a small fee.

What makes public debt a useful mechanism for automatic stabilisation is that the funders of the debt are giving money – in exchange for financial promises that would not be spent in the real economy due to poor conditions – to the State government, which then spends it in the real economy through public works, public employment, and other activities. The private desire to save, which reduces private incomes, is transformed into real spending through these debt instruments, increasing overall

<sup>11</sup> BHP, *Annual Report, 2017*, <https://www.bhp.com/-/media/documents/investors/annual-reports/2017/bhpannualreport2017.pdf> Total revenue from operations was \$38 billion in 2017, and the company paid \$1.15 billion interest on its debt.

<sup>12</sup> Australia's RBA holds a \$7.8 billion portfolio Australia government and semi-government organisation debts, while the major central banks around the world now own a fifth of their government debt. K. Allan and K. Fray, "Central Banks Hold a Fifth of their Governments' Debt," *Financial Times*, 16 August 2017. <https://www.ft.com/content/ae19e60e-81b0-11e7-94e2-c5b903247afd>.

<sup>13</sup> In the aftermath of the financial crisis, the RBA established a guarantee scheme for state and territory borrowings for a small fee in March 2009. A sensible assumption of market participants would be that future financial catastrophes would see the re-emergence of such schemes. <https://www.rba.gov.au/publications/bulletin/2011/sep/6.html>.

spending in the economy. That spending helps to restore macroeconomic health, and in so doing repair fiscal balances.

## 1.4 WESTERN AUSTRALIA'S ECONOMIC AND FISCAL SITUATION

---

It is desirable for government budgets to automatically shift into deficit when the economy is contracting or growing very slowly. When they do, the voluntary debt financing mechanism meets the financial market's need to hold safe assets, and transforms saving into spending to support economic activity.

To be assured that this automatic stabiliser effect is the underlying cause of the recent financial situation in Western Australia, it is necessary to assess the state's budget position in the context of overall economic activity. We need to establish whether the deficit is predominantly the result of weakness in the private sector economy. This certainly seems to be the case. Western Australia has experienced recession-like economic conditions from 2014 to at least the end of 2017. Nothing about the government budget situation can be considered without this context.

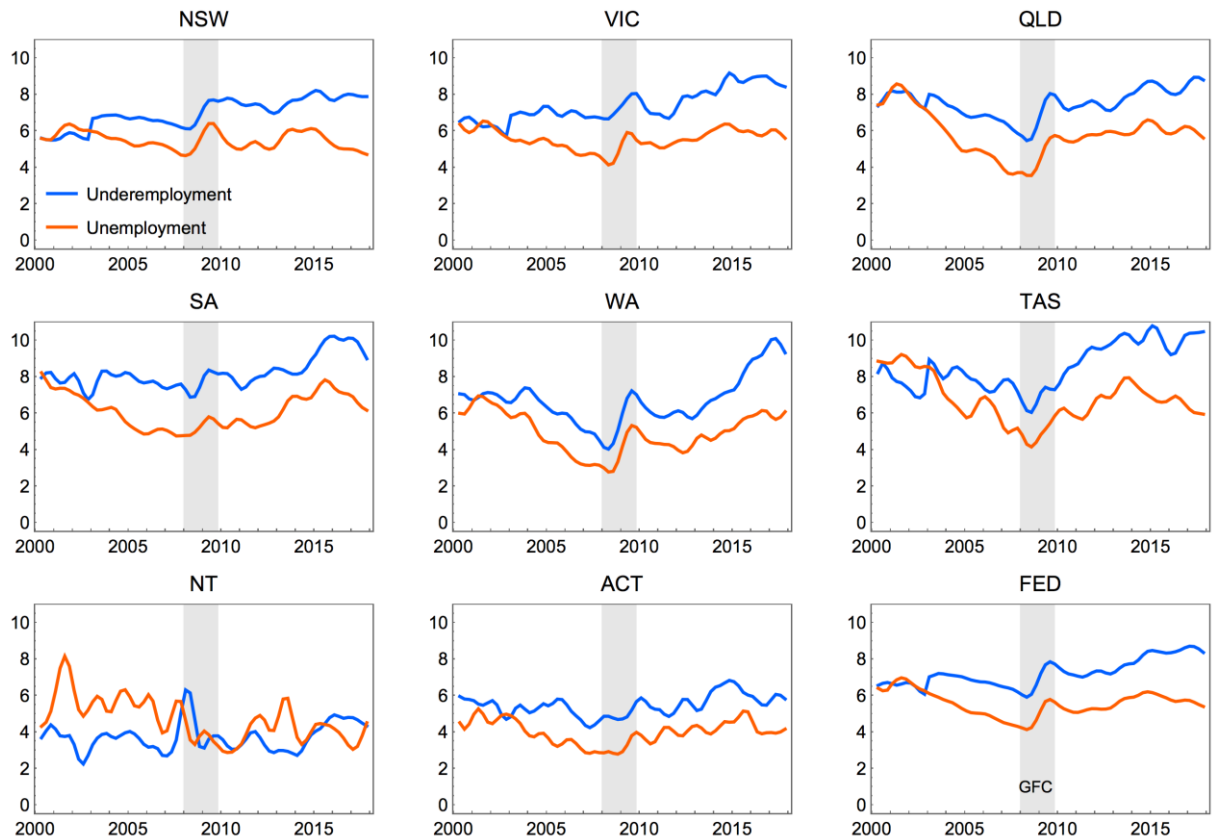
One way to assess overall economic conditions is by looking at the labour market. Figure 3 illustrates labour market patterns across Australian states, and nationally, since 2000. The global financial crisis period is shaded to highlight that deteriorating economic conditions led to greater under- and unemployment in general.<sup>14</sup> Notice that since 2014 in WA (centre panel) the labour market has been weaker than even during the financial crisis. Indeed, the same pattern of rising unemployment due to local economic conditions can be seen in South Australia, and economic logic would predict that government budget deficits would be rising in the period since in South Australia as well. That state's budget data indeed confirm this prediction.<sup>15</sup>

---

<sup>14</sup> The unemployment rate is the share of the labour force that does not have a job but is actively looking and available to start work, while the underemployment is the share of the workforce that is employed, either full-time or part-time, but want to work more hours and are available to work those desired hours.

<sup>15</sup> State budget balance as a share of both Gross State Product and state revenues are illustrated in **Figure** , clearly indicating that during the period of high under- and unemployment in South Australia (from 2013 through 2015) the budget position indeed moved into deficit by around \$1 billion per year.

**Figure 3: Under- and Unemployment in Australian States (percent)**



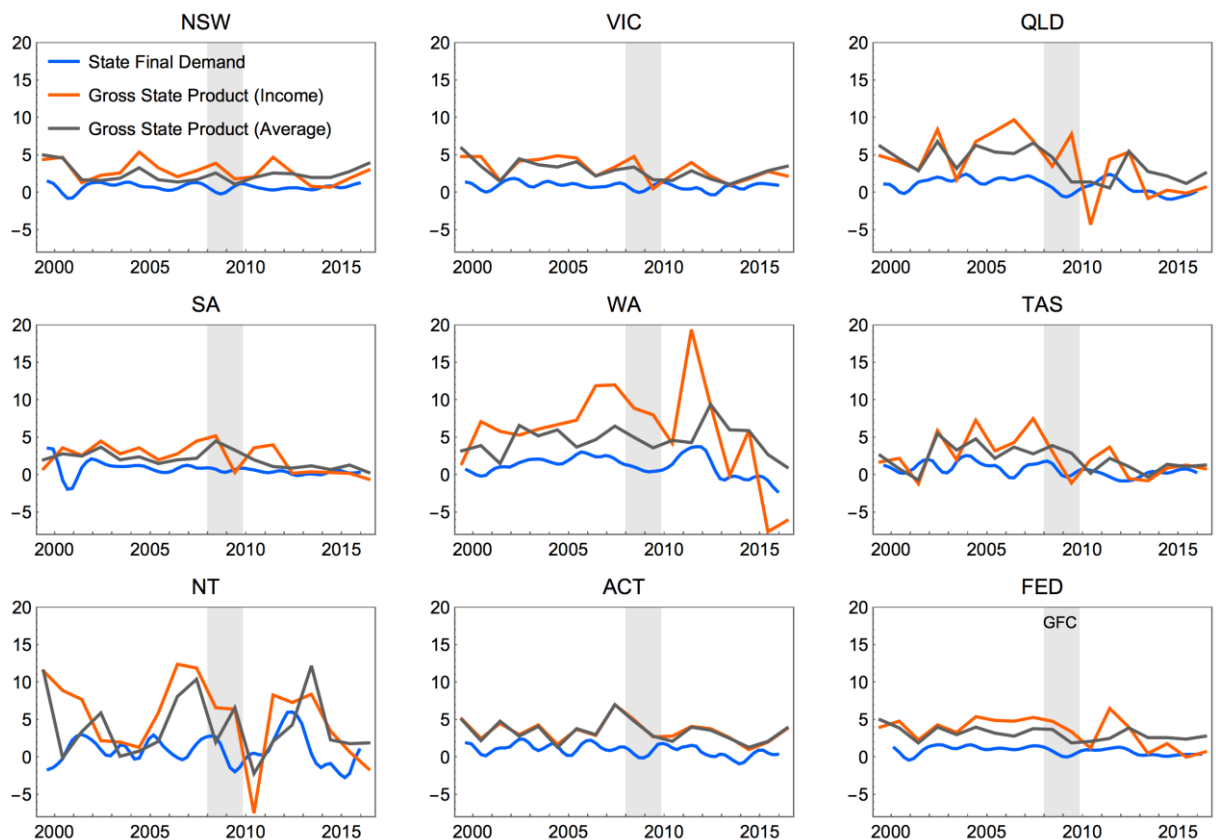
Source: ABS Catalogue 6202.0 Labour Force, Australia, Table 23.

The labour market is one indicator of overall economic conditions. At the state level it is also possible to consider other broad economic indicators – including State Final Demand (SFD)<sup>16</sup> and Gross State Product (GSP)<sup>17</sup> – to see whether the labour market pattern does indeed reflect overall economic conditions. On these measures, too, Western Australia stands out from the other states.

<sup>16</sup> State Final Demand (SFD) is a measure of the total value of final goods and services sold in a state.

<sup>17</sup> Gross State Income (GSI) is the income measure for total wages, profits and taxes in the state, which should equal other measures of gross value added (Gross State Product – GSP – which is SFD plus exports minus imports) but can diverge from the value added and product methods for estimating GSP due to difficulties in identifying the location of incomes earned by large corporates that operate in multiple states.

**Figure 4: Growth Rates of State Final Demand and Gross State Product (%)**



Source: ABS Catalogue 5220.0, Australian National Accounts: State Accounts, Table 1. FED represents sum of all states.

The centre panel of Figure 4 confirms just how big recent economic changes have been in WA. GSP growth rates were far in excess of SFD growth rates since 2000, indicating that there was a large contribution to WA's overall economic growth from exports. However, that pattern reversed around 2015. In particular, the income-based measure of GSP had two years of contraction at -5 percent or worse. **This is a dramatic macroeconomic shock to the state, and clearly the primary cause of considerable automatic adjustment of the government budget balance.**

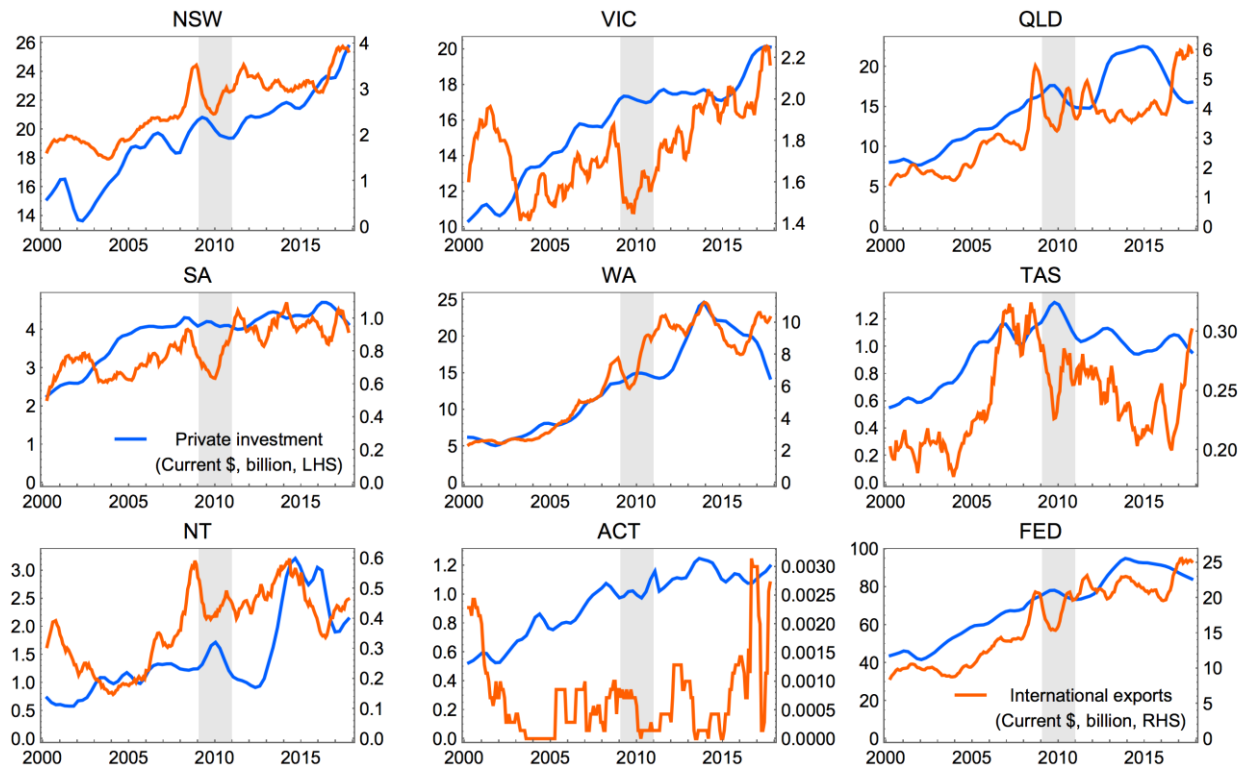
Digging further, the role of exports is also likely to influence the often-volatile rate of private investment, particularly in Western Australia. In Figure 5 it can be seen that in the 2010-13 period, both exports and private investment were growing strongly in WA, leading to very favourable overall economic conditions (and strong fiscal conditions for the state budget). The same pattern was true in the Northern Territory, leading to budget surpluses there, too.

Importantly, Western Australia's subsequent decline in private investment is likely to have had much larger flow-on effects to the economy, since the state has one of the



highest shares of private investment (relative to GDP) in the country: private investment accounted for 8.4 percent of GDP on average since 2000, compared to 6.0 percent for the east coast states. This means that the same proportional decline in private investment will have a 40 percent greater overall economic effect in Western Australia, compared to east coast states.

**Figure 5: Exports and Private Investment in Australian States**



Source: ABS Catalogue 5368.0, International Trade in Goods and Services, Australia. Tables 36a to 36h, and Catalogue 5206.0, Australian National Accounts: National Income, Expenditure and Product, Table 25.

Again, it is worth pointing out that automatic stabiliser patterns across other states can be predicted from these patterns. For example, in New South Wales (NSW) it is likely that the strength in both state exports and state private investment since 2015 would manifest as higher tax revenue compared to spending. Indeed, the data support this, with the state budget experiencing record surpluses in 2015 and 2016.

One way that the decline in private investment flows through to state revenues is through housing and property turnover. The recent private sector investment boom in NSW, for example, has led to record-high revenues from stamp duties.<sup>18</sup> In contrast,

<sup>18</sup> Nicholls, S. (2017). *Stamp duty hits record highs amid Sydney housing affordability crisis*. The Sydney Morning Herald. 12 May 2017.

the rate of residential property transactions declined by 30 percent in Western Australia since mid-2014, decreasing state revenues automatically.<sup>19</sup> A recent review of WA Treasury modelling showed that its forecasts of stamp duty revenue were typically in error by 21 percent, more than in other states due to ongoing underappreciation of the volatility of this particular revenue source.<sup>20</sup>

The data reviewed here have presented an alternative story of Western Australia's budget position, one in which the recent deficit is the result, not the cause, of deteriorating economic conditions. It is a story in which the budget deficit has been automatically rising, and in doing so, helping to stabilise overall economic conditions in an economically efficient manner.

Turning now to the government budget itself, the expected pattern of declining tax revenues and rising expenses, leading to the creation of a "tax deficit" and the use of debt financing, is confirmed. Figure 6 shows the budget deficit (tax revenue minus expenses) across Australian states since 2000 as a ratio of the GSP and of total state revenues. The greater variation of the deficit-to-revenue measure compared to the deficit-to-GSP measure observed in all cases (but particularly in QLD and WA) reveals the automatic stabiliser pattern at work. Deficits rise and fall in a greater proportion to tax revenue than GSP because taxes also rise and fall in a greater proportion than GSP.

The deficit pattern in Western Australia is almost a mirror image of the pattern of exports and private investment and GSP growth, again leading to the undeniable conclusion that automatic stabilisers are the predominant economic mechanism contributing to the state's final budget balance. In fact, it is quite interesting to see that the Australian Capital Territory (ACT) government has recently had similar sized deficits (relative to GSP) to WA – and yet there is relative silence about this, and certainly no scare campaign demanding austerity. This is another clue that the austerity story is more about political manoeuvres than economic ones.

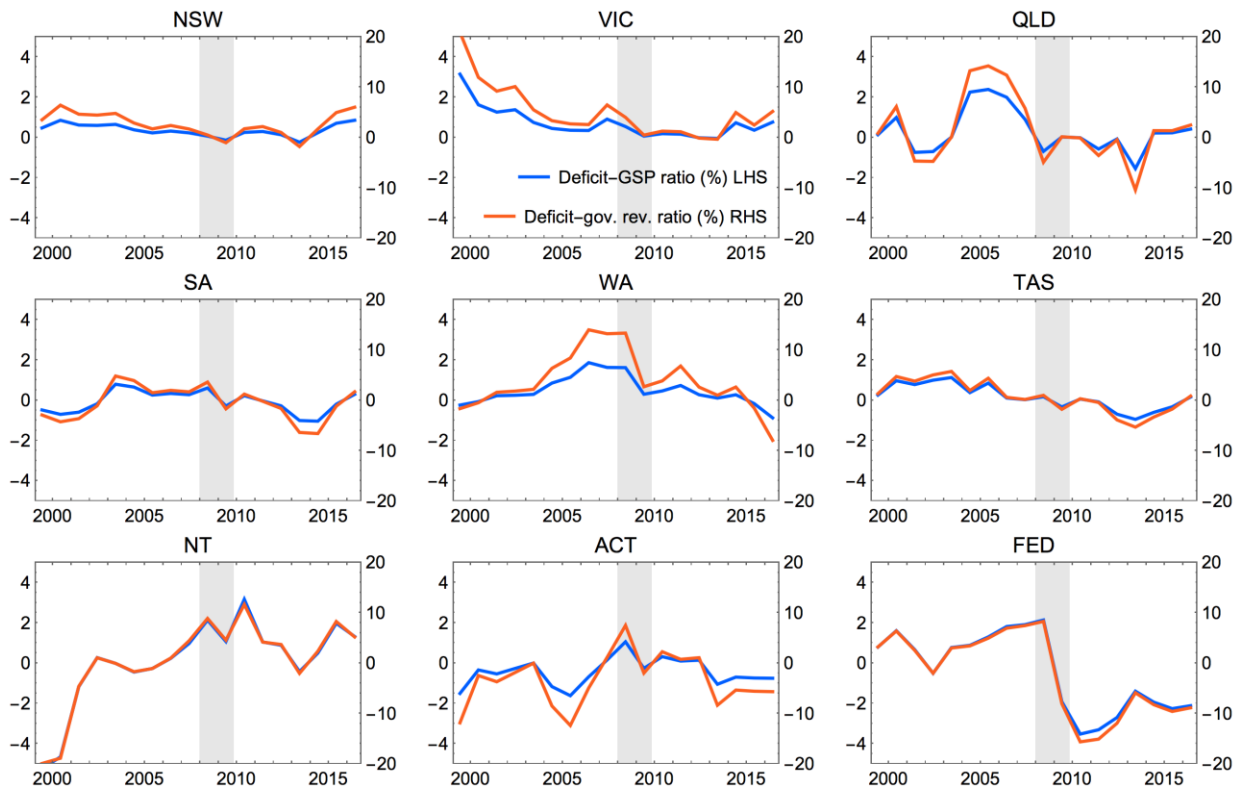
---

<https://www.smh.com.au/national/nsw/stamp-duty-hits-record-highs-amid-sydney-housing-affordability-crisis-20170512-gw3lv7.html>.

<sup>19</sup> ABS. (2017). *6416.0 Residential Property Price Indexes: Eight Capital Cities*. Tables 4 and 5. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Sep%202017?OpenDocument>.

<sup>20</sup> Deloitte. (2018). *Review of Revenue Forecasting*. Prepared for the Government of Western Australia, Department of Treasury. 21 February 2018. <https://www.treasury.wa.gov.au/uploadedFiles/Treasury/Publications/Review-of-Revenue-Forecasting.pdf>.

**Figure 6: Government Deficits as a Share of GSP and Revenues**



ABS Catalogue 5512.0, Government Finance Statistics, Australia, 2015-16 and 2006-07, Tables 231 to 239.

The data clearly indicate there was a major economic slump in WA that originated from a decline in global export demand; this slump has percolated through the economy via lower private fixed capital investment, lower employment, lower overall economic growth, and lower housing turnover, all of which in turn have automatically led to larger state government budget deficits.

## 1.5 WIDE OPEN POLICY OPTIONS

In an ideal world the stabilising effect of the budget could be amplified with the implementation of additional counter-cyclical<sup>21</sup> taxes during boom times (like resource rent taxes or land value taxes), and additional discretionary spending during slumps. This standard economic prescription is the complete opposite of the scare mongering described above.

<sup>21</sup> Counter-cyclical taxes are those that increase during booms and decrease during slumps, increasing the automatic stabilising effect of the government budget.

Indeed, more recent data is now being factored into Western Australia’s mid-year budget forecasts showing that “the WA economy is starting to transition out of the decline and starting to increase again”<sup>22</sup> – a positive development which is already flowing through to government budget balances.

What is important is that any discretionary policy choice made during an economic downturn complements the automatic stabilising effects of the budget rather than work against it. The policy space for making discretionary budget decisions during a slump is vast. Those policies that increase overall economic activity are likely to be the best long-term policy options, and they will work together with automatic stabilisers through the government budget to promote growth.

However, in this policy space there are also “wolves in sheep’s clothing” which can be attractive for political reasons, rather than economic ones. Many of these predatory policies are well-known, and like the scare stories discussed earlier, can seem plausible on the surface. Some of the broad policy options facing the state government, given the challenging macroeconomic context, are briefly reviewed here.

## 1.5.1 Effective policies

### Counter-cyclical taxation

To further stimulate private sector demand during an economic contraction, the public sector, including state governments, can implement counter-cyclical taxation. The more effective of these will be broadly targeted, and if they can be made conditional on investment of tax savings by recipients, even better. Allowances for rapid depreciation on business capital investment are one such measure available at the federal level. At the state level, actions like temporary payroll tax holidays can help, or temporary discounts on stamp duties.

Taxes that are automatically counter-cyclical, like profits-based taxes on resources, or taxes on land values, are best implemented in a growing economy. These “set and forget” taxes will further enhance the automatic stabiliser effects of the budget, dampening any boom and bust cycles.

Taxes that are not distortionary, like resource royalties, can also be raised at any time to increase the budget level around which revenues vary through the business cycle.

---

<sup>22</sup> Powell, G. (2018). *WA budget deficit halves as spending cuts, iron ore price rise begin process of recovery*. ABC News Online. 1 March 2018. <http://www.abc.net.au/news/2018-03-01/wa-budget-deficit-halves-as-spending-cuts-iron-ore-rise-kick-in/9496810>.

Unfortunately, Western Australia chose not to increase royalties on gold due to lobbying by interest groups.<sup>23</sup>

### **Discretionary capital investment**

When the private sector economy is contracting, the opportunity for government to utilise spare economic capacity for public works projects improves. Without private sector competition over resources and workers, large public investments can be undertaken more efficiently, and have the added benefit of expanding the overall economic capacity of the region they service.

Instead, between June 2012 and March 2016 real public-sector capital investment in Western Australia by State and local governments actually declined by 17 percent.<sup>24</sup> It was painfully ironic for governments to be retrenching their own investments at the very moment that private sector investment was also shrinking. Only during 2017 did public investment once again increase back to near its 2012 peak.

## **1.5.2 Policy errors**

### **Cuts to public sector workforce**

Cutting the public service workforce is slow and expensive, and difficult to do quickly without removing those workers who have the best employment prospects elsewhere. Rather than making the public sector more efficient, this approach backfires.

It is also the case that many public-sector workers made redundant or removed during economic downturns are later found to have been performing critical work. To avoid re-hiring and keep their political promises to downsize the public sector, governments will often contract these same people back to do the same tasks but at a much higher rate. For example, in testimony to a Senate Committee, senior Defence scientist Tim Bussell explained the situation as follows.

...the Australian taxpayer was not only forking out for the pensions and packages of those taking redundancies; ... Defence was also paying the

---

<sup>23</sup> Laschon, E. (2017). *WA mining lobby wins again, will households now wear cost of budget repair?* ABC News Online. 15 October 2017.

<http://www.abc.net.au/news/2017-10-15/powerful-mining-lobby-wields-power-over-wa-government/9048540>.

<sup>24</sup> ABS. (2017). *5206.0 - Australian National Accounts: National Income, Expenditure and Product, Dec 2017*. Table 30.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Dec%202017?OpenDocument>.

increased salaries for the same people being re-employed soon after as contractors.<sup>25</sup>

Another analysis of department budgets following a large reduction in public sector workforce in the Australian government revealed that reducing the size of the public-sector workforce can increase overall costs.

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.<sup>26</sup>

Recently, the Australian National Audit Office found widespread under-reporting of consulting in Australian government departments and opaque record keeping, leading to a Parliamentary Inquiry on the matter which is still ongoing.<sup>27</sup>

Understanding the underlying macroeconomics that caused a budget deficit provides a different perspective on how to make best use of the public service. In fact, this view suggests that discretionary stimulus measures should involve *expanding* the public sector in key areas during an economic downturn, particularly those that have faced hiring difficulties due to competition with private sector employers in the boom time. This is the exact opposite of the usual politically-motivated response to recession-induced deficits: namely, to scapegoat public sector workers and demand that they experience the same retrenchment as private sector workers.

### **Privatisation of public assets**

Another common action in response to scare stories about public sector budgets is to privatise publicly owned revenue-generating assets. Unfortunately, this is a simple

---

<sup>25</sup> Thompson, P. (2015). *Defence has handed redundancy payments to people they have re-employed as contractors*. The Canberra Times. 25 November 2017. <http://www.canberratimes.com.au/national/public-service/public-service-money-makers-defence-has-handed-redundancy-payments-to-people-they-have-reemployed-as-contractors-20151125-gl7khi.html>

<sup>26</sup> Gartrell, A. and F. Hunter. (2015). *Soaring consultant costs cancel out public service salary savings*. The Canberra Times. 28 November 2015. <http://www.canberratimes.com.au/federal-politics/political-news/soaring-consultant-costs-cancel-out-public-service-salary-savings-20151127-gla53b.html>

<sup>27</sup> Parliament of Australia. 2018. Australian Government Contract Reporting - Inquiry based on Auditor-General's report No. 19 (2017-18). [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/AGREport19](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/AGREport19)

accounting trick that does nothing to rescue the budget; it, too, is predominantly driven by ideological motivations rather than economic ones.

For example, the Western Australian government is considering selling the state's land registry to help "repair" their budget.<sup>28</sup> But if the land registry is of such value to the private sector that they will pay millions to buy it, why isn't it also worth that much to the public sector to retain ownership and control? Moreover, transferring an asset worth millions off the state's balance sheet, in return for millions of another asset (cash), has no real impact on the state's true fiscal position.

For example, the New South Wales government recently privatised its land registry, a source of \$130 million per year in government revenue, for \$2.6 billion.<sup>29</sup> That is a 5 percent yield without factoring in revenue growth. However, the New South Wales Government can borrow through bond issuance at 3 percent per year. By keeping the land registry and borrowing instead, its net government revenue would be \$52 million per year higher, and they would still have the lump sum of \$2.6 billion to spend where required. Making matters worse, future users of the now-privatised service are likely to face higher user costs (as private owners find ways to maximise their profits); economically, these higher user costs for once-public services are indistinguishable from raising taxes, yet privatisation is still favoured by supposed tax opponents.

Privatisation is a losing economic strategy both in the short and long run, and, therefore, must be a political strategy instead. Privatisation is serving the interests of a certain group of investors who benefit from access to profitable, once-public assets.

---

<sup>28</sup> Carmody, J. (2017). *WA Government considers privatising data collector Landgate*. ABC News Online. 16 October 2017. <http://www.abc.net.au/news/2017-10-16/wa-government-considers-privatising-data-collector-landgate/9052206>

<sup>29</sup> AAP. (2017). *NSW leases land registry for \$2.6bn in deal opposition calls 'long-term loss'*. <https://www.theguardian.com/australia-news/2017/apr/12/new-south-wales-leases-land-and-titles-registry-to-private-consortium-for-more-than-2bn>

# Section II: The Economic and Social Value of Public Service Provision in Western Australia

The public sector in Western Australia has the responsibility to provide a wide variety of high quality public services to the residents of Australia's largest state. According to the Public Sector Commission's *State of the Sectors 2017* report, there are around 140,000 state government employees, over 24,000 local government workers, close to 23,000 employed at universities, and nearly 16,000 working at 19 public authorities.<sup>30</sup> Seventy-six percent of public sector workers service the Perth Metropolitan Areas, while the remaining 24 percent cover the vast areas of Regional WA.

The workforce is 72 percent female, but 48 percent of female public sector workers are employed part-time (compared to just 16 percent of their male counterparts). The median salary in 2017 was \$85,027; the top three occupations were teachers, clerical and administrative workers, and nurses and midwives. Other key occupations included police officers, education aides, prison officers, fire and emergency workers and medical practitioners.<sup>31</sup>

The WA economy experienced buoyant economic conditions during the long mining boom (2002-2014) followed by an economic recession, as described in Section I of this report. The reaction of the former Barnett state government was to impose austerity, including seeking to suppress public sector wages. There is now a danger that the current state government may attempt to continue with some of these austerity measures, despite the state's improving economic circumstances.

These misguided policies have negative short-term economic consequences, as well as longer-run negative impacts on the public sector's capacity to deliver essential services. This latter factor may have the dual-effect of degrading the level of services that the public sector can provide to WA residents while also damaging the state's long-run productive capacity, given the public sector's key role in economic performance.

---

<sup>30</sup> Public Service Commission. (2017). *State of the Sectors Report 2017*. Government of Western Australia, pp. 8-11.

[https://publicsector.wa.gov.au/sites/default/files/documents/psc\\_state\\_of\\_the\\_sectors\\_2017.pdf](https://publicsector.wa.gov.au/sites/default/files/documents/psc_state_of_the_sectors_2017.pdf)

<sup>31</sup> Ibid.



WA is not alone in implementing public sector wage repression and public sector wage cuts. Similar policies have been implemented in Victoria, NSW, Queensland and at the Commonwealth level in recent years. Partly, these policies have been driven by a wrong-headed “small government” ideology, and partly by a policy short-termism that prioritises goals such as budget surpluses over the long-term development of public services and economic infrastructure. The policies of privatisation, outsourcing, so-called “efficiency dividends,” wage caps, and others, have combined to see 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.<sup>32</sup>

The 2014-2017 recession demonstrated WA’s over-reliance on the resources sector. Rather than use this episode as a justification for diminishing the public sector’s capacity, this period should provide an opportunity for strategic thinking about diversifying the state’s economy. The public sector can – and should – play a central role in this endeavour.

## 2.1 RECENT POLICIES ON PUBLIC SECTOR WAGES IN WESTERN AUSTRALIA

---

The WA government has issued two key Public Sector Wages Policy Statements since the onset of the recession. The first was the 2014 Statement released by the Barnett Coalition government aimed to tie public sector remuneration increases to Perth’s Consumer Price Index.<sup>33</sup> The second was the 2017 Statement released by the McGowan Labor government, which limited public sector pay rises to the arbitrary figure of \$1,000 per annum for full-time workers.<sup>34</sup> The Barnett policy statement is a textbook example of a government implementing austerity at the precisely the wrong stage of the economic cycle. The McGowan policy largely reaffirmed that direction. These policies were ill-advised during the recession; they undermined the positive impact of public sector employment in stabilizing the state’s macro-economy. They remain unhelpful in the present period, just as the private sector economy is starting to rebound.

---

<sup>32</sup> ABS. (1998). ‘Paid Work: Public sector employment’, *ABS Cat. 4102.0 - Australian Social Trends*, Canberra: Australian Bureau of Statistics, ABS. (2017). *2016 Census*, Canberra: Australia Bureau of Statistics.

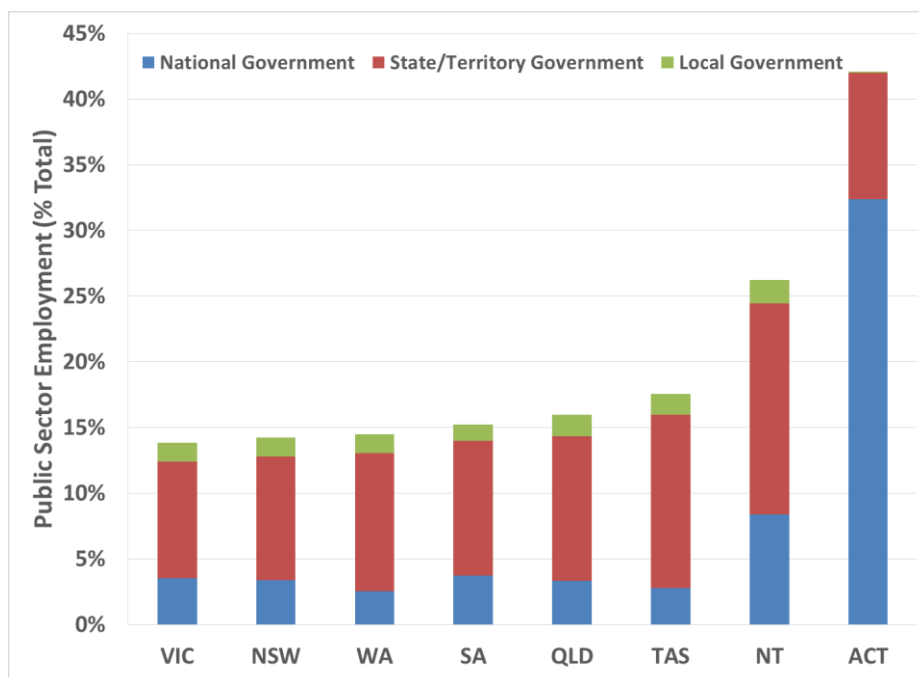
<sup>33</sup> Attorney General/Minister for Commerce. (2013). ‘Public Sector Wages Statement 2014’, *Circular to Departments and Authorities No. 8 of 2013*, p. 2.

<sup>34</sup> Minister for Mines and Petroleum; Commerce and Industrial Relations; Electoral Affairs; Asia Engagement. (2017). ‘Public Sector Wages Statement 2017’, *Circular to Departments and Authorities No. 4 of 2017*, p. 2.

## 2.2 PUBLIC SECTOR EMPLOYMENT TRENDS IN WESTERN AUSTRALIA

WA has third lowest level of total public sector employment (federal, state, local) as a percentage of total employment (14.5 percent) after NSW and Victoria, as shown in Figure 7.<sup>35</sup> According to ABS survey data, total public sector employment in WA increased modestly from 183,000 to 207,000 over the decade ending in 2017, with no growth at all since 2013-14.<sup>36</sup> Focusing on state government employees only, a similar trend is evident, with the 2016-17 headcount of public sector workers still below the 2012-2013 peak (Figure 8).<sup>37</sup> Considering the rapid growth of WA's economy and population during the mining-led expansion, the growth of WA public sector employment has been very modest.

**Figure 7: Public Sector Employment as Share of Total Employment**



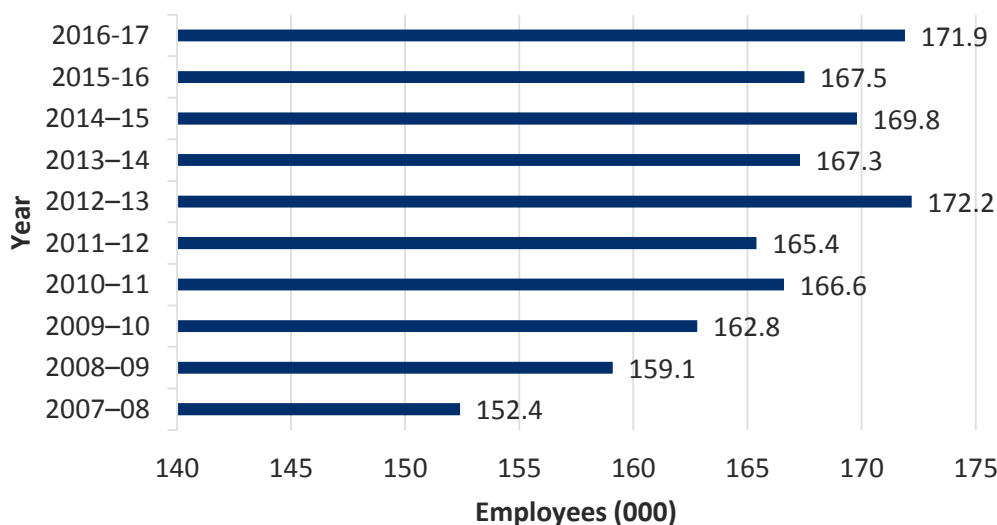
Source: ABS, 2016 Census, Table constructed using Table Builder, Canberra: Australian Bureau of Statistics.

<sup>35</sup> ABS. (2017). *Census 2016 Census*, Canberra: Australian Bureau of Statistics.

<sup>36</sup> ABS. (2017). ABS Cat. 6248055002DO001\_2016-17 Employment and Earnings, Public Sector, Australia, 2016-17, Table 1, Canberra: Australian Bureau of Statistics.

<sup>37</sup> ABS. (2017). ABS Cat. 6248055002DO001\_2016-17 Employment and Earnings, Public Sector, Australia, 2016-17, Table 1, Canberra: Australian Bureau of Statistics.

**Figure 8: State Government Public Sector Employment in WA, 2007-2017**



Source: ABS Catalogue 6248055002DO001, Employment and Earnings, Public Sector, Australia, 2016-17, Table 1.

Administrative data from the WA Public Service Commission provides another perspective on public sector employment in WA, and points to the same trend of overall stagnation in public sector jobs. Between 2013 and 2017, state public sector employment was essentially stable: growing only marginally from 110,544 to 110,662 (measured on a full-time equivalent, FTE, basis).<sup>38</sup> During this period, WA's resident population increased from 2.49 million to 2.58 million. This implies that the number of WA residents served by each public servant (FTE) increased by 3.5 percent over those 4 years (from 22.5 to 23.3).<sup>39</sup> With the public sector workforce already failing to keep up with population growth (even prior to current downsizing initiatives), the workload on public sector workers is intensifying, with inevitable impacts on the quality of service. Current proposals to downsize the workforce will exacerbate this trend.

While the WA state public sector comprises a modest share of overall employment, the sector includes a substantial number of highly skilled, well-remunerated jobs. Nearly 70 percent of state government employees earn between \$1,000 and \$3,000 per week, compared to just 57 percent for the private sector (Figure 9).<sup>40</sup> Importantly, public sector jobs are much less likely to pay very low wages than in the private sector:

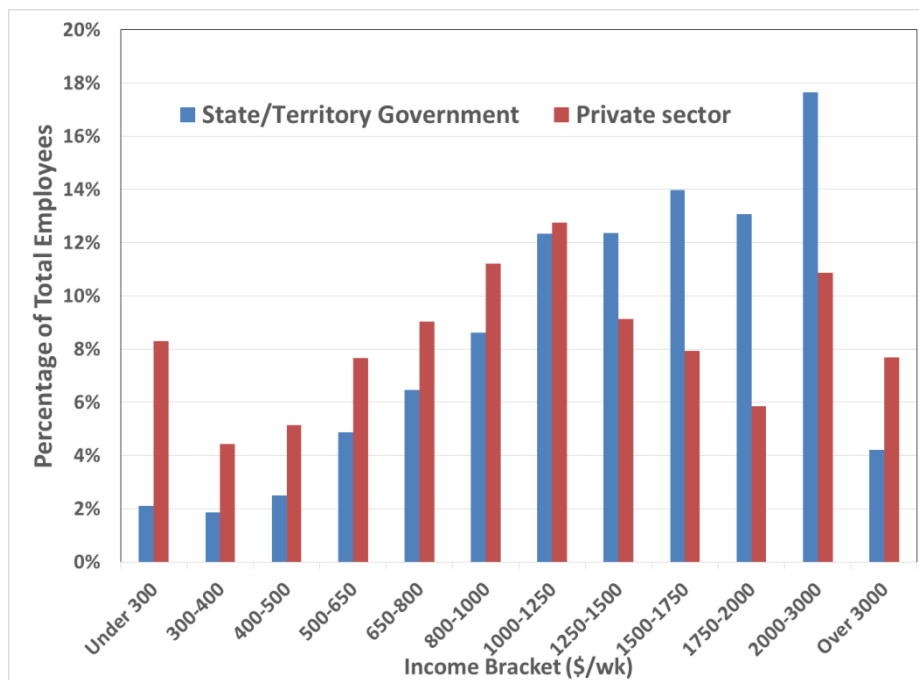
<sup>38</sup> Public Service Commission. (2017). State of the Sectors Report 2017: Statistical Bulletin. Perth: Government of Western Australia, p. 7.

<sup>39</sup> ABS. (2017). ABS Cat. 3101.0 - Australian Demographic Statistics, Jun 2017, Table 4, Canberra: Australian Bureau of Statistics.

<sup>40</sup> The salary categories in Figure 9 are defined in the Census data.

less than one-tenth of public sector jobs pay less than \$650 per week, versus one-quarter of all private sector jobs. The relative erosion of public sector employment, therefore, has contributed to the erosion of job quality and the stagnation of overall wage levels in the labour market that have elicited such concern from policy-makers in recent years.

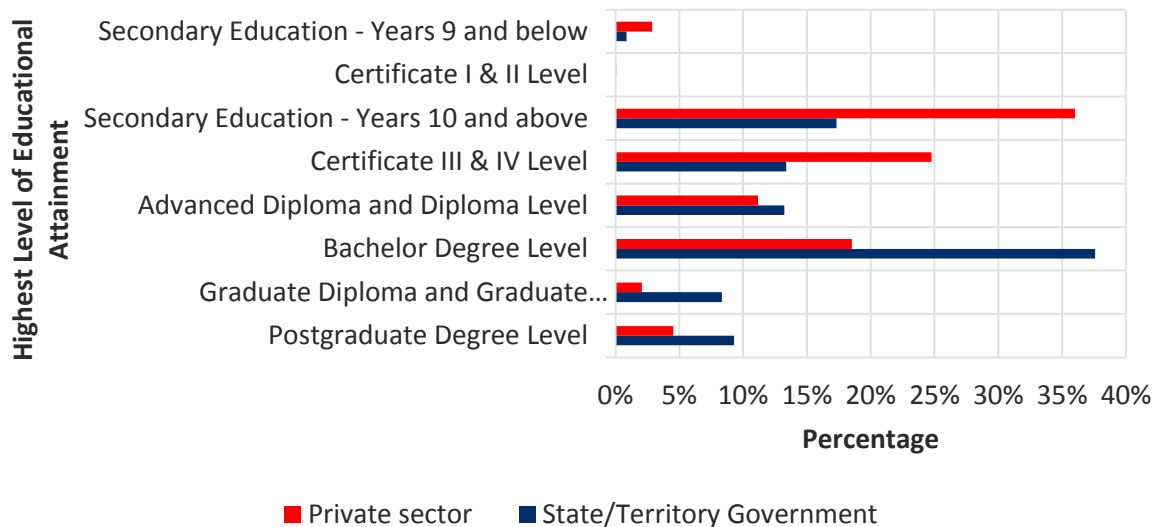
**Figure 9: State Government/Private Sector Total Personal Income by Income Bracket**



Source: ABS, 2016 Census, Table constructed using Table Builder.

The public sector workforce is highly trained and is concentrated in growing occupations that are vital to the state’s economic future and social fabric. Around 63 percent of public sector workers are employed in Education and Training and Healthcare and Social Assistance, two of the four largest employers in the state. Both industries have continued to expand to meet WA’s needs for these essential services, providing a welcome source of job-creation despite the state’s overall economic challenges. The state government workforce is also highly trained and educated, with 37.6 percent holding a Bachelors degree and 9.3 percent holding a Postgraduate degree (Figure 10).

**Figure 10: State Government/Private Sector Highest Level of Educational Attainment**

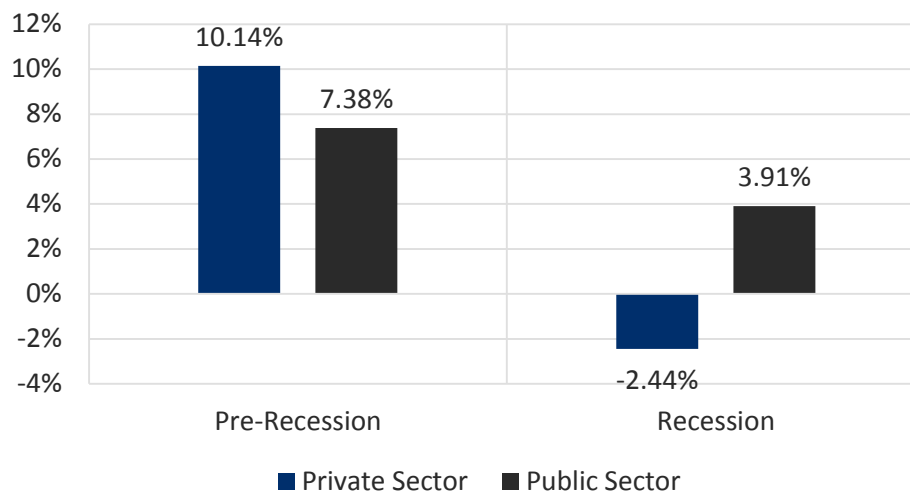


Source: ABS, 2016 Census, Table constructed using Table Builder.

### 2.3. PUBLIC SECTOR WAGES BOOST CONSUMER SPENDING, GDP AND GOVERNMENT REVENUES

There is a large and unsurprising difference in the growth of wages and salaries paid to workers in WA during the long mining boom (2002-2014) compared to the subsequent recession (2014-2017). The deceleration of wage growth is illustrated in Figure 11, separately for the private and public sectors. Wage growth decelerated in both sectors, but with important differences. During the boom, total private sector compensation grew at an average annual rate of over 10.1 percent (driven by a combination of strong job-creation and higher wages), while total public sector payrolls grew at a slower, but still healthy, 7.4 percent (also driven by both higher employment and higher wages). During the recession, however, total wages and salaries paid out in the private sector declined at an annual average rate of -2.4 percent (due mostly to job losses, but exacerbated by the cessation of wage increases for many private sector workers). In the public sector, however, total compensation grew by 3.9 percent per year through the recession. That’s barely half the rate experienced during the upswing, but at least it represented an increment to WA incomes and purchasing power.

**Figure 11: Average Annual Growth in Total Employee Compensation Pre- (2002-2014) and Post-Recession (2014-2017)**



Source: Authors' calculations from ABS Catalogue 5206.0, Australian National Accounts: National Income, Expenditure and Product, Table 44.

In this way, public sector payrolls did indeed act as an automatic stabiliser during the recession, and thus worked to reduce the severity of the downturn. This role was fulfilled despite deliberate government efforts (described above) to suppress public sector wage growth, and reduce other forms of public expenditure.

To illustrate the macroeconomic importance of this automatic stabiliser function, Tables 1 and 2 describe the differential impact of two scenarios for public sector payrolls, consumer spending, GDP and state government revenues. The first scenario (*Actual*) reports the actual average annual growth rate of public sector payrolls during the 2014-2017 recession. In contrast, the second scenario (*Follow Private Sector Trend*) presents a counterfactual situation in which public sector payrolls are assumed to have followed the same (negative) path as did private sector payrolls. This is consistent with the argument of some austerity advocates, namely that if private sector employment and wages are shrinking (thus creating a fiscal deficit), then public sector employment practices should follow likewise. Table 1 reports the comparison between these two scenarios for the last year of the period considered (2017), while Table 2 examines the difference in cumulative impacts over the whole recession period (2014 through 2017).

**Table 1**  
**Macroeconomic Impacts of Public Sector Compensation, 2017**

	Actual	Follow Private Sector Trend	Difference
<b>Average Annual Growth Total Public Sector Compensation</b>	3.91%	-2.44%	6.35%
<b>Change in Public Sector Payrolls (\$ millions, v. 2014)</b>	544	-319	863
<b>Change in Consumer Spending (\$ millions, v. 2014)</b>	353.6	-207.4	561
<b>Change in GDP (\$ millions, v. 2014)</b>	816	-478.5	1294.5
<b>State Government Revenues (\$ millions, v. 2014)</b>	122.4	-71.8	194.2
Source: Authors' calculations as described in text, based on initial data from ABS Catalogue 5206.0, Australian National Accounts: National Income, Expenditure and Product, Table 44.			

As reported in Table 1, total wages and salaries paid out to public sector workers in 2017 were \$544 million higher than in 2014 (based on the 3.91 percent annual average growth rate). In contrast, if public sector employers had cut back wage and salary payouts similar to the practice of private sector employers, public sector compensation would have declined by \$319 million. The difference between the two scenarios -- \$863 million -- represents the increment to WA labour incomes due to the stabilising function of public sector employment.

That increment in labour incomes, in turn, supported several other economic and fiscal improvements. Consumer spending, for example, was \$561 million higher in 2017 than it would have been if public sector employers had mimicked their private sector counterparts, based on the fact that on average Australian consumers spend over 65 percent of their gross personal income on personal consumption of goods and services.<sup>41</sup>

Total economic activity, including economic activity in the private sector, was also higher as a result of the government slowly but steadily increasing its spending on public servants and the services they provide. Continuing growth in public sector compensation generates positive spillover effects for the rest of the economy, boosting private sector confidence, investment, employment and economic growth. These spillover effects are particularly important during times of economic weakness. Conversely, the negative spillover effects -- also called multiplier effects -- of austerity

<sup>41</sup> 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.

can have severe negative effects during economic recessions.<sup>42</sup> 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.<sup>43</sup> 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 expenditure's effect is dissipated away from the state economy). Therefore, if anything, the assumption of a 1.5 multiplier is conservative for our examination of the macroeconomic effects of public sector wage restraint.

Applying this standard macroeconomic multiplier analysis to the incremental value of public service activity represented by the increase in public sector compensation, WA's gross state product was some \$1.3 billion higher in 2017 than if public sector hiring practices had followed the private sector trend.

And remember, the revenue collected by state governments also depends on the condition of the overall macroeconomy. In Australia, the states on average collect total revenues equivalent to over 15 cents of each dollar of national GDP: consisting of 9 cents of own-source revenue, and 6 cents in the form of fiscal transfers from the Commonwealth level of government (which also depend on macroeconomic conditions).<sup>44</sup> Therefore, the impact of public sector compensation on WA's (and Australia's) total output will have a flow-on effect on state government revenues. The last row of Table 2 indicates that the state's own revenues were around \$194 million higher than if the state had cut back its payrolls in line with the private sector contraction. This represents, directly, taxes paid by public sector employees (income taxes, GST, and more), but also includes taxes generated by the additional economic activity supported by the incremental public expenditure. That \$194 million is smaller than the direct cost of increased public sector compensation (\$863 million), but it is

---

<sup>42</sup> Zuesse, E. (2013). 'The IMF Admits It Was Wrong About Keynesianism', *Business Insider Australia*, available at <https://www.businessinsider.com.au/imf-admitted-their-economists-were-wrong-2013-1?r=US&IR=T>.

<sup>43</sup> See Weber, Ernst (2012). 'Australian Fiscal Policy in the Aftermath of the Global Financial Crisis', Discussion Paper #12.11, Perth: School of Business, University of Western Australia. Weber 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).

<sup>44</sup> 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, T. and J. Stanford. (2017). *False Economies: The Unintended Consequences of NSW Public Sector Wage Restraint*, Sydney: Centre for Future Work at The Australia Institute, p. 22.



nevertheless a significant countervailing effect which needs to be considered in analysing the all-around impacts of fiscal policy.

<b>Table 2</b>			
<b>Cumulative Macroeconomic Impact of Public Sector Compensation, 2014-2017</b>			
	<b>Actual</b>	<b>Follow Private Sector Trend</b>	<b>Difference</b>
<b>Average Annual Growth Total Public Sector Compensation</b>	3.91%	-2.44%	6.35%
<b>Change in Public Sector Payrolls (\$ millions, v. 2014)</b>	1431	-596	2027
<b>Change in Consumer Spending (\$ millions, v. 2014)</b>	930.1	-387.4	1317.7
<b>Change in GDP (\$ millions, v. 2014)</b>	2146.5	-894	3040.7
<b>State Government Revenues (\$ millions, v. 2014)</b>	324.8	-131.1	456.1
<b>Source: Authors' calculations as described in text, based on initial data from ABS Catalogue 5206.0, Australian National Accounts: National Income, Expenditure and Product, Table 44.</b>			

The results in Table 1 describe the differential in annual 2017 outcomes resulting from the counter-cyclical behaviour of public sector payrolls in WA. But those benefits were experienced throughout the recession, not just in one year. Therefore, Table 2 conducts a similar exercise to compare the *cumulative* difference (over the three years of the recession) in key variables, resulting from the greater stability of public sector compensation patterns. The fact that public sector payrolls continued to grow modestly through the recession (instead of contracting as they did in the private sector) pumped a cumulative \$2 billion into WA labour incomes over that three-year period. Some \$1.3 billion of that incremental income was then reinjected in additional consumer spending – supporting jobs and incomes throughout the private sector. The additional government spending associated with growing public sector payrolls (and the services provided by those public servants) supported an additional cumulative \$3 billion in total output over the three years, and that in turn boosted the state government's own revenues by over \$450 million. In short, if public sector compensation had followed the same trend as the contraction in private sector payrolls (rather than continuing to grow at a modest but positive rate), the decline in consumer spending, gross state product, and the government's own revenues during the recession would have been that much worse.

These results dramatically highlight the importance of the automatic stabiliser function of public sector compensation. Experience in many jurisdictions has proven that knee-jerk austerity imposed on the public sector workforce during a downturn is

economically and fiscally misguided; this is not the time for the WA state government to start make the same mistakes.

In short, public sector employment clearly plays an important role as an automatic stabiliser during a recession; moreover, basic macroeconomics also tells us that additional discretionary fiscal stimulus (through incremental public spending) can be of further help in ensuring the recession is as shallow – and the recovery as robust – as possible. This is the exact opposite of the logic of austerity (public sector job cuts, wages caps, efficiency dividends). The longer any policies of public sector wage suppression or downsizing are in place, the more WA will lose through reduced consumer spending, slower economic growth, and reduced state revenues.

## 2.4 THE CASE AGAINST PUBLIC SECTOR JOB CUTS, OUTSOURCING AND PRIVATISATION: THREE EXAMPLES

---

Alongside wage caps and so-called “efficiency dividends,” direct public sector job cuts, outsourcing and privatisation are hallmarks of austerity as practiced in Australia. Outsourcing involves contracting out public services to private suppliers on the pretext that they will supposedly be delivered more efficiently as a result. Privatisation entails selling public assets to the private sector, often with the same justification, and/or to raise one-time sums of cash. These practices have varied and adverse outcomes for the community, both in fiscal terms and in terms of service quality. Unsurprisingly, therefore, outsourcing and privatisation policies are not widely supported by public opinion.

We have already highlighted the broad negative effects of austerity at the macroeconomic level in WA. This section will now focus on three specific examples of job cuts, outsourcing and (planned) privatisation – none of which advance the interests of WA residents. Example 1 looks at job cuts imposed in the Best Beginnings community service program. Example 2 examines the impacts of outsourcing, under-resourcing and the use of temporary staffing in the WA public sector. Example 3 explores the likely consequences of the planned privatisation of Landgate.

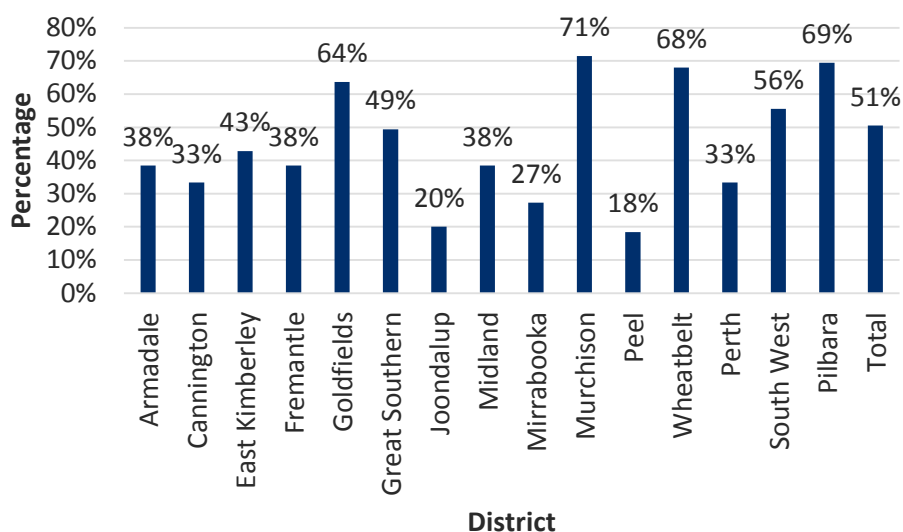
### **Example 1: Best Beginnings Job Cuts**

Direct public sector job cuts to the early intervention Responsible Parenting Services (comprising Parent Support and Best Beginnings) provide an example of how a narrow focus on headline cost-cutting can be particularly short-sighted. Both parts of the program were aimed at providing crucial support to at-risk children and their parents,

and were especially effective in reaching indigenous communities in remote and regional communities, such as the Pilbara.

According to both government and independent reporting, the RPS programs delivered positive outcomes. For example, in 2014-2015 Best Beginnings handled 785 cases while Parent Support handled 1,662 cases. For every dollar spent on Best Beginnings there was an estimated \$3.85 of savings generated, while for every dollar spent on Parent Support the estimated saving was \$7.22.<sup>45</sup>

**Figure 12: Percentage of RPS Case Worker Roles Lost by Region**



Source: Based on data from Community and Public Sector Union/Civil Service Association of WA.

Despite these positive outcomes, and relatively modest size of the RPS, the programs were axed as part of the 2016 state budget. This translated into an average reduction of over 50 percent of case workers (in term of FTE) previously employed through the programs (Figure 12), with especially substantial job losses in the Murchison, Pilbara and Wheatbelt regions (Table 3). Given the small sum of \$11 million involved, and the extensive literature on the social determinants of health that stresses the importance of early intervention to future life outcomes, this decision is certain to prove counter-productive.

<sup>45</sup> CPSU/CSA. (2016). *CPSU/CSA Petition 132 Hearing Summary Report - Every Child Counts*, Perth: Community and Public Sector Union/Civil Servants Association of WA.

<b>Table 3 Number of RPS Case Worker Roles Lost (FTE) by Region</b>		
<b>District</b>	<b>Previous FTE</b>	<b>Roles lost (FTE)</b>
<b>Armadale</b>	6.5	2.5
<b>Cannington</b>	6.6	2.2
<b>East Kimberley</b>	7	3
<b>Fremantle</b>	6.5	2.5
<b>Goldfields</b>	11	7
<b>Great Southern</b>	7.9	3.9
<b>Joondalup</b>	5	1
<b>Midland</b>	6.5	2.5
<b>Mirrabooka</b>	5.5	1.5
<b>Murchison</b>	14	10
<b>Peel</b>	4.9	0.9
<b>Wheatbelt</b>	12.5	8.5
<b>Perth</b>	6	2
<b>South West</b>	9	5
<b>Pilbara</b>	13.4	9.3
<b>Source: Based on data from Community and Public Sector Union/Civil Service Association of WA.</b>		

### **Example 2: Outsourcing, Under-Resourcing and the Use of Temporary Staff in the WA Public Sector**

Outsourcing has become common across all levels of government in Australia, and WA is no exception. The policy is usually justified on the grounds of efficiency but, as was explained in Part 1, there is often a false economy involved in these measures – as private contractors often cost more than continuing to deliver these services in-house, and the loss of internal program capacity undermines the government’s ability to adequately monitor and supervise private program deliverers. The combination of outsourcing, under-resourcing and the use of temporary staff has great potential to undermine the public sector’s ability to deliver key services to WA residents.

The Special Inquiry into Government Programs and Projects Final Report released in 2018 clearly identified concerns related to outsourcing, under-resourcing and the use of temporary staff. The Inquiry’s findings regarding outsourcing were clear:

The reliance on advice from outside the public sector was a strikingly common observation made through the Inquiry’s reviews. This practice

covered all dimensions of policy advice through to organisational reform and administration and occurred across departments and Government Trading Enterprises. The benefits from internalising the knowledge from outsourcing practices are recognised but poorly captured.<sup>46</sup>

The practice of outsourcing combined with under-resourcing has, according to the Inquiry, undermined the state's capacity to evaluate and deliver complex projects and vital services. The Inquiry supported "the need for central agencies to be more strongly resourced" and observed that the "availability of skills across the public sector in key areas of project management, contract management, procurement and financial management appear to have diminished in a relatively short time frame."<sup>47</sup>

Under-resourcing and skill shortages have, in some cases, led to cost blowouts and a lack of transparency in relation to private contracts. For example, the initial estimate for the value of the contract to outsource WA's Department of Health's ICT services was \$44.9 million – but the final cost ballooned to \$175 million.<sup>48</sup>

The Inquiry highlighted the critical role of the Department of Finance in providing "functional leadership, guidance, support, tools, education and expertise across government" to ensure projects and services were well-prioritised and delivered in an effective and efficient manner.<sup>49</sup> However, during the 2014-2017 recession, the number of employees in the Department of Finance fell from 1,236 (FTE) to 1,012 (FTE).<sup>50</sup>

The Inquiry was also critical of the use of temporary personnel by government agencies:

Between 2012 and 2016 the Government spent \$536 million employing temporary staff on a short term basis. In 2016 temporary staff employed under the common use arrangement cost \$115 million. Ten agencies accounted for 73 per cent of that cost. The heavy reliance on

---

<sup>46</sup> Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report Volume 1 - February 2018*, Perth: Government of Western Australia, p. 77

<sup>47</sup> Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report Volume 1 - February 2018*, Perth: Government of Western Australia, pp. 71, 79

<sup>48</sup> CPSU/CSA. (2017). *Commission of Inquiry – Submission by CPSU/CSA*, p. 5.

<sup>49</sup> Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report Volume 1 - February 2018*, Perth: Government of Western Australia, p. 105

<sup>50</sup> Public Service Commission. (2014). *State of the Sectors Report 2017: Statistical Bulletin*. Perth: Government of Western Australia, p. 9, Public Service Commission. (2017). *State of the Sectors Report 2017: Statistical Bulletin*. Perth: Government of Western Australia, p. 10.

temporary staff could sometimes prove counterproductive, by hastening the decline of capability in the public sector. In addition, their use in cases where the work would normally be done by permanent public servants could add to costs.<sup>51</sup>

Temporary personnel are not recorded in agency staffing figures and can be used to avoid the obligations associated with hiring permanent staff. As the CPSU/CSA pointed out in their submission to the Inquiry, “Temporary staffing is favoured as a means to avoid superannuation, payroll, [and] workers compensation” commitments, but it is a “short-sighted tactic” that undermines the “skills and experience held in the public service” as well as the “industrial working rights of West Australians.”<sup>52</sup>

### **Example 3: Proposed Landgate Privatisation**

The proposed privatisation of WA’s land registry, Landgate, is a classic example of a policy being justified politically on the basis of an economic story about public debt and deficits – but that distorts reality, as discussed in Section I of this report.

Landgate is a natural monopoly, hence its attractiveness to any future private buyer. This means the case *against* privatisation is particularly strong. Landgate provides a regular revenue stream to the WA Government; its orderly and cost-effective management of land titles information is an important public service for WA residents and businesses. There is a strong case for keeping the knowledge, functions and skills associated with Landgate within the public sector.

Landgate has been operating, under various banners, since 1829 and processes over \$36 billion worth of property transactions per year. Landgate was named the 22<sup>nd</sup> most innovative Australian company by the *Australian Financial Review*, and owns stakes in the e-conveyancing firm PEXA and the IT contractor Advara. Advara is 78 per cent-owned by Landgate and 22 per cent by Swiss outsourcing giant Adecco. In turn, Adecco was an advisor on the privatisation of the NSW land registry, and the ex-head of Landgate is now the new head of Advara.<sup>53</sup>

The privatisation of Landgate is likely to increase the probability of land title errors and hence increase the need for title insurance, due to the lack of experienced management oversight and the impact of privatisation on staff stability. Privatisation is also likely to increase the cost to the public of land title searches, and create

---

<sup>51</sup> Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report Volume 2 - February 2018*, Perth: Government of Western Australia,, p. 527

<sup>52</sup> CPSU/CSA. (2017). *Commission of Inquiry – Submission by CPSU/CSA*, pp. 9-11.

<sup>53</sup> Evans, N. (2017). Landgate boss joins privatised deal winner, *The West Australian*. 4 July 2017. <https://thewest.com.au/news/wa/landgate-boss-joins-privatised-deal-winner-ng-b88525547z>

uncertainty regarding the cost of access to the WA Land Information System (WALIS) – which is essential to land use and risk management mapping and research.<sup>54</sup>

As noted in Section I, the economic argument against privatisation is quite clear: state borrowing by bond issuance is a much cheaper way to raise funds than privatising a revenue-generating public service (particularly one which constitutes a natural monopoly). But privatisation also poses a direct threat to public sector jobs, and the retention of skills within the public sector, that can be obscured by the manner in which contracts are structured for such privatisations.

For example, the jobs of workers at Land and Property Information, the NSW land registry, have only been guaranteed for four years after privatisation.<sup>55</sup> Once that commitment expires, it will be in the private owner's interest to downsize staff complements as much as possible, in interests of maximising profitability of the operation. Similar concerns have been expressed regarding more immediate job losses after the privatisation of South Australia's land registry for \$1.6 billion in 2017.<sup>56</sup> Landgate has 565 employees, many of whom would be put at risk once privatisation makes profit-maximisation the key objective of the operations of this essential public service.

The short-term fiscal cash-flows from such privatisations may make state treasurers feel virtuous. But in correct accounting terms, privatisation has no impact on deficits since the government loses one asset (namely, a revenue-generating enterprise) even as it gains another (a one-time injection of cash). Over the longer-term, privatisations deny state governments a steady income stream, and in this case, would deny WA residents a secure and trusted land registration system that has operated well for well over 150 years.

---

<sup>54</sup> CPSU/CSA. (2017). *OurLandgate*.

<sup>55</sup> Han, E. (2017). Leaked draft of land titles registry contract shows NSW jobs could leave state. *Sydney Morning Herald*. 23 February 2017. <https://www.smh.com.au/national/nsw/leaked-draft-of-land-titles-registry-contract-shows-nsw-jobs-could-leave-state-20170223-gujo7a.html>

<sup>56</sup> Novak, L. (2017). State Government privatises lands title services in \$1.6 billion windfall, *news.com.au*, August 10, available at <http://www.news.com.au/national/south-australia/state-government-privatises-lands-title-services-in-16-billion-windfall/news-story/fe59d68e8044f2efd24fddd6cf170af5>

# Conclusions

Policies of austerity during an economic downturn have no justification in economic theory and, where implemented, generate a range of negative economic and social consequences. They ignore the underlying cause of deficits – namely, poor macroeconomic conditions – and actually make those underlying conditions worse, by draining even more employment and purchasing power from the public sector, on top of the initial downturn in private sector activity.

Section I of this report debunked the debt and deficit obsessions that underpin highly politicised arguments in favour of austerity. It went on to highlight the important roles that public debt, automatic stabilisers and discretionary counter-cyclical public investments play during different stages of the economic cycle. It also provided a detailed analysis of Western Australia's current economic and fiscal circumstances, confirming that the end of the mining boom, and resulting contraction in private sector activity, are the underlying cause of WA's deficit. Given the modest size of the state's accumulated public debt (relative to revenues and total state output), Section I concluded that the pursuit of public sector austerity at this stage – right when the state economy is showing signs of recovery – is both unnecessary and counterproductive.

Section II described key characteristics and recent trends in WA's public sector workforce. The modest size of public sector payrolls was emphasised: WA has the third-smallest public sector (relative to total employment) of any state, and public sector employment has lagged well behind the state's population growth. The section also demonstrated the key economic function of public sector payrolls in economic stabilisation, highlighting the stark differences between private sector and public sector compensation trends during the recession of 2014-2017. Public sector payrolls continued to grow at a modest rate during the recession (reflecting stability in headcounts and modest wage increases), in sharp contrast to the decline in private sector employment and payrolls. By maintaining modest growth in total public sector wages and salaries (instead of aping private sector contraction with its own cutbacks), WA's state public sector provided an important source of purchasing power and economic stability throughout the downturn. Thanks to continued modest growth in overall public sector payrolls, total economic activity was a cumulative total of \$3 billion higher from 2015 through 2017 than if the state had replicated private sector employment and wage trends. And if the WA state government had actually *boosted* investment in public services and infrastructure (instead of pursuing wage caps and



similar measures over the time), these stabilising functions would have been enhanced – to the benefit of the WA economy and community. Section II concluded by considering three recent examples of public sector job cuts, outsourcing and privatisation: each of which demonstrates the faulty economic logic, and inherent political motivations, behind austerity.

We conclude by restating our major findings:

1. A budget surplus can be a very effective way to *slow* economic growth, especially during a recession. The assumption that government should achieve a surplus as quickly as possible is fundamentally wrong.
2. Deficits are acceptable – and positive – during periods of weak economic growth. Attempts to forcibly repair budget deficits during recessions will make the economic situation worse.
3. Western Australia’s recent budget deficit is the result – not the cause – of deteriorating economic conditions. The budget deficit has helped to stabilise overall economic conditions in WA in an economically efficient manner.
4. WA’s deficit and debt service charges are not large relative to the productive capacity of the state economy, nor to the overall revenue base of the state government. Indeed, WA’s interest payments are smaller as a share of total state government revenue than is the case for many large corporations and millions of households.
5. The automatic stabiliser function of the budget should be amplified through additional discretionary counter-cyclical policy measures, such as increased government spending and investment during economic slumps.
6. Privatisation of state assets is an accounting trick that does not actually improve the deficit (instead, it trades one asset for another on the government’s balance sheet), and will weaken the government’s fiscal position if the privatised asset generated revenue at a higher margin than the government pays interest on its debt.
7. Public sector employment in WA has stagnated since the onset of the recession in 2013. In fact, Western Australia has the third lowest level of total public sector employment (14.5 percent) as a share of total employment. The assumption that the state’s public sector is bloated is factually wrong.

8. Between 2013 and 2017, state public sector employment was essentially stable (at around 110,600 full-time equivalent workers). But during this period, WA's resident population continued to increase (adding around 100,000 new residents). Therefore, WA's public sector workforce has not kept up with the population it must serve.
9. During the 2014 to 2017 recession, labour incomes in the private sector declined, shrinking at an average annual rate of 2.4 percent per year. In contrast, total wages and salaries paid in the public sector continued to grow at a slower but positive rate (of 3.9 percent per year). This continued, normal growth in public sector income helped to moderate the negative economic effects of the recession in the private sector.
10. Like other forms of government spending, public sector payrolls acted as an automatic stabiliser during the recession – despite deliberate (and ill-advised) government efforts to suppress public expenditure. If public compensation had declined at the same rate as private compensation between 2014 and 2017, consumer spending, state output, and even the state government's own revenues would have been lower than they were.

The WA state government should rethink the starting assumption that reducing expenditure, cutting public sector jobs, and selling off revenue-generating assets are somehow appropriate responses to its current fiscal deficit. That deficit is a normal, efficient response to the slowdown in private sector economic activity that resulted from the downturn in the mining sector. As the broader state economy stabilises (in part thanks to the stabilising effects of the budget deficit), the budget balance will itself automatically recover. The state government should focus on accelerating the recovery in overall economic activity, not on downsizing its own economic and fiscal footprint.

# Bibliography

AAP. (2017). NSW leases land registry for \$2.6bn in deal opposition calls 'long-term loss', *The Guardian*, April 12, available at <https://www.theguardian.com/australia-news/2017/apr/12/new-south-wales-leases-land-and-titles-registry-to-private-consortium-for-more-than-2bn>.

ABS. (1998). 'Paid Work: Public sector employment', *ABS Cat. 4102.0 - Australian Social Trends*, Canberra: Australian Bureau of Statistics.

ABS. (2017). *2016 Census*, Canberra: Australia Bureau of Statistics.

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

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

ABS. (2017). *5220.0 Australian National Accounts: State Accounts. Table 1*.

ABS. (2017). *5368.0 International Trade in Goods and Services, Australia. Tables 36a to 36h*.

ABS. (2017). *5512.0 - Government Finance Statistics, Australia, 2015-16 and 2006-07. Table 231 to 239*.

ABS. (2017). *ABS Cat. 6248055002DO001\_2016-17 Employment and Earnings, Public Sector, Australia, 2016-17, Table 1*, Canberra: Australian Bureau of Statistics.

ABS. (2017). *6416.0 Residential Property Price Indexes: Eight Capital Cities. Tables 4 and 5*.

ABS (2018). *ABS Cat. 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 44. Compensation of Employees, State by Sector: Current prices*, Canberra: Australia Bureau of Statistics.

ABS. (2018). *6202.0 Labour Force, Australia. Table 23*

Allan, K. and K. Fray. (2017). Central banks hold a fifth of their governments' debt. *Financial Times*. 16 August 2017.

Attorney General/Minister for Commerce. (2013). 'Public Sector Wages Statement 2014', *Circular to Departments and Authorities No. 8 of 2013*, Perth: Government of Western Australia.

Australian Treasury(2009-10). Budget Paper No.1, Statement 4, p.4-6, Table A, [http://www.budget.gov.au/2009-10/content/bp1/html/bp1\\_bst4-03.htm](http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst4-03.htm).

BHP. (2017). *Annual Report*.

Carmody, J. (2017). WA Government considers privatising data collector Landgate. *ABC News Online*. 16 October 2017.

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

CPSU/CSA. (2016). *CPSU/CSA Petition 132 Hearing Summary Report - Every Child Counts*, Perth: Community and Public Sector Union/Civil Servants Association of WA.

Deloitte. (2018). *Review of Revenue Forecasting*. Prepared for the Government of Western Australia, Department of Treasury. 21 February 2018.

Gartrell, A. and F. Hunter. (2015). Soaring consultant costs cancel out public service salary savings. *The Canberra Times*. 28 November 2015 .

Henderson, T. and J. Stanford. (2017). *False Economies: The Unintended Consequences of NSW Public Sector Wage Restraint*, Sydney: Centre for Future Work at The Australia Institute.

Laschon, E. (2017). WA mining lobby wins again, will households now wear cost of budget repair? *ABC News Online*. 15 October 2017.

Minister for Mines and Petroleum; Commerce and Industrial Relations; Electoral Affairs; Asia Engagement. (2017). 'Public Sector Wages Statement 2017', *Circular to Departments and Authorities No. 4 of 2017*, Perth: Government of Western Australia.

Nicholls, S. (2017). *Stamp duty hits record highs amid Sydney housing affordability crisis*. The Sydney Morning Herald. 12 May 2017.

Powell, G. (2018). *WA budget deficit halves as spending cuts, iron ore price rise begin process of recovery*. ABC News Online. 1 March 2018.

Public Service Commission. (2012). *State of the Sector Report 2012: Statistical Bulletin*. Perth: Government of Western Australia.

Public Service Commission. (2017). *State of the Sectors Report 2017*. Perth: Government of Western Australia.

Public Service Commission. (2017). *State of the Sectors Report 2017: Statistical Bulletin*. Perth: Government of Western Australia.

RBA. (2016). *Annual report 2016 — Operations in Financial Markets*.

Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report*

*Volume 1 - February 2018*, Perth: Government of Western Australia.

Special Inquirer. (2018). *Special Inquiry into Government Programs and Projects, Final Report*

*Volume 2 - February 2018*, Perth: Government of Western Australia.

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

Thompson, P. (2015). Defence has handed redundancy payments to people they have re-employed as contractors. *The Canberra Times*. 25 November 2017.

WATC. (2018). *Investor Update — January 2018*.

Weber, Ernst (2012). 'Australian Fiscal Policy in the Aftermath of the Global Financial Crisis', *Discussion Paper #12.11*, Perth: School of Business, University of Western Australia.

Zuesse, E. (2013). 'The IMF Admits It Was Wrong About Keynesianism', *Business Insider Australia*, available at <https://www.businessinsider.com.au/imf-admitted-their-economists-were-wrong-2013-1?r=US&IR=T>.