

A growing risk: The impacts and consequences of rising state government employment

Julie Novak

Research Paper
October 2009

Executive Summary

- An inability to manage expenses, particularly with regard to labour inputs, is a key cause of the budgetary straightjacket now being worn by state and territory governments.
- In fact, the largest single element of operating expenditure by states relates to the employment and remuneration of public sector employees.
- Since the economic reforms of the 1990s, state governments have significantly increased their workforces. The total number of workers employed by the states has jumped from 972,300 in 2000 to 1.2 million in 2008 – an increase of about 28 per cent over the period.
- The greatest increase in total state public sector staffing has been in the area of government administration. There is also evidence of growth in 'back office' staff in the key service delivery areas of education, health and policing.
- State government public servants have been the beneficiaries of increasing salaries and other pecuniary benefits.
- Gross earnings per state employee have grown strongly during the recent economic boom, with average pay increases exceeding those enjoyed by private sector workers.
- There is insufficient evidence that the growth in state bureaucracies have yielded commensurate improvements in service delivery outcomes.
- Taxpayers have borne the financial brunt of these unsustainable trends, with state general government sector employee expenses rising from \$43.3 billion in 2000-01 to \$77.1 billion in 2007-08 – an average annual increase of almost nine per cent over the period.
- Continuing growth in state government bills for bureaucrats and public servants has significant national economic implications.
- Individuals and businesses will have to pay additional state revenues supporting extra government employment and wages, crippling the capacity of the private sector to employ, invest and grow in the short to medium term.
- State taxpayers will be forced to pay at least an additional \$15.6 billion over the forward estimates period to fund public service costs, over and above that implied by existing state wages policies. This additional fiscal burden is broadly equivalent to the entire state payroll tax revenue take in 2008-09.
- A more regulated national industrial relations system is likely to increase the risk of public sector wage rises spilling over into the private sector, putting upwards pressure on interest rates and curbing economic growth.
- States face a significant credibility problem in repairing their budgets, as announced measures to curb government employment and labour costs are unlikely to be effective.
- Stronger policy measures need to be put in place to restrain the fiscal costs of state government employment.
- Suggested policies include: a statutory wage pause during budget deficit periods; stronger wages policies backed by legislation and public reporting of public sector productivity improvements; ceilings on the size of government employment backed by appropriate enforcement; and a public sector reform agenda focussed on core service provision.

About the Institute of Public Affairs

The Institute of Public Affairs, founded in 1943, is the world's oldest free market think tank. The IPA is a not-for-profit research and advocacy institute based in Melbourne, Australia with staff and associates based around Australia.

About the Author

Julie Novak is a Research Fellow with the Institute of Public Affairs. She has previously worked for Commonwealth and State public sector agencies, including the Commonwealth Treasury and Productivity Commission. Julie was also previously advisor to the Queensland Chamber of Commerce and Industry. Her opinion pieces have been published in *The Australian*, *Australian Financial Review*, *The Age*, and the *Courier Mail*, on issues ranging from state public finances to social services reform.

Contents

Executive Summary	2
About the Institute of Public Affairs	3
About the Author	3
Contents.....	4
1. Budget breakers: What are the risks of greater public employment and higher wages for state budgets?	6
2. Empire building: How has state and territory public employment grown over the years?.....	11
2.1 What have been the long term trends in state public servant numbers?	11
2.2 How has state public service numbers changed in recent years?	13
2.3 What are states planning to do to reduce public service growth?	18
3 Pay boom: How have state and territory government employee wages and entitlements grown over the years?	21
3.1 What have been the long term trends in state public service wages and entitlements?	21
3.2 How do state public servant wages compare with the private sector?.....	22
3.3 How have state public service wages and entitlements changed in recent years?	25
3.3 What are states planning to do to reduce public service wages growth?.....	28
4 Meagre return: Are state taxpayers getting value for money from more and better-paid public servants?	30
4.1 How are the states performing in the delivery of school education?	31
4.2 How are the states performing in the delivery of health care in public hospitals?.....	33
5 Budget rescue: What can be done to reduce the fiscal risks of state public sector employment?.....	36
5.1 States in budget deficit situations should enact a wage pause until their budgets recover	36
5.3 Caps on public service numbers could be strengthened to achieve their objectives.....	39
5.4 Smaller bureaucracy can be achieved if states focus on essential government functions only	40

6 Conclusion.....42

1. Budget breakers: What are the risks of greater public employment and higher wages for state budgets?

Despite signs of a national economic recovery, the budget position of the states and territories remain in dire straits. Their inability to manage their own expenses is a key cause of the problem.

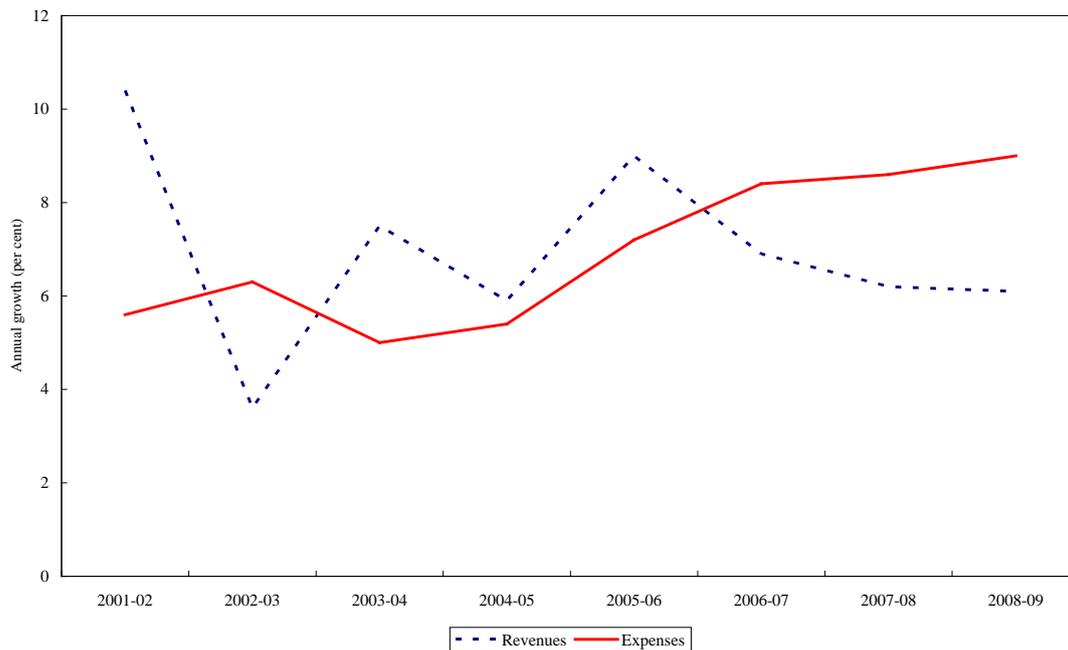
At the time of writing, the states expect to post a net \$2.9 billion general government budget deficit this financial year. Queensland's deficit of over \$1.9 billion alone accounts for the bulk of the total. The states are also projecting general government net debt totalling \$13.2 billion in 2009-10, compared to an overall negative net debt position during the previous year.

Despite the claims of state treasurers that recent declines in revenue growth driven by the Wall Street meltdown are the cause of their parlous budgetary position, the unprecedented and continuous growth in expenses has played the pivotal role in the recent fiscal deterioration.

According to figures published in state budget papers, annual general government sector expenditure growth began to outstrip growth in state revenues (including commonwealth grants) through the recent commodity boom (Figure 1). When this trend occurs on a consistent basis – as it has for the states and territories – budget deficits surely follow.

In 2008-09, state expenses grew by nine per cent compared to a six per cent rise in total general government revenue. Spending growth is expected to outstrip revenue growth again this financial year, aggravating the combined budget deficit position of the states and territories.

Figure 1: Annual growth in state and territory general government sector revenues and expenses



Figures are expressed in nominal terms.

Source: State and territory government budget papers.

The largest single element of expenditure at the state level are those associated with the employment and remuneration of public sector employees. In 2008-09, states and territories allocated over \$78 billion towards gross employee expenses representing about 46 per cent of total general government budget expenditure.

By comparison, \$43 billion was spent for the same purposes in 2000-01 (44 per cent of spending). This represents an increase in expenditure of 78 per cent over the period, or an average of eight per cent per annum.

Most jurisdictions have enunciated a path back to budget sustainability over the period to 2012-13. By the end of the forward estimates, all states and territories except Queensland, Western Australia and the ACT are expecting a return to budget surplus.

However, the states' ability to return budgets into the black will crucially depend upon them successfully restraining their own spending. This will require a discipline not witnessed in recent years to contain the growth of spending on public sector employees.

There are already signs to suggest that jurisdictions will face significant difficulties in meeting this important fiscal consolidation objective.

Public sector unions are vigorously campaigning to lift wages for their members well in excess of expected inflation outcomes and formal government wages policies. This means a substantial redistribution of income from state taxpayers to state government employees.

For example, proceedings in the South Australian Industrial Relations Commission are underway regarding a pay dispute between the Rann government and teachers and TAFE lecturers.

The Australian Education Union has called for a 21 per cent pay rise over three years in that state, a claim significantly greater than the government's 14 per cent offer for classroom teachers.¹

The Queensland Industrial Relations Commission recently granted government school teachers an interim four per cent pay increase, an outcome claimed by the Queensland Teachers' Union (QTU) as being insufficient.²

The Bligh government and the QTU remain in arbitration over a long-running pay dispute, after the QTU rejected a 12.5 per cent pay offer over three years.³ The union has engaged in a rolling campaign of strike action and work bans that have impeded the flow of federal funding to school students in disadvantaged communities.⁴

In New South Wales, pay negotiations between the Police Association and the Rees government delivered an eight per cent pay rise over two years for the state's police force. This is in excess of the government's wages policy of an increase of only 2.5 per cent per annum.⁵

The larger states are effectively conceding that growth in general government sector salary payments (including for existing agreements) will exceed their enunciated wages targets (Figure 2).

With elections due in South Australia, Victoria and Tasmania next year, and NSW in 2011, wages are likely to rise over and beyond that forecast for those states as governments seek to placate union pay demands across key areas of services delivery.⁶

¹ Joanna Vaughan, 2009, 'Pay dispute 'worsening teacher shortage in South Australia'', Adelaide Advertiser, 4 August, <http://www.news.com.au/adalaidenow/story/0,22606,25874538-5018776,00.html> (accessed 25 August 2009).

² 'Pay rise 'rips off' Qld teachers', ABC News Online, 17 September 2009, <http://www.abc.net.au/news/stories/2009/09/17/2688307.htm> (accessed 23 September 2009).

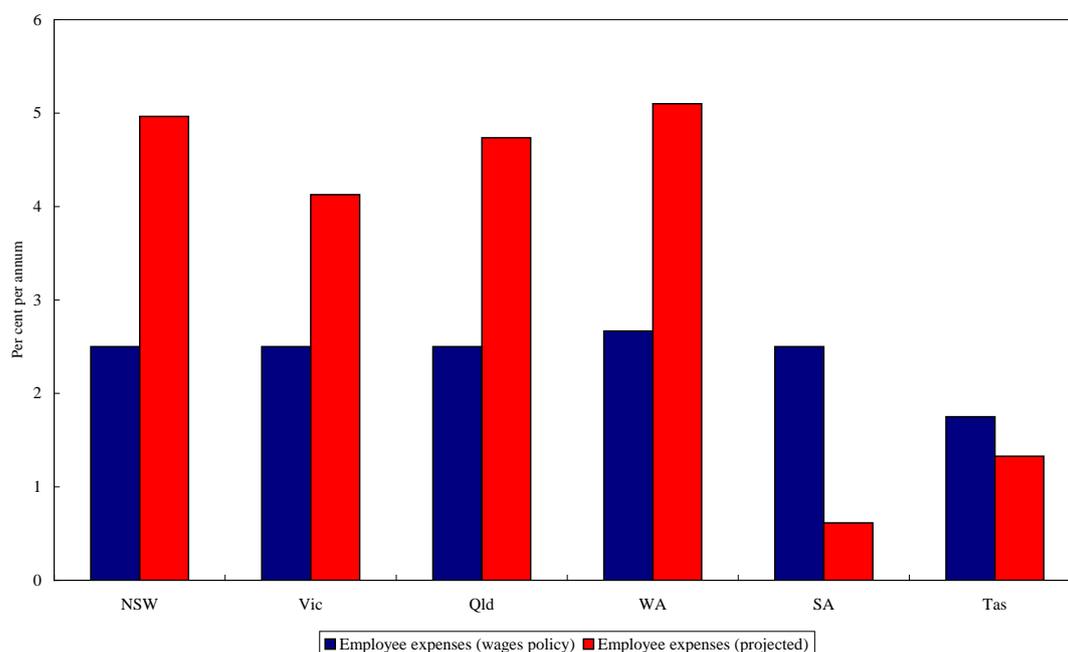
³ Daniel Hurst, 2009, 'Teachers reject govt's 'nation leading' pay offer', Brisbane Times, 19 May, <http://www.brisbanetimes.com.au/queensland/teachers-reject-govts-nation-leading-pay-offer-20090519-be52.html> (accessed 25 August 2009).

⁴ Jamie Walker, 2009, 'Teachers block aid for needy children', The Weekend Australian, 18-19 July.

⁵ 'NSW Police strike wage deal with govt', The Sydney Morning Herald, 28 August, <http://news.smh.com.au/breaking-news-national/nsw-police-strike-wage-deal-with-govt-20090828-f2fw.html> (accessed 23 September 2009).

⁶ Mathew Dunckley and Mark Skulley, 2009, 'States battle to contain wages', The Australian Financial Review, 15 July.

Figure 2: Expected average growth in state general government sector employee expenses, 2009-10 to 2012-13



Excluding superannuation expenses. It is assumed that the 2009-10 wages policy for NSW, Victoria, Queensland and South Australia will remain constant over the forward estimates period. Data for Western Australia is based on figures applicable for the three-year period 2009-10 to 2011-12. Data for employee expenses includes the effect of wage increases under existing agreements as at the time of 2009-10 state budgets. Figures are expressed in nominal terms.

Source: State and territory government budget papers.

In South Australia and Tasmania, public sector unions have criticised moves by their respective governments to reduce numbers of agency staff in non-core services. In Queensland, unions are resisting initiatives by the Bligh government to privatise some existing government trading enterprises, with similar protests occurring in New South Wales.

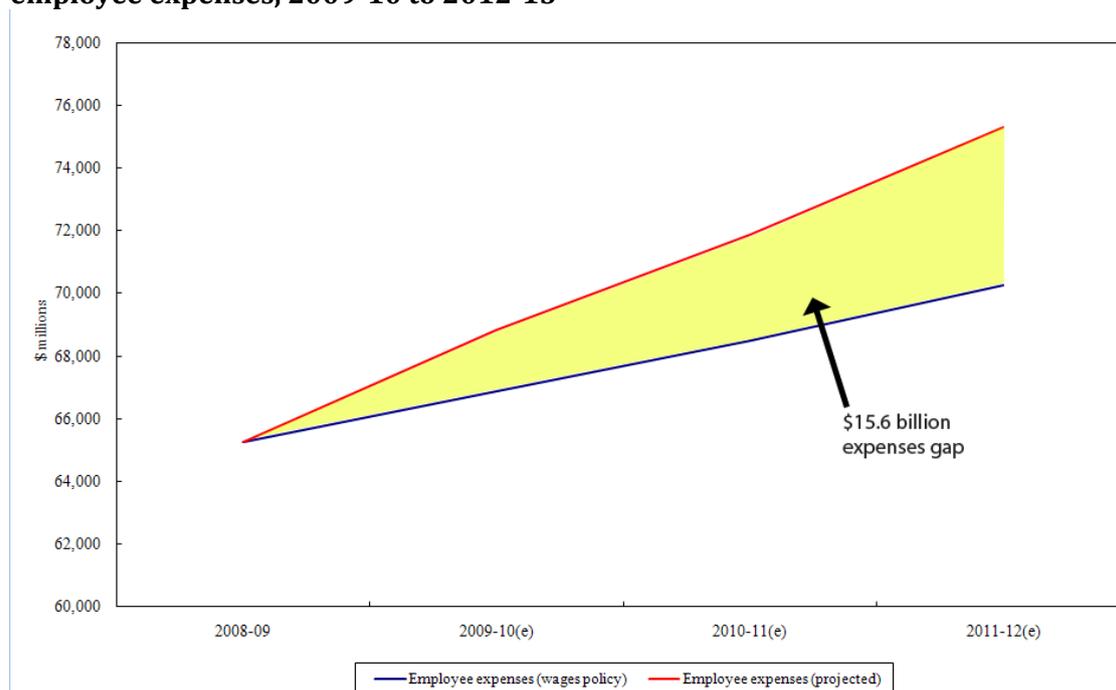
Actions by state governments have important consequences for the national economy. For example, state government employee expenses have to be financed by state taxes and other revenue sources which impose significant efficiency costs on individuals and businesses.

State efforts to acquire additional revenues to fund more, and better paid, public servants will come at the significant risk of dampening investment, employment and other productive activities at a time of weakness in the private sector.

It is possible to derive indicative estimates of the additional revenue to be taken by the states to fund their public service costs, over and above those implied under stated wages policies (Figure 3).

Over the next four years, taxpayers will be expected to pay state treasuries an additional \$15.6 billion to cover these expenses. To put this amount into perspective, the aggregate amount of payroll tax revenue collected by state governments was in the order of \$16.5 billion in 2008-09.

Figure 3: Expected cumulative growth in state general government sector employee expenses, 2009-10 to 2012-13



Excluding superannuation expenses. Excluding the Australian Capital Territory and Northern Territory. It is assumed that the 2009-10 wages policy for NSW, Victoria, Queensland and South Australia will remain constant over the forward estimates period. Data for Western Australia is based on figures applicable for the three-year period 2009-10 to 2011-12. Data for employee expenses include the effect of wage increases under existing agreements as at the time of 2009-10 state budgets. Figures are expressed in nominal terms.

Source: State government budget papers.

Further, significant wage increases granted to workers in the state public sector could spark similar claims for compensation in the private sector. This is a more likely prospect in a national industrial relations system more conducive to pattern bargaining across sectors.

Private sector wage rises that follow those in the public sector could stoke inflationary pressures in the economy, leading to interest rate hikes that increase the cost of home-lending and of capital more generally.

Risk statements published in most state and territory budgets highlight the potential of rising expenses due to growing public sector employment. However, watching and writing about the problem is an insufficient substitute for real action to keep these costs in check.

To ensure that public service costs do not become the budget breaker of state governments, a range of complementary reforms should be implemented:

- State governments in deficit positions should institute a wage pause until their budgets return to balance or surplus.
- Governments could legislate to maintain a formal wages policy. Any relaxation of the remuneration growth cap should be justified by governments publicly reporting on productivity improvements attained by their workers.

- Governments should pursue upper limit ceilings on the number of workers to be employed in the public sector. Ministers and senior officials that oversee breaches in the ceiling by a given agency should be liable for sanction.
- Measures should be undertaken to restrict the scope of state governments to core services only – such as funding education and health care, keeping streets and communities safe, and contributing toward infrastructure development – and commensurately cutting taxes to boost private sector employment opportunities. Any upper limit public sector cap should be amended downwards to take account of the reform process.

It should be emphasised that these measures, necessarily of a transitional nature, would help ensure that the private sector has the capacity to absorb more employees that would otherwise be hired by state governments.

The recent growth of the state public sectors proved to be unsustainable in light of the recent economic downturn. The need for states to now take a more disciplined approach toward public sector employment and remuneration will be vital to Australia's chances of a strong economic recovery.

Rather than wait for the cavalry of economic growth to arrive, the states need to take real policy action that relieves the community of the toxic mix of budget deficits and public sector debt. To help achieve this, governments must now reduce the overhang of recurrent expenditure.

Ensuring that the size of state public employment, and the remuneration and other benefits paid out to government workers become sustainable is essential to the task which lies ahead.

2. Empire building: How has state and territory public employment grown over the years?

State and territory governments employ workers to deliver certain services. They include police officers, fire fighters and paramedics, judges for local and state-wide courts, teachers in government schools, and doctors and nurses in public hospitals.

States also employ bureaucrats in central and regional offices to administer the varied operations of, and to enforce rules set down by, governments.

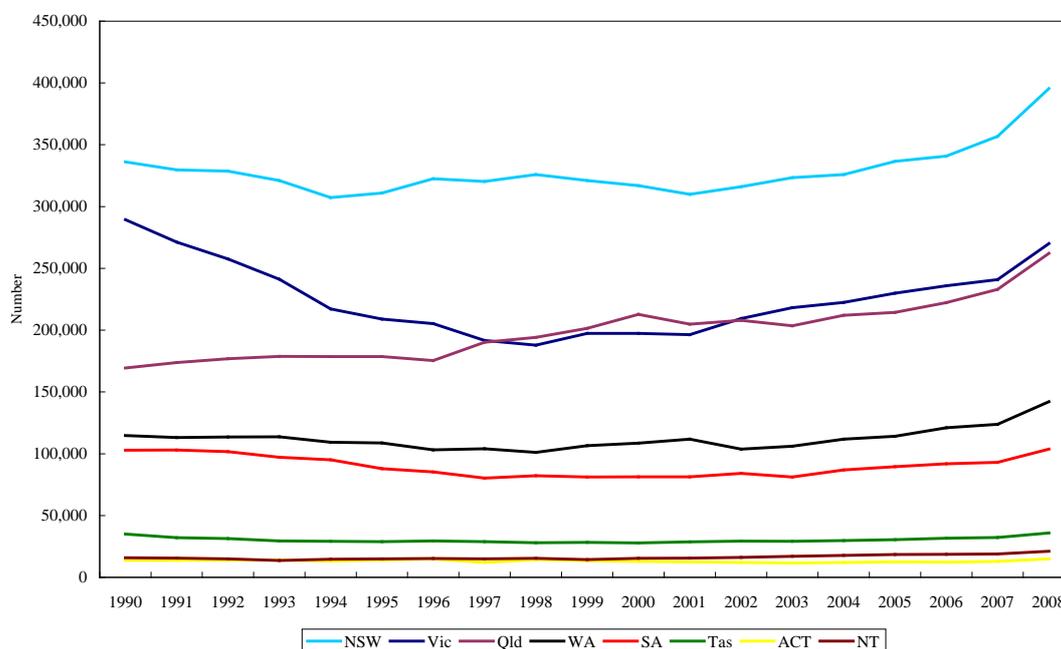
2.1 What have been the long term trends in state public servant numbers?

Until the publication of a new statistical series for 2007-08, the Australian Bureau of Statistics (ABS) provided a historical time series on the total number of wage and salary earners engaged by the states. This headcount data included information applicable to the general government sector, government trading enterprises and other instrumentalities.⁷

⁷ Australian Bureau of Statistics (ABS), Wage and Salary Earners, Public Sector, Australia, cat. no. 6248.0.55.001.

Figure 3 illustrates the level of state public sector employment in each jurisdiction from 1990, after adjusting for the number of workers in the higher education sector.⁸

Figure 3: Number of state and territory total public sector employees



Data for state public sector workers as at February of each year, less tertiary education sector employees (data as at March of each year). The data used in this figure are of an indicative nature.

Source: ABS, Wage and Salary Earners, Public Sector, Australia; DEEWR, Selected Higher Education Statistics.

The first half of the time series presented in figure 3 is exemplified by a policy trend whereby all states (except Queensland) reduced their employee numbers, as part of a broader program of fiscal consolidation and economic reform.

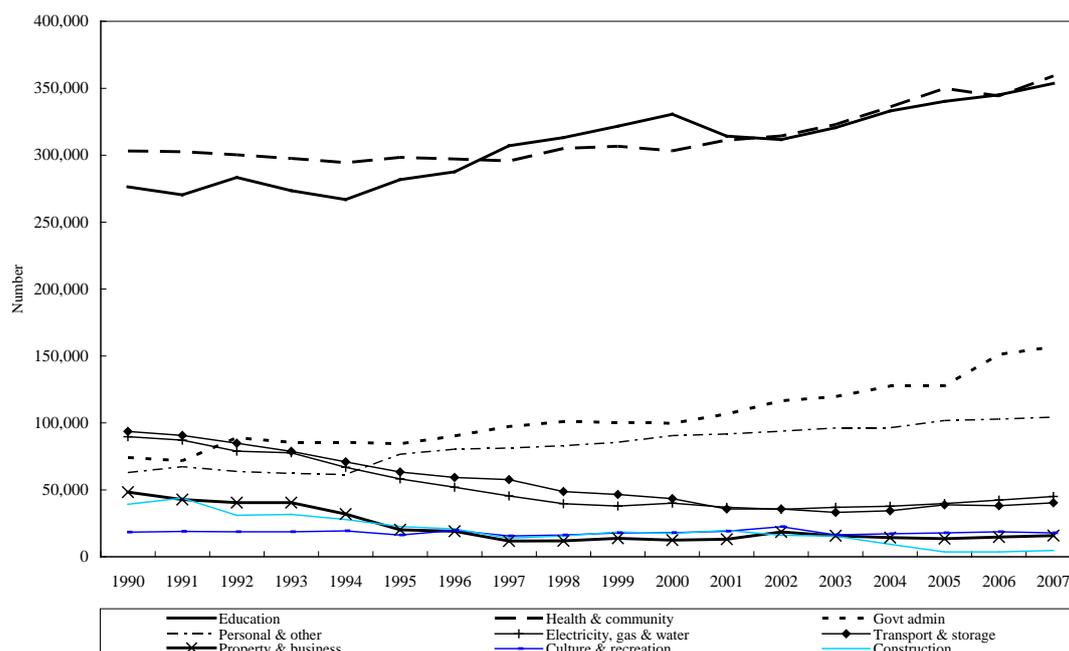
The number of state public servants across Australia declined from a peak of about 1.08 million in 1990 to about 941,500 in 1997. Victoria reduced the number of its public sector employees by about 97,800 over the period, followed by South Australia (22,600), NSW (15,700), WA (10,600) and Tasmania (6,100).

A breakdown of state government employment by industry classification over that period shows that the employment reduction primarily occurred in either privatised industries, such as electricity, gas and water and transport, or in those with relatively close market substitutes such as property and business services and construction (Figure 4).

However, the breadth of rationalisation of state public sector employment during the 1990s was uneven with the numbers of staff in areas such as health, education and government administration trending upwards.

⁸ Public universities are legislative entities of state governments providing higher education services that are primarily funded by the commonwealth government. In recognition of this, higher education statistics separately provided by the commonwealth government are used to deflate the state government employment series published by the ABS.

Figure 4: Number of state and territory total public sector employees, industry classification



Data for state public sector workers as at February of each year. Staff employed in education sector adjusted for numbers of tertiary education sector employees (data as at March of each year). Data for each industry classification, except government administration, includes service delivery and administrative staff relevant to given industry. The data used in this figure are of an indicative nature.

Source: ABS, Wage and Salary Earners, Public Sector, Australia; DEEWR, Selected Higher Education Statistics.

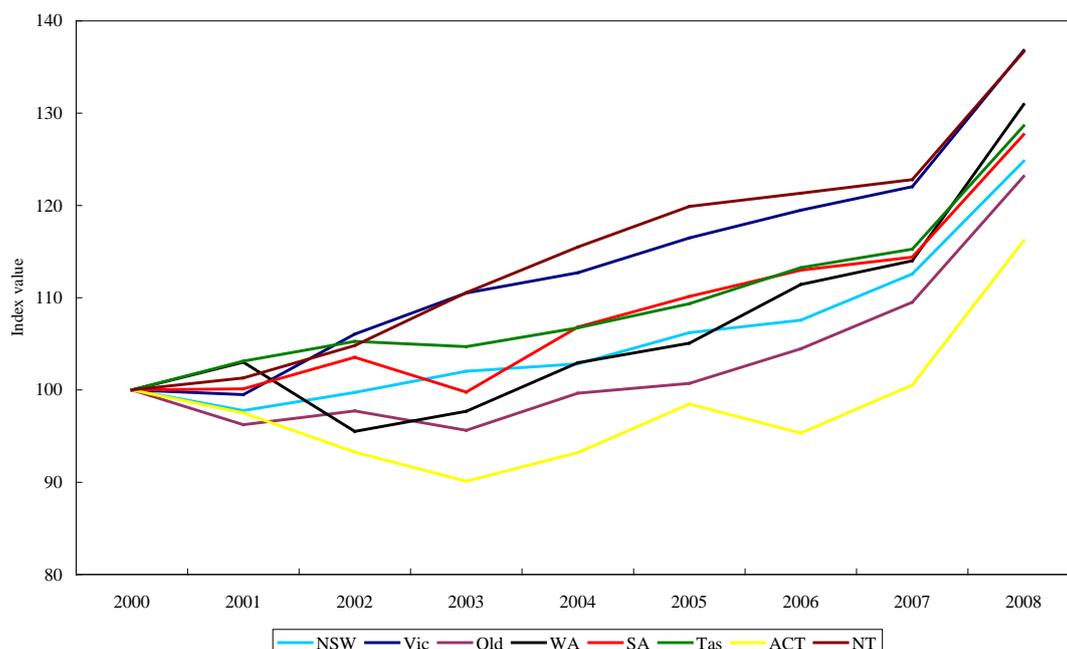
2.2 How has state public service numbers changed in recent years?

Since that reform period, state governments have sought to increase their workforces. The total number of workers employed by jurisdictions rose from about 972,300 in 2000 to about 1.2 million in 2008 – the highest level for almost two decades.

In contrast to its workforce management stance during the 1990s, Victoria has undertaken the largest percentage increase in state government employment over the past eight years (Figure 5). The total number of public servants in that state alone increased from about 197,400 in 2000 to about 270,000 in 2008 – or 36.8 per cent over the period.

The Northern Territory (36.7 per cent), Western Australia (30.9 per cent), Tasmania (28.6 per cent) and South Australia (27.7 per cent) have also significantly increased their state government workforces. Levels of state public sector employment have risen by at least 16 per cent over the past eight years.

Figure 5: Number of state and territory total public sector employees, index values



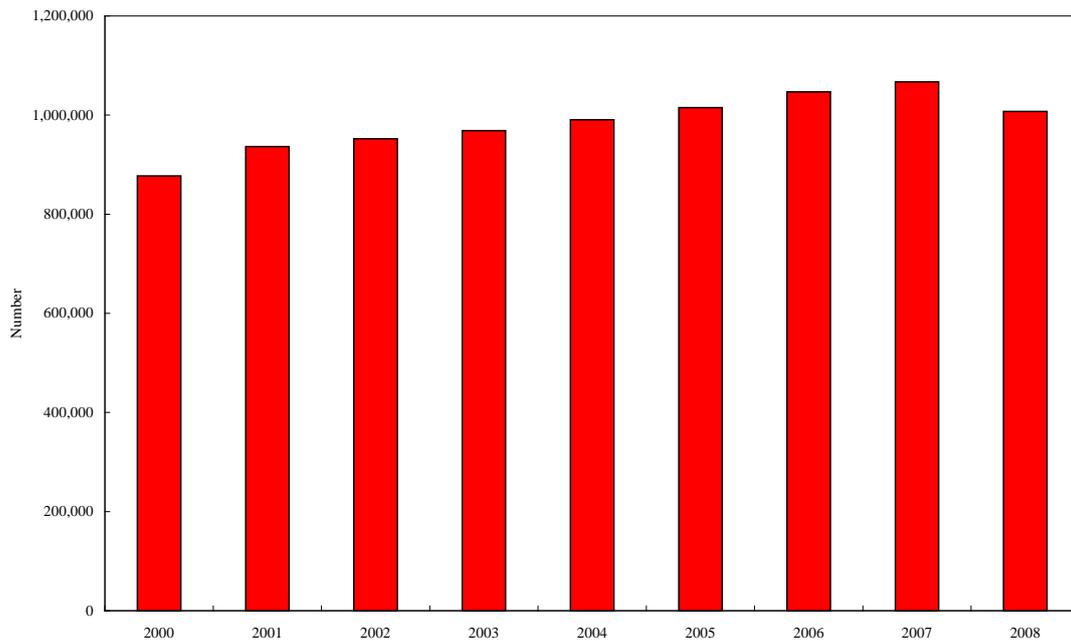
Index values derived from data for state public sector workers as at February of each year, less tertiary education sector employees (data as at March of each year). Index value for 2000 set at 100. The data used in this figure are of an indicative nature.

Source: ABS, Wage and Salary Earners, Public Sector, Australia; DEEWR, Selected Higher Education Statistics.

The recent growth trend highlighted by the ABS is confirmed by self-enumerated employment data published by states for their general government sectors (Figure 6).⁹ The greatest increases occurred in the larger jurisdictions, with Victoria increasing its state public sector staff numbers by about 60,400 between 2000 and 2008, followed by NSW (54,300) and Queensland (45,200).

⁹ It is difficult to establish the actual numbers of workers employed by jurisdictions from self-enumerated state data. This is because jurisdictions do not present information in a consistent fashion, with comparisons over time particularly hampered by definitional and other changes. There are also discrepancies between state self-enumerated data and data on state government employment published by the ABS, due to differences in statistical coverage and other factors. Therefore trends in these series should be interpreted with caution.

Figure 6: Number of state and territory general government sector employees



Data for New South Wales in 2000 derived by applying FTE share of budget dependent agency staffing to total headcount statistic as at June 2000. Employment data for South Australia in 2008 not publicly available at the time of writing. The data used in this figure are of an indicative nature.

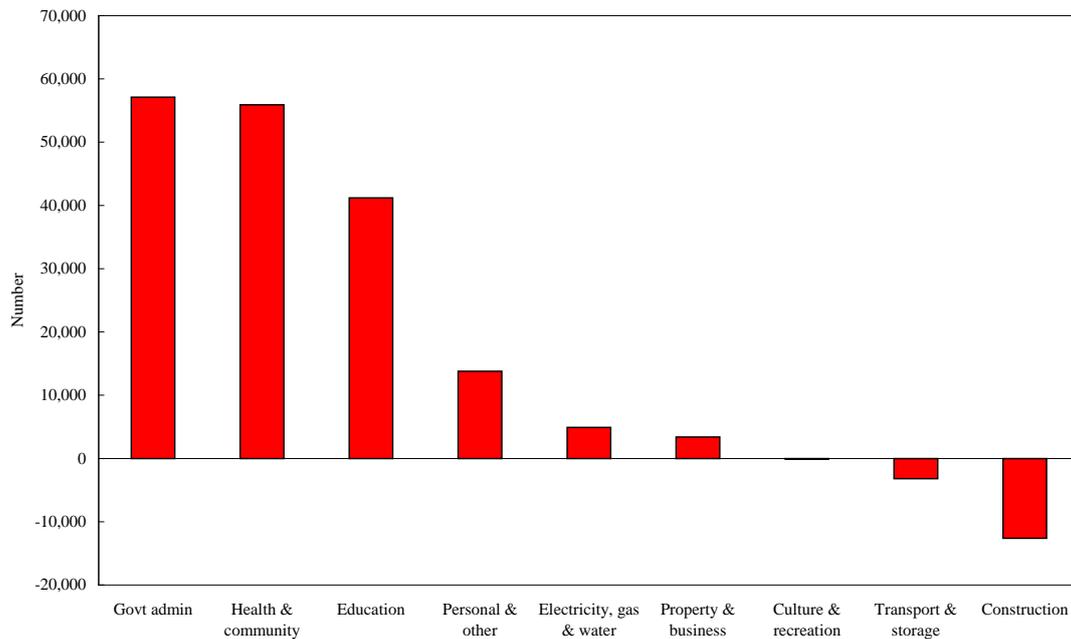
Source: State and territory commissions/offices of public employment.

According to ABS data, the greatest increase in total state staffing has been in the area of government administration (Figure 7). As at February 2007, 156,800 people worked in state and territory administration compared to 99,700 in 2000 – an increase of 57 per cent over the period.¹⁰

State government administration personnel grew from 9.5 per cent of the total number of public sector employees to 13 per cent over the period.

¹⁰ The increase in staff in the government administration category understates the full extent of the increase in administrative staffing at the state level. Staff numbers in other industry classifications comprise a mix of administrative and service delivery staff – for example, the observed increase in health staff may include the additional employment of public hospital nurses as well as hospital managers and other corporate staff. In addition, some administrative duties may be undertaken by service delivery staff.

Figure 7: Change in the number of state and territory total public sector employees, 2000 to 2007



Data for state public sector workers as at February of each year. Numbers employed in education sector adjusted for numbers of tertiary education sector employees (data as at March of each year). Data for each industry classification, except government administration, includes service delivery and administrative staff relevant to given industry. The data used in this figure are of an indicative nature.

Source: ABS, Wage and Salary Earners, Public Sector, Australia; DEEWR, Selected Higher Education Statistics.

There is some evidence to suggest that the share of administrative staff have increased in the key service delivery areas of education, health and policing (Box 1).

Box 1: Growing administration in key state government service delivery areas

The employment of administrative staff, commonly known as bureaucrats, is important for a functioning system of government under the rule of law. Indeed, a competent and professional bureaucracy is necessary to ensure provision of a limited set of pure public goods by government, which cannot be provided through competitive markets as guided by the profit-and-loss mechanism.

However, it is entirely possible that bureaucracy can, and often does, grow beyond its useful minimum size. The American public choice scholar Gordon Tullock described the situation where government administration grows outside of limited bounds as ‘bureaucratic free enterprise.’

This is a situation whereby ‘the bureaucracy will do things, will take actions, not because such actions are desired by the ultimate authority, the centre of power, in the organization, but because such things, such actions, develop as an outgrowth of the bureaucracy’s own processes.’

The British historian and essayist C. Northcote Parkinson explained in 1955 that there exist inherent incentives for bureaucracies to expand without necessity over time. Drawing upon the experience of the British defence system, Parkinson outlined a law whereby ‘work expands so as to fill the time available for its completion’ together with growth in the number of employed administrators.

Box 1 (cont'd): Growing administration in key state government service delivery areas

Similarly, in the specific context of health care, British physician Max Gammon described a process whereby administrative effort tends to displace frontline service provision as funding increases: in 'a bureaucratic system ... *increase in expenditure* will be matched by *fall in production*. ... Such systems will act rather like 'black holes' in the economic universe, simultaneously sucking in resources, and shrinking in terms of 'emitted' production.'

Importantly, Gammon also explained that 'bureaucratic displacement is a disorder which is not confined to designated administrative staff; it involves all members of the organisation.' This occurs when time that could be otherwise used by service delivery staff to directly address client needs is displaced by red tape and administrative tasks.

Putting aside Gammon's red tape displacement effect affecting service delivery personnel, there is some evidence of an increase in the relative share of administrative staff in areas such as education, health and policing in recent years.

Education

According to the MCEECDYA National Report on Schooling, the proportion of non-teaching positions in government schools across Australia has increased from 27 per cent in 2000 to 30 per cent in 2007. This trend occurred in every jurisdiction except Queensland. Over the same period, the number of government schools nationally declined by two per cent.

There is evidence of similar trends presented in self-enumerated data by some jurisdictions. In Western Australia, the proportion of administrative and clerical staff in the Department of Education and Training increased between 2000-01 and 2007-08.

In Tasmania, the absolute number of teachers declined from 5,023 FTE (as at 30 June 2000) to 4,871 FTE (30 June 2008) while the overall number of staff in the Education Department increased over the same period.

Health

The AIHW National Hospital Statistics series shows that the share of administrative and clerical staff in public hospitals nationally has increased slightly between 2000-01 and 2007-08. This trend coincides with a reduction in the number of public acute hospital beds (per 1,000 population) between 1996 and 2006.

Information on health district staffing provided by Queensland Health shows an increase in the proportion of managerial and clerical staff in that state over the course of this decade. Similar trends are revealed in departmental annual reports over the past few years.

The former head of the Bundaberg Hospital Commission of Inquiry, Anthony Morris QC, submitted to a federal parliamentary inquiry in 2005 that 'only 20% of the Department's employees (totalling some 64,000) are doctors or nurses: for every clinician who actually deals with patients, there are four other employees who have to justify their existence within Queensland Health.'

Similar trends were also recorded in recent years for Western Australia, Tasmania and the Northern Territory.

Policing

The Productivity Commission's Report on Government Service Provision provides information on the share of operational and non-operational staff in state and territory police forces.

Box 1 (cont'd): Growing administration in key state government service delivery areas

According to data published by the commission, the proportion of non-operational staff has increased since 2000-01 for Western Australia, South Australia and the ACT, and since 2001-02 for Victoria and Queensland.

In NSW the proportion of administrative staff in the police department, plus supporting ministerial officers, has increased slightly from 2003-04 to 2007-08. In Victoria, the proportion of police and recruits in the total police department workforce has declined since 2004. Similar trends were also recorded in Western Australia and South Australia.

Source: Australian Doctors Fund, 2005, “Gammon’s Law of Bureaucratic Displacement” A note from Dr Max Gammon with some quotes from Milton Friedman’, http://www.adf.com.au/archive.php?doc_id=113 (accessed 23 September 2009); Sinclair Davidson and Julie Novak, 2008, *Sustaining Growth: Reforms for Tasmanian Prosperity*, Report for Tasmanian Chamber of Commerce and Industry (TCCI); Milton and Rose Friedman, 1980, *Free to Choose: A Personal Statement*, Harcourt Brace Jovanovich, New York; Anthony J. H. Morris QC, 2005, Submission to House of Representatives Standing Committee on Health and Ageing Inquiry into Health Funding; C. Northcote Parkinson, ‘Parkinson’s Law’, http://www.economist.com/businessfinance/management/displayStory.cfm?story_id=14116121 (accessed 23 September 2009); Jeremy Sammut, 2009, *Why Public Hospitals are Overcrowded: Ten Points for Policymakers*, CIS Policy Monograph; State and territory Departments of Education, Health and Police Annual Reports; Gordon Tullock, 1965 (2005), *The Politics of Bureaucracy*, Liberty Fund Edition.

The significant expansion in public sector employment this decade has been the by-product of efforts by state administrations to overcome the expenditure ‘neglect’ that allegedly took place during the 1990s.

However, as illustrated by figure 1 in the previous section, the spending approach by governments eventually led to significant budget shortfalls as expenditure growth outpaced the growth of revenue proceeds.

2.3 What are states planning to do to reduce public service growth?

Now faced with the urgent need to restrain costs, a number of jurisdictions have announced measures to slow or reverse the growth of their public services:

- In its 2008-09 mini-budget, the NSW government announced a 20 per cent reduction in the size of its senior executive service. The government is also pursuing a staffing freeze for ‘non-frontline’ services.
- The Queensland government has indicated it intends to limit growth in its public sector workforce to ‘front line service delivery areas and targeted policy commitments,’¹¹ as well as abolish 103 government boards.
- The Western Australian government introduced a full-time equivalent (FTE) ceiling across the general government sector, originally capped at 99,155 FTE

¹¹ The Bligh government has recently indicated that it intends to offer redundancies to 250 senior bureaucrats, allowing for an increase in frontline service workers. Chris O’Brien, 2009, ‘Qld to cut senior bureaucrats’, ABC Online, <http://www.abc.net.au/news/stories/2009/10/02/2702797.htm?site=news> (accessed 3 October).

staff for 2008-09. It is also supporting the voluntary redundancies of up to 500 staff, as well as rationalising the existing number of government boards and committees.

- In South Australia, the state government announced a reduction of 1,600 public service positions not directly involved in frontline service delivery from 2009-10 to 2011-12. The government is also offering a targeted regime of voluntary separations from the public sector for a limited period.
- The Tasmanian government is seeking a range of cost savings, such as a reduction in the number of senior executive officers and a review of middle management. It has also introduced an 'agency cost reduction requirement' policy entailing vacancy controls, early or phased-in retirements and targeted voluntary redundancies of 800 positions.¹²

Most jurisdictions have also announced a combination of whole-of-government efficiency dividends and discretionary expenditure savings. Some states – such as New South Wales, Queensland and Tasmania – have outlined privatisation plans in areas such as electricity retail, forestry, lotteries, ports, rail networks and toll road operations.

These measures are already being met with strong opposition from public sector and other trade unions (Box 2).

Box 2: Union reactions to state public sector rationalisation initiatives

With 42 per cent of (federal and state) public sector employees retaining union membership in 2008, compared to 14 per cent of private sector employees, public sector and other unions have a strong vested interest in the maintenance and expansion of state governments. As stated in June 2009 by former NSW Treasurer Michael Costa, 'unions scarcely exist in the private sector and rely on the expansion of public sector employment in key growth areas such as health and education to maintain any new membership.'

This interest is typically invariant to the condition of state budgets prevailing at any given time. Therefore, it is unsurprising that current initiatives by state governments to freeze or reduce the size of their public sectors have been almost universally opposed by the union movement.

NSW labour unions have voiced their strong opposition to a number of privatisation proposals. For example, the Maritime Union has opposed the sale of Sydney Ferries arguing, without supporting evidence, that 'a sale would result in inevitable ticket price rises and safety cut backs.'

The Australian Manufacturing Workers Union secretary, Paul Bastian, warned the government that his union would be prepared 'to go to the wall' on the Sydney ferries privatisation similar to its oppositional stance against electricity privatisation.

The NSW Public Service Association recently engaged Access Economics to help argue its case against reductions in state government operational spending, even in light of a NSW budget deficit of over \$700 million.

In Queensland, the Council of Unions is coordinating a \$400,000 campaign opposing the sale of public sector assets. Complementing this are efforts by the Queensland Public Sector Union to force the state government to allow all workers in entities earmarked for privatisation to return to the public sector within a twelve month period, and at their existing operating level.

The Bligh government has responded to these pressures by appointing ex-Reserve Bank governor Bernie Fraser on a \$2,500 per day retainer to negotiate asset sales with unions.

¹² Information drawn from state and territory government budget papers.

Box 2 (cont'd): Union reactions to state public sector rationalisation initiatives

The Western Australian branch of the Community & Public Sector Union (CPSU) has argued that the state government's FTE ceiling and efficiency dividend policies will 'massively' disrupt services.

It recently cited a reduction in the WA public service share of the total state labour force to support its case against government policy of expenditure restraint. However, the total public sector grew by about 19 per cent from 1997 to 2007 compared to growth of the state population of about 17 per cent.

Source: ABS, *Employee Earnings, Benefits and Trade Union Membership, Australia*, cat. no. 6310.0; Access Economics, 2009, *New South Wales government services in the global financial crisis*, Report for NSW Public Service Association, May; Andrew Clennell and Brian Robins, 2009, 'Pay rise delay to save Rees budget', *The Sydney Morning Herald*, 1 June; Michael Costa, 2009, 'Unions putting ALP into reverse', *The Australian*, 5 June; Patrick Lion, 2009, 'Bligh's \$2500 a day peacemaker is Bernie Fraser', *The Courier Mail*, 26 September; Maritime Union of Australia, 2009, 'Sydney Ferry claims pure fiction', Media release, 22 May; Imre Salusinszky, 2009, 'Nathan Rees privatises NSW state lotteries', *The Australian*, 9 September; Andrew West, 2009, 'Business fears ALP deal to scupper ferry plan', *The Sydney Morning Herald*, 7 September.

How state governments respond to political pressures generated by unions and other vested interests, including the bureaucracy itself, will be critical in determining the overall success of current fiscal consolidation objectives.

However, there are some signs that governments are softening their initial positions regarding the need to reduce public sector staffing.

Pressure from public sector unions contributed to forcing NSW and Queensland to protect public sector positions during their respective processes of forming 'mega-departments',¹³ despite the clear opportunities presented by such reforms to secure meaningful efficiencies in the size and composition of staffing.

Trade unions in Queensland claim to have played a decisive role in the Bligh government's reversal of its intention to sell non-coal and non-suburban rail networks.¹⁴

Apart from political pressure exerted by special interests with a stake in rising state public sector employment, the present capacity of states to rationalise their

¹³ 'Bligh axes 10 Qld government depts', *The Sydney Morning Herald*, 25 March 2009; Andrew Clennell, 2009, 'Rees' public service overhaul – with no job losses', *The Sydney Morning Herald*, 11 June.

¹⁴ The Queensland government officially cited a lack of interest by the federal Australian Rail Track Corporation to purchase Queensland Rail's non-coal below-rail network for its decision to retain rail track. However, when announcing the government's decision Queensland Premier Anna Bligh was reported as stating that 'in many meetings, and in writing, the RTBU [Rail, Tram and Bus Union] has made several points about the need for ongoing public ownership of track. ... I believe those mighty QR [Queensland Rail] pioneers – dating back to 1865 – those who built out steel-vein rail network – would be happy with our decision.' See Natasha Bitu, 2009, 'Unions threaten revolt over privatisation', *The Australian*, 3 June; The Hon Anna Bligh, 2009, 'Qld's non-coal below-rail network will remain in State hands: Bligh', Media release, 19 August; 'Fight against rail sale gathers steam', *Brisbane Times*, 19 August 2009, <http://www.brisbanetimes.com.au/queensland/fight-against-rail-sale-gathers-steam-20090819-eq4v.html> (accessed 8 September 2009).

employments are also being constrained by the need to adhere to joint federal and state agreements on services delivery.¹⁵

Given the parlous condition of state public finances, it is essential that states and territories at the very least deliver on their previously announced commitments and, as discussed below, explore additional avenues to rein in the size of public sector employment into the future.

3 Pay boom: How have state and territory government employee wages and entitlements grown over the years?

The payment of wages and salaries, plus expenses associated with entitlements such as accrued leave and superannuation, also contributes to the recurrent costs incurred by state governments.

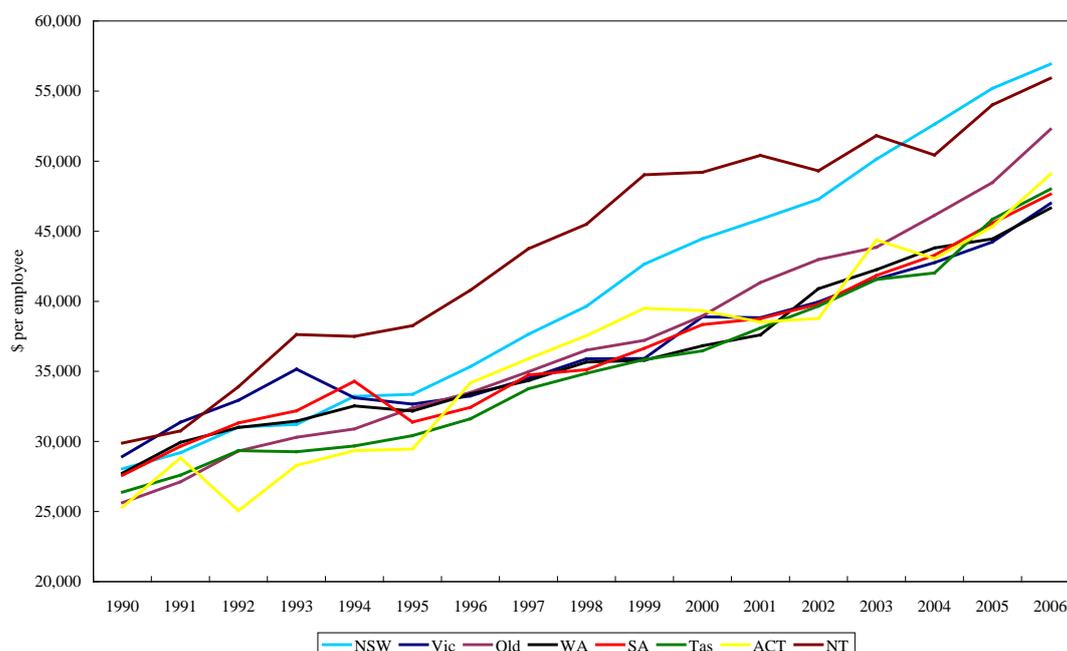
3.1 What have been the long term trends in state public service wages and entitlements?

The ABS series on public sector wage and salary earners, as used above, also provided consistent information on the gross earnings of state and territory government employees.

Adjusting for higher education sector staff earnings, it is possible to roughly calculate an implied average amount of gross earnings for each state employee. From 1990 to 2006, gross earnings per state public servant across Australia increased at an average annual rate of about four per cent (Figure 8).

¹⁵ For example, in September 2009 alone the NSW government advertised eight vacancies for managerial, research and clerical staff to administer the Literacy and Numeracy, Teacher Quality and Low SES School Communities National Partnership arrangements. The total salaries for these positions are valued at over \$491,000, with the base salary expected to rise by four per cent in July 2010. It also advertised a total of 56 positions (permanent full- and part-time, and temporary) to implement the federal government's 'digital education revolution.'

Figure 8: Gross earnings per state and territory total public sector employee



Data for gross earnings for state public sector workers as of each calendar year, less gross earnings of workers employed in higher education sector. Gross earnings data adjusted for numbers of state public sector workers (less higher education workers) as at February (March) of each year respectively. The data used in this figure are of an indicative nature, and are expressed in nominal terms.

Source: ABS, Wage and Salary Earners, Public Sector, Australia; DEEWR, Selected Higher Education Statistics.

Since 2000, Queensland has recorded the strongest growth in gross earnings per state public sector employee – increasing from about \$39,000 in 2000 to about \$53,300 (or an average five per cent per annum). This was followed by Tasmania (4.7 per cent), NSW (4.2 per cent), WA (four per cent) and the ACT (3.8 per cent).

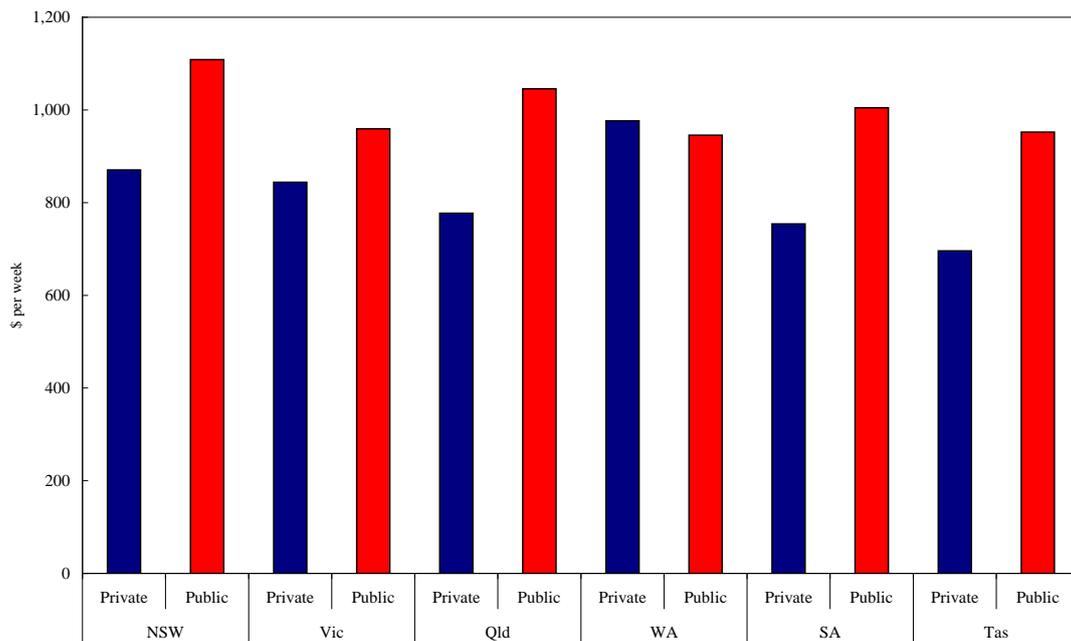
3.2 How do state public servant wages compare with the private sector?

ABS data on average weekly earnings allows some indirect comparisons to be made with regards to the growth in remuneration between the private and public sectors. The available evidence suggests that government workers on average receive significantly greater remuneration, compared to their private sector counterparts.¹⁶

Excluding the territories, where commonwealth government employment predominate the public sector data in those jurisdictions, the available data reveals that public sector workers receive substantially more in earnings per week (up to 37 per cent in Tasmania) than their private sector counterparts except in the resources state of Western Australia (Figure 9).

¹⁶ Public sector employees also generally enjoy high levels of job security by virtue of being shielded from the efficiency-enhancing rigours of market competition.

Figure 9: Private and public sector average total weekly earnings, 2007-08

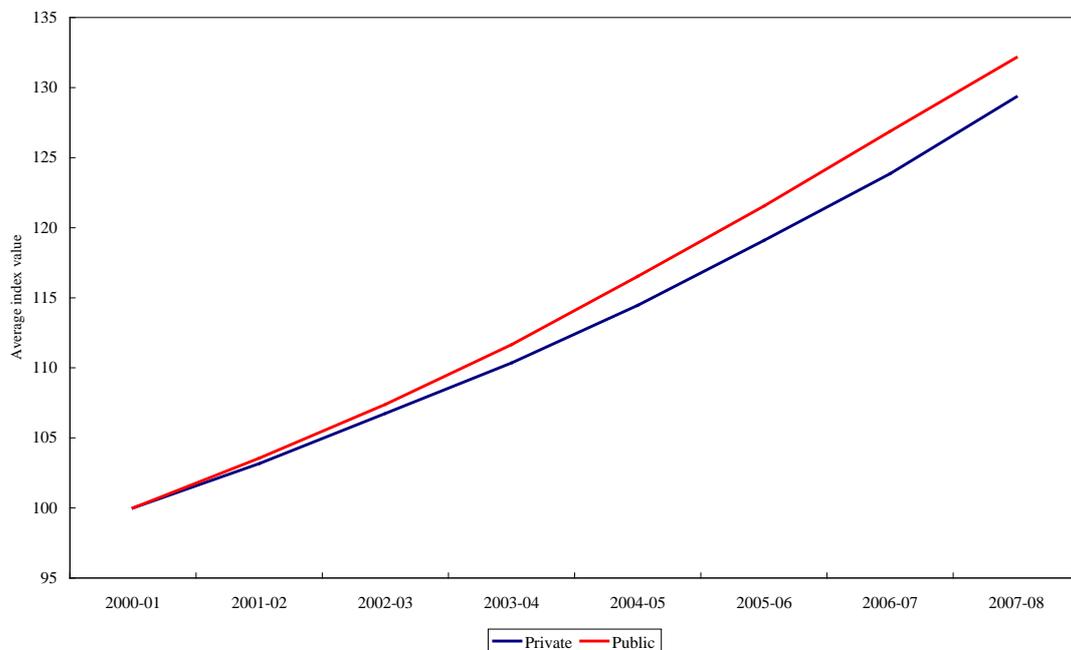


Public sector includes workers in commonwealth and local governments. The data used in this figure are expressed in nominal terms.

Source: ABS, Average Weekly Earnings, Australia, cat. no. 6302.0.

Changes in the ABS labour price index confirm that public sector remuneration in the states has risen at a faster pace than in the private sector over the course of this decade (Figure 10).

Figure 10: Labour price index for private and public sectors



Public sector includes workers in commonwealth and local governments. Index value for 2000-01 set at 100.

Source: ABS, Labour Price Index, Australia, cat. no. 6345.0.

There is a considerable range in remuneration within state public sectors, with chief and senior executive officers receiving benefits typically well in excess of average earnings attained in the private sector (Box 3).

Box 3: Profile of selected state government chief and senior executive services

One of the unintended consequences of recent accusations that private sector remuneration packages are 'excessive' is that increasing public scrutiny has extended to issues surrounding benefits received by public sector employees. Given the benefits of state government chief and senior executive officers are subsidised by taxpayers, including those on low incomes, such scrutiny can be reasonably justified on public interest grounds.

The NSW government employed 853 chief and senior executive officers as at 30 June 2008. In its 2008-09 mini-budget the government announced a reduction in the number of senior executive service positions in the order of 20 per cent. While this reduction target was achieved by mid-2009, the Department of Premier and Cabinet has stated that ten new SES positions will be created in 2009-10 due to the federal government stimulus program.

In its latest determination of CEO and senior executive salaries, the NSW Remuneration Tribunal recommended that the remuneration package for these public servants should be fixed in a range from \$144,800 to \$423,150.

In Victoria there were 635 contracted executive officers in the Victorian Public Service. There are an additional 890 executives across government portfolio areas. Chief executive officers of Victorian government agencies mainly earn from \$100,000 to \$260,000 per annum, excluding end of contract payments or bonuses.

According to media reports, Victorian senior executive staff received \$6.2 million in bonuses during 2007-08. Department of Human Services executives were reportedly paid about \$1.02 million, followed by about \$1 million to Treasury and Finance officials and \$650,000 to officers in the Department of Transport.

In October 2009, the chief executive of the Western Australian Government Employees Superannuation Board (GESB) was reportedly granted a pay rise of \$160,000 by the GESB board last year, increasing the CEO's salary from \$370,000 to \$530,000. This is despite GESB posting a negative 11.4 per cent return on its investments last financial year.

In South Australia it has been estimated that the number of state public servants earning more than \$100,000 per annum has increased from about 780 in 2002 to about 4,000 in 2007-08. It has been reported that the chief executive of the Department of Premier and Cabinet earns approximately \$130,000 more than Premier Mike Rann.

According to the 2007-08 Annual Report of the Tasmanian State Service Commissioner, there were 285 senior executive officers in the State Service including agency heads, senior executives, equivalent specialists and prescribed office holders.

In an examination of severance payments to senior public servants in Tasmania, the Auditor General found that payouts averaged \$100,000 for departmental executives while those managing government business enterprises received an average of \$500,000 in termination payouts. The Auditor General expressed concern that 'many severance payments did not have adequate documentation to determine which party had initiated termination of the employment contract, on what basis payments had been made or who had authorised them.'

In the ACT it was estimated that there were 175 executive employees in the ACT Public Service at June 2008. Male executives received an average salary of \$154,238 while the average salary for female executives was \$151,961.

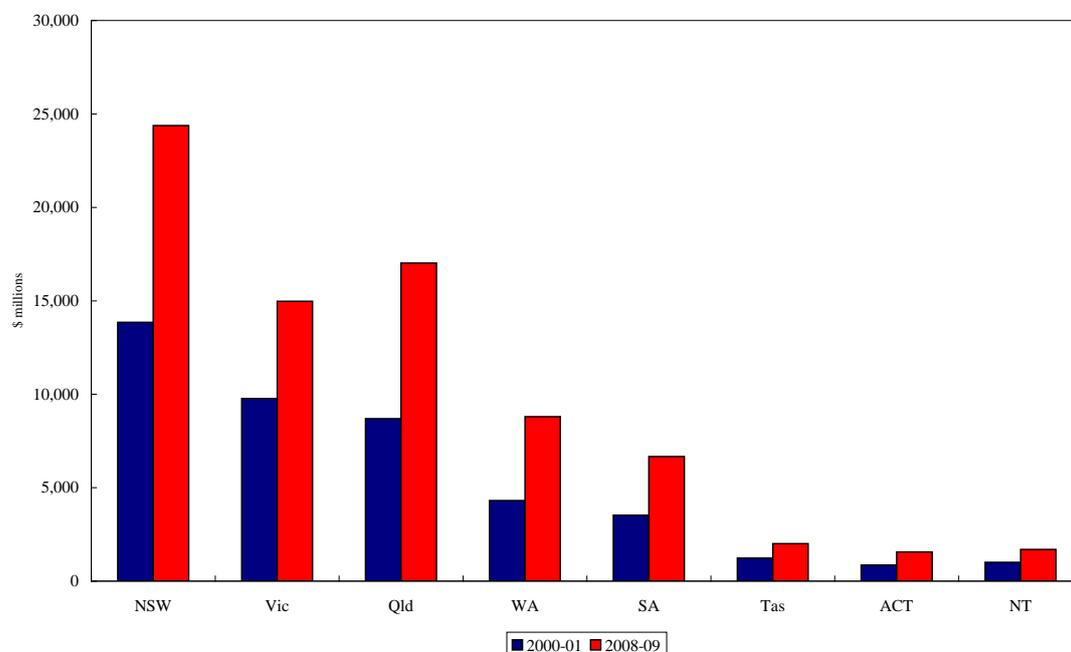
Source: ACT Commissioner for Public Administration, 2008, *2007-08 ACT Public Service Workforce Profile*; Auditor-General Tasmania, 2008, *Executive Termination Payments*, Special Report No. 75; Peter Kerr, 2009, 'Super chief gets 23pc pay rise despite losses', *The West Australian*, 29 September; Geraldine Mitchell and Stephen McMahon, 2009, 'Huge payouts to bureaucrats running down Department of Human Services', *The Herald-Sun*, 3 July; New South Wales Department of Premier and Cabinet, *SES Reductions – Progress Report*, http://www.dpc.nsw.gov.au/_data/assets/pdf_file/0018/42309/SES_Reductions_-_Progress_Report_-_30_June_2009.pdf (accessed 23 September 2009); New South Wales Remuneration Tribunal, *SES Determination November 2008*, http://www.remtribunals.nsw.gov.au/statutory_and_other_offices/ses_determination_november_2008 (accessed 23 September 2009); Office of the State Service Commissioner Tasmania, 2008, *Annual Report 2007-08*; Chris Pepper, 2009, '1000 more in PS top \$100,000', *Adelaide Advertiser*, 22 February; State Services Authority Victoria, 2009, *The State of the Public Sector in Victoria 2007-08*.

3.3 How have state public service wages and entitlements changed in recent years?

Drawing upon state government documentation, it is possible to consider the budgetary impact of changes in employee expenses over time.

Incorporating superannuation expenses, the costs of employing workers in the state and territory general government sector rose from \$43.3 billion in 2000-01 to \$77.1 billion in 2007-08 (figure 11). This represented an average annual percentage increase of 8.6 per cent over the period – well in excess of the average inflation rate of 4.6 per cent over the period.

Figure 11: State and territory general government sector employee expenses

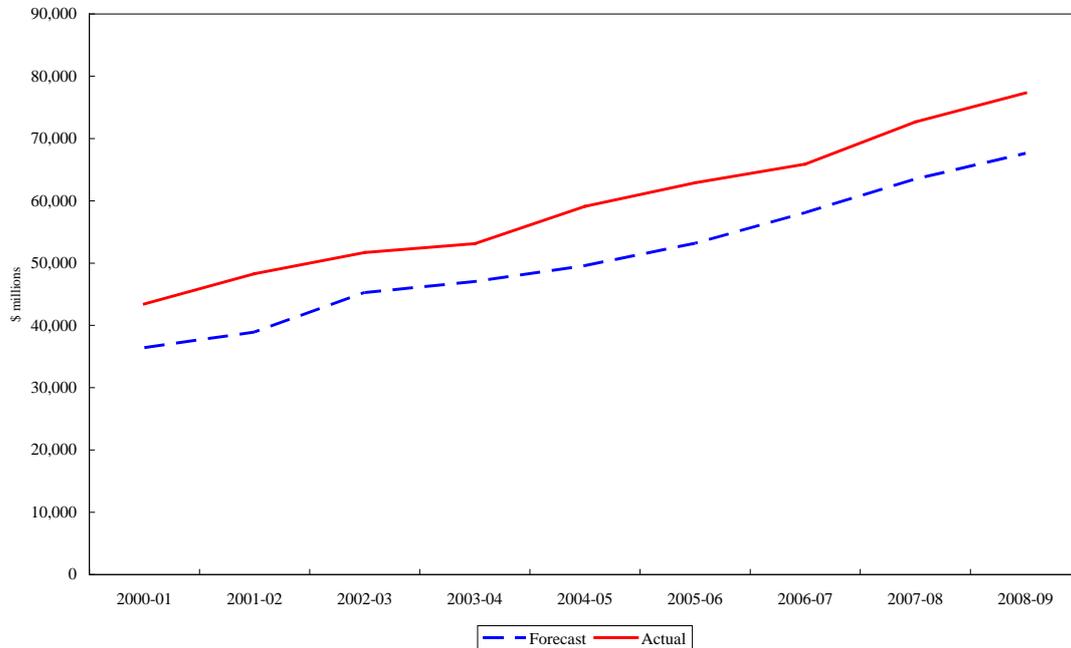


Figures are expressed in nominal terms.

Source: ABS; state and territory government budget papers.

An analysis of state budget data reveals that governments expended an additional \$74.7 billion on general government sector employee wages and other entitlements, over and above initial forecasts outlined in the budget documents (Figure 12).

Figure 12: Actual versus forecast state and territory general government sector employee expenses, 2000-01 to 2008-09



Figures are expressed in nominal terms.

Source: ABS; State and territory budget papers.

This trend is illustrative of the states' failure to contain their own employment costs in key areas of service delivery, such as education (Box 4), health and policing, as they approve 'catch up' wage deals for their public servants. One explanation for this is provided by public choice theorists James M. Buchanan and Gordon Tullock:

The votes of bureaucrats would be partially directed toward expanding the size of their agencies and partially toward raising their own salaries. ... As agencies become larger, however, and the bureaucracy members come to make up a larger and larger share of the total voting constituency, the possibility of the usage of civil servant voting power to expand salaries directly becomes real. ... most democracies have passed the phase of expansion in the sheer size of bureaus and have now moved into the phase of expansion of bureaucratic salaries.¹⁷

As noted above, these actions have directly contributed to the significant growth in expenses precipitating the existing state budget crisis.

Box 4: Recent state government pay deals with teacher unions

Teacher unions have engaged in rolling campaigns across the country to win inflationary pay rises from their respective state governments.

¹⁷ James M. Buchanan and Gordon Tullock, 'The Expanding Public Sector: Wagner Squared', *Public Choice* 31: 147-150.

Box 4 (cont'd): Recent state government pay deals with teacher unions

The latest round of teacher pay increases started in Victoria. After a fourteen month campaign of pickets and stop-work periods, the Victorian government relented by providing an average 18 per cent pay increase over four years. In return, the unions agreed to have teaching staff work an extra ten minutes per working day.

This decision, motivated by the desire to make Victoria's government school teachers the 'best paid' in the country, sparked a zero-sum game bidding war by teacher unions in other states.

In one of its first decisions since attaining office, the Barnett government in Western Australia granted an immediate six per cent pay increase for teachers and school administrators. In September 2008, Premier Colin Barnett stated that 'the increase would make Western Australian teachers the highest paid in Australia.'

This was on top of a record pay deal for teachers approved in July 2008 incorporating pay increases of between 16 and 22 per cent over three years.

The WA pay decision was followed by an agreement reached in NSW, where teachers received a 12 per cent pay increase over three years from the state government.

In two other states, governments and teachers unions are currently locked in arbitration over disputed pay increases.

The Queensland Teachers' Union (QTU) have rejected a 12.5 per cent pay offer from the Bligh government, on the basis that it will not enable its members to achieve pay parity with other jurisdictions. QTU members have engaged in strike action, and imposed work bans on the implementation of the federal National Partnership agreement for low SES community schools.

The South Australian government and teacher unions are also engaged in an arbitration process. The Australian Education Union (AEU) has sought a 21 per cent increase in pay over a three year period, compared to the Rann government's offer of 14 per cent for classroom teachers. The union has sought an interim seven per cent pay rise.

While teacher unions across the states are coordinating campaigns in order to secure standardisation of wage conditions, irrespective of the differing cost-of-living circumstances in different states, they have represented a key stumbling block over the years against the merit pay schemes to attract and reward successful teachers.

In an opinion piece published in 2006, John McCollow of the AEU suggested that 'there are ... a number of ways of increasing the financial attractiveness of teaching as a career. One is a general increase in average teacher salaries.' It is also suggested, without support from survey or similar evidence, that teachers would prefer changes such as smaller class sizes or infrastructure improvements.

While settling wage disputes with public sector unions may win state politicians some temporary relief from otherwise politically damaging images of union discord, state taxpayers remain left to subsidise the pay increases while reform of the education system remains on the backburner.

Source: Andrew Burrell, 2008, 'WA teachers get 6pc pay rise', *The Australian Financial Review*, 7 October; John McCollow, 2006, *Has Teacher Quality Declined and is "Merit Pay" the Answer?*, <http://www.aeufederal.org.au/Publications/anustudy.pdf> (accessed 23 September 2009); Brad Norington and Milanda Rout, 2008, 'Teachers' rise a risk to inflation', *The Australian*, 6 May; Tracy Ong, 2008, 'South Australian teachers want seven per cent interim pay rise', *The Adelaide Advertiser*, 2 October; 'States face \$2.8bn jump in wage bill', *The Australian Financial Review*, 25 July.

3.3 What are states planning to do to reduce public service wages growth?

States have outlined measures in an attempt to stem the fiscal haemorrhaging caused by continuous growth in employee expenses:

- From September 2007, the NSW government has maintained a wages policy of 2.5 per cent (with wage rises above that amount to be offset by employee-related cost savings).
- The Victorian government has revised down its wages policy from 3.25 per cent per annum increases to 2.5 per cent, with further increases in line with productivity improvements.
- In Queensland, a new wages policy of 2.5 per cent per annum will apply until the state budget returns to surplus. This policy applies to general agreements expiring after 31 December 2009, and from 1 July 2009 for chief and senior executives and senior officers.¹⁸ The government has also closed its superannuation scheme defined benefit account to new members.
- In Western Australia, a wages policy has been set for base wage increases of 2.5 per cent in 2009-10 and 2010-11, and three per cent in 2011-12. Increases in wages above baseline growth to be justified by improved efficiency and work practice reforms.
- The South Australian government will implement a wages policy allowing for increases of up to 2.5 per cent each year.
- The Tasmanian 2009-10 budget outlined a wage restraint policy for new agreements set at one per cent per annum in 2009-10 and 2010-11, and 2.5 per cent in 2011-12 and 2012-13. It has also introduced a wages freeze limited to senior public service executives for a twelve month period.¹⁹

The ACT has a wages restraint policy that aims to achieve expenditure savings of up to \$37 million by 2012-13, while in September 2009 the Northern Territory government recently announced a wages policy limiting increases to 2.5 per cent per annum.

Despite these announcements, information provided by the states and territories suggests that further action will be needed to appropriately restrain employee expenses.

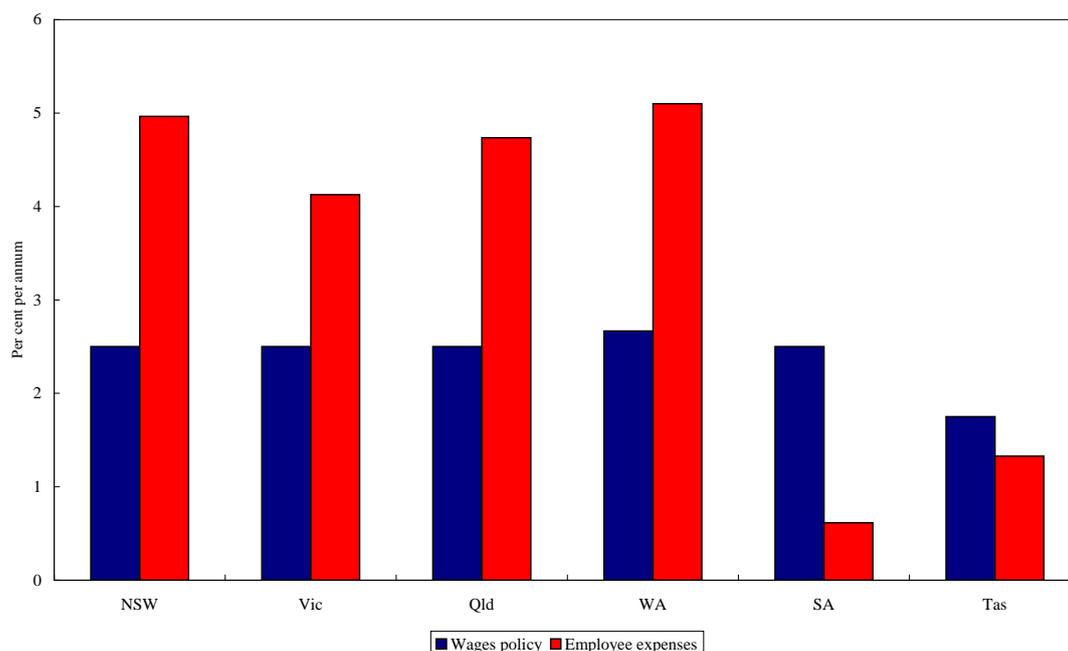
¹⁸ Prior to the cut-off period, the Queensland government and Queensland Nurses Union agreed to a 12.5 per cent pay increase over three years. Earlier the government negotiated an agreement with the Queensland Public Sector Union and associated unions providing general state government employees a pay rise of 4.5 per cent in the first year and four per cent in the following two years. According to a Unions Australia press release dated 15 January 2009, 'Working together with their unions, Queensland public sector employees have gained inflation-busting pay rises from the State Government. ... As a result of the union's organizing and negotiating skills, the final agreement ... was a vast improvement on the government's initial offer of 3.25%.' [http://www.unionsaustralia.com.au/\(S\(rgrfydio5211zwreufntx55\)\)/news/pay-rise-for-125000-13.aspx](http://www.unionsaustralia.com.au/(S(rgrfydio5211zwreufntx55))/news/pay-rise-for-125000-13.aspx) (accessed 23 September 2009).

¹⁹ Information drawn from state and territory government budget papers. According to media reports, governments in NSW, Queensland and Tasmania chose not to pursue more comprehensive efforts to control public sector costs in part because to expected opposition from unions. See Craig Johnstone, 2009, 'Bureaucracy the growth industry in our state', *The Courier Mail*, 4 June; Sue Neales, 2009, 'Fat cats lose the cream', *Hobart Mercury*, 22 April; 'Premier refuses to rule out wage freeze laws', *ABC News Online*, 22 April; 'Rees keen to freeze public service wages', *The Age*, 1 June; 'Unions, Bligh on collision course over pay cuts', 17 April; 'Unions reject Rees pay freeze plan', 2 June.

While there are variations across the states and territories, the overall ratio of employee expenses to operating expenses is expected to continually increase over the forward estimates from 46 per cent to 48 per cent.²⁰

Further, the larger states are effectively conceding that growth in general government employee expenses (including for existing agreements that were locked in during a more prosperous period) will exceed their enunciated baseline wages targets (Figure 13).

Figure 13: Expected average growth in state general government sector employee expenses, 2009-10 to 2012-13



Excluding superannuation expenses. It is assumed that the 2009-10 wages policy for NSW, Victoria, Queensland and South Australia will remain constant over the forward estimates period. Data for Western Australia are based on figures applicable for the three-year period 2009-10 to 2011-12 only. Data for employee expenses include the effect of wage increases under existing agreements as at the time of 2009-10 state budgets. Figures are expressed in nominal terms.

Source: State and territory government budget papers.

With elections due in South Australia and Tasmania next year wages are likely to rise over and beyond those ambitiously forecast by those states, as governments seek to placate union pay demands across key areas of services delivery.²¹

In South Australia, there are a number of pressure points for future public sector pay increases threatening the integrity of the stated wages policy. As noted above, proceedings are continuing in the Industrial Relations Commission regarding an arbitrated award for teachers and TAFE lecturers.

According to the latest budget papers, pay negotiations in South Australia have also commenced with medical specialists and new agreements are expected this financial

²⁰ Information drawn from state and territory government budget papers.

²¹ Mathew Dunckley and Mark Skulley, 2009, 'States battle to contain wages', The Australian Financial Review, 15 July.

year for salaried employees, ambulance service employees and support staff for parliamentarians.²²

The Tasmanian government has indicated that it may loosen its purse strings in the medium term by 'restoring wage parity with comparable interstate occupational groups as a key objective when the Government has achieved its Interim Fiscal Strategy targets and the Budget has been returned to a sustainable position.'²³

Overall, salaries and other entitlements for state public servants have increased significantly even after accounting for the overall growth in state public sector employment. In other words, the states' budget pressures are mainly attributable to the public service pay boom as governments exercised lax cost controls over salary and benefit growth.

The lamentable recent history of the states on the employee cost control front points to the need for the states to consider strong policy approaches managing public service costs, not to mention alternative strategies for enforcement of publicly stated commitments in this area.

4 Meagre return: Are state taxpayers getting value for money from more and better-paid public servants?

During the course of this decade governments have devoted significantly more taxpayer resources to a wide variety of services.²⁴ From 2000-01 to 2007-08, states and territories spent \$57.4 billion on service provision.²⁵ About 58 per cent of the additional expenditure on services was directed towards education and health. There were also significant increases in welfare and housing expenditure.

However, about \$42.9 billion of the \$57.4 billion increased spending on state services provision was used to cover higher operating expenses. Increased labour costs accounted for two thirds or \$28.3 billion of this rise in operating costs.

The key question that needs to be asked about the states' expenditure activities is whether or not it has delivered better performance and results?

It is difficult to estimate the productivity of government services, and caution should be applied when interpreting trends over time, however the available evidence suggests that the dramatic increase in state government spending has not been accompanied by

²² Government of South Australia, 2009, Budget Statement, 2009-10 Budget Paper No. 3, http://www.treasury.sa.gov.au/df/budget/publications_and_downloads/current_budget.jsp (accessed 16 September 2009).

²³ Government of Tasmania, 2009, The Budget, 2009-10 Budget Paper No. 1, http://www.budget.tas.gov.au/media/pdf/publications/2009-10_BP1.pdf (accessed 16 September 2009).

²⁴ This section largely draws upon the work of Henry Ergas (2007, *State of the States*, The Menzies Research Centre) and Novak (2009, *State finances at the crossroads: The states' budget problem, and what to do about it*, Occasional Paper, Institute of Public Affairs).

²⁵ ABS, Government Finance Statistics, Australia, cat. no. 5512.0.

equally dramatic performance improvements – at least when it comes to two big-spending areas of education and health.

4.1 How are the states performing in the delivery of school education?

Despite a significant increase in funding by the states towards school education, which in part has contributed to a marked reduction in student-staff ratios in schools, there is little evidence to suggest a sustained improvement in educational outcomes attained by students over the past few years.

Prior to 2008, states and territories conducted reading, writing and numeracy achievement benchmarking tests of students in Years 3, 5 and 7 under a national agreement. Taking the results of Year 7 students as an example, it is evident that noticeable improvements were only recorded against tests of reading skills in NSW, writing skills in South Australia and numeracy skills in Victoria.²⁶

Other test results show a decline in performance by students against agreed national test benchmarks over time. Student numeracy skill test results were particularly concerning, with the proportion of Year 7 students meeting the national numeracy benchmark falling in Queensland (by 6.4 percentage points), NSW (5.8 per cent), the ACT (2.2 per cent) and Western Australia (0.3 per cent).

Since 2008, student tests for Years 3, 5, 7 and 9 have been conducted on the basis of the same test items in reading, writing, language conventions (spelling, grammar and punctuation) and numeracy.

According to the results of this National Assessment Program for Literacy and Numeracy (NAPLAN) methodology, test results for students have been mixed over the past two years.

New South Wales, Tasmania and the ACT (which has the highest educational expenditure per government school student in Australia) recorded reductions in the proportion of students achieving minimum standard benchmarks in at least half of the tests conducted in 2009, compared to the previous year.

Declines in the proportions of students achieving minimum national standards in Year 3 spelling and numeracy, Year 5 grammar and punctuation, Year 7 reading, spelling and numeracy and Year 9 reading and spelling were recorded in at least half of the eight jurisdictions in 2009, compared to 2008.

The results of other student testing methodologies are available on an internationally comparable basis. The Trends in International Mathematics and Science Study (TIMSS) collects Years 4 and 8 achievement data in maths and science testing.

The 2007 results from TIMSS showed mixed results for Australia. Year 4 students show some improvements in maths achievement, however Australia's ranking for Year 4

²⁶ A 'noticeable' improvement in learning outcomes is defined as a three percentage points or more increase in the proportion of Year 7 students achieving the agreed national benchmark in reading, writing and numeracy tests in a given jurisdiction. All data are from 2001 to 2007, except for South Australia (2002 to 2007).

mathematics was below countries such as Hong Kong, Singapore, Japan, Kazakhstan, Russia, England, Latvia, Netherlands, Lithuania, United States and Germany.²⁷ In addition, Australian Year 8 maths and Year 4 science achievement levels remained static yet there was a significant decline in science achievement for Year 8 students.

The OECD Programme for International Student Assessment (PISA) also provides internationally comparable test results for scientific, reading and mathematical literacy. The 2006 results indicate that there was still considerable scope to close the learning outcomes gap between individual states and the leading country in each test category (Table 2).

Table 2: State and territory PISA mean test scores, 2006

	Science	Mean score gap	Reading	Mean score gap	Mathematics	Mean score gap
NSW	535	28	519	37	523	26
Vic	513	50	504	52	513	36
Qld	522	41	509	47	519	30
WA	543	20	524	32	531	18
SA	532	31	514	42	520	29
Tas	507	56	496	60	502	47
ACT	549	14	535	21	539	10
NT	490	73	460	96	481	68

The 'mean score gap' is the difference between the mean test score for a given state and the mean test score for the leading country in each test category. Countries with the highest mean scores in 2006 for each category were as follows: science (Finland, 563); reading (Korea, 556); and mathematics (Taiwan, 549).

Source: Sue Thomson and Lisa De Bortoli, 2008, *Exploring scientific literacy: how Australia measures up: the PISA 2006 survey of students' scientific, reading and mathematical literacy skills*, Australian Council for Educational Research (ACER).

A number of independent reports have found that student academic performance has remained stagnant, or has declined, despite significant increases in government funding.

According to the NSW Auditor-General, Peter Achterstraat, 'compared to ten years ago, the New South Wales government has spent over three times more money on improving literacy and numeracy yet there has been little real improvement with our children.'²⁸ Similarly, the Victorian Auditor-General found that improvements in literacy and numeracy by students in the early years of schooling were not sustained over time despite funding increases.²⁹

A 2006 study by ANU economists Andrew Leigh and Chris Ryan found that statistically significant reductions in literacy and numeracy test scores have been recorded since the

²⁷ Sue Thomson, Nicole Wernert, Catherine Underwood and Marina Nicholas, 2008, Highlights from TIMSS 2007 from Australia's perspective, Australian Council for Educational Research (ACER); Justine Ferrari, 2008, 'Doesn't add up: Borat kids beat Aussies in maths and science', The Australian, 10 December.

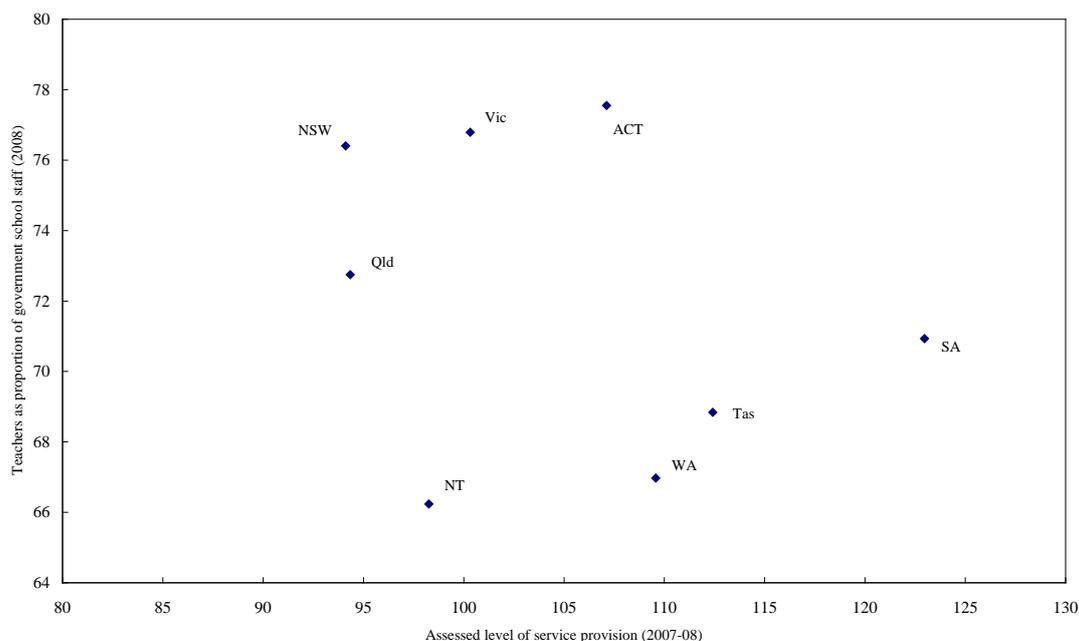
²⁸ Audit Office of New South Wales, 2008, 'Media Release: Auditor-General's Report – State of literacy and numeracy in NSW', http://www.audit.nsw.gov.au/publications/reports/performance/2008/literacy/media_release_literacy.pdf (accessed 17 September 2009).

²⁹ Victorian Auditor-General's Office, 2009, *Literacy and Numeracy Achievement*, February.

1960s. This has occurred despite real school expenditure per student increasing dramatically during that period.³⁰

Figure 14 provides a scatter plot of the assessed level of service provision for government schools against the proportion of teachers as a share of total government school staffing.³¹ It illustrates that a number of jurisdictions are able to achieve relatively higher levels of educational service provision with fewer teachers in the overall government school staff mix.

Figure 14: Value for money in government school education services, 2007-08



Source: Commonwealth Grants Commission, *2009 Update Report Supporting Tables*; MCEECDYA, *National Report on Schooling in Australia 2008*.

4.2 How are the states performing in the delivery of health care in public hospitals?

Key performance indicators for public hospitals – those owned and managed by state and territory governments – suggests that taxpayers are receiving an insufficient return on the substantial amounts spent on the provision of health services.

Results for the number of licensed or available public hospital beds per 1,000 people – a basic indicator of service provision – are decidedly mixed across the states. Whilst NSW, Tasmania and the ACT have increased the number of beds for patient use, the number of

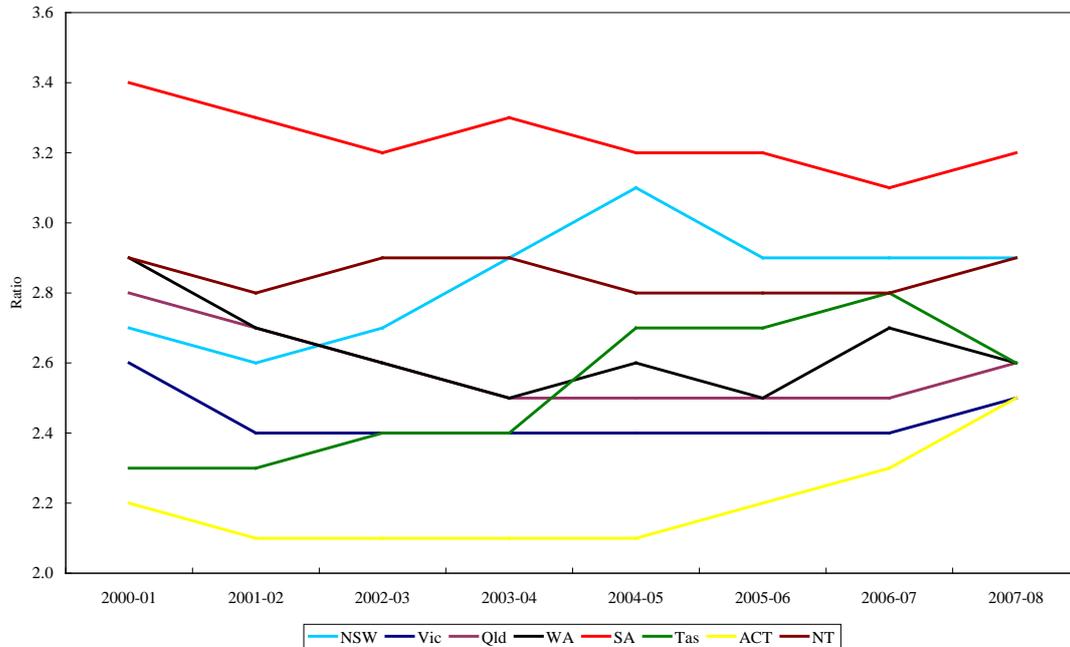
³⁰ Andrew Leigh and Chris Ryan, 2006, 'Long-Run Trends in School Productivity: Evidence from Australia', <http://econrsss.anu.edu.au/~aleigh/pdf/SchoolProductivity.pdf> (accessed 17 September 2009).

³¹ The 'assessed level of service' ratio is defined as the ratio of a jurisdiction's estimated gross expenses per capita to its assessed gross expenses per capita. A ratio greater than 100 indicates that a jurisdiction is providing services at levels above the Australian average, and a ratio below 100 indicates below average levels of service. This ratio is estimated by the Commonwealth Grants Commission in the context of its annual reviews of recommended GST funding shares between states and territories.

available public hospital beds in other states has declined in the face of a rising population (Figure 15).

These mixed trends of service provision have coincided with growth in the rate of public hospital separations nationally of three per cent per annum.

Figure 15: Number of licensed or available public hospital beds per 1,000 people, 2000-01 to 2007-08



Source: Australian Institute of Health and Welfare (AIHW), *Australian Hospital Statistics*.

There is also scope for improvement with regard to the timely treatment of patients presenting themselves at public hospital emergency departments. According to the Australian Institute of Health and Welfare (AIHW), the percentage of emergency department visits seen on time has improved only in NSW, Queensland and South Australia since 2003-04.

In most jurisdictions, there is a less than 70 per cent chance that public hospital emergency patients will be seen in a timely manner.

With the public hospital sector obliged under the state-federal Australian Health Care Agreement to provide services to patients free of charge, access to elective treatments are effectively rationed via the maintenance of waiting lists.

While the percentage of elective patients waiting for more than a year for treatment in a public hospital has declined in the larger states since 2000-01, it has increased in South Australia, Tasmania, the ACT and the Northern Territory.

Recent official inquiry reports paint a picture of bureaucratised public hospital systems that are insufficiently flexible to meet the service demands of the population.

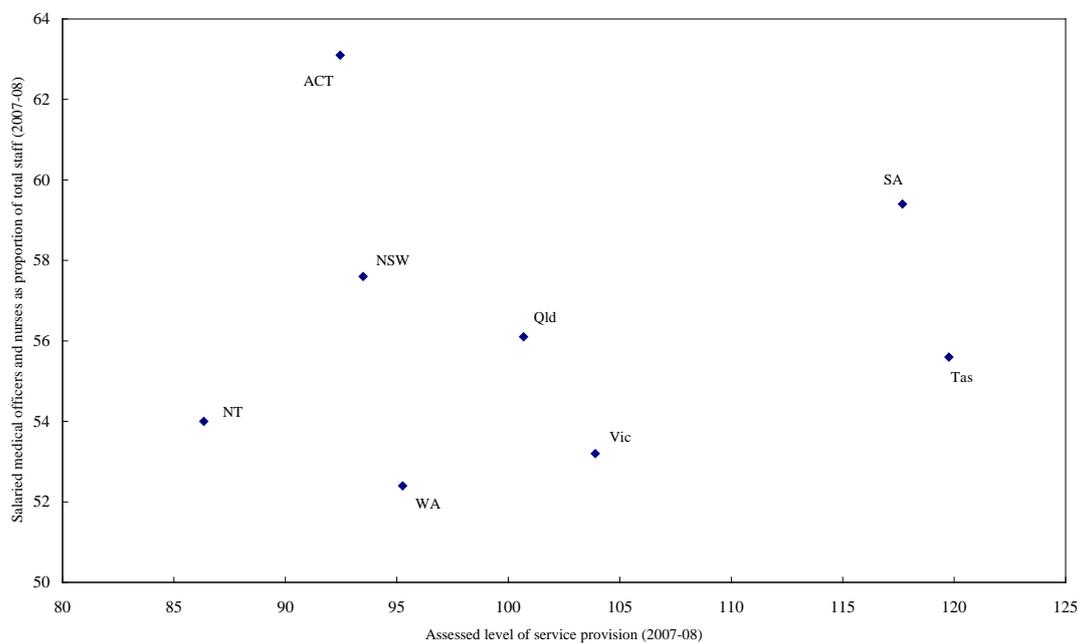
The 2008 Garling Report into NSW public hospital acute care assessed problems arising from administrative changes in 2005, leading to the establishment of eight Area Health Services across that state.

It was reported that the change was associated with ‘a shift from clinical governance of corporate matters, to corporate governance of clinical matters.’³² A consequence of this is that ‘clinical managers cannot make routine purchases or decisions, which impedes patient care, particularly where urgent supplies are required.’³³

The 2005 Forster Review into Queensland Health Systems found that bottlenecks in decision making in the Queensland Health Department bureaucracy slowed the capacity of the organisation to respond to service delivery pressures.³⁴ Many clinicians also reported that increasing amounts of their time was being consumed in administrative red tape, contributing to a reduction in time for patient care.³⁵

There is also a mixed relationship between the share of salaried medical officers and nursing staff working in public hospitals and the level of public hospital inpatient services provision as assessed by the Commonwealth Grants Commission (Figure 16).

Figure 16: Value for money in public hospital inpatient services, 2007-08



Source: AIHW, *Australian Hospital Statistics 2007-08*; Commonwealth Grants Commission, *2009 Update Report Supporting Tables*.

³² Special Commission of Inquiry – Acute Care Services in NSW Public Hospitals (Garling Report), 2008, *Final Report*, p. 1063.

³³ *Ibid*, p. 1075.

³⁴ Queensland Health Systems Review (Forster Report), *Final Report*, p. xiii-xiv.

³⁵ *Ibid*, p. xvii.

5 Budget rescue: What can be done to reduce the fiscal risks of state public sector employment?

On the basis of current policies, the states and territories face a credibility gap between their avowed desire to rectify their self-induced structural budget deficits and statements about the need to control growth of their labour costs.

Wages are the major component of state government operational spending. With increases in the number of public sector employees and remuneration packages proving financially unsustainable in response to a mild downturn in economic conditions, there is a need for states to reduce the costs of their public services.

This section outlines four strands of potential policy reform for states to pursue in an effort to regain fiscal sustainability without diluting the prospects of a strong economic recovery.

5.1 States in budget deficit situations should enact a wage pause until their budgets recover

Measures announced by most jurisdictions in their most recent budgets to restrain the costs of state public sector employment in line with general inflation appear doomed to failure. States' total employee expenses are anticipated to rise by almost seven per cent in 2009-10 compared to the previous year, with inflationary increases also anticipated in future years.

The 'cost plus' environment that continues to pervade state government employment is in stark contrast to that faced by the private sector.

ABS average weekly earnings data suggests that total earnings have declined since November 2008 (about the time of the Rudd government's initial \$10.4 billion fiscal stimulus 'cash splash') in manufacturing, electricity, gas and water, wholesale and retail trades, transportation, finance and insurance, and property and business services.³⁶

In practice, many businesses have mutually agreed with their workers over the past year to reduce working hours and remuneration as a way to protect jobs in a difficult economic climate.³⁷

With states unable to stem the growth in employee expenses through policy discretion, there seems to be merit in exploring ways to adopt rule-based mechanisms for managing such costs during periods of acute budgetary stress.

³⁶ ABS, Average Weekly Earnings, Australia, cat. no. 6302.0.

³⁷ Australian economist Sinclair Davidson recently noted that employers and employees have taken advantage of over two decades of labour market reform to save more jobs than would otherwise be the case. Sinclair Davidson, 2009, 'Rudd's stimulus furphy won't create jobs', Crikey, 22 September.

The specific proposal outlined here is for states to enforce an *ex post* regime of wage pauses based on a monthly or quarterly report of state finances (prepared by treasury departments and independently audited).³⁸

Box 5 illustrates a hypothetical example of how a wages pause mechanism may operate.

A direct consequence of this wage pause mechanism is that, with projected pay increases foregone in the event of a budget deficit situation, taxpayers are relieved of the fiscal burden otherwise imposed. At the margin at least this could help foster economic activities which would then contribute to a return to state budget balance or surplus.

A desire to maintain wage increases might also discourage the otherwise inherent tendency of bureaucrats, as explained by the public choice theorist William Niskanen,³⁹ to seek an expansion of agency budgets that might otherwise risk the occurrence of a budget deficit.

Box 5: A simple state wage pause scenario

In the scenario that follows, suppose that a government negotiated with public servants a two per cent per annum pay increase (effectively a 0.5 per cent pay increase each quarter). The certified agreement included a provision for a periodic wage pause should the budget be in a deficit position.

The following table illustrates the fiscal situation unfolding in the jurisdiction over the year, and its impact on public sector wages under the certified agreement.

Period	Deficit	Wage growth
t - 3	Y	
t - 2	N	0
t - 1	N	0.5
t	?	0.5

Three periods ago a budget deficit was recorded for the state. In response to this, policymakers embarked on a course of public sector reform which quickly reduced expenditure. This led to the budget returning to a surplus position in subsequent periods t-2 and t-1.

While the wage-pause-during-deficit rule meant that public servants had foregone a 0.5 per cent increase in period t-2, due to the budget deficit recorded in t-3, they still receive wage increases of 0.5 per cent for the final two periods of the fiscal year.

³⁸ The sectoral coverage of a public service wage pause rule will be an important practical matter to be settled, which is beyond the scope of this paper.

³⁹ William A. Niskanen, 1971, *Bureaucracy and Representative Government*, Aldine-Atherton, New York.

5.2 Government wages policy could be strengthened through a judicious mix of legislation and information

A formal wage policy is designed, in part, as a signal to public sector workers, unions and the wider taxpaying community that the government intends to restrain growth of its employee wage expenses up to a certain level.

When the pre-announced commitments are enforced, the reputation of the government as a sound manager of public finances is significantly enhanced. This could entail important spin-off benefits for a jurisdiction, including the attraction of capital and skilled labour from other regions as well as promoting a healthy government credit rating.

As noted above, the key problem with existing wage policies of states and territories is their subsequent lack of enforcement which, in turn, exacerbates the damaging budgetary consequences of continually rising public sector employment costs.⁴⁰

To effectively increase the political cost of renegeing on wage policies, state and territory governments should consider enshrining their existing wage policy parameters through legislation. This would force governments to explain any proposed moves, via legislative amendment, to relax their wage policy and facilitate an open community debate about the efficacy of loosening public sector wage settings.

To complement the legislative anchoring of state government wage policies, governments would be obliged to report on productivity improvements attained by their workers, in relevant areas of service delivery, should they wish to lift existing wage policy caps.

Since productivity changes in the public sector are largely unobserved, at least by the general public, publicly available information of this nature would shed light on the factors adjudged by governments to justify a relaxation of wages policies.⁴¹

This information would assist in ameliorating the information asymmetry that bedevils the fiscal relationship between voters and elected legislators, strengthening the hand of citizen-taxpayers to challenge exorbitant pay demands advocated by public sector unions.

⁴⁰ The pattern observed at the state government level is broadly consistent with the notion of 'time inconsistency.' This describes a scenario whereby a preferred course of action undertaken by a government today – for example, announcing a policy limiting public sector wage increases – will be opportunistically abandoned tomorrow – in our example, where the government later reneges on its wage cap in order to gain votes at the next election. See E. Finn Kydland and Edward C. Prescott, 1977, 'Rules Rather than Discretion: The Inconsistency of Optimal Plans', *Journal of Political Economy* 85: 473-491.

⁴¹ It is noted that jurisdictions maintain an efficiency dividend policy, with expenditure savings clawed back from government agencies. As these dividends are purportedly determined on the basis of productivity improvements in the public sector, presumably government possesses at least some information that should be made publicly available on its own accord, and could also be used for the purpose of a strengthened wages policy discussed here.

5.3 Caps on public service numbers could be strengthened to achieve their objectives

The policies affecting the growth of public sector wages and benefits suggested above could be augmented by the diffusion of policies across states to implement explicit upper limits on the numbers of government employees to be engaged during a given period of time.

The Western Australian government currently enforces a cap on full-time equivalent (FTE) staff numbers in the general government sector. The specifications of the original policy as announced in February 2009 included:

- A ceiling of 99,155 FTEs applied to general government sector agencies in 2008-09, inclusive of additional staff (including in nursing and policing) announced by the state government at the 2008 election
- The FTE cap excludes staff working in government trading enterprises.⁴²

According to the latest budget, the estimated WA general government sector employment outcome in 2008-09 was 100,996 FTEs – an excess of 1,841 over the initial ceiling.

This outcome was attributable to incorrect employment estimates provided in the 2008-09 budget, as well as the notion that some departments lacked ‘adequate controls in place to ensure compliance with the ceiling or with expenditure limits. ... we seem to have inherited a culture that has ignored direction from government on budget and head count.’⁴³

The state government has adjusted its FTE ceiling up to 101,803 for 2009-10, allowing for the employment of additional police, health, education and child protection staff.⁴⁴

In practice, public sector employment ceilings should be augmented by clear and transparent enforcement strategies ensuring that the policy has the greatest potential to meet its objective. This may include regular reporting requirements by agencies on their progress against meeting ceiling targets, as has been implemented in WA,⁴⁵ to help ameliorate potential informational asymmetries that may reduce the effectiveness of such policies.

In addition, agencies that breach the ceiling should be liable to financial penalties and senior officials overseeing such breaches may be sanctioned (for example, through a reduction in salary or dismissal from service).

⁴² Hon Troy Buswell, 2009, ‘Cap on public sector workforce announced’, Media statement, <http://www.mediastatements.wa.gov.au/Pages/WACabinetMinistersSearch.aspx?ItemId=131255&minister=Buswell&admin=Barnett> (accessed 21 September 2009).

⁴³ Parliament of Western Australia, 2009, Legislative Assembly Hansard, 11 August, p. 5,627.

⁴⁴ Ibid.

⁴⁵ It is noted that the WA government now required selected agencies to produce monthly or quarterly reports on their progress against meeting the global FTE cap policy, as a means to overcome any informational barriers between government agencies and political representatives.

To be sure, sufficient flexibilities could also be introduced to ensure that the application of a global government employment cap does not detract from the achievement of other policy objectives. For example, the New Zealand government's policy emphasises the need to reduce numbers of administrative staff in exchange for staff responsible for the delivery of frontline services consistent with an overall employment cap.

5.4 Smaller bureaucracy can be achieved if states focus on essential government functions only

Any discussion of the growth in state public sector employment ultimately cannot be divorced from changes in the scope of government.

In general terms, governments would tend to be small and circumspect when its bureaucracies deliver the limited suite of public goods in accordance with the rules and regulations accorded to them.⁴⁶ However, over time governments have extended their activities beyond public goods and into the provision of merit goods and, in some cases, purely private goods.

As noted by Davidson and Novak, significant economic problems can arise from these developments. In particular, private sector activities would tend to be crowded out, with stifling rules and regulations imposed on those businesses that remain. Furthermore, the presence of large bureaucracies in economic affairs would tend to interfere with the free prices formed by the competitive interaction of supply and demand.⁴⁷

Exacerbating the economic damage caused by public sector expansion is the inherent incentives for public sector employees to lobby their political sponsors or the general public to at least maintain these governmental activities.

The economist William A. Niskanen emphasised that there is a connection between the size of agency budgets and factors that increase the typical bureaucrat's utility such as salary, perquisites of office, public reputation, power, patronage and agency output.⁴⁸ This implies that public sector employees naturally evolve into an activist constituency striving to expand the size and scope of government, at the expense of taxpayers and a robust, vibrant private sector.⁴⁹

In order to systemically reduce the level of public expenditure, including labour costs, governments need to regain their focus on what kinds of services are compatible with the appropriate preserve for collective action. In the modern context of the Australian

⁴⁶ According to the father of modern economic thought, Adam Smith, governments – and, by extension, the number of workers directly engaged to support them – should be limited to activities 'though they may be in the highest degree advantageous to a great society, [they] are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals.' Adam Smith, 1776 (1976), *An inquiry into the nature and causes of the wealth of nations*, Volume II, Chicago University Press, Chicago, p. 244.

⁴⁷ Sinclair Davidson and Julie Novak, 2008, *Sustaining Growth: Reforms for Tasmanian Prosperity*, Report for Tasmanian Chamber of Commerce and Industry (TCCI).

⁴⁸ William A. Niskanen, 1971 (2007), *Bureaucracy and Representative Government*, Aldine Atherton: Chicago, p. 38.

⁴⁹ Don Bellante, David Denholm and Ivan Osorio, 2009, *Vallejo Con Dios: Why Public Sector Unionism Is a Bad Deal for Taxpayers and Representative Government*, Cato Institute Policy Analysis No. 645, September, p. 4.

states and territories, these would include the following activities to be conducted by government:

- keeping streets and communities safe through the funding and provision of law and order and justice services, including effective child protection services
- funding school and vocational education services, preferably through competitively-neutral, portable voucher schemes that facilitate choices amongst an array of education providers
- funding health services, including through a voucher system adjusted for the case-mix of services provided within hospitals
- contributing toward infrastructure maintenance and development, with significant financial, construction and logistical support provided by the private sector.

As this schema of appropriate state public sector activities suggests, there exists substantial scope for the delivery of many services currently delivered by governments to be devolved to the for-profit or not-for-profit sectors.⁵⁰ Empirical evidence suggests that this reform agenda would enhance the efficiency by which services are provided, and provide better information on the actual costs of production thereby promoting yardstick comparisons between providers.⁵¹

From the perspective of this paper, these reforms would mean that state and territory expenditures become more focussed on the core functions of government with the number of public sector employees significantly reduced over a transitional period as a result.⁵²

⁵⁰ In the case of states with significant geographic remoteness, there may remain a case for the delivery of services by governments if private sector alternatives do not exist due to an inability to achieve economies of scale (however, technological developments such as online schooling may help to alleviate these problems). In this context, efficiency improvements could be attained by encouraging the development of operationally independent government schools or public hospitals. Greater community participation in the governance of publicly provided units, such as through local public hospital boards, could also be important for the purpose of signaling the preferences of client groups to the governmental service provider.

⁵¹ For a survey of the empirical literature, see Dennis C. Mueller, 2003, *Public Choice III*, Cambridge University Press, Cambridge.

⁵² Existing ceilings on public service numbers would need to be revised downwards as public sector reform proceeds over time. Cap revisions could be made on the basis of 'one-in, two-out' (or similar) employment rules as a state government embarks on reform. When state public sectors reach their ideal scope a global public sector cap could be maintained by a 'one-in, one-out' employment numbers stipulation.

6 Conclusion

The above analysis has shown that this decade has been marked by a significant growth in the number of state public sector employees, with a consistent increase in administrative staff within the overall employment mix.

In addition, state governments have proven themselves to be susceptible to calls by public sector unions and other vested interests to raise salaries and other benefits for the growing cohort of public servants.

There is sufficient evidence that the growth in expenses attributable to state government employment have not yielded sustained improvements in service delivery outcomes, at least in education and health.

As explained by leading Australian economist Henry Ergas: ‘the increased remuneration per public sector employee observed in recent years appears less related to the achievement of productivity improvements in government service provision than to difficulties faced by state and territory governments in containing wage pressures.’⁵³

The current budgetary pressures faced by states and territories are the direct result of an unsustainable increase in labour costs associated with additional public sector employment and rising remuneration packages.

Despite belated announcements to reverse this trend, the measures proposed by the states are unlikely to stem the tide of increasing employee expenses. On this score, the states face a significant credibility problem threatening their perceived status by the business, financial markets and the general community as good managers of public finances.

Indeed, if the secular growth trend is left to continue apace, taxpayers will be forced to keep footing the bill reducing their disposable incomes and distorting incentives to expansion by the productive private sector.

There is also the risk that the economy will be hit by a double whammy effect whereby public sector wage increases flow to the rest of the economy, stoking the inflationary fires and creating the momentum for interest rate hikes.

It is only through concerted policy action at the state level that Australia can avoid the gloomy prospect of an economy recovery well below trend.

The primary financial obligation of state and territory governments is to protect the interests of the ‘silent majority’ that is the taxpaying public. An emphasis on rule-based mechanisms in the short term, such as a wage pause during budget deficit periods and stronger wages policies and employment ceilings, as well as productivity-enhancing deregulation in the longer term will be the critical ingredients to ensure that growing bureaucracies do not become the states’ (and, by extension, the taxpayers’) budget breakers.

⁵³ Henry Ergas, 2007, *State of the States*, The Menzies Research Centre, Canberra, p. 6.