



Razor cuts, not paper cuts:

**A framework for rightsizing commonwealth government
employment**

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Executive summary

- Existing policy positions by the federal Labor government and Coalition parties to reduce public sector employment amount to nominal paper cuts, not meaningful razor cuts.
- The policies, as they currently stand, will have an insignificant effect on the overall size of commonwealth employment.
 - The Labor government's budget announcement to cut about 3,100 positions this financial year is lower than the average annual level of resignations from the APS in recent years, and is not substantially greater than the number of age-related retirements.
 - The Coalition's 2010 election promise of 12,000 voluntary redundancies over two years is of a similar magnitude to existing levels of natural attrition from the APS.
- That the Gillard government has ruled out any further public service employment reductions, beyond those indicated in the May 2012 Budget, to meet its significant budget shortfall is irresponsible public policy.
- There are a number of reasons why fiscally prudent and economically responsible governments should seek to reduce public sector employment to those levels consistent with performing the core roles and activities of government.
 - Public sector employment is financed by distortionary taxes reducing private sector activities; public sector employment tends to draw highly skilled labour away from private sector enterprises; public-policy bureaucrats advise and administer taxes and regulations which compromise economic growth, whereas service delivery public employees tend to provide higher-cost, lower-efficiency services compared with their private sector counterparts.
- This paper suggests an alternative framework of public sector employment reductions, ensuring that the subsequent roles and activities of government and the resulting labour requirements are consistent with hampering economic development to the least extent possible.
- A number of commonwealth government entities could be abolished, privatised, or transferred to state governments, with results for public sector employment reductions in most cases greatly exceeding those presented by the two major parties.
 - For example, privatising the ABC, Australia Post, Medibank Private and SBS alone would transfer 44,200 employees to the private sector – an amount 15 times greater than the Gillard government's proposed 3,100 APS staff reductions for this financial year.

Introduction

In recent years a highly partisan debate has emerged concerning the feasibility of reducing the numbers of Australian Public Service (APS) personnel, as part of broader fiscal consolidation efforts at the commonwealth government level.

During the 2010 election campaign the Liberal Nationals Coalition announced a freeze on public sector recruitment, which amounted to a reduction in public service numbers by 12,000 employees over a two-year period through natural attrition.

Despite indications by the former Prime Minister Kevin Rudd prior to the 2007 election to apply a 'meat axe' to the administrative structures of the commonwealth public sector, the Labor government and the Community and Public Sector Union (CPSU) has since opposed any proposals to reduce APS numbers at least through deliberate policy design. Further, they have depicted the Coalition's proposals as 'draconian' in that they will supposedly affect the provision of services to the general public.

The purpose of this paper is to assess the efficacy of alternative proposals to reduce commonwealth public sector employment.

The next section will profile the evolution of the APS, including growth in the numbers of people employed by the commonwealth and its staffing composition. This is followed by an intellectual assessment of the case to streamline public sector employment, or at least restrain employment by government at a parsimonious level.

Next, existing policy approaches to reduce commonwealth government employment offered by the two major political parties will be examined, as will an alternative approach relying upon the assessment of appropriate functions and constitutional responsibilities of the commonwealth.

In conclusion the main thesis of this paper is that there is scope to substantially reduce the size of the commonwealth government APS, as part of a generalised program of fiscal consolidation.

A profile of the commonwealth government public service

Who is a commonwealth public servant?

Since its humble beginnings in 1901, in which Sir Robert Garran (Secretary, Attorney-General's Department, and parliamentary draftsman) was for six or so months the sole public servant employed by the commonwealth, the commonwealth public sector has assumed an increasing array of roles, responsibilities and functions. These include the maintenance of the machinery of commonwealth government, delivering policy advice to Ministers, administering regulations, taxation and expenditure programs, and providing certain public services to, or on behalf of, the Australian population.

While public sector workers employed by the commonwealth are engaged in numerous activities, and the numbers of workers unquestionably large in aggregate number, there are numerous legislative definitions as to what actually constitutes a commonwealth public sector worker.

The *Public Service Act 1999* (PSA) specifies the terms and conditions of employment applicable to the largest single bloc of commonwealth government employees, i.e. those employed by the core departments, executive agencies and statutory agencies comprising the APS. In turn, the APS consists of agency heads (for example, a Secretary of a department) and non-agency head employees (including within the Senior Executive Service) engaged on an ongoing or non-ongoing basis.

The employment of staff by the commonwealth is not limited to the PSA, with employees of various other statutory agencies and other bodies employed under entity-specific or function-specific legislation. For example, defence force personnel are employed under the *Defence Act 1903* and Reserve Bank employees are employed under the *Reserve Bank Act 1959*, while members of parliament staff are employed under the *Members of Parliament (Staff) Act 1984* (MoPS).

The provisions of the Constitution also enable the government to directly appoint personnel. According to Section 67, 'until the Parliament otherwise provides, the appointment and removal of all other officers of the Executive Government of the Commonwealth shall be vested in the Governor-General in Council, unless the appointment is delegated by the Governor-General in Council or by a law of the Commonwealth to some other authority.'

Until 1903 this provision represented the sole means by which commonwealth public servants were appointed, but has been rarely used since. In June 2011, the government controversially appointed former Treasury Secretary Ken Henry as a part-time Special Advisor under Section 67 of the Constitution and outside the provisions of the PSA.

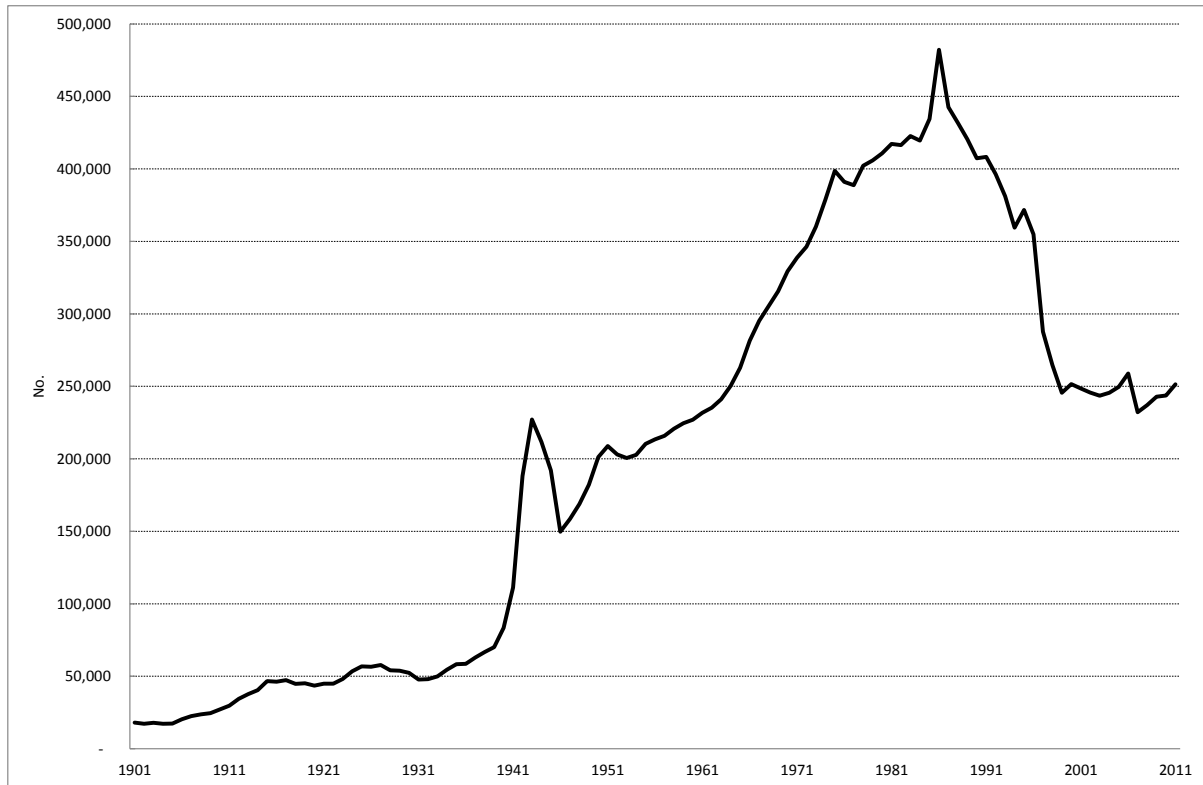
How many commonwealth public servants are there?

In addition to the varied legal definition as to who constitutes an employee of the commonwealth government, there exist numerous statistical sources with different methodologies used to estimate the size of commonwealth public sector employment.

Figure 1 provides a time series of civilian commonwealth public sector employment from 1901.¹ While the data are derived from various sources, they are relatively consistent in that they capture staff numbers working under the PSA as well as under legislation pertaining to employment within commonwealth government trading enterprises.

¹ For ease of statistical comparability trends in relation to the employment of non-civilian defence personnel (including permanent and reserve forces) will be excluded from this paper, unless otherwise specified.

Figure 1: Commonwealth government civilian employment, 1901 to 2011



Head count of commonwealth total public sector employment, excluding defence force personnel and employees based overseas.

Source: Alan Barnard, Noel G Butlin and Jonathon J Pincus, 1977, 'Public and Private Sector Employment in Australia, 1901-1974', *Australian Economic Review* 10 (1): 43-52; R A Foster, 1996, *Australian Economic Statistics: 1949-1950 to 1994-95*, Occasional Paper No. 8, RBA, Sydney; Australian Bureau of Statistics, Wage and Salary Earners, Public Sector, Australia, cat. no. 6248.0.55.001; Australian Bureau of Statistics, Employment and Earnings, Public Sector, Australia, cat. no. 6248.0.55.002.

During the first two decades of Federation the commonwealth government gradually increased its level of employment, including as a consequence of the gradual transfer of former colonial public servants to the commonwealth. New government departments were established during this period, including the Prime Minister's (1911), Health (1921) and Commerce (1925),² with implications for future changes in the economically and socially interventionist roles undertaken by the commonwealth government.

As a part of its policy response to the Great Depression, the commonwealth government reduced its aggregate employment from about 53,900 in 1929 to about 47,700 in 1931. This reduction in employment was a component of a broader plan agreed to by commonwealth and state governments to reduce government expenditures by 20 per cent (excluding some welfare payments), which had been subsequently credited as an important ingredient in Australia's relatively fast transition to economic recovery compared with other advanced countries.

² Howard A Scarrow, 1957, *The Higher Public Service of the Commonwealth of Australia*, Duke University Press, Durham, p. 72.

The Depression-era trend of public sector employment reductions were reversed a decade later, with the total number of people employed by the commonwealth government increasing significantly from about 70,000 employees in 1939 to 192,000 in 1945.

This growth trend was due, in no small part, to the establishment of new departments and functions (including price and labour controls) specifically associated with the war effort, or created in response to perceived national post-war priorities such as post-war reconstruction, national development and social services, and the consequent hiring of additional personnel that such changes in public administration entailed.

The significant war-time upsurge in the numbers of commonwealth public sector workers can also be attributed to the centralisation of powers from the states to the commonwealth. Some 2,800 state income tax employees from NSW, Victoria, Queensland, South Australia and Tasmania were transferred to the Australian Taxation Office, while state public servants administering unemployment and labour market programs were transferred to the Commonwealth Employment Service.

During the year immediately following World War II the total numbers of civilian commonwealth government employees declined by about 22 per cent, including as war-time regulatory controls over the economy and society were relaxed, however aggregate commonwealth employment once again increased slightly during the late 1940s.

As part of the 1950-51 'Wool Boom' anti-inflationary budget, the Menzies government reduced PSA employment by some 14,200 people. This included specific reductions for the Departments of National Development and Labour and National Service, and a general staff reduction (excluding Defence) elsewhere of five per cent.³ Since that period and through the 1960s, however, the commonwealth public sector continued its inexorable increase in employment.

During the Whitlam era, public sector employment increased by about 52,400 people to a total of 398,700 in 1975. Many of these changes were induced by an expansion in the size and scope of commonwealth government expenditure functions including, but not limited to, the areas of welfare and social services, tertiary education, infrastructure, regional policy and local government.

Barring a temporary reduction in aggregate employment in 1977, and despite instigating a Royal Commission into commonwealth public administration, the employment increases instigated by Whitlam were largely left untouched by the Fraser government.

During the first two terms of the Hawke-Keating government public sector employment continued to expand, and significantly so during the 1980s, as a consequence of the continued expansion in the scope of government functions including in the areas of environmental policy and economic and social regulations.

³ Australian Public Service Commission, 2004, *A History in Three Acts: Evolution of the Public Service Act 1999*, Occasional Paper No. 3, Canberra, p. 55.

In an effort to reduce commonwealth public sector debt and induce greater efficiencies concerning the provision of services, the Hawke and Keating Labor governments undertook asset sales in financial services, telecommunications, and air and rail transport from the late 1980s until the mid-1990s. As a consequence of the privatisation policy there was a substantial reduction in the number of workers classified by commonwealth public sector employees.

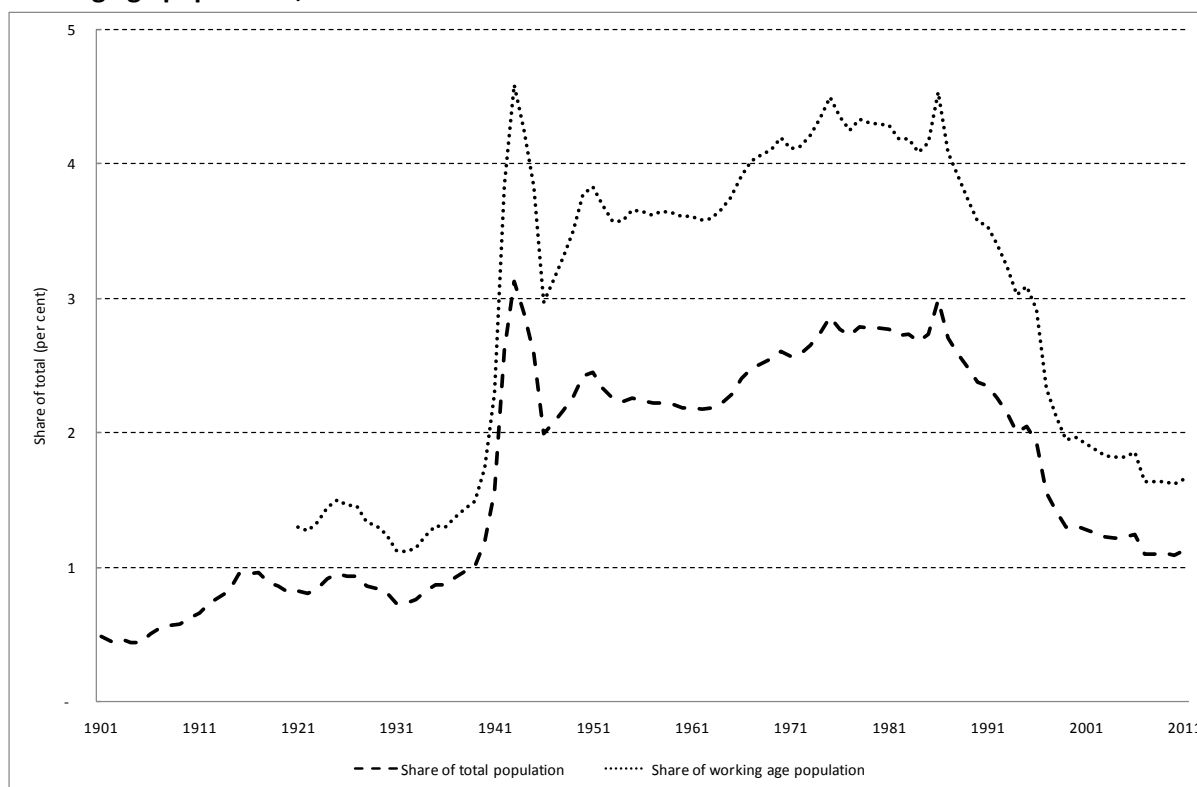
Faced with a significant structural budget deficit and high levels of public sector indebtedness bequeathed by its predecessor, the Howard government sought to rein in the commonwealth government's expenditure commitments.

Key elements of the Howard strategy included the continuation of a program of privatisation, most prominently with respect to Telstra, as well as reducing APS size including through the outsourcing of government activities (including all functions undertaken by the Department of Administrative Services) to the private sector. As a consequence of the Howard government's policies, total commonwealth public sector employment fell from about 354,800 in 1996 to a low of 243,600 in 2003.

However, these reductions in public sector employment at the commonwealth level have not been sustained. Over the last few years of the Howard government, and during the two terms of the Rudd-Gillard governments to date, the total number of employees engaged by the commonwealth has increased to about 251,400 people in 2011.

Commonwealth public sector employment trends in absolute terms since 1901 are broadly mirrored in terms of employment as a share of both total and working age (15-64 years) populations (Figure 2). Since the late 1980s there has been a significant reduction in the ratios of commonwealth employees to total population and the working age population, reversing the trend increases of previous decades.

Figure 2: Commonwealth government civilian employment as a share of total population and working age population, 1901 to 2011



Head count of commonwealth total public sector employment, excluding defence force personnel and employees based overseas.

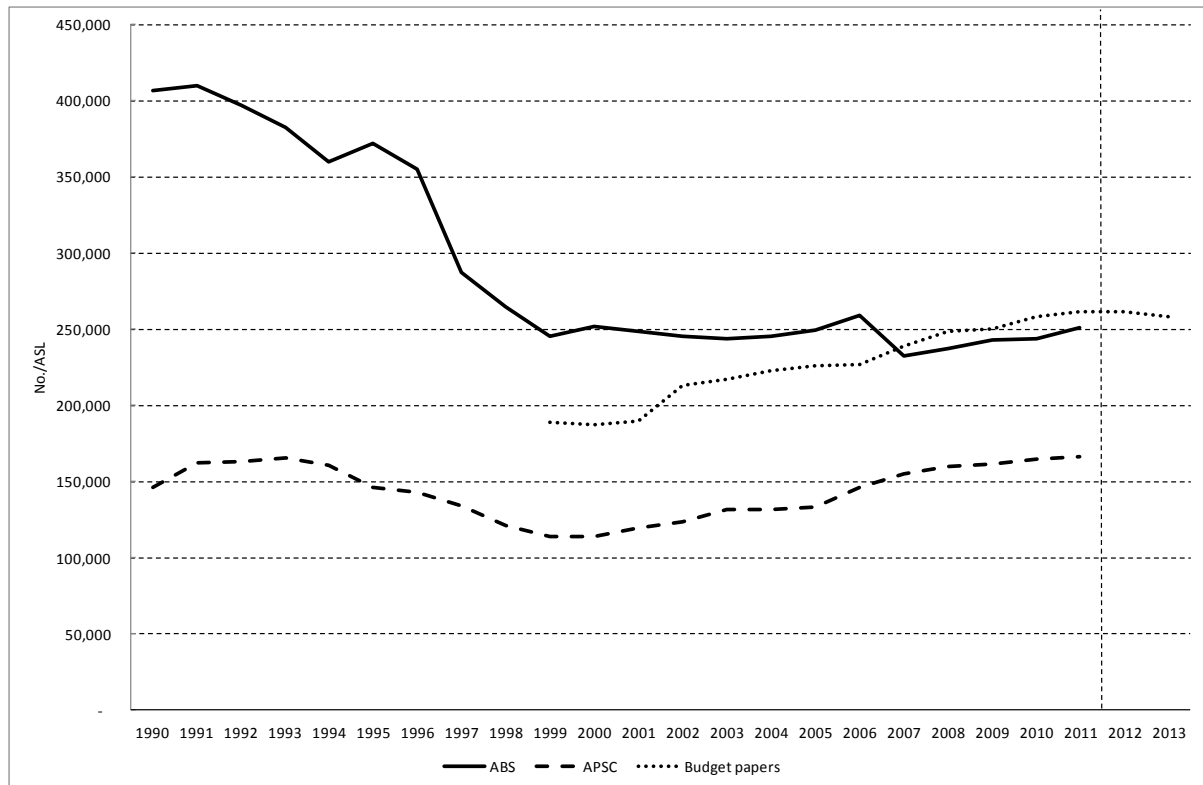
Source: Alan Barnard, Noel G Butlin and Jonathon J Pincus, 1977, 'Public and Private Sector Employment in Australia, 1901-1974', *Australian Economic Review* 10 (1): 43-52; R A Foster, 1996, *Australian Economic Statistics: 1949-1950 to 1994-95*, Occasional Paper No. 8, RBA, Sydney; Australian Bureau of Statistics, Wage and Salary Earners, Public Sector, Australia, cat. no. 6248.0.55.001; Australian Bureau of Statistics, Employment and Earnings, Public Sector, Australia, cat. no. 6248.0.55.002.

Alternative statistical sources provide information on shorter term commonwealth public sector employment trends with varying degrees of coverage (Figure 3).

The Australian Public Service Commission (APSC) provides head count statistics on commonwealth employees covered by the PSA, while statistics available in the government's annual budget papers provide details of average staffing levels (effectively full-time equivalents) of staff in the general government sector (including statutory authorities). The ABS data entails a head count employment levels of all entities that report to parliament, including those covered under the *Commonwealth Authorities and Companies Act 1997*. The APSC and ABS data exclude information on defence force personnel trends.⁴

⁴ Kirsty Laurie and Jason McDonald, 2008, 'A perspective on trends in Australian Government spending', *Economic Roundup* (Summer): 27-49.

Figure 3: Commonwealth government employment, 1990 to 2013



ABS provides head count data on employment of all commonwealth government entities reporting to parliament, excluding defence force personnel and employees based overseas. APSC provides head count statistics on employees covered by the Public Service Act, excluding defence force personnel. Budget paper statistics provide average staffing level data on general government sector employment, including defence force personnel.

Source: Australian Bureau of Statistics, Wage and Salary Earners, Public Sector, Australia, cat. no. 6248.0.55.001; Australian Bureau of Statistics, Employment and Earnings, Public Sector, Australia, cat. no. 6248.0.55.002; Australian Public Service Commission, APS Statistical Bulletin, various years; Commonwealth of Australia, Budget Papers, various years.

Each of the three data series indicate that, since 2001, commonwealth public sector employment has grown on an average annual basis in the order of 3.3 and 3.4 per cent, whereas the ABS indicates a much more modest increase of 0.1 per cent per annum.

One reason for the smaller growth rate recorded by the ABS statistics is that its broad coverage of employment captures the effects of Howard-era reductions in public sector employment, which mainly affected entities outside of the APS.

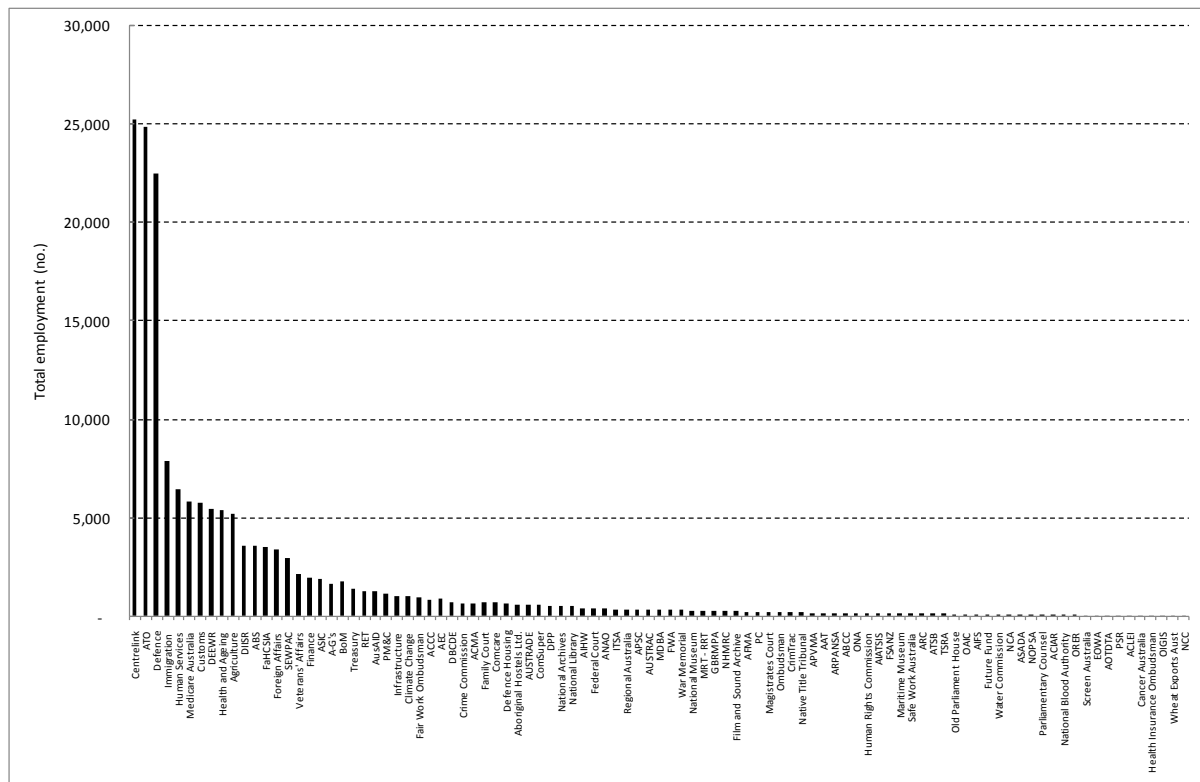
In other words, the APSC and budget paper data implies that the employment reductions during the 1990s and early 2000s reform era affected PSA or general government sector employees to a much smaller extent than it did total commonwealth government employees as a whole, especially those working within government trading enterprises.

The budget papers also provide estimates of average staffing levels in the commonwealth general government sector for the coming financial year. As will be discussed in further detail below, the proposed reductions in general government sector staffing by the Gillard government for 2012-13 will have a negligible impact on overall employment size.

An examination of employment structure by the APS entity reveals a ‘long tail’ of small employers, primarily statutory agencies with regulatory powers (Figure 4). In June 2011 there were 58 of these smaller agencies each employing less than 500 staff, cumulatively employing over 9,600 full- and part-time personnel.

On the other hand, commonwealth government entities specifically involved in welfare, tax and warfare - Centrelink, the Australian Taxation Office, and Department of Defence, respectively - each employed over 22,000 people. These three agencies alone accounted for about 43 per cent of aggregate APS staffing levels in 2011.

Figure 4: Distribution of Australian Public Service staff by agency, 2011



Data as at 30 June 2011. Including ongoing and non-ongoing staff working on a full-time or part-time basis.

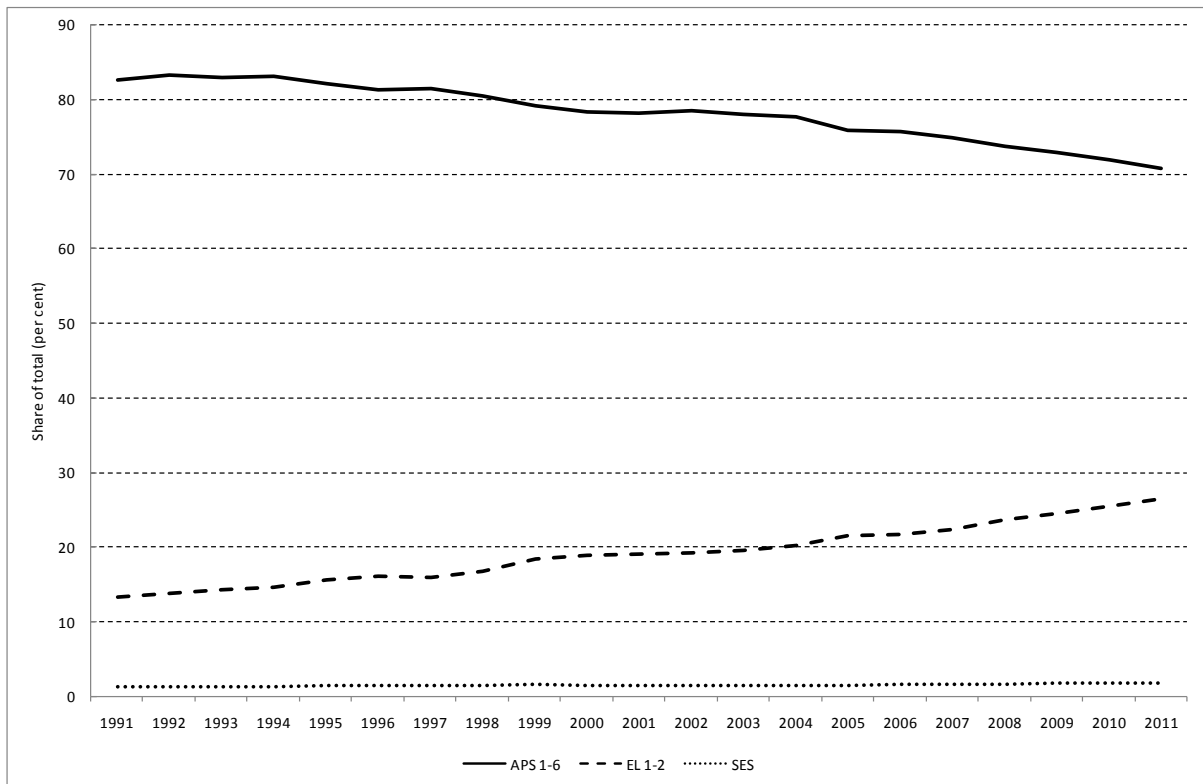
Source: Australian Public Service Commission, APS Statistical Bulletin, 2010-11.

It is possible to disaggregate information on PSA employment by employment classification, with staff at levels between APS 1 to 6 representing the lowest strands of employment classification with staff accorded little or no managerial responsibilities (at least in larger offices), Executive Level (EL) staff representing middle management (including sectional heads within departments), and Senior Executive Service (SES) staff representing senior management.

Figure 5 illustrates changes in the relative shares of these employment classifications over the past two decades. The relative share of APS 1-6 level staff has declined from about 83 per cent of total PSA staffing in 1991 to 71 per cent in 2011, reflecting in part the contracting out of certain lines of work to the private sector, whereas the share of SES level staff have increased marginally from about one to about two per cent over the same period.

The greatest source of growth by employment classification has been within the EL 1 and 2 middle management bands, increasing from about 13 per cent of total PSA staff in 1991 to about 26 per cent in 2011. The trend increase in EL1 and EL2 employment had been maintained even during the first two terms of the Howard government, in which total PSA employment fell from about 128,700 in 1996 to 108,700 in 2001.

Figure 5: Australian Public Service employment, staff by employment classification as share of total, 1991 to 2011

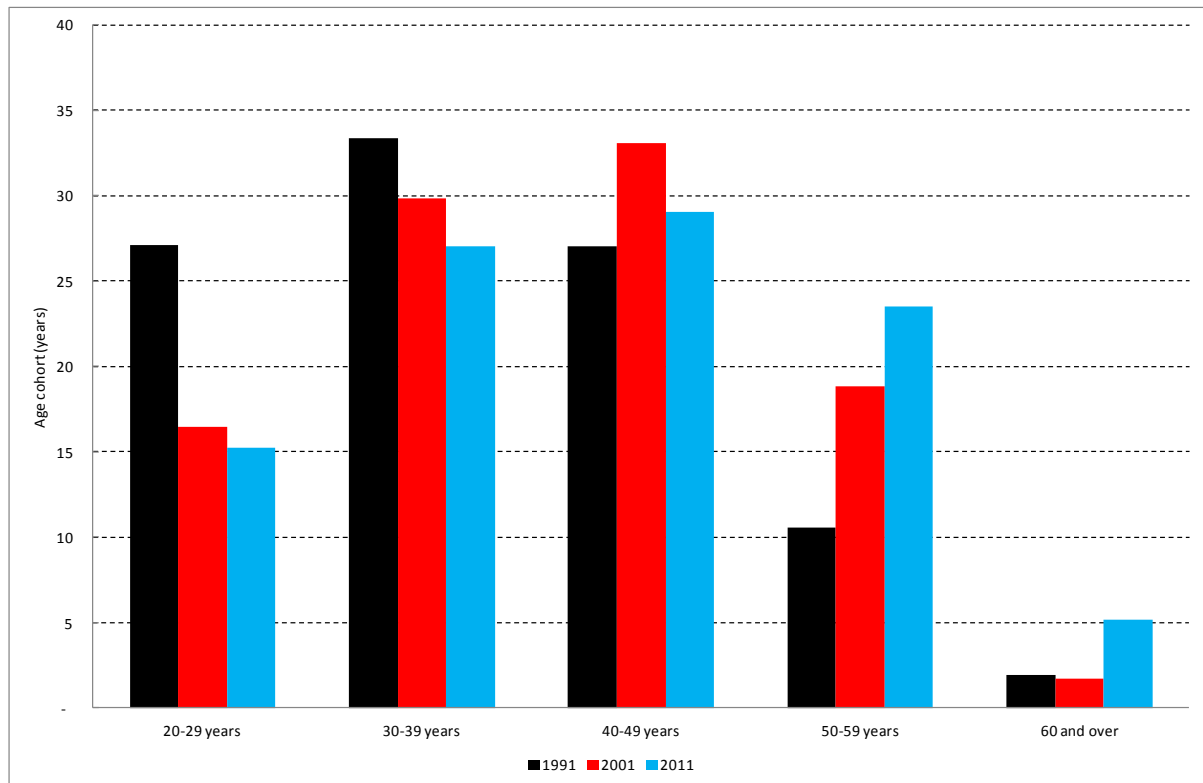


Data expressed as share of total employment of ongoing staff. Total includes graduates, trainees and other staff.

Source: Australian Public Service Commission, APS Statistical Bulletin, various years.

Reflecting broader trends in Australian society, the APS is ageing with growth in the relative representation of staff aged 45 and over within the overall staffing mix (Figure 6).

Figure 6: Age composition of Australian Public Service Staff, 1991 to 2011



Data refers to ongoing staff.

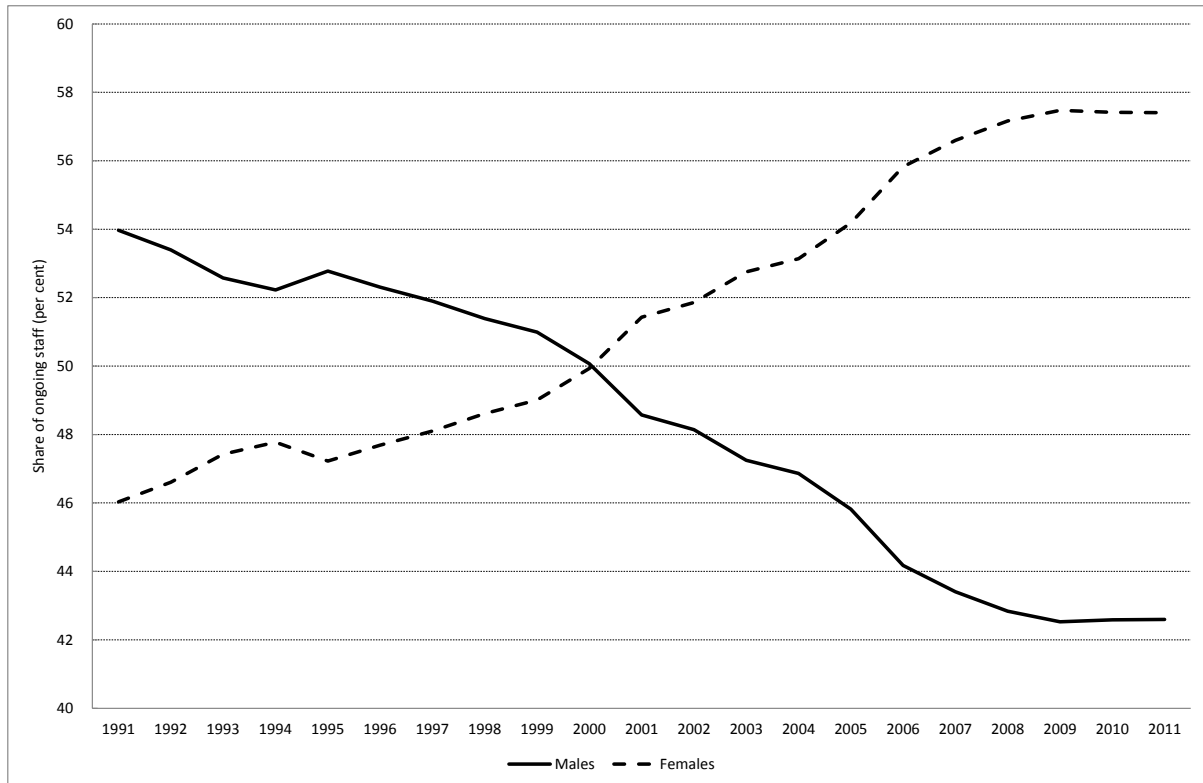
Source: Australian Public Service Commission, APS Statistical Bulletin, various years.

The most significant growth in APS employment, by age cohort, has been exhibited amongst those aged between 50 and 54, below the minimum age of 55 years at which APS personnel may receive superannuation benefits under the Commonwealth Superannuation or Public Sector Superannuation Schemes.

By contrast, since 1991 there have been relative declines in the share of APS employment of those aged less than 45 years. In particular the numbers of people aged in their twenties working in the APS on an ongoing basis has declined by an average of six per cent over the period, even though these declines have been largely arrested since 2000.

Another characteristic feature of the APS is its increasing feminisation, particularly since 2000 when the female-to-employment ratio within the APS exceeded the male ratio (Figure 7).

Figure 7: Gender composition of Australian Public Service, 1991 to 2011



Data refers to ongoing staff, including graduates, trainees and other staff.

Source: Australian Public Service Commission, APS Statistical Bulletin, various years.

In addition to people directly employed by the commonwealth government in accordance with specific public employment or administrative legislation, a variety of functions including policy advisory services are outsourced to contracted private sector service providers. Some of these providers depend upon commonwealth government funding for their main source of income, raising questions about the true extent of their operational autonomy from the state.

A recent investigation found that more than \$500 million per annum has been spent on about 18,000 contracts awarded by the commonwealth government over the past four years. Consultancy firms KPMG, PricewaterhouseCoopers and Ernst & Young collectively received contracts from 2008 to 2011 valued at about \$220 million.⁵

In addition to selective purchaser-provider arrangements, governments have also fostered the creation of subsidised and regulated 'quasi-markets' entailing significant service delivery functions undertaken by private sector organisations.

An example of this was the establishment of Job Services Australia (formerly the Job Network) by the Howard government in 1998, in which private, non-profit and government organisations are contracted by the commonwealth government to provide various employment services and labour market programs, including for the unemployed.

⁵ Edmund Tadros and Markus Mannheim, 2012, 'Yes please minister: Labor spends billions on advice', The Canberra Times, 20 March.

Private sector enterprises and other non-government organisations also tend to be encumbered by governmental regulations ensuring that government objectives are satisfied without recourse to explicit public funding.

The fiscal burden of commonwealth public sector employment, totalling some \$28 billion in 2010-11,⁶ reflects a combination of the total numbers of employees engaged by government and the salaries and other benefits accorded to employees. While there exists a wide array of pecuniary entitlements allocated to public sector workers, the remuneration accorded to employees within the upper echelons of the commonwealth public service are significantly greater than the average remuneration earned by private sector employees (Box 1).

⁶ General government sector figures, including superannuation expenses. Commonwealth of Australia, 2011, *Final Budget Outcome 2010-11*, Commonwealth of Australia, Canberra.

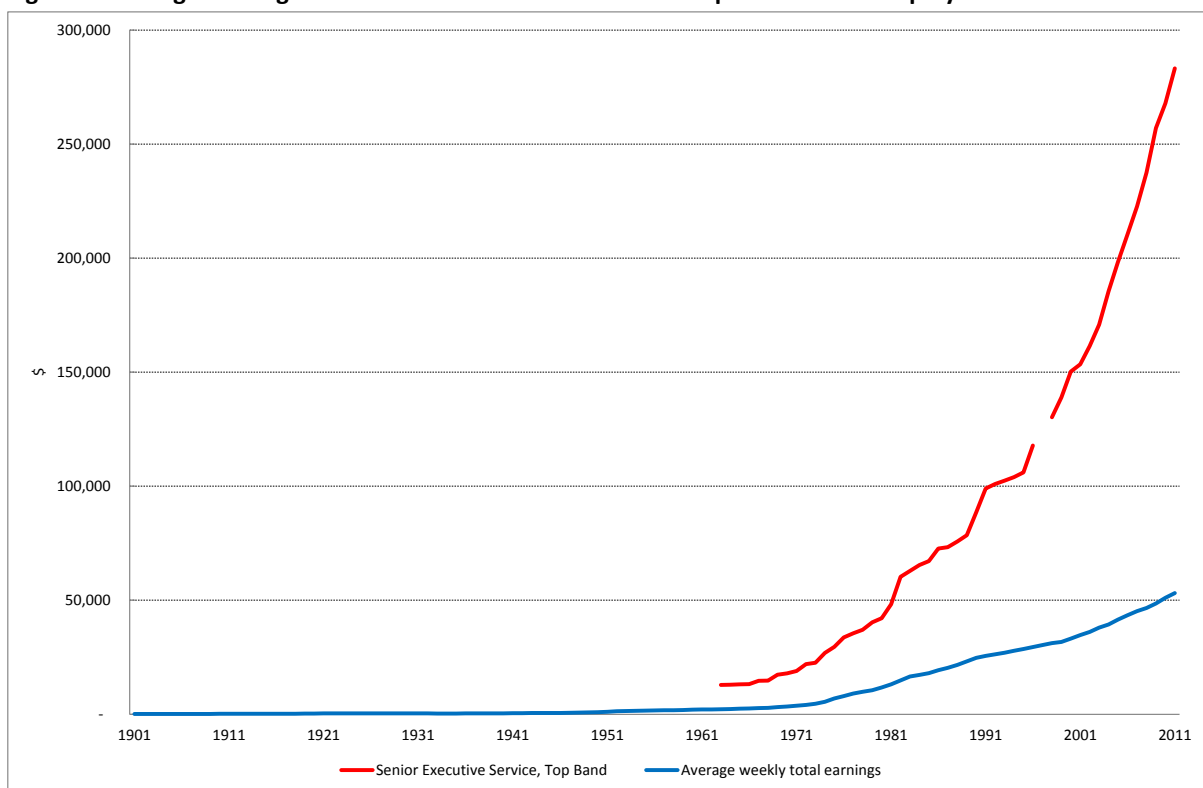
Box 1: Salaries and benefits for the commonwealth public sector 'top one per cent'

The entitlements provided to the head of commonwealth public sector departments and agencies, and for those working within the APS Senior Executive Service (SES), are well in excess of average earnings provided within the private sector.

Figure 8 compares the salaries of employees situated in the highest pay band in the Senior Executive Service with private sector total earnings, averaged across each year, from 1901 to 2011.

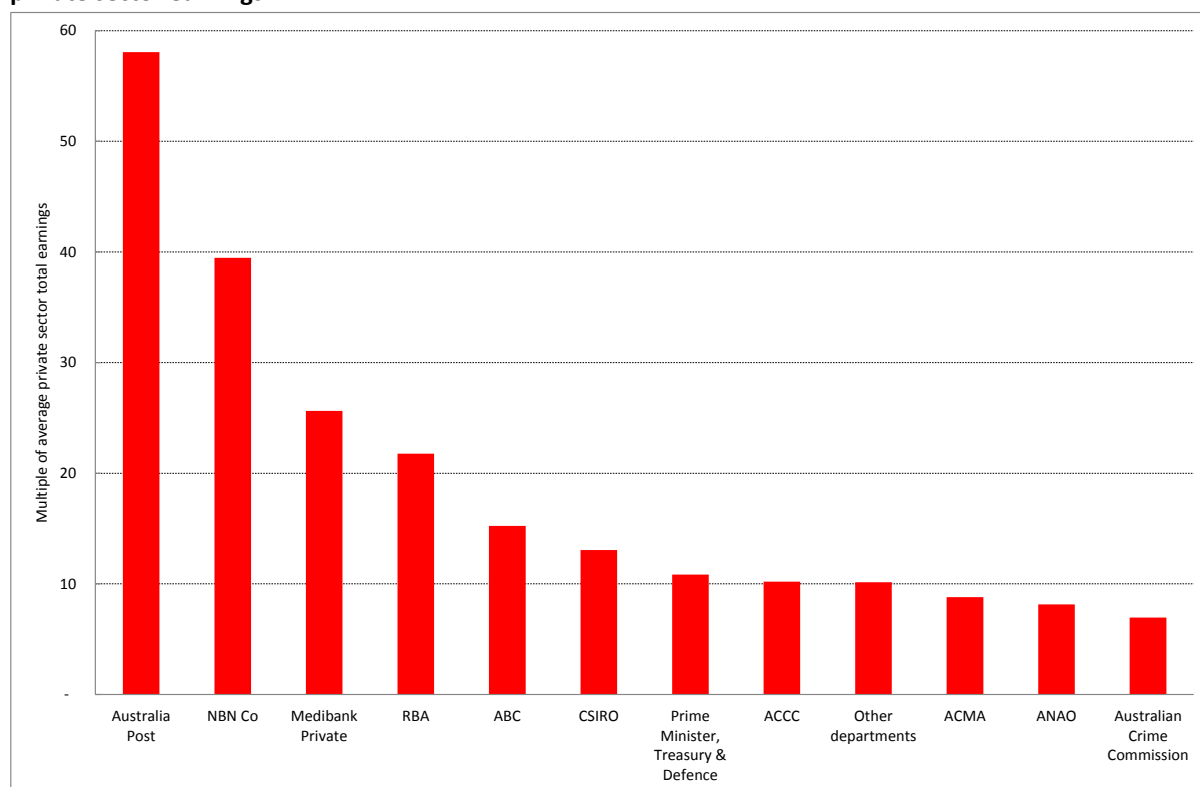
While the gap between SES and private sector earnings has closed in the long run, since the mid-1990s the gap has tended to increase as governments increasingly use remuneration as a mechanism to draw private sector executives to the public sector, or to prevent public sector senior officers exiting to the private sector.

Figure 8: Average earnings for APS Senior Executive Service and private sector employees



Another indicator of the sectoral pay discrepancy is provided by a comparison of remuneration received by selected department or agency heads against total average earnings in the private sector for 2010-11. Figure 9 expresses the total remuneration package of selected heads of commonwealth government entities as a multiple of total private sector average earnings.

Figure 9: Total remuneration of commonwealth department/agency head as multiple of total average private sector earnings



In recent years considerable foment within the Australian community has been generated concerning top private sector remuneration.

The remuneration packages of senior private sector personnel whose enterprises are shielded from market competition through subsidies (and specific tax breaks) or regulation ought to be the subject of external scrutiny. However, some of this community agitation has been misdirected against the salaries and other entitlements received by employees of other private sector entities who do not receive government fiscal or regulatory favours and, hence, should not represent the subject of community concern.

On the other hand, the taxpaying public is entitled to scrutinise the level and distribution of public sector employee entitlements given that they are forced by government to finance such payments.

With growing concerns that top public sector remuneration is growing out of line with community expectations, a combination of payment growth caps and absolute reductions in public sector employment will be necessary to ensure that the overall fiscal burdens of commonwealth public sector employment are appropriately constrained.

Source: Australian Bureau of Statistics, Average Weekly Earnings Australia, cat. no. 6302.0; Australian Public Service Commission, Remuneration Survey, various years; A B Atkinson and Andrew Leigh, 2006, 'The Distribution of Top Incomes in Australia', Australian National University, Centre for Economic Policy Research, Discussion Paper No. 514; Anthony Sibillin, 2011, 'Top public servants in pay bonanza', The Australian Financial Review, 17 October, 2012

Rightsizing the public service: Why is it necessary? Where can staff reductions be found?

The rationale for public sector employment reductions

Most classical liberal scholars acknowledge that some level of public sector administration is indispensable for a functioning system of constitutional government under the rule of law. Indeed, a competent and professional bureaucracy is necessary to help ensure provision of those limited set of tax-financed goods and services, primarily associated with the tasks of ensuring protection of life, limb and property, which cannot be provided through competitive private markets guided by profit-and-loss mechanisms.

This idea was perhaps best explained in the writings of Austrian economist Ludwig von Mises. In his important, albeit little-known, work titled *Bureaucracy*, Mises explained the rationale for public sector employment lies in the inherent distinction between bureaucratic and profit managements in the economic and social domain:

'[t]here are areas of man's activities in which there cannot be any question of profit management and where bureaucratic management must prevail. A police department cannot be operated according to the methods resorted to in the conduct of a gainful enterprise. A bakery serves a definite number of people – its customers – in selling them piecemeal what it has produced; it is the patronage of its customers that provides the social legitimacy – the profitability – of the bakery's business. A police department cannot sell its "products"; its achievements, however valuable, even indispensable as they may be, have no price on the market and therefore cannot be contrasted with the total expenditure made in the endeavors to bring them about.'⁷

Elsewhere, Mises explained that '[a]s long as the activity of the state is restricted to the narrow field that liberalism assigns to it, the disadvantages of bureaucracy cannot, at any rate, make themselves too apparent.'⁸

However, modern governments have progressively extended their roles and activities well beyond the range of protective functions and into those more efficiently and effectively managed by enterprises or individuals in their private capacities. It is under these scenarios, typifying the Australian experience and of most other Western countries, that the costs of public sector employment become overly burdensome and therefore more apparent to the community at large.

First, public service wages and entitlements, and other costs necessary to maintain public sector employment, are coercively financed by the taxpaying public working within the private sector.⁹

⁷ Ludwig von Mises, 'Preface to the 1962 Edition', *Bureaucracy*, Ludwig von Mises Institute, Auburn, <http://mises.org/etexts/mises/bureaucracy.asp>.

⁸ Ludwig von Mises, [1927] 2005, *Liberalism: The Classical Tradition*, Liberty Fund Edition, Liberty Fund, Indianapolis, p. 73.

⁹ While Australian public sector workers are liable to pay income taxation in similar fashion as their salaried counterparts in the private sector, the point made here is that net salaries and other benefits received by government employees are coercively financed by the private sector.

Numerous theoretical and empirical studies have concluded that taxes impose significant efficiency costs hampering the functioning of the economy, as productive activities such as investments, savings, work effort and human capital accumulation are avoided to some degree by market participants in the presence of taxation. This, in turn, has the effect of reducing private sector employment and, more generally, the rate of economic growth in the long run, contributing to foregone increases in living standards.

It is conceivable that the level of taxation conscripted to fund public sector employee salaries and benefits are typically higher than would otherwise be the case, as a consequence of industrial relations negotiations between governments and public sector workers (usually public sector union representatives).

In the case of the private sector the ability of unions to secure additional benefits for their members is constrained by the need of private enterprises to maintain their cost competitiveness. In other words, implementation of excessive labour cost increases could lead to the closure of marginally profitable firms and retrenchment of workers thereby a reduction in union membership.

However, the insulation of government entities, especially those charged with advising and implementing public policies, from the competitive market fosters an institutional environment in which public sector unions and politicians (or senior bureaucrats acting on behalf of politicians) can agree to significant increases in employee entitlements, without direct repercussions to the survivability of their operations.

The greater prospects open to public sector unions, relative to their private sector counterparts, to secure significant salary and benefit increases is magnified by the fact that the tax costs of the concentrated benefits received can be spread thinly across the community, with little prospect of countervailing approbation by rationally ignorant or irrational voters.

Compounding the distortionary effects of additional taxation associated with growing public sector employment, the growth in employment opportunities provided by government agencies tends to attract labour toward the public sector, diverting them away from being more productively utilised within the private sector.

Other things being equal, the larger the size and scope of the public service the more attractive salaried employment within this sector becomes, diluting the relative attractiveness of private sector salaried or self-employment which are not insulated from changing market conditions.¹⁰ Increasing numbers of people may seek employment within a larger public sector for employment security or

¹⁰ As noted above some private sector self-employees could be effectively classified as public servants, to the extent that they mainly provide consultancy or other services either directly to governmental entities, or to entities which indirectly rely upon the public sector for their existence such as political parties, trade unions and some non-government organisations.

the opportunity of working in well-paying, but less productive environments not necessarily guided by the urgent need to satisfy final (i.e., non-political) customers.¹¹

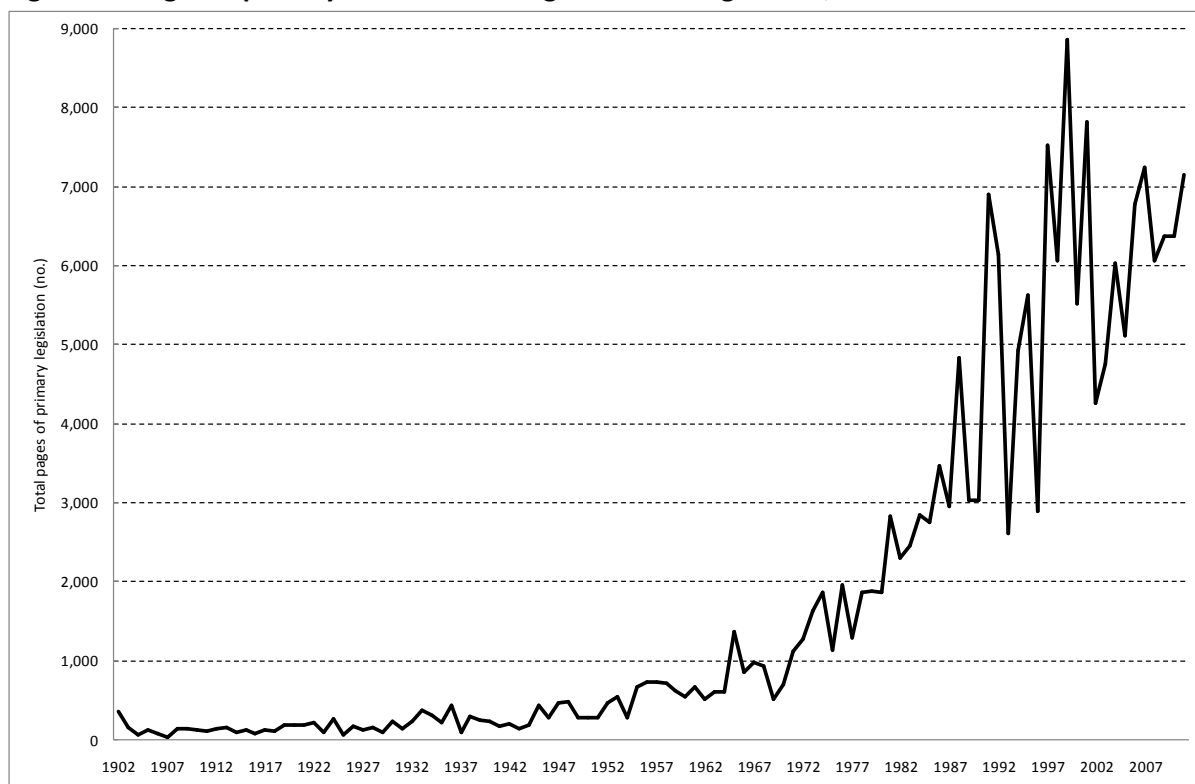
Perhaps the most insidious effect attributable to growth of governmental employment is that public-policy bureaucrats are employed, at taxpayers' expense, to explicitly advise and administer taxation and regulatory policies which further attenuate private sector employment and other activities.

In addition to the economic costs of taxation noted above, numerous cases have been raised concerning the compliance burdens and economic distortions posed by the significant growth in commonwealth government economic, environmental and social regulations (Figure 10).

Some notable recent cases of the commonwealth regulatory edifice hampering private sector activity include: environmental laws affecting the construction, energy and mining sectors; the contribution of renewable energy targets redirecting scarce capital towards inefficient non-coal fired electricity generation; and the role of existing industrial relations regulation impeding the discovery and enforceability of decentralised, efficient employment arrangements.

¹¹ It is usually argued, invariably by public sector workers themselves, that their motivation for employment is primarily to assist, or provide for, others, or to use the available policy apparatus of governments to improve society more generally. While such rhetorical sentiments are deep-seated within the public sector these should not be accepted uncritically. As 'Director's Law' and similar theories suggest the immediate beneficiaries of expanding government programs or services are public sector employees, who siphon off a proportion of public funding in the form of wages and benefits, rather than the final beneficiaries of programs or services. The ability to engender genuine economic or societal improvements through bureaucratic or political solutions is also significantly compromised, in no small part, by the limitations of central planning as famously pointed out in the 'socialist calculation' debates by Mises and Friedrich Hayek.

Figure 10: Pages of primary commonwealth government legislation, 1901-02 to 2011



Source: Chris Berg, Institute of Public Affairs.

Most individuals and businesses affected by commonwealth regulations are familiar with the administrative compliance costs that they generate, such as the costs of filling out official forms, providing information to government authorities, record-keeping expenses, and obtaining advice from external sources (e.g., accountants, lawyers) to comply with regulatory standards. There also exist non-paperwork compliance costs, such as staff training and alterations to physical capital to meet obligations and costs associated with delays in receiving regulatory approvals.¹²

Regulations impose adverse effects upon economic performance by artificially redirecting the economic discovery process (i.e., which relates to what, how, where and when to produce value-added outputs to the satisfaction of customers in return for a profit) in ways not otherwise preferred by entrepreneurs, thus leading to foregone opportunities left unexploited.

The imposition of regulations by governments also encourages the proliferation of economic errors as prices and profit-and-loss signals are distorted and muted, magnifying efforts by entrepreneurs to invest scarce resources in the capture of regulatory rents rather than economic profits.¹³

¹² Productivity Commission, 2007, *Performance Benchmarking of Australian Business Regulation*, Research Report, Melbourne.

¹³ Ludwig von Mises, [1949] 2007, *Human Action: A Treatise on Economics*, Liberty Fund, Indianapolis; Israel M Kirzner, 1997, 'Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach', *Journal of Economic Literature* 35: 60-85; Bruce L Benson, 2004, 'Opportunities Foregone: The Unmeasurable Costs of Regulation', *Journal of Private Enterprise* 19: 1-25; Bruce L Benson, 2011, 'A Neo-Mengerian Examination of the Regulatory Process', *Studies in Emergent Order* 4: 193-208.

Another important problem associated with government regulations enforced by public sector employees is that they may engender competitive neutrality conflicts of interests, in that regulations hamper the operations of for-profit or not-for-profit competitors of public sector service providers.

Proponents of a large and growing public sector employment base in Australia usually prefer to cite the role of various government employees in delivering tangible services to the public, rather than those advising and enacting growth-retarding taxes and regulations, and warn of the potentially adverse consequences of any public sector rationalisation for service delivery outcomes.

It is generally accepted, however, that public sector entities lack the incentive to restrain costs and ensure output quality, in essence maintaining value-added provision, as efficiently or effectively as their private sector counterparts providing comparable goods and services.

Politicians and bureaucrats allocate scarce resources in the absence of price systems or profit-and-loss signals, with decisions with regard to allocation made on the basis of political prerogative rather than economic imperative.¹⁴

The monopolistic provision of governmental outputs means that voters tend to lack interest in ascertaining if the prevailing 'take-what-is-given' political allocation is consistent with individual economic desires, or even in many cases to challenge political authorities to the extent that a divergence between political allocation and economic preferences exist.¹⁵ This suggests that politicians face less feedback and less restraint, encouraging excessive employment of public sector workers in lines of activity detrimental to private sector growth.¹⁶

Creeping intervention by governments in fields in which they lack specialisation, and the increase in public sector employment that such a trend entails, can also contribute to a lack of efficiency in service delivery:

'[i]f any social instrument devised for a special service is made to act additionally for another, it will perform its own office badly as well as the one it usurps. ... On this account, the State is a poor head of a family, a poor commercial or agricultural leader, a bad distributor of labor and of subsistences, a bad regulator of production, exchanges, and consumption, a mediocre administrator of the province and the commune, an undiscerning philanthropist, an incompetent director of the fine arts, of science, of instruction, and of worship. In all these

¹⁴ These political prerogatives may include the need to satisfy the overt political demands of prominent special interest groupings, who incidentally advocate policy positions not necessarily consistent with the interests of their own members let alone the broader community. Mancur Olson, 1971, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Harvard University Press, Cambridge.

¹⁵ Various institutional restraints on political action, such as federalism, have been proposed on the basis that interjurisdictional mobility and political competition for larger voting bases would ensure that the extent and quality of public services, and their cost, accurately reflect individual demands. However, as discussed later, the tendency towards fiscal and regulatory centralisation has significantly muted this 'competitive federalism' impulse as a feature of Australian political affairs.

¹⁶ Tyler Watts, 2012, 'Government Spending Cuts are Bad for the Economy?', The Freeman online, <http://www.thefreemanonline.org/columns/it-just-aint-so/government-spending-cuts-are-bad-for-the-economy/>.

offices its action is either dilatory or bungling, according to routine or oppressive, always expensive, of little effect and feeble in returns, and always beyond or apart from the real wants it pretends to satisfy.¹⁷

Finally, the need for public sector employees to rigidly conform to legislation and other rules, as part of broader efforts to maintain some semblance of democratic accountability, suggests that the public sector lacks the features of enterprise, flexibility and innovation characteristic of competitive private sector firms:

'[t]he state is a rigid collective organ, which can only act by means of a complicated apparatus, composed of numerous wheels and systems of wheels, subordinated one to another; the state is a hierarchy either aristocratic, or bureaucratic, or elective, in which spontaneous thought is by the very nature of things subjected to a prodigious number of controlling and hampering checks. Such a machine can invent nothing.'¹⁸

Empirical evidence worldwide has shown that, despite severe regulatory impediments often placed on private sector entities, governments usually deliver services at lower levels of efficiency, and often substantially so, compared with private sector competitors in comparable industries. This partly explains why governments tend to provide services exhibiting ever-increasing costs, in contrast with the private sector which tends to provide goods and services with improving quality and lower costs.¹⁹

In any event the commonwealth government practically plays a comparatively minor role within the Australian public sector of delivering direct services to, or on behalf of, the public. Some services, such as the High Court and other components of the federal court system which assist in the adjudication of certain disputes, may play a role in facilitating private economic and other activities,²⁰ yet others can be perceived as being unambiguously detrimental to productive economic pursuits.

From relatively modest beginnings in the first decade of Federation, the welfare state now consumes a substantial share of the commonwealth government budget. As Figure 11 illustrates commonwealth expenditure on social security and welfare is consuming a relatively greater share of national resources, as are expenditures on education and health care. The available data also shows

¹⁷ 'Hippolyte Taine on "Abusive Government Intervention" (1890)' in Robert Leroux and David Hart, eds., *French Liberalism in the 19th Century*, Routledge, London, p. 270-272.

¹⁸ Paul-Leroy Beaulieu, 1891, *The Modern State in Relation to Society and the Individual*, Swan Sonnenschein & Co, London, p. 82-83.

¹⁹ For a survey of the issues, see Dennis C Mueller, 2003, *Public Choice III*, Cambridge University Press, Cambridge. In addition, evidence from the United States, Europe and Australia has shown that former public sector entities, for example in utility industries, dramatically improve their productivity performance once privatised and exposed to direct market forces or contestability pressures.

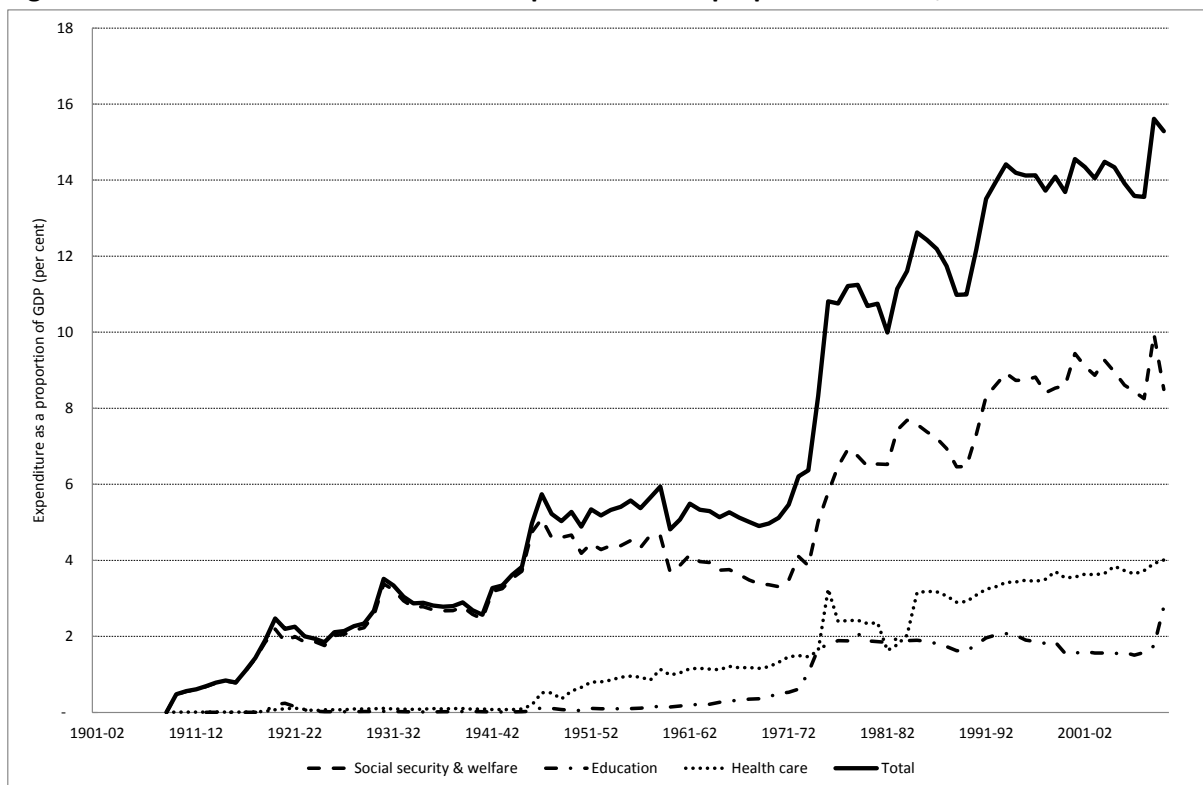
²⁰ However, the growth in disputes processed through court systems could be symptomatic of the growing range and complexity of government interventions whereby private parties seek to formally resolve disputes with public sector entities through courts. As American economist Matthew Mitchell notes, growth in legal disputation is reflected in growth in the numbers of lawyers which, in turn, 'may be an indication of a nation's tendency to rent-seek.' Matthew Mitchell, 2012, *The Pathology of Privilege: The Economic Consequences of Government Favoritism*, George Mason University, Mercatus Center, Research Paper, p. 20.

trend growth in the numbers of welfare recipients, despite astronomical improvements in living standards across the spectrum of personal incomes since the early twentieth century.

It is largely accepted that the welfare state hampers economic performance, reducing labour supply and entrepreneurial activities as some individuals choose to substitute a state of dependency on largely passive welfare payments for the disciplines and rigours associated with active participation in employment. Studies have also established that valuable work skills and aptitudes among welfare recipients tend to atrophy over time, reducing the effectiveness of previous investments in human capital.

A growing phenomenon in the Australian context is the emergence of 'fiscal churn' arising from the provision of welfare payments, including tax breaks for families and subsidies for child care and school education, to people on middle and high income levels. As many critics have indicated, this trend is inherently wasteful in that the commonwealth collects taxes from middle to high income earners to redistribute welfare payments back to these same groups, less deductions to fund the administrative costs of a bureaucracy to administer the fiscal churn.

Figure 11: Commonwealth welfare state expenditure as a proportion of GDP, 1901-02 to 2009-10



Data expressed in current prices.

Source: Julie Novak, 2012, 'The welfare state grows and grows', in Gary Johns, ed., *Right Social Justice: Better Ways to Help the Poor*, Connor Court, Melbourne.

Surveys of political attitudes consistently show that Australian public sector employees, including those engaged by the commonwealth government, mainly tend to vote for left-of-centre parties which are ideologically committed to extending the sphere of governmental activities at the expense of the private sector.

The latest Australian Election Study, undertaken after the 2010 federal election, indicates that most public sector employee respondents (commonwealth, state and local) voted for Labor (48 per cent) and the Greens (14 per cent) while 36 per cent of respondents who were government employees voted for the Liberal-Nationals Coalition.

Government employees in effect represent a bloc who wield significant, and indeed unparalleled, influence within the Australian political system by virtue of their dual role as 'suppliers' of government interventions (in their capacities as employees of public sector entities) and 'demanders' of government interventions (in their capacities as voters).

Finally, it should also be recognised that the problems associated with growth in public sector employment in Australia are magnified by the effective growth in commonwealth government activities over and above its limited set of constitutional responsibilities as enumerated by Section 51 of the Australian Constitution.

As is well known the extension of the commonwealth's role in national economic and social affairs has been informed by a range of factors, such as constitutional ambiguities, the effect of High Court judgments in attenuating state fiscal autonomy, and the increasing exercise of legal discretion by the national Parliament to intervene in traditional state government activities.²¹ However, the growth in commonwealth influence over the states would not have occurred if it were not politically profitable to do so; as Canadian economist Jean-Luc Migué explained, 'once constitutional limits break down and functions overlap, two or more levels of government compete for the same voters in the supply of services in a given territory.'²²

Migué shows that when two or more levels of government compete to supply the same public services, it is in the interest of suppliers to gain votes by implementing an expenditure program first. Conversely, abstaining from supplying the output would lead to a loss in potential votes to the rival government that supplies the output first.

Even with the restraining forces of factor mobility across states and territories at play, it is likely that the political dynamics described here will lead to an oversupply of governmental services as the commonwealth intrudes into the traditional constitutional fields of the lower levels of government.

Notwithstanding the skewed allocation of revenue powers across levels of government, the commonwealth government and its employment base is clearly larger than it should otherwise be as a consequence of centralised constitutional overreach which is the defining characteristic of Australian federalism.

²¹ For a discussion of these issues see Bhajan Grewal and Peter Sheehan, 2003, 'The Evolution of Constitutional Federalism in Australia: An Incomplete Contracts Approach', Victoria University of Technology, Centre for Strategic Economic Studies, Working Paper No. 22.

²² Jean-Luc Migué, 1997, 'Public choice in a federal system', *Public Choice* 90: 235-254, p. 235.

Current proposals for public sector employment reductions

In the 2012-13 Budget the Gillard government announced a program of general government sector employment reductions of about 3,100 people (on a FTE basis) during this fiscal year. Table 1 provides a breakdown of proposed reductions in average staffing levels by department.

Table 1: Estimate of gross reductions in average staffing levels in commonwealth general government sector, 2012-13

Department	Proposed staffing reduction
Agriculture, Fisheries and Forestry	111
Attorney-General's	353
Climate Change and Energy Efficiency	39
Departments of the Parliament	23
Education, Employment and Workplace Relations	1,255
Finance and Deregulation	68
Foreign Affairs and Trade	29
Health and Ageing	120
Human Services	440
Prime Minister and Cabinet	219
Resources, Energy and Tourism	56
Sustainability, Environment, Water, Population and Communities	105
Treasury	1,890
Total	3,074 ^(a)

Staffing reductions expressed in terms of 'average staffing levels,' reflecting the average number of employees receiving salary or wages over the fiscal year, with adjustments for casual and part-time staff, showing the full-time equivalent. Data includes defence personnel, non-uniformed staff and overseas personnel. (a) Less proposed increases in general government sector personnel of 1,459 ASL.

Source: Commonwealth of Australia, 2012, Budget Papers, Canberra.

Despite warnings by the Community and Public Sector Union (CPSU) and other interests for a relatively large commonwealth public sector that the proposed cuts to APS staffing numbers poses as an imminent danger to service delivery and policy implementation, it should be noted that the magnitude of the reported reductions for this year is dwarfed by the average annual level of resignations experienced from the APS in recent years and is not substantially greater than the number of age-related retirements (Table 2).²³

²³ Australian Public Service Commission, 2011, *APS Statistical Bulletin 2010-11*, APSC, Canberra.

Table 2: Engagements and separations of Australian Public Service staff, 2008 to 2011

	Resignation	Age retirements	Retrenchments	Total separations	Total engagements	Net engagements
	(1)	(2)	(3)	(4)	(5)	(5) – (4)
2008	8,783	1,937	812	12,176	16,090	3,914
2009	6,566	1,713	1,738	10,601	13,188	2,587
2010	5,715	1,692	1,681	9,717	10,306	589
2011	5,960	2,011	1,788	10,370	12,777	2,407

Financial year data. Data refers to ongoing staff.

Source: Australian Public Service Commission, 2011, *APS Statistical Bulletin 2010-11*, APSC, Canberra.

In an effort to sharpen the political divide between it and state Coalition governments, which are seeking opportunities for public sector attrition primarily through voluntary redundancies, the commonwealth government has recently stated that its fiscal policy objective of a budget surplus in 2012-13 will not be met by further public service reductions.²⁴

As noted above, the opposition Coalition parties proposed a policy at the 2010 federal election to reduce the size of the APS by some 12,000 employees over a two-year period. The key element of this policy was that employment reductions would occur under a process of natural attrition, which generally refers to a process in which the total numbers of employees are reduced through gradual means by retirement, resignation or death.

Information provided by the Australian Public Service Commission indicates that 8,396 ongoing APS staff in 2011 resigned or retired from, or died whilst employed in, the service.²⁵ With data from previous years also revealing similar orders of magnitude of natural attrition from the APS, this suggests that the Coalition, if it won office, would easily have achieved its small staffing reduction target in the short term.

A framework to rightsize the Australian Public Service

The chief criticism of the prevailing approaches by the two major parties is that their policies to reduce commonwealth government employment are strictly minimalist by their nature. They are designed to convey an illusory perception to the general public of tough-minded cuts for the stated purpose of achieving greater economy in public administration, but which in reality largely retain the size and architecture of the public sector intact.

In addition the approaches outlined by the parties are *ad hoc* in their nature, with a lack of public justification outlining the underlying policy rationales for the minimalist approaches offered.

An alternative to the unsatisfactory, piecemeal approaches offered by the Labor and Liberal-National parties would be to argue the case for systemic reductions to commonwealth employment, as part of a broader strategy to permanently reduce the size of the commonwealth government and its role in Australian economic and social affairs.

²⁴ Senator the Hon Penny Wong, 2012, Transcript of Interview, Sky PM Agenda with David Speers, 24 September.

²⁵ *Ibid.*

Three strategic approaches can be adopted by government to ensure meaningful reductions to commonwealth public sector employment: privatisation; transferring entities to states and territories; and the abolition of entities which undertake unnecessary or economically damaging activities.

Privatisation

Privatisation may be broadly defined as the transfer of government-owned assets, including enterprises of going concern, to private ownership or control.²⁶ A range of interrelated arguments have been advanced favouring privatisation as an economic reform option, including:

- exploiting the relatively greater efficiencies of private sector operations compared with the public sector;
- eliminating the lack of incentives faced by monopolistic public sector entities to improve performance;
- deriving economic benefits associated with removing direct political allocation of scarce resources;
- enabling capital markets and consumers to monitor the performance of privatised entities; and
- providing governments with sales revenues with which to repay debts or fund essential services.

The commonwealth government in the past had been particularly active in selling a number of its entities, either through offering equity to the public or through trade sales to private sector entities, from the late 1980s to the early 2000s (Table 3). These sales, primarily in the areas of communications, financial services and infrastructure, provided the government with substantial sales revenue to the tune of at least \$69 billion, the proceeds of which were used to help retire or contain public sector debts.²⁷

²⁶ Privatisation is distinguished from other measures undertaken by governments to promote private sector involvement in the provision of goods and services, such as contracting out, leasing or private financing of infrastructure projects. Reserve Bank of Australia, 1997, 'Privatisation in Australia', *Reserve Bank Bulletin* (December): 7-16.

²⁷ RBA, *Ibid.*

Table 3: Summary of major commonwealth government privatisations

Privatised entity	Proceeds (\$ millions)	Type of sale	Financial year of privatisation
ADI Limited	347	Trade sale	1999-2000
Australian Industry Development Corporation	200	Trade sale	1997-98
AUSSAT	504	Trade sale	1991-92
Australian Airlines	400	Trade sale	1992-93
Australian National	95	Trade sale	1997-98
Brisbane Airport	1,387	Trade sale	1997-98
ComLand Limited	140	Trade sale	2003-04
Commonwealth Serum Laboratories	299	Public float	1993-94
Commonwealth Bank	1,311	Public float	1991-92
Commonwealth Bank	1,686	Public float	1993-94
Commonwealth Bank	3,390	Public float	1996-97
Commonwealth Bank	1,770	Public float	1997-98
Commonwealth Funds Management	63	Trade sale	1996-97
Commonwealth uranium stockpile	57	Trade sale	1993-94
DASFLEET	408	Trade sale	1997-98
Defence Service House Corporation loan portfolio	1,515	Trade sale	1987-88
Housing Loans Insurance Corporation	108	Trade sale	1997-98
Melbourne Airport	1,307	Trade sale	1997-98
Moomba-Sydney Pipeline	534	Trade sale	1993-94
National Rail Corporation ^(a)	220	Trade sale	2001-02
National Transmission Network	650	Trade sale	1998-99
Perth Airport	643	Trade sale	1997-98
Qantas	665	Trade sale	1992-93
Qantas	1,450	Public float	1995-96
Sydney Airport	4,233	Trade sale	2001-02
Sydney Basin Airports	211	Trade sale	2003-04
Telstra	14,330	Public float	1997-98
Telstra	16,026	Public float	1999-2000
Telstra	15,400	Public float	2006-07

The data in this Table refer to privatisations yielding proceeds \$50 million or over. (a) Sale of National Rail Corporation was combined with sale of Freight Rail Corporation, owned by New South Wales government. Figure refers to sale proceeds received by commonwealth government for its interest in National Rail Corporation.

Source: Department of Finance and Administration, 'Past sales', <http://www.finance.gov.au/property/asset-sales/past-sales.html> (accessed 2 May 2012); Reserve Bank of Australia, 1997, 'Privatisation in Australia', *Reserve Bank Bulletin* (December): 7-16.

Since this period the momentum for further privatisation at the commonwealth level has been largely halted. However there remains scope for the government to proceed with a significant privatisation program, to enhance the productivity of existing services and deliver sales proceeds to assist in achieving fiscal consolidation objectives.

In particular, the commonwealth government should immediately proceed with privatising the Australian Broadcasting Corporation (ABC), Australian Postal Corporation (Australia Post), Medibank Private and the Special Broadcasting Corporation (SBS). A number of countries have liberalised their postal services (Box 2) and government broadcasting services, while there is no need to maintain a government-owned health insurer in a competitive Australian health insurance market.

Box 2: The international experience of postal services privatisation and liberalisation

The means by which individuals and businesses communicate has changed radically over the last two decades, with the emergence of internet and mobile phone technologies allowing for instantaneous communications. Falling transportation costs has also encouraged viable courier services markets to develop throughout the developed world.

These developments are challenging the viability of government-owned postal services, which have tended to retain inflexible modes of operation and high-cost structures (including to cross-subsidise other aspects of the government postal business, or certain classes of customers). Some countries have responded by liberalising the monopoly privileges once held by public sector postal services and opening up the market to competition.

In some European countries the private sector has assumed a significant ownership role in postal services provision. In Germany 69 per cent of the formerly government post office Deutsche Post is privately owned, while in the Netherlands an Australian courier company TNT completely owns the former government post office. The United Kingdom in recent years has proceeded along a policy path ensuring the financial viability of Royal Mail in advance of prospective privatisation.

An ambitious postal privatisation agenda was pursued in the mid-2000s by the Koizumi government in Japan. The proposal entailed splitting Japan Post into four separate companies (a bank, an insurance company, a postal service, and retail shopfront for the other three companies), to be privatised by 2007. However pressure by trade unions and anti-reform politicians had subsequently led to a retreat from postal privatisation in that country.

Most other Western countries, including Australia, have 'corporatised' their government postal services in an effort to inject market-like disciplines into the sector. This has entailed obligating postal services to pay taxes and adhere to regulations on a similar basis to that of private sector firms. In other countries, such as New Zealand and Sweden, postal monopolies have been eliminated to allow entrepreneurs to offer alternative services. However these entities remain under government ownership, with the next step of outright privatisation expected to engender additional efficiencies within postal markets.

Source: Eamonn Butler and Keith Boyfield, 'Around the World in 80 Ideas', Adam Smith Institute, <http://www.adamsmith.org/80ideas/index.htm> (accessed 2 May 2012); Consumer Postal Council, 2012, *Index of Postal Freedom: 2012 Edition*, Consumer Postal Council, Arlington; Tad DeHaven, 2010, 'Privatizing the U.S. Postal Service', <http://www.downsizinggovernment.org/usps#6> (accessed 2 May 2012).

Privatising these entities would necessitate the transfer of staff, currently employed under commonwealth government legislative auspices, to the private sector. It is estimated that the total numbers of people working in the ABC, Australia Post, Medibank Private and SBS are in the order of 44,200;²⁸ a figure roughly 15 times greater than the APS staffing reductions proposed by the Gillard government, and four times than that proposed under the Coalition's 2010 election policy.

Transfer to states and territories

As discussed above, the Australian federal system is characterised by extensive duplication in functions and activities by various levels of government primarily due to the commonwealth's incursion into traditional fields of state constitutional responsibility.

Two fields of public policy in which the commonwealth government has assumed funding and policy roles at the expense of the states and territories are education and health care, which both account for almost one-quarter of commonwealth general government expenses in 2011-12.²⁹ In recent months the government has announced its aspiration to alter the existing schools' funding model and introduce a dental health treatment program for low income earners, which is likely to place additional fiscal pressure on the commonwealth budget including as a consequence of any additional employment of additional public sector workers to manage these initiatives.

Annual reports published by the government indicate that about 8,100 employees were engaged by the Department of Education, Employment and Workplace Relations (including the Australian Curriculum, Assessment and Reporting Authority) in childcare and early childhood education, schooling, higher education and vocational education and training functions, and Department of Health and Ageing as at 30 June 2011. Returning those functions and activities to the states would reduce the overall size of the commonwealth public sector by more than double the current government's 2011-12 APS employment reduction target, and would represent more than two-thirds the Coalition's employment reduction target.³⁰

Other commonwealth government entities whose functions could be subject to a similar process of transference to the states may include the Department of Agriculture, Families, Infrastructure and Transport, Regional Australia, Resources and Sustainability, except for those responsibilities expressly allocated to the commonwealth under the Australian Constitution.

²⁸ This figure is sourced from the latest annual reports of the four entities, and refers to staffing levels as at 30 June 2011. Figures provided by Australia Post, Medibank Private and SBS are headcounts whereas the ABC figure is for average staffing levels.

²⁹ Commonwealth of Australia, 2012, *Final Budget Outcome 2011-12*, Commonwealth of Australia, Canberra.

³⁰ As noted in previous research undertaken by the author, a transfer of commonwealth public sector functions and activities of the states should be accompanied by the decentralisation of taxing powers (e.g., personal income taxation) within the Australian federal system. However even if expenditure responsibilities were transferred to the states without the commensurate transfer of taxing powers, the states could seek to privatise or contract out activities as a means of minimising their fiscal exposure to the additional expenditure responsibilities provided by the commonwealth.

Abolition

In addition to privatisation and improvements in constitutional alignment between the commonwealth and states, some commonwealth government entities could be abolished altogether on account of the distortionary economic impacts of policies or programs, or unnecessary roles, undertaken by such bodies.

The policies developed and funding provided by the Department of Climate Change and Energy Efficiency, and related bodies such as the Office of Renewable Energy Regulator (Clean Energy Regulator) and the Australian Carbon Trust (Low Carbon Australia), is hampering the efficiency of the Australian economy through their distortionary impacts on production and consumption choices in energy markets.

Another commonwealth government agency which is contributing to policy-induced distortions in Australia's industrial structure is the Department of Innovation, Industry, Science and Research, including as a consequence of its ongoing role in subsidising a largely inefficient domestic motor vehicle manufacturing industry.

The abolition of climate change and corporate welfare activities would reduce commonwealth public sector employment by some 4,600 personnel. This magnitude of employment reduction alone would exceed the government's staffing reduction target within the APS by about 1,500 people, and would represent about 39 per cent of the Coalition's 12,000 commonwealth government employment reduction target announced during the 2010 election.

Commonwealth entities, such as AusAID (1,245 staff), the Australia Council (113) and Australian Sports Commission (808), should be abolished since their activities do not relate to the financing or provision of public goods. A similar strategy could also apply to a number of other entities, including the Australian Communications and Media Authority, Australian Human Rights Commission, Australian National Preventive Health Agency, Australian Trade Commission, Equal Opportunity for Women in the Workplace Agency, Future Fund Management Agency, NBN Co. and the Wheat Export Authority.³¹

³¹ The staffing reductions associated with the abolition of these entities would have totalled some 2,300 persons as at 30 June 2011.

Conclusion

Writing in the late 1950s the political scientist Alan Fraser Davies wrote that:

'[t]he characteristic talent of Australians is not for improvisation, nor even for republican manners, it is for bureaucracy. We take a somewhat hesitant pride in this, since it runs counter ... to the archaic and cherished image of ourselves as an ungovernable, if not actually lawless, people.'³²

The 'talent' of the Australian political class to develop exotic rationales and methods conducive to bureaucratic expansion, and hence large government, is particularly manifest at the commonwealth government level.

Successive governments, of both political persuasions, have devised politically ingenious ways to create a large body of supervisors based in Canberra, whose main roles are to fund state governments and non-government organisations and then to watch these service deliverers as they attempt to dutifully perform the commonwealth's policy bidding.

While the commonwealth has developed a fetish for micromanaging how service deliverers they fund will actually deliver such outputs, the extent of service delivery undertaken by the commonwealth itself tends to be limited to basic protective functions and some redistributive services, such as doling out payments to welfare beneficiaries.

In addition to the federal supervisory state, the commonwealth's 'talent for bureaucracy' has manifest itself in the form of a substantial regulatory state with numerous authorities solely charged with ensuring that the economic and social activities of every Australian individual and business conforms with politically acceptable modes of conduct.

With the need for Australia to repair its underlying structural budget deficit recognised by both major political parties, a unique opportunity exists for the commonwealth government to instigate major steps to halt, if not reverse, the growth of bureaucracy that has largely proceeded apace in an uninterrupted fashion for decades.

The reduction in expenditures that the rightsizing of the public service would eventually entail would assist in the return of the commonwealth budget back into balance or modest surplus, without recourse to new taxes which could stymie economic growth.

Furthermore, a substantial reduction in commonwealth government employment would ensure that other Australian talents that have been suppressed for too long - particularly the exercise of private sector entrepreneurship that creatively finances and provides high-quality products to the buying public on the domestic and global economic stage - can prosper.

³² Quoted in Hal Colebatch, 2005, 'A 'Talent for Bureaucracy': A. F. Davies and the Analysis of Government in Australia', *Australian Journal of Public Administration* 64 (4): 32-40.