New South Wales: Decline of the premier state

Mike Nahan

New South Wales—the Premier State—is in decline. Its economy is weak, having recorded the lowest rate of economic growth amongst the States in 2004–05. People are leaving, with the State experiencing a net loss of 30,000 people per year. Business confidence is low, the lowest of any State, and getting worse. Unemployment is above the national average and rising. The housing market is in a slump. The trains do not work, the roads are clogged and people live in fear of environmental Armageddon.

Although NSW has not sunk to the depths of the Victorian economy circa 1990, it is going in a similar direction for similar reasons.

The long reign of the philosopher premier, Bob Carr, has proven to be a period of sustained policy failure hidden by a booming national economy and a fawning media. Now that the tide has turned, the wreck is being steadily exposed.

Control over public servant numbers and wages, including teachers and nurses, is the key to managing public finances at the State level. Wages and employee entitlements account for 60 per cent of expenditure, retrenchments are costly and politically difficult to achieve, and generous wage deals with one group tend to cascade through the sector, spilling into the private sector.

This is where the Cain Government in Victoria failed most fundamentally. Carr has done the same.

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Over the four years to 2004–05, employee entitlements in the budget sector grew by an average annual rate of 8.8 per cent, followed by a massive 10.5 per cent growth in 2004–05.

This growth rate is more than twice the government's forecast and nearly three times the rate of inflation plus population growth. And further large increases have been built into the system.

One of the driving forces behind the blow-out in wages has been the injection, by the Government, of 'wage equity' into the NSW Industrial Relations Commission's (IRC) wage-fixation principles.

Wage equity is a long-cherished goal of feminists and unions. The argument is that there has been longstanding, systemic discrimination against women and that this has led to discrimination against female-dominated occupations as a whole. The policy response is to enforce parity in wages between comparable female- and male-dominated occupations.

The argument is flawed. While women do, on average, receive lower wages than men, the difference disappears when the wages data are adjusted for factors such as part-time work, length of service or experience, and overtime. This should be no surprise—sex-based discrimination has been outlawed and rigorously enforced, and equal pay for equal work has been the norm for decades.

The argument also assumes that female-dominated occupations have not received improvements in wages and conditions on a par with male-dominated industries in recent years. Again, this is not supported by the data.

It further assumes that occupations which face fundamentally different market conditions and work requirements—teaching and underground coal mining, for example—should have equality in wages.

The flaws in the whole idea have seen it rejected by jurisdictions both here and abroad.

The Carr Government, however, caved in. In 1996, it passed a new Industrial Relations Law which, among other things, changed the equal pay provision to 'equivalent remuneration for men and women doing work of equal or comparable value'. The Government then set up the Pay Equity Taskforce to investigate the 'under-valuation of women's skills and ways of dealing with pay equity in NSW'. On the Taskforce's recommendation, it then directed the IRC to undertake an Inquiry into Pay Equity. This Inquiry culminated in the adoption of the Equal Remuneration and other Conditions Principle, which provides the rationale for pursuing pay-equity claims in the IRC.

This process did little more than uncritically rehash flawed arguments.

The bureaucracy, even the Treasury, went along with the deal, even though it would unambiguously harm the State's finances. The largest female-dominated occupations—and the ones targeted by the unions—are either employed or funded by government.

Following the path paved by the NSW Government, the NSW IRC awarded librarians (female and male) a wage increase of 16 per cent in 2002 on the basis that their 'work is undervalued because the jobs were historically done by women and that these workers are professionals on a par with legal and scientific officers, engineers and psychologists'.

Nurses, teachers and public service clerks followed with pay-equity claims of their own. The Teachers Union and the Nurses Union claimed one-off salary increases plus allowances of, respectively, 25 per cent and 15 per cent, based on pay-equity claims.

The fact is that most nurses and teachers are already on equal pay with their chosen benchmark. Over 90 per cent of teachers employed in the public school system in NSW are on the top pay scale and receive a wage package of salary, extra holidays and super of in excess of $90,000—which is already on par with an underground coal miner.

The union's claim, however, compares entry-level wages between teachers and miners and, through a sleight-of-hand, seeks to have this applied to all teachers, even though the entry-level pay differential quickly disappears as teachers move up the pay scale. Despite its blatant flaws, the unions' pay-equity claims received a good hearing in the IRC and this induced the Government to increase its offer in exchange for postponing the pay-equity claims.

In 2004, nurses received a 16 per cent wage increase over four years and teachers received a 4.5 increase for each of three years, plus better conditions. These were, respectively, 33 per cent and 50 per cent above the Government offer.

What is worse, under the deal, the increase in wages goes only to the 90+ per cent of teachers on the top pay scale that already have pay equity. Teachers on the lower scale do not really miss out, as the existing agreement provides for an automatic 4.89 per cent increase per year simply by progressing up the ranks.

The writing is on the wall and the public has read it.

The above-budget wage increases for teachers and nurses alone have permanently increased the level of government expenditure by $500 million per year.

But it does not stop with the nurses and teachers. Their deal has flowed on to other areas of the public service. Even the Senior Executive Service, whose members are overwhelmingly male and who are responsible for achieving the government's supposed 3 per cent wage target, have received a 4 per cent wage increase from the IRC so as to keep parity with the nurses and teachers. Is it any wonder that they agreed to the nurses' and teachers' wage equity claims, knowing eventually that it would flow onto them?

These wage increases were accompanied by commitments to large increases in staffing numbers—with public servant numbers increasing by 13 per cent in the four years to 2004–05. They come on top of large built-in wage increases achieved through promotion and seniority-based pay increases.

Importantly, they have not been accompanied by efficiency trade-offs. Individual agreements which provide the capacity to achieve value for money and better target wage increases are, with the exception of the top ranks of the SES, effectively banned in the NSW Public Service. Outsourcing has slowed since 1996. While there have been many departmental reorganisations which have tended to shifted resources from head office to the coal face, the effects on costs have been limited.

The loose wages policy in the public sector has now spread to the non-government sector and the private sector. Unions NSW has lodged claims with the IRC for a 4 per cent increases in minimum award rates, based in part on the wage increases achieved in the public sector. Private hospitals, schools and day care centres have all been forced to match the public sector's wages and conditions.

Mr Carr has claimed that this was not of his doing, that it was forced on him by the NSW IRC. In fact, his government engineered the process, put up only token resistance, and then tried to hide its impact.

Each year he promised to stop the rot and to ensure that all new wage agreements fell within a 3 per cent growth limit. Each year he failed—as of course he must of known he would.

The wages bill in the NSW budget sector at the end of 2004–05 was $2.2 billion, or 35 per cent above the forecast of four years ago.

As Mr Cain did in the 1980s, during this decade the Carr Government has been able to mask the blow-out in wages with large above-budget revenue flows—thanks in large part to the GST and high effective tax rates. However, with the economy slowing, revenue growth has slowed to a modest but adequate 3 per cent in 2004–05, exposing the unsustainable growth in wages and conditions.

As the economy continues to slow, the budget deficit will grow further; the Government's debt-elimination strategy will need to be abandoned, capital expense will be cut and taxes raised.

The writing is on the wall and the public has read it. The big question is: does the new Premier, Mr Iemma, have it in him to take back control of the public purse from his colleagues at Trades Hall?

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