

Assessing the Likely Impact of the Proposed Public Sector Employment Reductions in South Australia

Prepared for the

**Public Service Association
of South Australia**

By

Associate Professor John Spoehr

**Executive Director,
Australian Institute for Social Research
University of Adelaide**



March 2006

1 Introduction and key findings

On the 21st of February 2006 the Liberal Party of South Australia announced that if elected it would cut 4,000 public servants from the South Australian public sector (Lucas 2006). This report:

- assesses the implications of the cuts in the context of the ageing of the public sector workforce.
- provides estimates of the likely flow on impacts of the cuts on unemployment in South Australia.

This assessment concludes that the cuts will contribute to a significant rise in unemployment in South Australia and diminish the capacity of the public sector to respond to the challenges presented by a rapidly ageing workforce. The proposed cuts will amplify emerging recruitment and retention problems arising from a rapidly ageing public sector workforce. The policy imperative over the next few years is to design and implement a State Public Sector Workforce Development strategy that pursues an ambitious recruitment target for young people and retention target for mature age public servants.

KEY FINDINGS AT A GLANCE
The proposed 4000 cut in public servants would result in public sector employment declining by around 4.5 per cent from 89979 to 85979 persons.
The separation package costs associated with the loss of 4000 persons is likely to be in the order of \$250m to \$300m based on an average separation package of around \$70,000.
Public sector employment rose by around 7 per cent over the 2002-05 period from 83821 to 89979.
Public sector employment as a proportion of the workforce declined from 18.1 per cent in 1991 to 12.1 per cent by 2005.
The gap between the median age of the South Australian public sector and the South Australian workforce has doubled over the last decade or so. In 1991 the median age of the public sector workforce was 38.5 compared to 35.7 for the SA workforce. By 2005 the median age of the public sector was 45.0 compared to 40.0 for the SA workforce.
The proportion of 15 to 24 year olds in the SA public sector declined from 10.9 percent (compared to 20.2 percent for the workforce as a whole) in 1991 to 5.9 percent (compared to 18.4 percent for the workforce as a whole) in 2005.
The age profile of the SA public sector workforce suggests that a significant proportion of public sector employees are likely to consider retirement over the next five years. Nearly 5 per cent or around 4300 public servants are over the age of 60.
The proposal to reduce the number of public servants by 4000 persons is likely to equate to expenditure cuts in the budget of between \$150 and \$200m per year.
It is estimated that unemployment in South Australia would increase by around 2900 as a result of a 4000 reduction in the number of public servants. Overall unemployment would rise from 39300 to 42240 resulting in the unemployment rate rising from 5.0 to around 5.4 percent.
There is no apparent economic or financial imperative to cut public sector employment in South Australia. Government finances are robust and the South Australian economy is buoyant. Furthermore the ageing of the public sector creates an imperative to recruit and retain more public servants.

2 Public Sector Employment Trends

Over the decade to 2001 South Australian public sector employment declined dramatically. This was largely due to the heavy job shedding associated with budgetary cuts in health and education expenditure in the mid 1990s and the downsizing that occurred during the corporatisation and eventual privatisation of a range of State government business enterprises.

Table 1 and Figure 1 indicates that the number of State public sector employees declined from 115700 in June 1991 to 82953 in June 2001. This represents a reduction of around 25 per cent or 32800 employees over the decade. The most significant decline in public sector employment occurred over the 1995 to 1997 period. The significant loss of public sector jobs that occurred in 1999 was largely a statistical artefact associated with the decision to remove the 5,888 full-time equivalent employees of the State's three universities from the public sector workforce.

Public sector employment rose by around 7 per cent over the 2002-05 period from 83821 to 89979.

Figure 1: State Public Sector Employment, South Australia, 1991-2005

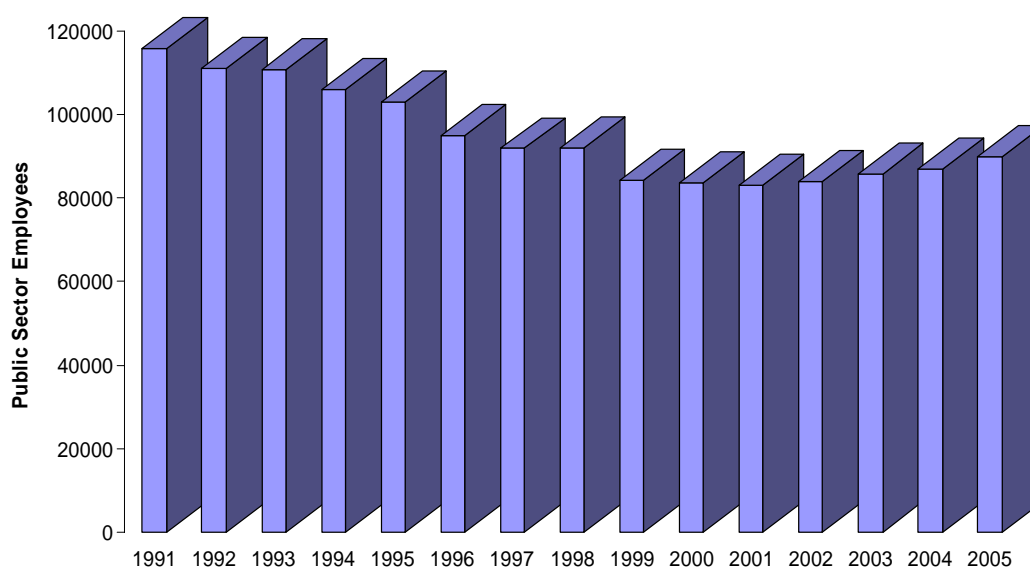


Table 1 indicates that public sector employment has declined significantly as a proportion of all persons employed in South Australia. Public sector employment as a proportion of the workforce declined from 18.1 per cent in 1991 to 12.1 per cent by 2005.

The South Australian public sector is ageing at a faster rate than the South Australian workforce and the proportion of 15-24 year olds is shrinking alarmingly. The gap between the median age of the South Australian public sector and the South Australian workforce has doubled over the last decade or so. In 1991 the median age of the public sector workforce was 38.5 compared to 35.7 for the SA workforce. By 2005 the median age of the public sector was 45.0 compared to 40.0 for the SA workforce.

The proportion of 15 to 24 year olds in the SA public sector declined from 10.9 percent compared to 20.2 percent for the workforce as whole in 1991 to 5.9 percent compared to 18.4 percent for the workforce as a whole in 2005. The divergence in the representation of 15-24 year olds in the SA public sector is a serious concern given the recruitment and retention challenges facing the State public sector.

The age profile of the SA public sector workforce suggests that a significant proportion of public sector employees are likely to consider retirement over the next five years. Nearly 5 per cent or around 4300 public servants are over the age of 60 (OPE 2006).

Table 1: South Australian Public Sector Employment – Key Trends, June 1991 to June 2005

Year	Employees FTEs	Employees Persons	Employees - difference from previous year (persons)	Employees - % difference from previous year (persons)	As a % of SA workforce	Median Age of Public Sector workforce	Median age of SA workforce	Proportion of 15 to 24 years olds SA Public Sector	Proportion of 15 to 24 year olds SA Workforce
1991	101647	115700	-	-	18.1	38.5	35.7	10.9	20.2
1992	96960	111025	-4675	-4.04	17.7				
1993	96259	110781	-244	-0.22	17.4				
1994	90885	105836	-4945	-4.46	16.7				
1995	86498	102899	-2937	-2.78	15.9				
1996	79432	94808	-8091	-7.86	14.4	40.5	37.9	8.2	17.9
1997	76392	91812	-2996	-3.16	13.9				
1998	77601	91818	6	0.01	14.4	41.8	38.1	7.4	17.1
1999	70517	84199	-7619	-8.30	12.7				
2000	68615	83543	-656	-0.78	12.4				
2001	68884	82953	-590	-0.71	12.3				
2002	69770	83821	868	1.05	12.1				
2003	71373	85576	1755	2.09	12.1				
2004	72141	86885	1309	1.53	12.1				
2005	76720	89979	3094	3.56	12.1	45.0	40.0	5.9	18.4

Source: Office of Public Employment, South Australian Government

3 Impact of proposed cuts to public sector employment

The proposed 4000 cut in public servants would result in public sector employment declining by around 4.5 per cent from 89979 to 85979 persons.

The separation package costs associated with the loss of 4000 persons is likely to be in the order of \$250m to \$300m based on an average separation package of around \$70,000.

As well as providing a range of public services, public investment has important economic and employment benefits. Investment in public services generally has higher value-added multipliers than investments in many other industries including motor vehicles, textiles and electronic equipment. Put simply public services generate more employment per dollar than any other industry.

Governments seeking to generate employment and tackle unemployment need to be aware of these important multiplier effects. They are useful not only for determining new priorities for investment but also to evaluate the impact of employment reductions in the public sector.

Estimates of the multiplier effects of recent public sector job losses

Using employment multipliers detailed in Appendix A it is possible to estimate the flow on impacts of the Liberal Party's proposed cuts to public sector employment expenditure. The proposal to reduce the number of public servants by 4000 persons is likely to equate to expenditure cuts in the budget of between \$150 and \$200m per year. The employment effects of reductions of this magnitude are provided in the table 2.

Table 2: Employment multiplier effects of a 4000 reduction in Public Sector employment

Industry Sector	Total Multipliers	Expenditure reduction \$m	Employment effect
Govt Admin	29	100	-2900
Govt Admin	29	150	-4350
Govt Admin	29	200	-5800

Source: Carman et al and authors own estimates.

It is estimated that the loss of around 4000 public servants is likely to lead to the loss of between 4350 and 5800 jobs in other parts of the economy. A significant proportion of these people will experience unemployment.

Impact on unemployment

The proposed 4000 reduction in the number of public servants will result in an increase in unemployment in South Australia. This section estimates the impact of the cuts on unemployment in South Australia.

Currently there are around 39,900 unemployed persons in South Australia. A significant proportion of public servants who lose their jobs as result of the proposed reductions are likely to become unemployed. Previous studies of the impact of redundancy on unemployment suggest that around 30 percent of those made redundant are likely to become unemployed for six months or more (Spoehr and Shanahan 1994).

Table 3 provides estimates of the impact of the proposed cuts on unemployment in South Australia.

Table 3: Impact on unemployment of the loss of 4000 public servants

Unemployed persons SA Jan 2006	Direct impact of losses on unemployment in SA, persons¹	Indirect Impact on SA unemployment, persons²	Total direct and indirect impact on SA unemployment
39300	1200	1740	2940

1. Equates to 30 percent of the proposed 4000 reduction in public servant numbers.

2. Equates to employment multiplier of direct losses on unemployment assuming \$60m reduction in public expenditure applied to Government Administration employment multiplier.

It is estimated that unemployment in South Australia would increase by around 2900 as a result of a 4000 reduction in the number of public servants. Overall unemployment would rise from 39300 to 42240 resulting in the unemployment rate rising from 5.0 to around 5.4 percent.

It should be noted that the impact of cuts in regional South Australia would have a more significant impact on regions experiencing unemployment rates above the state average.

4 CONCLUSION

There is no economic or financial imperative to cut public sector employment in South Australia. Government finances are robust and the South Australian economy is buoyant. Furthermore the ageing of the public sector creates an imperative to recruit and retain more public servants rather than reduce the public sector workforce.

The public sector faces the emergence of widespread skill shortages that have the potential to erode the quantity and quality of government service provision over the next five to ten years. The ageing of the public sector workforce necessitates the development of effective retention rather than separation strategies.

In this context the proposed 4000 cut to public sector employment in South Australia will be counterproductive. They will result in an increase in unemployment reversing the recent sustained decline in the unemployment rate.

The policy imperative over the next few years is to design and implement a State Public Sector Workforce Development strategy which embarks on an ambitious recruitment target for young people while focusing on the retention of existing mature age public servants.

5 References

Carman, M (1999) *Multiplying the Benefits: The Economic Impact of Public Spending*, Public Sector Research Centre, The University of New South Wales

Chapman, P and Spoehr, J (1999) 'The Debt Debate – public debt and growth in the SA Economy', in *Beyond the Contract State – ideas for Social and Economic Renewal in South Australia*, Edited by John Spoehr, Wakefield Press, Adelaide

Lucas, R. (2006) *Liberals Release Key Costings Details*, Media Release, Liberal Party of South Australia, 21 February.

Office for Public Employment, *South Australian Public Sector Workforce Information*, Department of Premier and Cabinet, Government of South Australia, various issues

Spoehr, J. and Shanahan, M. (1994) *Alternatives to Retrenchment – job retention and structural adjustment in a regional economy*, Centre for Labour Studies, University of Adelaide, Adelaide.

© Public Service Association of SA and University of Adelaide, Australian Institute for Social Research. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording or any information storage or retrieval system, without the permission of the author or their appointed agents.

Appendix A: Employment Multipliers

Employment multipliers associated with public services are around 50 percent higher than the average for all industries. Public investment in public services generates around 30 full-time equivalent jobs for every \$1 million of investment in each industry. The following table illustrates this summarising industries with the highest and lowest employment multipliers per \$million of output.

Highest and lowest employment multipliers per \$m of output, Australia, 1993/94 – direct allocation of competing imports

INDUSTRY SECTOR	TOTAL MULTIPLIERS ¹
highest	
Education	35
Community services	33
Other services	31
Health services	29
Retail trade	29
Other business services	29
Government administration	28
Accommodation, cafes and restaurants	28
Footwear	27
Personal services	27
Furniture	26
Fabricated metal products	25
Libraries, museums, arts	24
Defence	24
Other wood products	24
lowest	
Beef cattle	13
Other agriculture	13
Water transport	12
Dairy cattle	12
Beer and malt	12
Paints	12
Financial asset investors	11
Gas	11
Other mining	10
Electricity	10
Services to finance etc	10
All industry average	18

Source: ABS 5209.0, Derived from Carmen (1999)

¹ Total multipliers are calculated as a sum of initial, production-induced and consumption induced effects. Initial effects show “the number of workers employed by the industry to meet \$1 m worth of demand for their goods and services. Initial effects give an indication of each industry’s labour intensity”; “production-induced effects, which show the number of employees needed from all industries to produce output to satisfy the demand for \$1 m of output from an industry (excluding the initial effect); consumption induced effects, which show the number of jobs created by workers employed in an industry spending their wages”. (Carmen, 1999).