

The incredible shrinking public sector

The share of total employment taken up by the public sector fell from 26 per cent in 1984¹ to 16 per cent in 2005. That amounts to 940 000 fewer jobs in the public sector than would have been the case had the public sector retained its share of total employment. While the Commonwealth, state/territory and local governments have all lost employment share, the Commonwealth is the only sector to also have experienced a decline in absolute job numbers—down from 422 000 in 1984 to 251 000 in 2005.

This Research Note examines in more detail, the size and nature of the decline in public sector employment share in Australia, and provides some explanations for, and consequences of, this decline.

Public sector employment share

Public sector employees are defined as employees of enterprises controlled by the Commonwealth, state/territory and local governments. Public sector enterprises include government departments and authorities as well as bodies which have been corporatised such as Australia Post, Telstra and some state rail and electricity authorities. Organisations that have been partially privatised remain classified as being in the public

sector if the government retains a majority shareholding.²

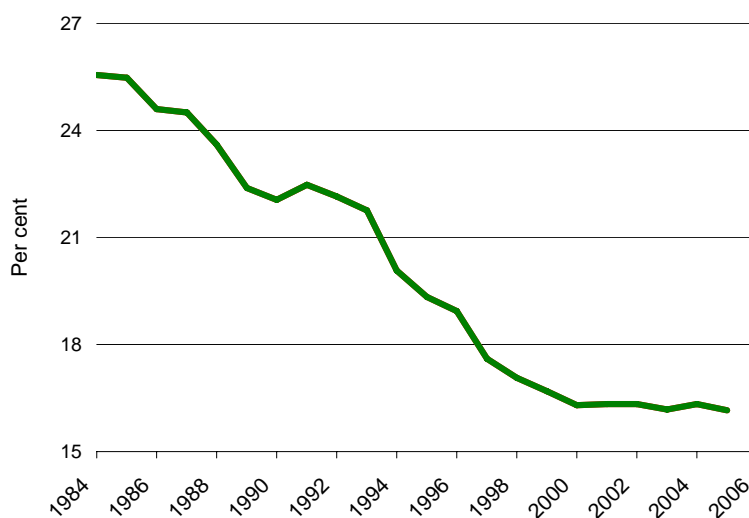
In 1984, there were 1.7 million employed persons in the public sector and 4.8 million in the private sector. By 2005, the number in the public sector had fallen to 1.6 million while in the private sector it had risen to 8.4 million. As a result of these changes, the proportion of total employment that is accounted for by public sector employees fell sharply from 26 to 16 per cent (Figure 1). This decline however, was not spread evenly between levels of government or between industry sectors.

The Commonwealth government is the only level of government to have experienced a fall in absolute employment numbers between 1984 and 2005—down by 171 000 (or 40 per cent) over

the period.³ Employment in both state/territory and local governments rose over the period, though not by a significant amount.⁴ By 2005, 16 per cent of public sector employees worked for the Commonwealth government, 74 per cent for state/territory governments and 10 per cent for local governments. This compares with the situation in 1984 when the corresponding figures were 25, 66 and 9 per cent respectively.

As Table 1 shows, between 1984 and 2005, public sector employment share fell in every industry sector. While the fall was fairly small in the case of education and government administration and defence, significant falls were recorded elsewhere. In electricity, gas and

Figure 1. Public sector employment share



Source: ABS, *Wage and Salary Earners, Public Sector, Australia* (Cat. No. 6248.0.55.001)

Table 1. Public sector employment share by industry

	May 1984	May 2005
	%	%
Agriculture, Forestry and Fishing	3.1	0.9
Manufacturing	4.9	0.5
Electricity, Gas and Water Supply	95.9	54.7
Construction	12.2	0.5
Transport and Storage	44.4	8.9
Communication Services	88.9	39.1
Finance and Insurance	26.1	2.8
Property and Business Services	13.3	2.5
Government Administration and Defence	93.0	90.9
Education	73.7	72.4
Health and Community Services	51.1	35.0
Cultural and Recreational Services	23.8	10.1
Personal and Other Services	31.9	27.6
All Industries	25.6	16.2

Sources: ABS, *Wage and Salary Earners, Public Sector*, Australia (Cat. No. 6248.0.55.001)

ABS, *Labour Force, Australia, Detailed - Electronic Delivery* (Cat. No. 6291.0.55.001)

water the public sector reduced its share of total employment from 96 per cent in 1984 to 55 per cent in 2005. Similar large falls in employment share were recorded in transport and storage (44 to 9 per cent); communication services (89 to 39 per cent); and finance and insurance (26 to 3 per cent).

Public sector employment is now more heavily concentrated than ever in just a few industry sectors. In 1984, 54 per cent of all public sector employees in Australia worked in either education; government administration and defence; or health and community services. By 2005 that proportion had increased to 79 per cent.

Commonwealth public servants—historical view

Commonwealth public servants are defined as persons employed under the authority of the *Public Service Act 1999*. This group does not represent total Commonwealth employees because staff employed in Commonwealth-owned companies, statutory authorities,

the defence forces and government business enterprises are not included. In 2005, Commonwealth public servants made up 53 per cent of all Commonwealth employees and just eight per cent of all public sector employees.

Although Commonwealth public servants are only a small proportion of total public sector employment, there is available for this group an employment series that goes back to the beginning of last century. The series therefore provides, at one level, a longer-term perspective on change in public sector employment.

For the first four decades of last century, the number of Commonwealth public servants in all Australia was less than 50 000 (or less than 20 000, excluding employees of the Postmaster-General's Department (PMG)). That number rose to 278 000 in 1975, falling to 160 000 in 1976 when the PMG was split into two entities and its employees ceased to be employed under the Public

Service Act.⁵ The number of Commonwealth public servants rose to 178 000 in 1987, after which the trend has been predominantly downward.

In 2005, there were 134 000 Commonwealth public servants in all of Australia. The number of Commonwealth public servants relative to the entire working population has halved from its peak of 2.7 per cent in 1976 to 1.3 per cent today (see Figure 2).

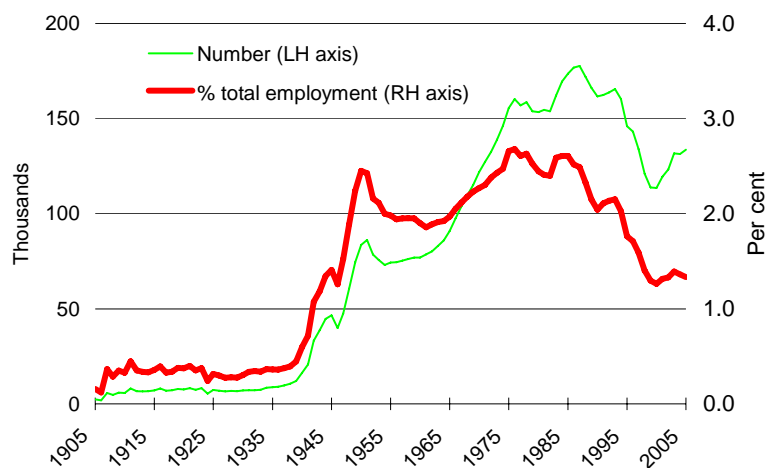
Factors that have contributed to a declining public sector

A combination of factors have contributed to the decline in public sector employment over the past 20 years. In part, these arise from the process of technological change. Also of importance has been the change of strategic purpose by Australian governments—with the focus shifting away from functions that are either commercial by nature, or no longer considered to be the core business of government.⁶

More specifically, the contributing factors include:

- Increased privatisation of the public sector at both Commonwealth and state levels of government. The process of privatisation gathered pace in the 1990s in Australia with the sale of the first tranche of the Commonwealth Bank in 1991. The sale of transport and communication enterprises has been a significant venture for the Commonwealth. State governments have been mainly involved in the sale

Figure 2. Commonwealth public servants
(includes ongoing and non-ongoing employees; excludes employees of the PMG Dept)



Source: Australian Public Service Commission (except proportions which were derived from data supplied by the APSC and the Australian Bureau of Statistics)

of banks and insurance offices, followed later by electricity and gas utilities.⁷

- The introduction of government policies that have resulted in the opening up to competition of areas previously reserved to government, such as telecommunications.⁸
- Increased rationalisation and outsourcing of services.⁹
- Increased use of consultants.¹⁰
- Increased use by the public sector of labour hire arrangements in preference to direct employment.¹¹
- Productivity improvement brought about by technological advances and more efficient work practices in the public sector.¹²

Consequences of a declining public sector

Technology changes reduced the number of unskilled and semi-skilled jobs in the public sector and led to declining employment for young people. Privatisation and outsourcing have added to

this impact, resulting in a much smaller public service with a less occupationally diverse workforce.¹³

The process of privatisation, in addition to causing the transfer of some jobs from the public to private sector, is also likely to have resulted in a loss of jobs. A Senate report on the Telstra (Dilution of Public Ownership) Bill 1996 noted that 'the overwhelming weight of international evidence submitted to the Committee showed that employment levels had typically fallen sharply when public utilities were privatised.'¹⁴ In a report on the fiscal impact of the privatisation of the Victorian electricity industry, John Quiggin observed that 'every stage of the process in which government agencies have been converted into commercial public enterprises has been accompanied by reductions in employment and job security.'¹⁵

According to Professor Bill Mitchell of the Centre of Full Employment and Equity at Newcastle University, another

consequence of a smaller, restructured public sector, has been a loss of capacity by that sector to absorb low skilled workers when such workers are displaced due to a contraction in private sector demand. Mitchell argues that while job creation was an important function of the public sector in the 1950s and 1960s, since the mid 1970s the government has largely abandoned its commitment to that capacity.¹⁶

The restructuring of the public sector has also had some impact on the apprenticeship system. Dr Phillip Toner of the University of Western Sydney notes that 'a major contributor to the reduction in apprentice numbers over the 1990s has been the large scale withdrawal of all levels of government from apprentice training ... largely due to the corporatisation or privatisation of state and Commonwealth government activities.'¹⁷ The Department of Education, Science and Training has also recognised this situation stating that the 'privatisation of public utilities has reduced the traditional training ground and supply of skilled labour for engineering trades, and large companies are typically more focussed on training for their own skill requirements.'¹⁸

It should be noted, however, that the decline in apprenticeship opportunities is also related to declining employment in industries that have traditionally employed apprentices (such as heavy engineering, metal manufacturing and vehicle building).

Conclusion

Public sector employment share in Australia has fallen dramatically over the past 20 years. A number of factors have contributed to this, significant among which has

been the increased privatisation of functions at both Commonwealth and state levels of government.

Some commentators have argued that the consequences of a smaller, restructured public

sector have included: a loss of jobs; a reduced capacity to provide low skilled jobs when private sector demand slackens; and reduced training opportunities for apprentices and young people.

1. Data on overall public sector employment levels are not available for periods earlier than 1984.
2. Australian Bureau of Statistics (ABS), *Australian Social Trends 1998* (Cat. No. 4102.0), p.115.
3. One of the factors that has contributed to the decline in Commonwealth employment numbers is the transfer of some Commonwealth functions to the states. For example, in 1994–95 more than 9000 staff from the ACT government and a number of Repatriation General Hospitals moved from being classified as Commonwealth to state government employees.
4. Based on data in ABS, *Wage and Salary Earners, Public Sector, Australia* (Cat. No. 6248.0.55.001)
5. On 1 July 1976 the PMG was split into Telecom Australia and Australia Post, which were set up as Government Business Enterprises.
6. Australian Public Service Commission, [The Australian Experience of Public Sector Reform](#), Canberra, 2003, p. 117.
7. See '[Privatisation in Australia](#)', *Reserve Bank of Australia Bulletin*, December 1997, pp. 8–9.
8. P. J. Barrett, '[Governing Corporately—Working Cooperatively, Creating a more Efficient and Effective Public Service in the 21st Century](#)', speech to Medibank Private Executive Seminar Breakfast, Perth, 16 May 2000, accessed on 9 January 2006.
9. ABS, *Australian Social Trends 1998*, loc. cit.
10. Although sector-wide figures are not available, individual departmental figures provide an indication of the substantial increase in consultancy expenditure. For example, expenditure on consultants by the Commonwealth Department of Defence increased from \$1.2 million in 1984–85 to \$49 million in 2004–05. Expenditure on consultants by the Department of Finance was less than half a million dollars in 1987–88 compared with \$13 million in 2004–05. (Source: Departmental annual reports.)
11. The NSW Labour Hire Task Force noted that 'in the past 20 years labour hire has grown in every industry and sector'. See Labour Hire Task Force, *Final Report*. New South Wales Labour Hire Task Force, Sydney, December 2001, p. 21.
12. ABS, loc. cit.
13. Australian Public Service Commission, op. cit., p. 164.
14. Report of the Senate, Environment, Recreation, Communication and the Arts References Committee, '[Consideration of the Telstra \(Dilution of Public Ownership\) Bill 1996](#)', Commonwealth of Australia, Canberra, 1996, Chapter 5.
15. J. Quiggin, '[The Fiscal Impact of the Privatisation of the Victorian Electricity Industry](#)', accessed on 4 April 2006, p. 12.
16. W. Mitchell, '[Unemployment, Inequality and Public Responsibility](#)', accessed on 23 December 2005
17. P. Toner, '[Declining Apprentice training Rates ; Causes, Consequences and Solutions](#)', July 2003, p. 16.
18. Department of Education, Science and Training, [Nature and Causes of Skill Shortages: Reflections from the Commonwealth National Industry Skills Initiative Working Groups](#), Canberra, 2002 (Attachment 1).

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