



SSTUWA

The State School Teachers' Union of W.A. (Inc.)

Why public sector pay caps are bad for the economy



1. Pay caps affect broader wage growth through:

A composition effect

This is the direct impact of lower public sector wage growth on the overall weighted average wage growth of the total labour market. Governments, state and federal, are the biggest employers in Australia.

A demonstration effect

This is the impact of suppressed public sector wages on expectations and wage setting by private sector employers. Public sector wage policies are a visible benchmark for wages in the private sector and the public sector is the largest employer in the country.

A macro-economic effect

By suppressing wage growth, incomes and consumer spending are undermined. Public sector austerity ensures that overall aggregate demand is reduced. This affects retail trade and other consumer sensitive areas.

Because of the downturns in these areas, market conditions are undermined, thus encouraging private sector employers to reduce employment opportunities and wage offers.

2. Capping pay reduces the lifetime income, general savings and

superannuation savings of public sector workers by 10s of thousands of dollars.

- Suppressing wages undermines super growth by automatically reducing employer contributions. This damage compounds over time.
- Any wage restraint has permanent negative effects on super balances.

3. At least 35 per cent of the so-called savings from capping pay

is offset by the loss of direct tax revenues that would have been collected due to higher income and spending.

4. Public sector wage restraint in tight economic circumstances

helps to lock in a lasting decline in wage growth across the board.

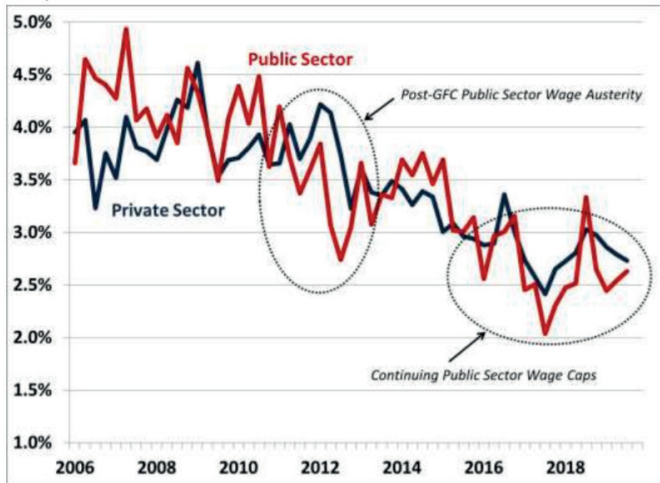
5. Since 2013 wages have grown at the lowest rate since the Second

World War with average wage increases at two per cent. This has meant:

- Stressed household finances
- Weak consumer spending – poor GDP growth and job creation
- Wider inequality
- A failure of monetary policy to hit inflation targets.

6. Continued pay caps risk deflation

Figure: Year-over-year growth, newly lodged enterprise agreements, Australia, 2006-2019



Source: (Henderson and Stanford 2020)

Pay caps are not fiscally necessary nor economically helpful. Public sector deficits are important during economic downturns, as they support demand and moderate the severity of the downturn.

Playing political games

Public sector wage freezes and caps serve an ideological purpose rather than an economic one.

Governments are counting on gaining political advantage by appearing to be tough fiscal managers. Focus has been on deficit reduction since the Global Financial Crisis, well before COVID-19.

In WA, wages policy has been particularly harsh with most teachers and lecturers being restricted to increases of between 0.5 and 1 per cent of earnings for four years.

Governments talk about greedy public servants and a bloated public service but most are ordinary people doing vital work to protect and support our community.

A strong public sector means:

- We have enough nurses, teachers, TAFE lecturers, education assistants, community support workers, train drivers, police, health care workers, prison officers, cleaners and other essential staff.
- Continued protection for the public from COVID-19 through quarantine systems, state border management, contact tracing and maintenance of public hygiene.
- Reduced hospital wait times.
- Public transport runs efficiently and effectively.
- Roads are maintained.
- Public housing is available and homelessness is reduced.
- Social services such as child protection are available to those in need.
- Reliable power and water supplies and well maintained infrastructure.
- Police protection in our communities.
- Emergency services including fires and SES are well resourced.
- Environmental safeguards are properly funded.
- Agricultural research and support is provided.
- Schools and TAFEs are fully resourced so every student receives a high quality education, regardless of their background or circumstances.

Everyone benefits from quality public services.

Source: Henderson, Troy, and Jim Stanford. 2020. "The Same Mistake Twice: The Self-Defeating Consequences of Public Sector Pay Freezes". Canberra: The Australia Institute | Centre for Future Work.